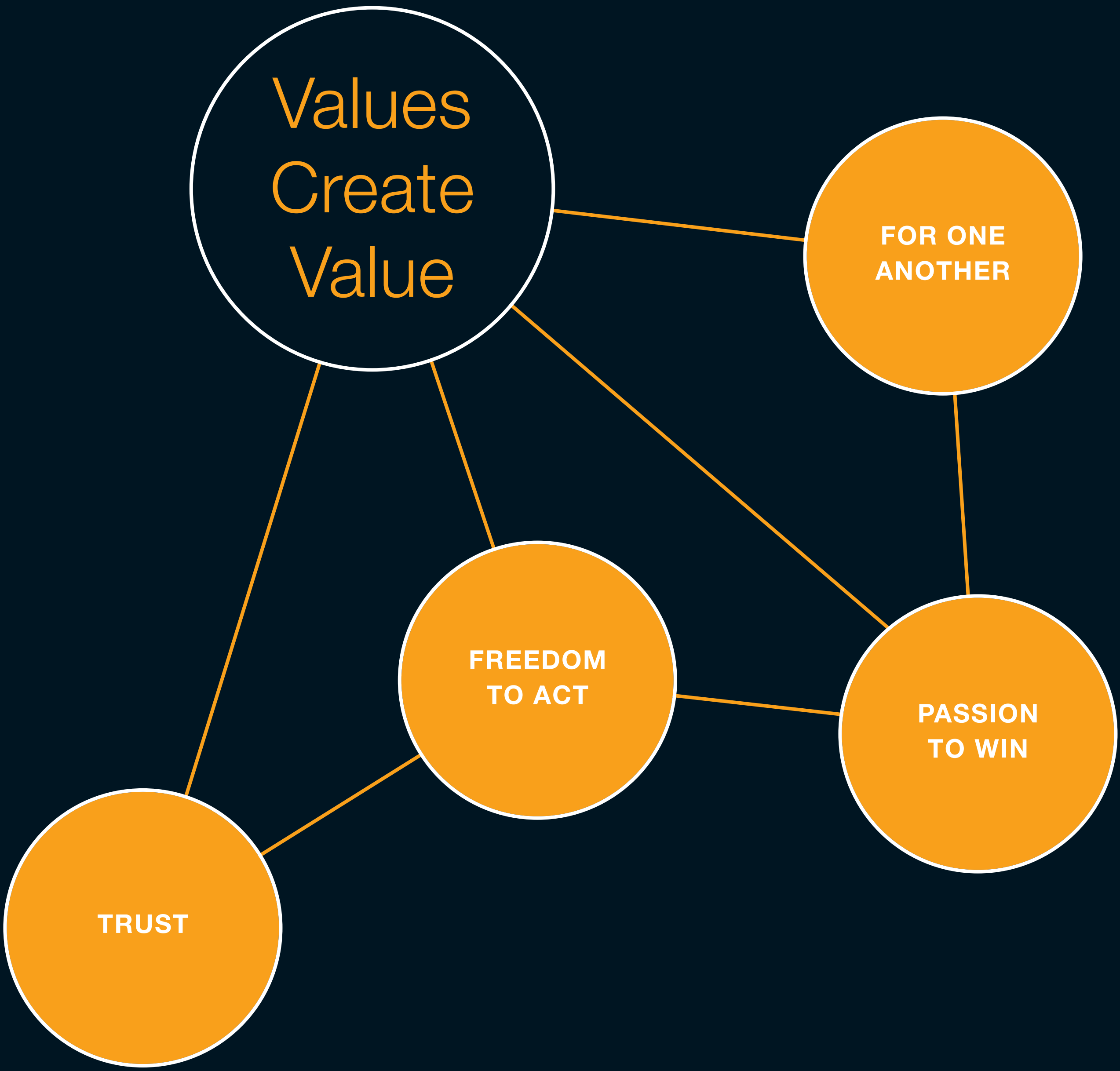


Annual Report 2011

2011 Highlights

- Best result in the company's history.
- Employee headcount exceeds 160,000 for the first time.
- Employee profit sharing program totals approximately €70 million.

Key Figures for the Continental Corporation

in € millions	2011	2010	Δ in %
Sales	30,504.9	26,046.9	17.1
EBITDA	4,228.0	3,587.6	17.9
in % of sales	13.9	13.8	
EBIT	2,596.9	1,935.2	34.2
in % of sales	8.5	7.4	
Net income attributable to the shareholders of the parent	1,242.2	576.0	115.7
Earnings per share (in €)	6.21	2.88	115.7
Adjusted sales[1]	30,192.7	26,043.0	15.9
Adjusted operating result (adjusted EBIT)[2]	3,043.0	2,521.1	20.7
in % of adjusted sales	10.1	9.7	
Free cash flow	490.5	566.9	-13.5
Net indebtedness	6,772.1	7,317.0	-7.4
Gearing ratio in %	89.8	118.0	
Total equity	7,543.3	6,202.9	21.6
Equity ratio in %	29.0	25.4	
Number of employees (at December 31)[3]	163,788	148,228	10.5
Dividend per share in €	1.50	—	
Share price (high) in €	76.28	66.84	
Share price (low) in €	39.44	32.13	

[1] Before changes in the scope of consolidation.
[2] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.
[3] Excluding trainees.

Overview of the Corporation

Continental Corporation

Automotive Group	Rubber Group
Sales: €18.4 billion Employees: 95,136	Sales: €12.2 billion Employees: 68,384

Key Figures for Continental's Core Business Areas

Automotive Group

in € millions	2011	2010	Δ in %
Sales	18,354.2	15,917.0	15.3
EBITDA	2,225.8	1,779.1	25.1
in % of sales	12.1	11.2	
EBIT	1,024.5	567.9	80.4
in % of sales	5.6	3.6	
Adjusted sales[1]	18,159.2	15,917.0	14.1
Adjusted operating result (adjusted EBIT)[2]	1,470.1	1,070.3	37.4
in % of adjusted sales	8.1	6.7	

Rubber Group

in € millions	2011	2010	Δ in %
Sales	12,176.6	10,152.5	19.9
EBITDA	2,041.5	1,851.5	10.3
in % of sales	16.8	18.2	
EBIT	1,612.8	1,413.1	14.1
in % of sales	13.2	13.9	
Adjusted sales[1]	12,059.4	10,148.6	18.8
Adjusted operating result (adjusted EBIT)[2]	1,642.5	1,516.0	8.3
in % of adjusted sales	13.6	14.9	

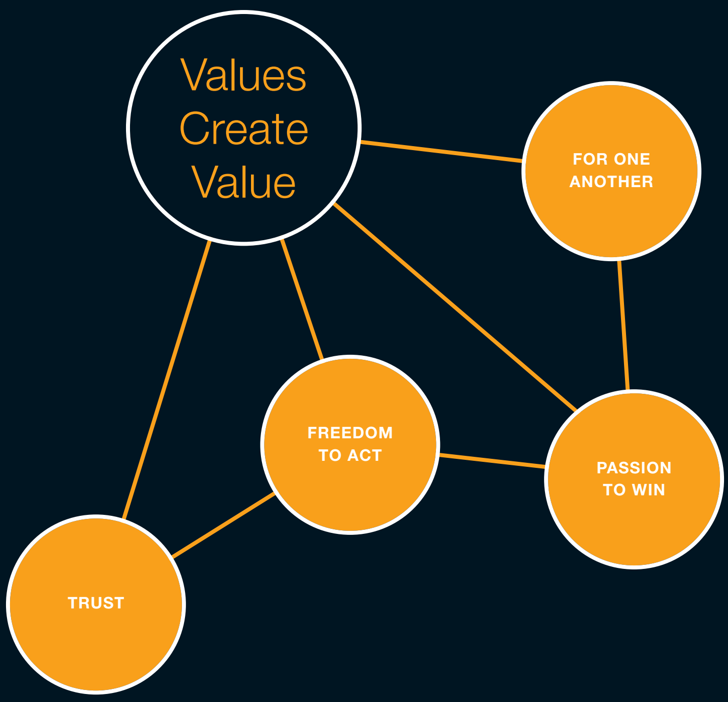
[1] Before changes in the scope of consolidation.
[2] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Values Create Value

Our four values – Trust, For One Another, Passion to Win and Freedom to Act – are the basis of our cultural development process. None of the values takes precedence over any of the others – all four are of equal importance for our sustained success.

With the numerous initiatives and activities promoting corporate culture, we encourage and cultivate a preferred behavior throughout the company. The best way to do this is to live out the new values on a day-to-day basis, bringing one's own behavior into line with them. This goes for all employees in their dealings with each other as well as with business partners and customers.

Together with our vision and mission, our values stand for what drives us forward and how we want to work together.



Vision

Your Mobility. Your Freedom. Our Signature.

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

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

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

Mission

We are conscientious people who help others around the world fulfill their dreams of mobility. This also comprises the transport of persons, materials and information. We are aware that mobility and transport are fundamental to life, and want to help meet the high expectations in this regard.

As a responsible, leading company and the partner of choice, we invent, develop, produce and market indispensable technological solutions that shape in particular the four megatrends, including safety, the environment, information and affordable cars.

We excel in generating value. We do this in the most efficient, effective and innovative way. We maintain the highest of quality standards. We think and act holistically, systemically and in a networked manner. All of which is why we are faster than others with regard to transforming ideas into mass production.

With our technologies, systems and service solutions, we make mobility and transport more sustainable, safer, more comfortable, more individual and affordable. Our contributions make driving an exciting experience.

Thanks to our solutions, people and society on the whole can enjoy protection of life and health, a higher quality of life, faster progress, greater protection of the environment, and better personal opportunities for the future.

The future starts earlier with Continental.

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C4 Key Figures for Continental's Core Business Areas

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Dr. Elmar Degenhart, Chairman of the Executive Board

Dear Shareholders,

The past fiscal year was in many respects a particularly exciting one for us: Continental is now 140 years old and generated record sales and its absolute best result in the company's history. At the same time, your company has again grown faster than automotive production. For the first time in years, all divisions were in the black again. Moreover, Continental has gained further operational and financial leeway and leveraged this for strong investments to enhance the value of your company – especially in the growth markets. The Continental team achieved all this with your support. We would therefore like to thank you for your ongoing confidence in our performance and are delighted that the company is in the position to reward this confidence by distributing a dividend for 2011 – the first since 2007.

I am convinced that I speak on your behalf as well when I express my heartfelt thanks to our highly committed employees around the world for the excellent work they have done.

No doubt, the good overall state of the international automotive industry gave us some lift in 2011. However, we had to face a series of negative influences from without. By these I mean factors such as the massive rise in commodities prices, the natural disasters in Japan and Thailand and the effects of the debt crisis leading to slowing growth in Europe.

The rising prices for natural and synthetic rubber, so essential for the manufacture of products in the Rubber Group, impacted our operating result substantially. This is also true of the recent surges in the prices of rare earths which are affecting the Automotive Group. By the end of 2011, these costs had exceeded one billion euros. We have only been able to cope with this because we have been successful in further reducing our costs and achieving excellent capacity utilization. Nonetheless, some of these costs have had to be passed on to our customers in the form of price increases.

All in all, we have again proved something special in 2011: Continental performs best when it remembers its very own values. They bring us success and make our successes lasting. In our newly formulated statements on our vision, our mission and values, we have recently renewed, updated, and re-established the inner core of our value-driving corporate strategy. Above all, these are four values that help to enhance the value of Continental on an ongoing basis.

Firstly, there is the Continental team's "Passion To Win". Thanks to this, we can identify and take advantage of the business opportunities that arise quickly and effectively – even and especially when things are stormy on world markets.

A further value is our team spirit as one Continental – "For One Another". This allows us to achieve the greatest value for the company as a whole – instead of focusing on isolated, lesser benefits for individual units.

A third value is the principle of "Freedom To Act", because we unleash undreamed-of capabilities in our employees by conferring the freedom to act and responsibility early on and minimizing bureaucracy in the truest sense of the word.

Finally, there is "Trust", the value that is particularly important in an increasingly complex and dynamic world. Because in 2011 one thing dramatically changed right before our eyes: Market changes can no longer be adequately foreseen or even planned. We can therefore adapt to them better and faster only if we continue to minimize our complexity as an organization, expand our network approach, make much greater use of the collective intelligence of our organization and allies, and do all this on the basis of trusting relationships internally and externally. We are confident that by earning the trust we give, we can increase the motivation of all involved and grow faster than others. Incidentally, you will find the wording of our newly formulated values in this Annual Report starting on page 10.

We have set ourselves demanding but realistic goals for the coming years. These are five of the most important:

- Strong, profitable growth by focusing on megatrends: Our portfolio covers all key trends in individual mobility. This includes safety (our goal: zero accidents on roads), the environment (our goal: clean power, i.e. reducing emissions as far as the laws of nature allow), information (our goal: a safe, internally and externally networked vehicle) and affordable cars (our goal: mobility for all, without restrictions on basic functionalities).

- Strong, profitable growth through our portfolio: We anticipate sales of at least €40 billion by 2020 at the latest – assuming no crashes in the global economy. Half of our automotive portfolio consists of the 25 fastest growing automotive product groups, including navigation systems, systems for reducing consumption and emissions, safety assistance systems such as emergency braking functions, battery systems and turbochargers.

  We are convinced that only market-driven development will lead to lasting success. We are therefore pursuing a dual strategy: Firstly, strengthening research and development in countries of knowledge such as Germany. Secondly, building practical development expertise in emerging markets. We have therefore laid the foundations for three new research and development centers in Singapore, Brazil, and Germany. This growth will result in further expansion in our headcount, which rose by 15,560 in 2011 alone.

- Strong, profitable growth in emerging markets: This is where demand for individual mobility is growing the fastest. We are currently achieving a 17% share of sales in Asia alone, and we want to continue to up that share.

- Strong, profitable growth in the tire business: In building new tire plants and expanding existing ones, we intend to invest a total figure of approximately one billion euros by 2015 in addition to our regular capital expenditure. These include the new tire plant in Hefei, China, that took up production in 2011, followed by new plants in Kaluga, Russia, and Sumter, U.S.A., and extensive capacity expansion in Camaçari, Brazil; Mt. Vernon, U.S.A.; and Modipuram, India. Thus, we are expanding our capacity by a combined total of more than 22 million tires.

- Strong, profitable growth in electromobility: Continental is already one of the world's technology leaders in this field. Our product portfolio for safe, efficient and comfortable electromobility is comprehensive and unique. We have a global network of around 1,600 specialists in battery system and electric powertrain technology, regenerative braking, rolling-resistance-optimized tires and interior applications. We are currently working on around 90 production projects for 17 manufacturers around the world and providing them with components for electric and hybrid vehicles. These include key components such as electric motors, power electronics, battery technology, instrumentation, telematics, regenerative braking systems, sensor systems and components for safe charging. In the fall of 2011, we became the world's first automotive supplier to start mass producing a highly efficient synchronous machine for all-electric vehicles that requires no rare earth materials. With the intended enterprise together with SK Innovation, Seoul, South Korea, we want to be able in roughly two years to develop and manufacture complete lithium-ion battery systems from the cell through to the electronics and offer them to the automotive industry for use in hybrid and electric vehicles. Our mutual goal here is global technology leadership.

This shows you that we are making our clear strategies a reality with new energy and drive. We are able to do so because at the end of March 2011, we completed the refinancing of our company that began in 2009, thus putting it back on a solid financial footing.

Our cooperation with the Schaeffler Group is also helping us in this. We have therefore enhanced this cooperation further, thus creating substantial extra annual value-added as separate companies. A closer combination of the two companies is not currently being pursued.

The list of the operational changes made in the past year would not be complete without mentioning the merger of our Passenger and Light Truck Tires division and our Commercial Vehicle Tires division to form one single division headed by Executive Board member Nikolai Setzer. This move is intended to increase the clout of our tire business. In this regard, my particular thanks go to Dr. Hans-Joachim Nikolin, who left our Executive Board as of July 31, 2011. Thus, an impressive and highly competent manager who always strove for the success of Continental as a whole, even in the most trying of times, has departed from the company.

I welcome Elke Strathmann as a new member of the Executive Board, who since January 2012 has filled a crucial role in our team as a proven HR expert: She will continue the work of adding value begun by Heinz-Gerhard Wente by designing a corporate culture based on values and esteem, forming a fixed element of the culture of our company. At the same time, I would like to thank Heinz-Gerhard Wente for his excellent work as Executive Board member for HR. In the future, he will be devoting his energies to the task of further expanding the extremely successful ContiTech division. In addition, he will be responsible for corporate purchasing.

Everything we have achieved and our long-term course give us every cause for confidence. We are clearly on track for growth and success, and — buoyed by your trust in us — we look forward to reaching the next level.

Sincerely,

Elmar Degenhart

Dr. Elmar Degenhart
Chairman of the Executive Board

From left:

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

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

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

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

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

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

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

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

Values Create Value

PASSION TO WIN

We have the passion to win.


Continental

We have the passion to win.

Competition is our world, top performance is our goal. We want to create value continuously. For this, we give our best.

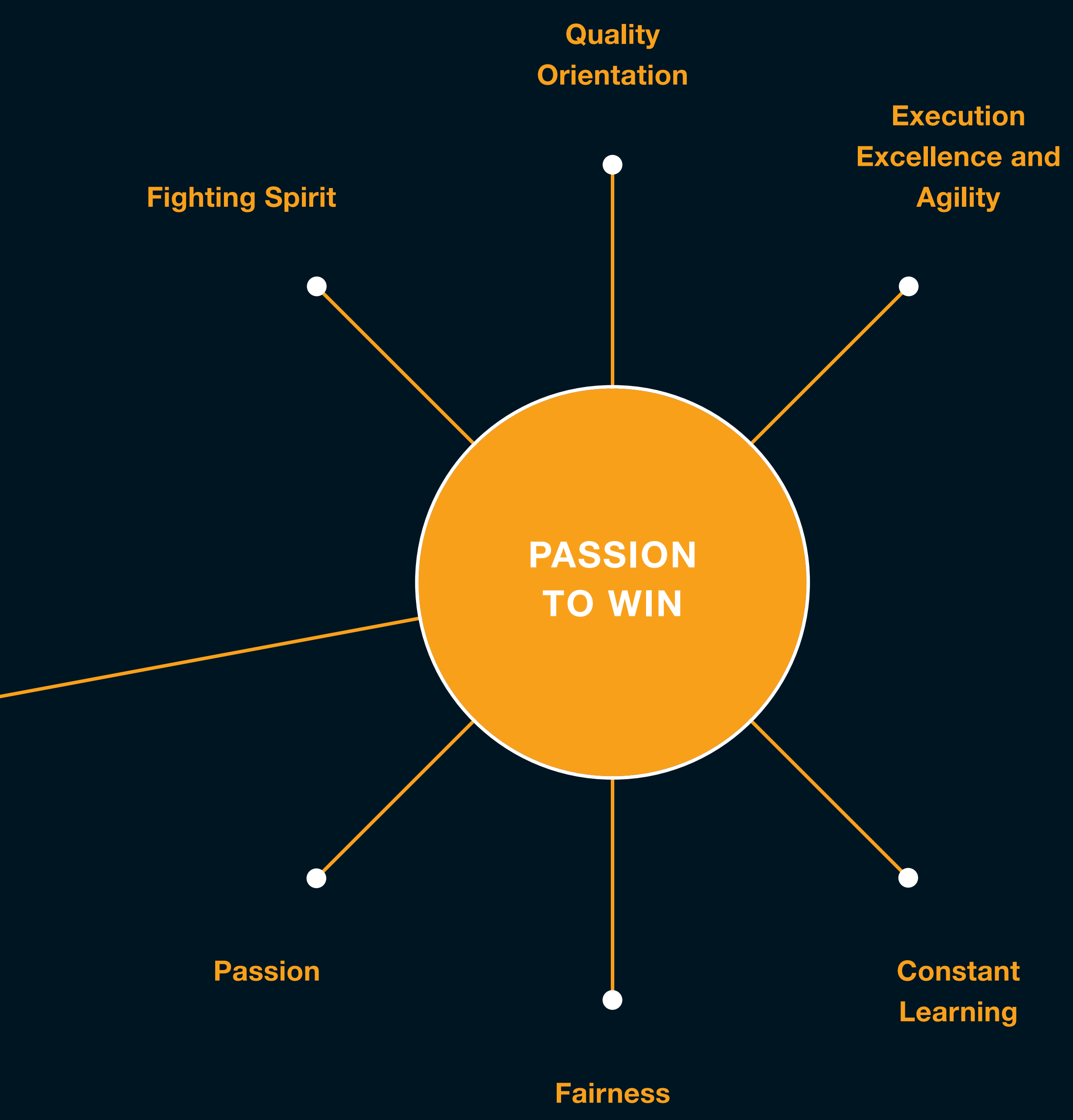
Our products and services always meet our highest quality standards. We bring new and innovative products and solutions to market faster than others. We continuously improve our products and solutions. We continually simplify our processes. We overcome adversities and boundaries. And we never let up in these endeavors.

We want to lead with dignity on the merits of our own culture. We provide loyal and genuine support to our stakeholders.

We are ethical in dealing with our competitors.

Martin Eckhardt:
"A lot of people setting high standards for themselves and those around them. That's what makes us successful as a company."

Carolinne Carminatti:
"Continental enables you to be a goal-getter."


Quality Orientation
Execution Excellence and Agility
Fighting Spirit
PASSION TO WIN
Passion
Constant Learning
Fairness

Values Create Value

TRUST

We earn the trust we give.


Continental

We earn the trust we give.

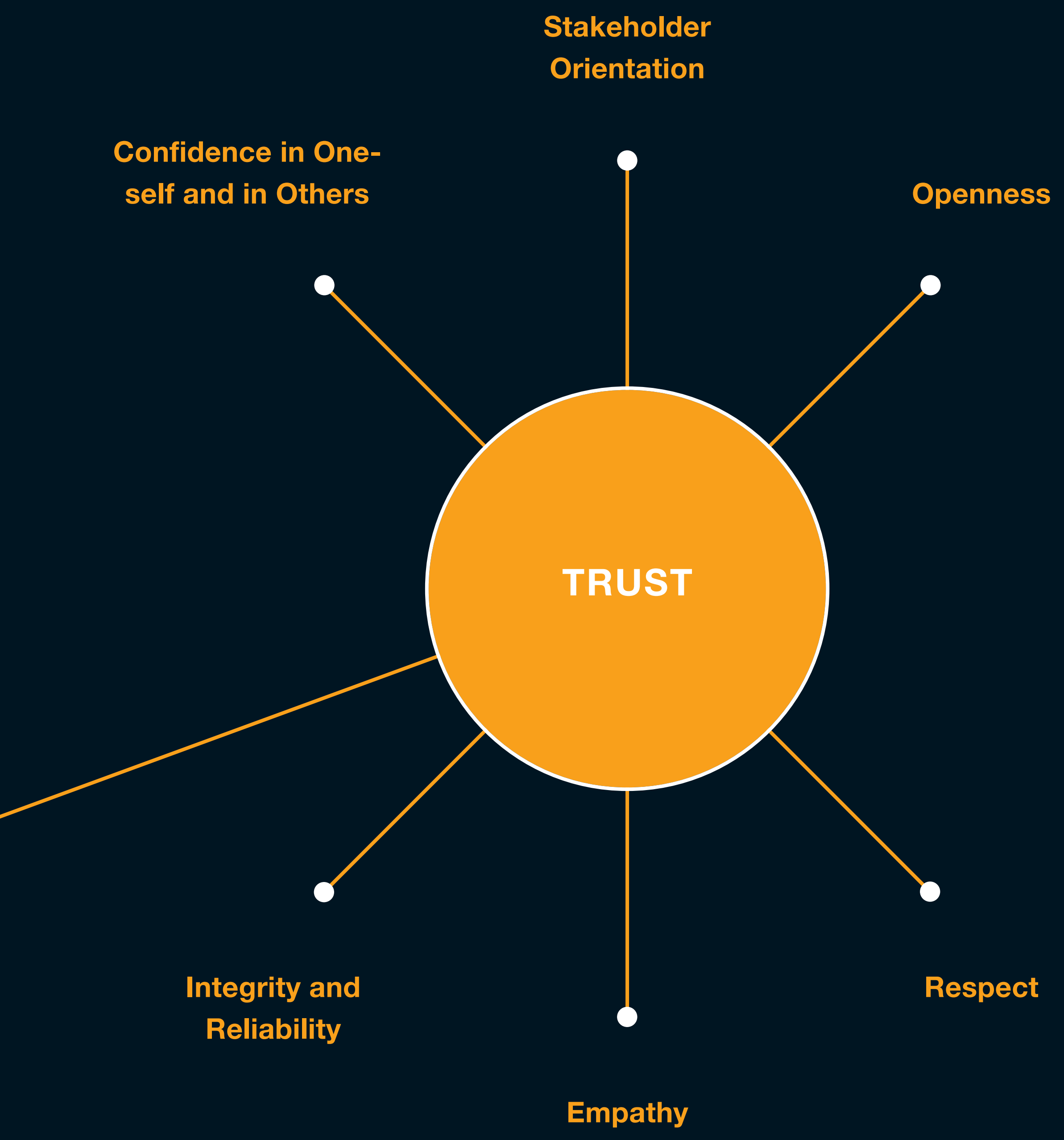
Trust is the basis for everything we do and the prerequisite for our success. Without trust, there is no constructive teamwork. That is why we trust ourselves and we place our trust in others. We keep our promises – to all of our employees, business partners and all other stakeholders of Continental.

We are aware that trust is hard to gain and can be easily destroyed. That is why we, at all times, justify the trust that has been placed in us.

As their partner and reliable supporter for all our stakeholders, we help them develop and grow – at the same time becoming stronger ourselves. We put ourselves in their position and think about what is important to them now and in the future. We hear what they say and notice what they do not say. We free their path of obstacles. We acknowledge the performance of our employees, including their collective and individual successes. A breach of trust weakens us, which is why we will not tolerate it.

Luca Andrei:
"The mix of young people, willing to develop and perform, together with the more experienced persons willing to share their experience."

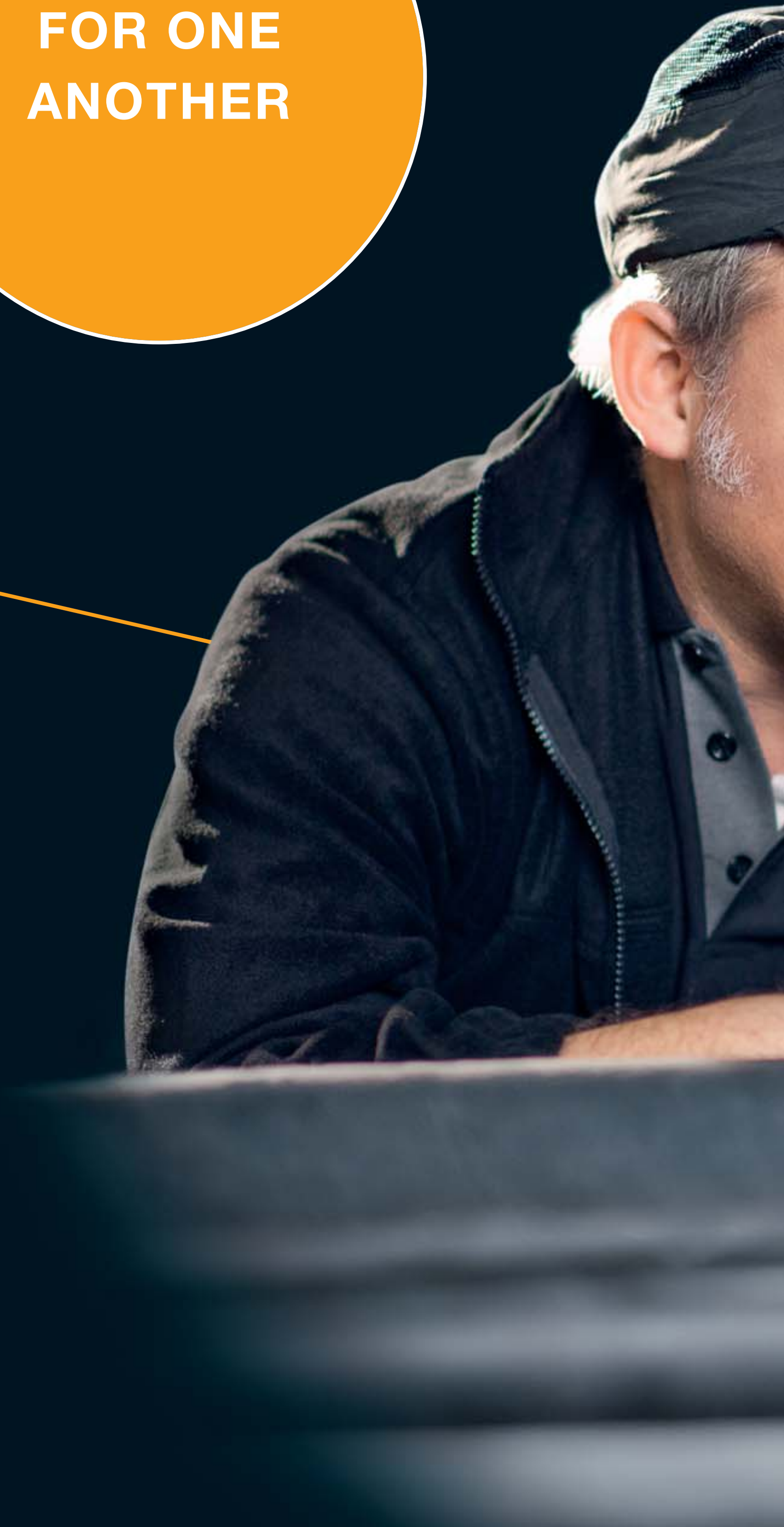
Jürgen Broda:
"We can discuss – and even criticize – openly without negative impact."


Stakeholder Orientation
Confidence in One-self and in Others
Openness
TRUST
Integrity and Reliability
Respect
Empathy

Values Create Value

FOR ONE ANOTHER

We attain top value with our team spirit as one Continental.




Continental
ntinental

We attain top value with our team spirit as one Continental.

Our company's viability and development depend, in particular, on the close cooperation of our global team and on working for one another. We stand united, combining our forces across the organization and putting aside individual interests. In this way, we achieve the greatest possible value and success for Continental.

We stand up for and can rely on each other. We provide mutual support to one another, mindfully and without being specifically asked to do so. We work for one another, making everyone's work easier each day and enhancing everyone's greatness. We share our knowledge because that is how we can increase it. We state our position clearly and communicate in an open and candid manner – even when talking about mistakes we have made and averted. After all, that is what helps us constantly learn from one another.

We appreciate the diversity of people, their expertise and experience in our company because we need them and draw on them daily as a source of inspiration and creativity.

Daniel-Claudiu Bichir:
"Together we are more than the sum of all of us."

Donna Mighty:
"It's not 'my work' or 'your work', we support each other and help each other to get the job done. We live by the bigger picture."


Willingness to Share
Appreciating and Incorporating the Diversity
Honor
FOR ONE ANOTHER
Cohesion
Bundling Forces
Team Spirit and Network Behavior

Values Create Value

FREEDOM TO ACT


We grow with
freedom and its
responsibility.

We grow with freedom and its responsibility.

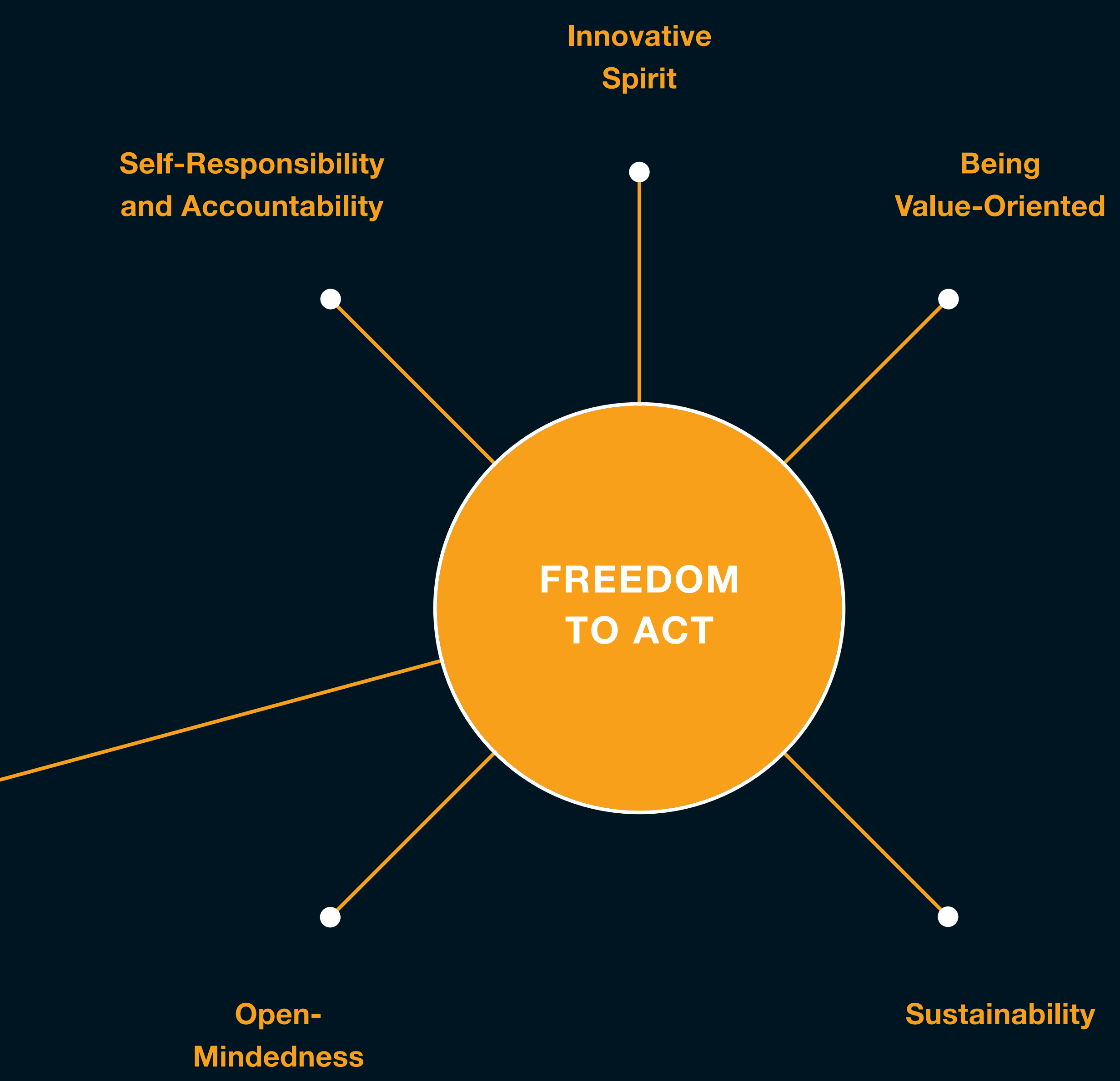
Freedom to act and personal responsibility are the roots of Continental's growth. We strengthen our vitality and sustainability by granting the greatest possible freedom to our employees early on in their career and encouraging them to use that freedom. At every level, we promote their enthusiasm that they self-organize their work and assume responsibility for the results.

We organize our interaction according to balanced rules. All individual contributions count, and we consolidate them to generate a maximum value contribution for our company.

We respect the freedom of future generations and live up to our responsibility towards them. With our products and services, we help expand – and do not restrict – their opportunities for development.

Seungwoo Jin:
"I have the great opportunity to advance from a local to a global environment."

Alina Rodeanu:
"With the freedom to act, I can put my creativity to work."


Innovative Spirit
Self-Responsibility and Accountability
Being Value-Oriented
FREEDOM TO ACT
Open-Mindedness
Sustainability

Continental Shares and Bonds

Economic concerns and debt crisis hamper performance of Continental shares in the second half of the year.

Continental share listings

Continental'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 exchange.

Continental is also listed in the MDAX of Deutsche Börse AG. As of December 31, 2011, the free float market capitalization of Continental AG amounted to €3.91 billion according to Deutsche Börse AG rankings. Thus, Continental ranked second within this index of 50 securities. The turnover of shares, calculated as the average value of the last twelve months, amounted to €9.67 billion. Measured by this criterion, Continental took first place within the MDAX. It is Continental's goal to return to the DAX, the most significant German share index, in the medium term.

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

Continental share data

Type of share	No-par-value share
Stock exchanges	Frankfurt (Prime Standard), Hanover (NISAX), Hamburg, Stuttgart
German securities code number	543900
ISIN number	DE0005439004
Reuters ticker symbol	CONG
Bloomberg ticker symbol	CON
Index membership	MDAX Prime All Share Prime Automobile
Number of outstanding shares at Dec. 31, 2011	200,005,983

American Depositary Receipt data

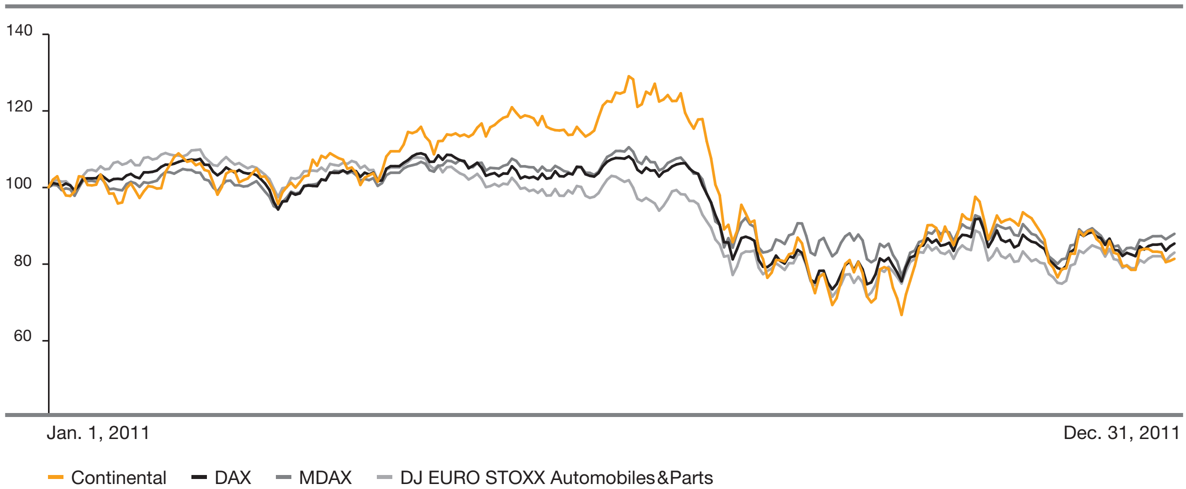
Ratio	1:1
ISIN number	US2107712000
Reuters ticker symbol	CTTAY.PK
Bloomberg ticker symbol	CTTAY
ADR level	Level 1
Trading	OTC
Sponsor	Deutsche Bank Trust Company Americas

Performance of Continental shares hampered by economic concerns in the second half-year

The price of Continental shares fell 18.7% year-on-year to €48.10 as of December 31, 2011. However, this performance was around six percentage points better than that of the industry index for European automotive and automotive supplier stocks, which slid in 2011 to 24.8% below the end-of-year level for 2010. It was four percentage points behind the performance of the DAX and seven percentage points behind the MDAX. Both indices closed the year down as against the closing rates as of December 31, 2010, by 14.7% and 12.1% respectively.

However, there were two completely different phases in share performance over the year: Until the middle of the year, price performance was lifted by the good figures for 2010, Continental AG's solid start to fiscal 2011 and the significant rise in free float from the end of March 2011. In addition, Continental renegotiated its syndicated bank loan as of the end of the first quarter, in doing so achieving significantly better terms and a further improvement in its maturity profile. As a result of this positive fundamental development and the fact that Continental's business performance did not suffer any negative repercussions from the earthquake in Japan by virtue of its excellent crisis management, the share price rose to its highest level for several years of

Share price performance vs. major stock indexes



€76.28 as of July 7, 2011. Continental's shares had last exceeded this level on May 30, 2008. Owing to the severe escalation of the debt crisis in Europe and of the sharp downturn in economic forecasts, the shares lost more than 48% of their value by the start October, reaching their low for the year of €39.44 on October 4, 2011. As roadshow activities were then intensified once again, Continental was able to stabilize the price of its shares and bring them back towards the €60 mark by the end of October. In spite of the excellent figures for the first nine months that were published on November 3, 2011, Continental's shares closed at €48.10 on December 31, 2011, marking a decline of 19% over the year.

At the start of 2012, sentiment brightened considerably on the stock markets and Continental shares also gained around 12% in the first week of trading. The preliminary key data for fiscal 2011, which in many respects set new records, were received positively by the market. A favorable environment for cyclical stocks helped push the price of Continental shares even higher up to the end of January. At times it was almost 40% above the end-of-year price on December 31, 2011.

	March 31, 2011	vs. Dec. 31, 2010	June 30, 2011	vs. Dec. 31, 2010	Sep. 30, 2011	vs. Dec. 31, 2010	Dec. 31, 2011	vs. Dec. 31, 2010
Continental	63.67	8%	72.45	23%	43.64	-26%	48.10	-19%
DJ EURO STOXX 50	2,910.91	4%	2,848.53	2%	2,179.66	-22%	2,316.55	-17%
DAX	7,041.31	2%	7,376.24	7%	5,502.02	-20%	5,898.35	-15%
MDAX	10,310.08	2%	10,932.33	8%	8,341.08	-18%	8,897.81	-12%
DJ EURO STOXX Automobiles & Parts	325.76	-2%	364.63	10%	240.00	-28%	249.78	-25%

Economic slowdown causes indices to slide in the second half of the year

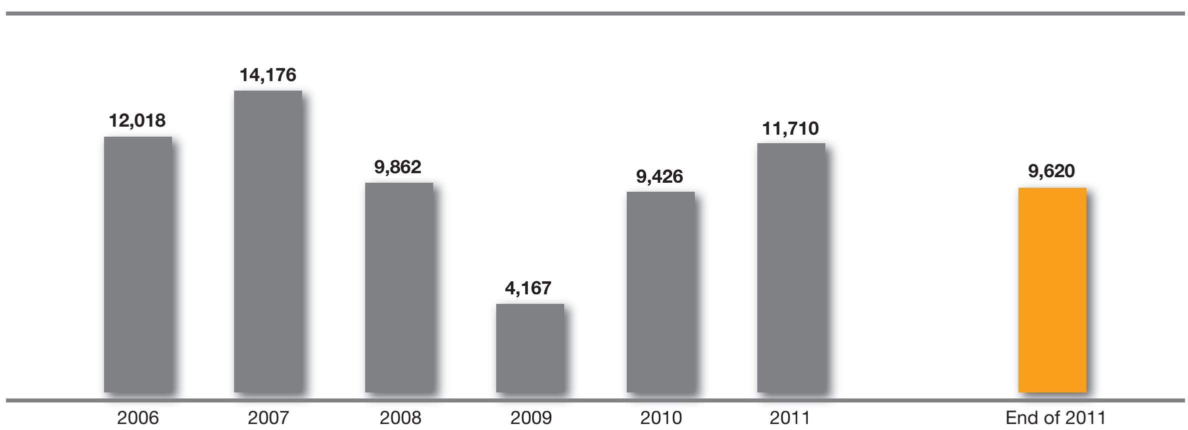
The issues that dominated market events in 2011 were the democracy movement in the Middle East, the natural disaster in Japan, diminishing economic prospects for the U.S.A. and the sharp escalation of the European debt crisis, which depressed the economic outlook significantly from the second half of 2011. Other than the events in the Middle East, generally referred to as the Arab Spring, the dominant issue in the first half of 2011 was the natural disaster in Japan. Until that point, market events had been shaped by positive economic prospects. By the middle of February, the DAX benchmark index had climbed to its provisional high for the year of 7,427 points before the escalation in the Middle East drove it back below the 7,000 line. A key factor in the index's decline was the rise in the price of oil by that time to over $115 per barrel — an increase of more than 45% in the period from September 2010 to March 2011. On March 11, 2011, Japan was rocked by an underwater earthquake and the subsequent tsunami destroyed large sections in the north of the country. The DAX again lost ground significantly in the wake of these events, dropping to its low for the year to date of 6,514 points on March 16, 2011. The index for automotive and automotive supplier stocks also shed 19% as against the highs of January.

After it became clear that the natural disaster's impact on the global economy would be limited and that there would be only minor bottlenecks in global supply chains in spite of considerable tension, the indices recovered quickly from these setbacks by mid-May 2011 despite the European Central Bank's (ECB) hike in interest rates. At the start of May, the DAX rose above its previous highs to 7,528 points. The index for automotive and automotive supplier stocks climbed to almost 356 points, just slightly below its high for the year at that time of 363 points (January 18, 2011).

Poor economic data from the U.S.A. and the growing realization that Greece would not manage without a significant boost to the aid already committed temporarily forced the DAX back towards the 7,000 line, which it would rise above once again by mid-July 2011.

The recurring downgrades of several euro nations — the rating agencies' response to the escalating euro debt crisis — and the fact that the U.S.A. lost its top AAA rating with at least one rating agency at the start of August, must be considered responsible for the sell-off on the world's stock markets. The DAX lost 24% of its value on eleven consecutive trading days up to August 10, when it listed at only 5,613 points. It hit its low for the year of 5,072 points on September 12,

Market capitalization at average prices (in € millions)



Key figures per share in €	2011	2010
Basic earnings	6.21	2.88
Diluted earnings	6.21	2.88
Free cash flow	2.45	2.83
Dividend	1.50*	—
Dividend payout ratio (%)	24.2	—
Dividend yield (%)	2.60	—
Total equity (book value)	37.72	31.01
Share price at year-end	48.10	59.14
Average share price	58.55	47.12
Average price-earnings ratio (P/E ratio)	9.4	16.4
High	76.28	66.84
Low	39.44	32.13
Average trading volume (XETRA)	640,216	537,455
Number of shares, average (in millions)	200.0	200.0
Number of shares at December 31 (in millions)	200.0	200.0

* Subject to the approval of the Annual Shareholders' Meeting on April 27, 2012.

Investments in Continental shares*

Initial investment	Jan. 1, 2002	Jan. 1, 2007	Jan. 1, 2011
Investment period in years	10	5	1
Portfolio growth in € at December 31, 2011	33,250	-40,000	-11,040
Dividend distribution in € in investment period	6,770	4,000	–
Shareholder return p.a. in %**	14.0	-10.0	-18.7
Average returns of comparable indexes in %			
DAX 30	1.3	-2.2	-14.7
DJ EURO STOXX 50	-3.3	-0.7	-17.1

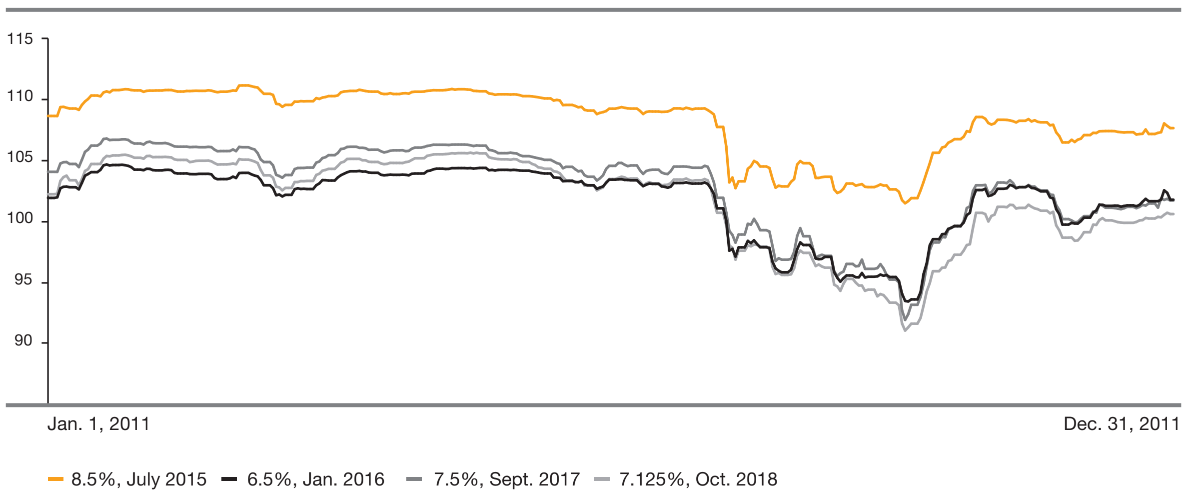
*Number of shares: 1,000. **Assuming that the dividend is not reinvested.

2011. Numerous attempts by European and international institutions and central banks to stabilize the debt crisis in Europe failed to restore the urgently needed investor confidence in European stock markets. In addition, the dispute between the political parties in the U.S.A. over the urgent need to raise the debt ceiling also took its toll on the markets. Measures focused on a sufficient supply of liquidity to the markets by central banks around the world and on combating the debt crisis in Europe. The successful ratification by all 17 member states of the agreement to extend the EFSF (European Financial Stability Facility) and the ESM (European Stability Mechanism) in October 2011 were partial successes and helped to steady the DAX back above the 6,000 line by the end of October 2011. Brightening economic data in the U.S.A. on the one hand and an ever bleaker European outlook on the other then brought it to 5,898 points by the end of the year. This corresponds to a decline of around 15% over the year.

Consolidated net income attributable to the shareholders of the parent rises to a new high

As of December 31, 2011, earnings per share rose to €6.21 and were 115.7% higher than the previous year's figure of €2.88. This is calculated by dividing the consolidated net income for the year attributable to the shareholders of Continental AG in the amount of €1,242.2 million by the average number of shares outstanding in 2011. On average, Continental AG had 200,005,983 shares outstanding in 2011.

Performance of the Continental bonds



Proposed dividend distribution of 24.2% from consolidated net income attributable to shareholders

The distribution of a dividend of €1.50 per share to the shareholders of Continental AG for the past fiscal year will be proposed to the Annual Shareholders' Meeting in Hanover on April 27, 2012. Assuming that the Annual Shareholders' Meeting accepts this proposal and based on the average share price for 2011, the dividend yield would amount to 2.6%. Accumulated profits of the parent company brought forward from the previous year amounted to €61.1 million.

Subscribed capital unchanged at €512 million

The subscribed capital of Continental AG did not change in 2011. It amounts to €512,015,316.48 and is divided into 200,005,983 no-par-value shares. Each share has the same dividend entitlement. In line with Article 20 of Continental AG's Articles of Incorporation, each share grants one vote at the Annual Shareholders' Meeting. There is authorized and contingent capital.

Share yield remains attractive over ten years

After Continental's shares posted positive absolute value growth for two years in a row in 2009 and 2010 of more than 30% and 62% respectively, the yield on shares fell by around 19% in the year under review despite the excellent business performance. Assuming that an investor had bought 1,000 Continental shares at the start of the year, his portfolio would have lost around €11,000. Thus, performance would also have been around four percentage points worse than an alternative investment of the same amount in the DAX. However, it should be noted when considering this comparison that owing in particular to the economic problems that began in the second half of 2011, none of the equities listed in the sector index for European automotive or automotive supplier stocks posted positive value growth in 2011 (except for Pirelli). Thus, the return on the STOXX Automobiles & Parts in fiscal 2011 was -24.8%. Nonetheless, Continental shares are still an attractive investment over a ten-year view. Over this period, a stake of €14,850 would have risen by €33,250 as a result of the positive price performance alone. Adding the dividend distributions over the same period of analysis, the value of the investment would have increased to €54,870, a return of almost 14% p.a.

Performance of Continental bonds

The bonds enjoyed highly stable performance despite turbulence on credit markets. The renegotiation of terms for the syndicated loan of €6 billion at the end of March 2011 was received very positively by the credit markets. Continental's bonds reached new highs even before this, rising to over 111% for the €750 million bond maturing in 2015.

The five-year credit default swap fell to a new low for several years of 246 basis points at the start of February 2011, and therefore performed significantly better

German securities identification code	Coupon	Maturity	Volumes in € millions	Issue price	Price at Dec. 31, 2011	Price at Dec. 31, 2010
A1AY2A DE000A1AY2A0	8.500%	July 15, 2015	750.0	99.0047%	107.5870%	108.5818%
A1A1P0 DE000A1A1P09	6.500%	Jan. 15, 2016	625.0	98.8610%	101.7340%	101.8800%
A1AOU3 DE000A1AOU37	7.500%	Sept. 15, 2017	1.000.0	99.3304%	101.6670%	104.0150%
A1A1P2 DE000A1A1P25	7.130%	Oct. 15, 2018	625.0	99.2460%	100.5610%	102.1795%

than the index for securities with similar ratings (iTraxx Xover), which was at 396 basis points at this time. In the wake of the sell-out on the equity and credit markets that began at the start of August, Continental's bonds fell well below their issue price and reached their lowest points for the year on October 5 and 6, 2011. The only exception was again the bond maturing in 2015, which reached its low at 101.4410%. Prior to this, the five-year credit default swap had risen to over 600 basis points, a level last seen in September 2009.

However, unlike the shares, the bonds recovered significantly as the year progressed, with the bonds maturing in July 2015 and January 2016 almost returning at the end of 2011 to the same levels as at the end of 2010. The bond maturing in September 2017 and the one maturing in October 2018 closed 235 and 162 basis points below their December 31, 2010 levels respectively. As of the end of 2011, the five-year credit default swap was at 477 basis points and therefore more than 277 basis points better than the iTraxx Xover, which was at almost 755 basis points.

Positive business performance and rating diverging further

In spite of the substantial improvement in profitability and the key ratios of the Continental Corporation, the credit rating for Continental AG still lagged behind this development. Continental has had a Moody's rating of Ba3 outlook stable since April 2011, and a Standard & Poor's rating of B+ outlook positive since July 2011. The development of the last ten quarters is acknowledged such that the rating agencies would assign Continental a credit rating in the upper BB range if the company were judged on a standalone basis. The performance of the bonds is also hard to reconcile with the current ratings from the two agencies. We are standing by our goal of returning to a higher credit category — investment grade — characterized by low default rates in the medium term. The minimum target ratings are BBB and Baa2. By the end of fiscal 2012 at the latest, the critical financial ratios as defined by the rating agencies should reach levels characteristic of the investment grade category.

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

Dec. 31, 2010	Rating	Outlook
Standard & Poor's	B	stable
Moody's	B1	stable

IR activities center on ongoing dialog with investors

A key task of Investor Relations (IR) at Continental is a systematic and ongoing dialog with potential investors in its shares and bonds as well as those already committed. Furthermore, and in order to reach these target groups in the best possible way, the dialog with equity and credit analysts as well as other capital market participants is regularly maintained just as intensively. The issues focused on include past, present and future business transactions. We provide all market participants with relevant and useful information at the same time. Our objective is to keep all market participants informed on an ongoing basis. For this and other reasons, Continental regularly assesses its free float shareholder structure. Roadshow activities are then geared towards the results of these analyses. Moreover, we regularly speak to interested investors, analysts and other market players about current and future business performance by conference call in the context of quarterly and annual reporting. We invite analysts and investors to join us in Hanover or Frankfurt for the annual financial press conference. The Fact Book, which will appear for the twelfth time in a row this year, also serves as a basic presentation for all parties interested in Continental AG. In addition, during fiscal 2011 we prepared a basic presentation with key figures and content for the ever more important group of socially responsible investors (SRI). This and all other materials can be accessed on the Internet (www.continental-ir.de). The IR team can be contacted at the e-mail address ir@conti.de.

Investor Relations at Continental again receive multiple awards

Continental's IR activities received a number of accolades from key market observers in 2011. The team ranked highly in both the Institutional Investor Survey and Thomson Extel's Pan-European Extel Survey. In addition to the award from the Society of Investment Professionals in Germany (DVFA), one aspect of particular note in this regard is the German Investor Relations Prize for Best IR in the MDAX, which was presented in cooperation between Thomson Reuters Extel and *WirtschaftsWoche*. Here, Continental received second prize for best IR work from among the 50 MDAX companies.

Comprehensive Investor Relations activities extended once again; broad coverage by analysts ensures strong information flow

Precisely because of the natural disaster in Japan and the turbulence on the equity and credit markets in the second half of 2011, roadshow activities were stepped up once again. In addition to Europe, key areas of IR work included North America and Asia. The latter has now become a fixed component of the roadshow calendar with destinations in Hong Kong, Singapore and Tokyo. Overall, we spoke to more than 2,000 investors at conferences and roadshows. In Europe, we attended a total of 16 equity conferences and six credit conferences. This was in addition to our regular roadshow activities and field trips. In North America, we took part in seven conferences and held five roadshows. Destinations included the east and west coasts of the U.S.A. as well as Canada. In Asia, we attended two equity conferences and met around 100 interested investors during two roadshows. The Executive Board was directly involved in around a third of activities but reached almost 60% of the investors spoken to.

Despite being in the MDAX, Continental is currently being monitored by 28 equity analysts and eight credit analysts. This broad coverage guarantees that the relevant information is disseminated relatively quickly and widely. 23 equity analysts are currently recommending investors to buy Continental. No analysts are advising investors to sell at this time.

A further focus of IR activities is personal contact with our private shareholders, schools and universities. At the heart of these activities was the Annual Shareholders' Meeting, held in Hanover on April 28, 2011. We are also attempting to consider investor fairs and shareholder associations to an appropriate degree. Thus, alongside the Annual Shareholders' Meeting, we also made contact with around 100 interested private investors in the past fiscal year.

Shareholder structure further diversified

As of December 31, 2011, we conducted a shareholder identification (SID) on the basis of the 200,005,983 shares outstanding. More than 93% of the shareholdings were identified.

Other than Schaeffler Group, which holds a total of 49.9% of shares according to its disclosure as of October 6, 2011, our major shareholders include the banks M.M.Warburg & CO KGaA and Metzler seel. Sohn & Co. Holding AG, which each held 5.19% of shares outstanding according to their disclosures of April 1 and 4, 2011.

Over 90% of the free float also identified by the start of February 2012, amounting to about 66 million of the 79.4 million remaining shares outstanding, is distributed among institutional investors. Around 5 million shares outstanding are held by private parties. The biggest single shareholder is the Government of Singapore Investment Corporation Pte Ltd (GIC), which holds 3.05% of shares outstanding according to its disclosure of October 20, 2011.

The identified free float breaks down geographically as follows: Around 28% is accounted for by the U.K. and Ireland, followed by Germany, where around 26% of shares is held. Other countries/regions within Europe in which larger numbers of shares are held are France (4%), Switzerland and Austria (5%) as well as Scandinavia (5%). The third-largest single region is the United States, where around 18% of identified free float is held. Roughly 10% of shares are held in Asia, due primarily to GIC's shareholding.

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

Dear Shareholders,

Continental AG and the corporation have had a highly successful fiscal year 2011. In the year under review, the Supervisory Board of the company fulfilled all the tasks incumbent upon it under applicable law, the Articles of Incorporation and its By-Laws. It closely monitored the work of the Executive Board, regularly advised it and carefully supervised it in the management of the company and has satisfied itself of the legality and propriety of management. As explained in further detail below, the Supervisory Board was directly involved in a timely manner on all decisions of fundamental importance to the company.

In the year under review, the Executive Board provided the Supervisory Board with regular, timely and comprehensive updates in writing and verbally on all issues of relevance to the company, namely planning, business strategy, significant business transactions in the company and the corporation and the related risks and opportunities. The Supervisory Board was continuously informed in detail of the sales, results and employment development in the corporation and individual divisions as well as the financial situation of the company. Where the actual course of business deviated from the defined plans and targets, the Executive Board gave a detailed explanation with reasons to the Supervisory Board and the measures introduced were discussed with the Supervisory Board and its committees. In addition, the Supervisory Board, the Chairman's Committee and the Audit Committee dealt intensively with other key company business at their meetings and in separate discussions. The members of the Supervisory Board were also available to the Executive Board for consultation outside the meetings. The chairman of the Supervisory Board in particular was in regular contact with the Executive Board and its chairman and discussed current company issues and developments with them.

Meetings of the Supervisory Board and the committees

The Supervisory Board held four regular meetings and two conference calls in 2011 and also passed resolutions by way of written procedure outside meetings on two occasions on account of the particular urgency of these matters. Also in these cases, there was appropriate opportunity to review and discuss matters on the basis of detailed documentation. A separate strategy meeting was also held in conjunction with the Supervisory Board's fall meeting in September 2011. No member was absent from more than half the meetings or conference calls. The Chairman's Committee met four times in the year under review. The Audit Committee held four regular meetings in 2011. The Mediation Committee in accordance with Section 27 (3) of the German Co-determination Act *(Mitbestimmungsgesetz)* and the Nomination Committee did not meet. There are no other committees. All committees report to the plenary session on a regular basis. Their duties are described in more detail in the Corporate Governance Report (pages 38 et seq.).

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

As in previous years, the Supervisory Board and its committees supported the measures taken by the Executive Board to improve the company's financial situation in 2011. On the basis of the success of the capital increase and the issue of the high-yield bonds in 2010, the prolongation of the term of the syndicated loan and a further improvement in its conditions were agreed at the end of March 2011.

The Supervisory Board also discussed the company's strategic development and orientation in general as well as the strategic planning of its divisions in even more detail than in past years, particularly at the strategy meeting mentioned above. Regular issues discussed by the plenary session and the committees included the reporting on current business developments, the effects of the debt crisis, the volatility of prices for natural and synthetic rubber, rare earths and other raw materials, and precautions for the event of a possible flagging of economic performance. Following preparation by the Chairman's Committee, the plenary session discussed matters of Executive Board remuneration several times, the details of which are presented in the Remuneration Report (pages 44 et seq.).

To ensure that the Supervisory Board is involved in the decisions on key company matters, the company's Articles of Incorporation and the Supervisory Board's By-Laws establish the legal transactions that require the approval of the Supervisory Board and/or its Chairman's Committee. In line with these regulations, the Supervisory Board or the Chairman's Committee discussed and approved matters including the acquisition of the tire trading company Alençon Pneus, France, and of Modi Tyres Company, India, the assumption of equity interests from minority shareholders of companies in Malaysia and India, the sale of a minority holding in Russia and the securing of bilateral loans for companies in the corporation with various banks. By the middle of the year it was foreseeable that the level of vehicle production forecast for 2012 and the years beyond substantially exceeded that assumed in investment planning for 2011. In order to leverage the growth opportunities arising from this, the Supervisory Board approved a significant budget increase. It also approved the investments to build tire plants in Russia and the U.S.A. and to expand production of the ContiTech Fluid Technology business unit in Romania. At its meeting on December 14, 2011, the Supervisory Board discussed the annual planning for 2012 and long-term planning and also approved the planning and investment plans for fiscal 2012.

The Audit Committee was also informed by the Executive Board in detail and on an ongoing basis of the sales, results and employment development in the corporation and individual divisions as well as the financial situation of the company. Before the publication of the half-year and quarterly financial reports, the Audit Committee discussed and reviewed them, paying particular attention to the results for the relevant reporting period as well as the outlook for the year as a whole. The interim financial statements as of June 30, 2011, were reviewed by KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover (KPMG), on behalf of the Audit Committee. The Audit Committee also issued the mandate for the audit of the 2011 annual and consolidated financial statements and stipulated the focus of the audit.

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

Conflicts of interest and corporate governance

No conflicts of interest arose among the members of the Executive Board or the Supervisory Board in the year under review. In its opinion, the Supervisory Board also had a sufficient number of independent members at all times in the period under review. The court proceedings due to suits instigated by individual shareholders against the resolution of the 2009 Annual Shareholders' Meeting to elect Mr. Rolf Koerfer to the Supervisory Board and against the confirmation of this resolution by the 2010 Annual Shareholders' Meeting came to a conclusion in March 2011 by way of concurrent declarations of settlement issued by the parties involved – while retaining their respective legal positions. The conclusion of the agreements relating to this in accordance with Sections 248a, 149 (2) of the German Stock Corporation Act *(Aktiengesetz – AktG)* was announced on March 16, 2011.

The Supervisory Board again carried out the regular efficiency review of its activities in fall 2010. In this review, an external consultant interviewed all members of the Supervisory Board and the Executive Board, analyzed the results, compared this information with information from other companies, developed recommendations for further improving the Supervisory Board's activities and presented these to the Supervisory Board. The plenary session discussed the results further in its meeting in March 2011 and accepted the consultant's recommendations. These included holding a strategy meeting, the associated visit to production facilities in Timişoara, Romania, and the review of Supervisory Board remuneration.

In this meeting, the Supervisory Board also again discussed the recommendation of the German Corporate Governance Code to state specific targets for the future composition of the Supervisory Board, which, whilst considering the specifics of the company, take into account the international activities of the company, potential conflicts of interest, an age limit to be specified for the members of the Supervisory Board, diversity and, in particular, an appropriate degree of female representation, and stipulated such targets. These are explained together with further corporate governance details in the Corporate Governance Report (pages 38 et seq.). The Supervisory Board and Executive Board agreed an updated declaration in accordance with Section 161 *AktG* on April 28, 2011.

Annual and consolidated financial statements

The annual financial statements as of December 31, 2011, prepared in line with the requirements of the German Commercial Code *(Handelsgesetzbuch – HGB)*, the 2011 consolidated financial statements and the management reports for the company and the corporation were reviewed in terms of the accounting, the accounting-related internal control system and the system for early risk recognition by KPMG. KPMG also reviewed the Executive Board's Dependent Company Report in accordance with Section 312 *AktG*. The 2011 consolidated financial statements of Continental AG were prepared in accordance with the International Financial Reporting Standards (IFRS). The auditor issued unqualified audit opinions. In terms of the system for early risk recognition, the auditor found that the Executive Board had taken the necessary measures under Section 91 (2) *AktG* and that the company's system for early risk recognition is suitable for identifying developments at an early stage that pose a risk to the company as a going concern. KPMG issued the following unqualified audit opinion on the Dependent Company Report in accordance with Section 313 (3) *AktG*:

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

- the actual information included in the report is correct,

- payments by the company in connection with the legal transactions listed in the report were not unduly high or that disadvantages had been compensated for."

The documents relating to the annual financial statements, including the Dependent Company Report, and the audit reports were discussed with the Executive Board and the auditor in the Audit Committee meeting on February 20, 2012. They were also discussed at length at the Supervisory Board's meeting to approve the annual financial statements on March 13, 2012. The required documents were distributed to all members of the Audit Committee and the Supervisory Board in good time before these meetings so that the members had sufficient opportunity to review them. The auditor was present at these discussions. The auditor reported on the main results of the audits and was available to provide additional information to the Audit Committee and the Supervisory Board. Based on its own review of the annual financial statements, the consolidated financial statements, the company management report, the corporation management report and the Dependent Company Report including the final declaration of the Executive Board, and based on the report and the recommendation of the Audit Committee, the Supervisory Board concurred with the results of the auditor's audit. There were no objections. The Supervisory Board approved the annual financial statements and the consolidated financial statements. The annual financial statements are thereby adopted.

Personnel changes in the Supervisory Board and Executive Board

There were no changes in the Supervisory Board in 2011. In its meeting of December 2011, the Supervisory Board resolved to increase the size of the Audit Committee by two members in order to better handle the permanent rise in the requirements of the work of this committee. Further information on the members of the Supervisory Board and its committees who were in office in the year under review can be found on pages 269 et seq.

On June 7, 2011, the Supervisory Board accepted Dr. Hans-Joachim Nikolin's mutually agreed resignation from the Executive Board as of July 31, 2011, and acknowledged and approved the organizational merger of the Passenger and Light Truck Tires division and the Commercial Vehicle Tires division to form a single Tire division. The Supervisory Board wishes to again expressly thank Dr. Nikolin, who was a member of the Executive Board for twelve years and who contributed to the success and good of Continental in exemplary fashion through his character and works. In its meeting on September 29, 2011, the Supervisory Board appointed Elke Strathmann as a member of the Executive Board with responsibility for Human Resources and as director of labor relations. Ms. Strathmann took up her post on January 2, 2012. Dr. Ralf Cramer, Helmut Matschi, Nikolai Setzer and Heinz-Gerhard Wente were reappointed as members of the Executive Board in the same meeting.

The Supervisory Board would like to thank the Executive Board, all the employees and employee representatives for their excellent work in the past year, with which they have contributed significantly towards the company continuing on its successful path.

Hanover, March 13, 2012

For the Supervisory Board

Sincerely,

Prof. Dr.-Ing. Wolfgang Reitzle
Chairman

Corporate Governance Report and Declaration Regarding Key Management Practices

Our Corporate Governance Principles are the basis of our success in the interests of all stakeholders.

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

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

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

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

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

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

Composition of the Supervisory Board
In accordance with the German Co-determination Act *(Mitbestimmungsgesetz – MitbestG)* and the company's Articles of Incorporation, the Supervisory Board comprises 20 members. Half the members of the Supervisory Board are elected by the shareholders in the Shareholders' Meeting, while the other half are

elected by the employees of Continental AG and its German subsidiaries. The current term of office of all members of the Supervisory Board ends with the conclusion of the 2014 Annual Shareholders' Meeting.

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

- The share of women on the Supervisory Board should increase to 20% in the medium term, rising to at least 15% in the next scheduled elections to the Supervisory Board in 2014.
- The share of members of the Supervisory Board with international business experience or other international connections should at least remain the same.
- Candidates standing for election as members of the Supervisory Board should usually be under the age of 70 at the time of their election.
- An appropriate share of members of the Supervisory Board members with experience in industries in which the company operates should be maintained.

There were no personnel changes in the Supervisory Board in the year under review. The Supervisory Board will continue to report on its progress in the implementation of these targets.

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

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

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

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

The Audit Committee's tasks relate to the company's accounting, the audit of the financial statements, risk management and compliance. In particular, the committee monitors the accounting process and the effectiveness of the internal controlling system, the risk management system and internal audit system, performs a preliminary examination of Continental AG's annual financial statements and the consolidated financial statements, and makes its recommendation to the plenary session of the Supervisory Board, which then passes resolutions pursuant to Section 171 of the German Stock Corporation Act *(Aktiengesetz – AktG)*. Furthermore, the committee discusses the company's draft interim financial reports and is responsible for ensuring the necessary independence of auditors, for engaging the auditors, for determining the focus of the audit as necessary and for negotiating the fee. The committee also gives its recommendation for the Supervisory Board's proposal to the Annual Shareholders' Meeting for the election of the auditor. The chairman of the Audit Committee, Dr. Bernd W. Voss, is independent and, as former CFO of Dresdner Bank, has special knowledge and experience in the application of accounting principles and internal control procedures. Previous members of the company's Executive Board and the chairman of the Supervisory Board cannot serve as chairman of the Audit Committee. In order to better cope with the greater duties of the Audit Committee in recent years, the Supervisory Board resolved in December 2011 to increase it from four to six members.

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

Shares held by Supervisory Board and Executive Board members
Directors' dealings
Shares representing 49.90% of the common stock of the company were attributable to two members of the Supervisory Board – Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler – held as specified in the notification of voting rights on October 6, 2011. As of February 6, 2012, the remaining members of the Supervisory Board held shares representing a total interest of less than 1% in the common stock of the company. As of February 6, 2012, the members of the Executive Board held shares also representing a total interest of less than 1% in the common stock of the company.

In accordance with Section 15a of the German Securities Trading Act *(Wertpapierhandelsgesetz – WpHG)*, members of the Executive Board and Supervisory Board of Continental AG and their related parties must disclose the acquisition and disposal of shares of the company and of financial instruments related thereto. In fiscal year 2011, one member of the Supervisory Board obtained a total of 216 shares and one member of the Executive Board 1,000 shares.

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

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

Declaration in accordance with Section 161 *AktG* and deviations from the German Corporate Governance Code
On April 28, 2011, the Executive Board and the Supervisory Board issued the following annual declaration in accordance with Section 161 *AktG*:

"The Executive Board and the Supervisory Board of Continental AG declare in accordance with Section 161 *AktG* that the company has complied with and will comply with the recommendations issued by the Government Commission on the German Corporate Governance Code (as amended on May 26, 2010, and published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette *(elektronischer Bundesanzeiger)* on July 2, 2010), subject to the following limitations. This refers to the Declaration of the Executive Board and Supervisory Board of October 18, 2010, and the Declaration of

October 19, 2009, regarding the recommendations of the German Corporate Governance Code in the version dated June 18, 2009.

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

- Under Item 5.4.1, the Supervisory Board shall specify concrete objectives regarding its composition which, whilst considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, an age limit to be specified for the members of the Supervisory Board, and diversity. These specific objectives shall, in particular, stipulate an appropriate degree of female representation. In its meeting on March 11, the Supervisory Board named targets for its composition and since this time has complied with all recommendations of Item 5.4.1 of the Code.

Hanover, April 28, 2011

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

Dr. Elmar Degenhart
Chairman of the Executive Board"

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

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

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

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

- The BASICS – Continental AG's corporate guidelines. The BASICS have reflected the vision, values and self-image of the corporation since 1989.

- Corporate Social Responsibility Guideline (CSR Guideline).

- For the Continental Corporation, sustainable responsible action means striking a balance that is acceptable to all involved between the economic needs of the company and the justified expectations of its interest groups. With this aim in mind, the Executive Board adopted the CSR Guideline already in June 2008.

- Compliance with the binding Code of Conduct for all Continental employees (see pages 42 and 43 for details).

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

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

Internal control system and risk management
Careful corporate management and good corporate governance also require that the company deal with risk in a responsible manner. Continental has a corpo-

ration-wide internal control and risk management system, especially in terms of the accounting process, that helps analyze and manage the company's risk situation. The risk management system serves to identify and evaluate developments that could trigger significant disadvantages and to avoid risks that would endanger the continued existence of the company.

Transparent and prompt reporting
The company regularly reports to shareholders, analysts, shareholders' associations, the media and interested members of the public equally on significant developments in the corporation and its situation. All shareholders therefore have immediate access to all information in German and English, which is also available to financial analysts and similar parties. In particular, the website of Continental AG is utilized to guarantee the timely distribution of information. The company's financial reports, presentations made at analyst conferences and press releases plus ad hoc disclosures are also available for download from the website. The dates of key periodic publications and events (annual reports, interim reports, Annual Shareholders' Meetings and press and analyst conferences) are announced in a timely manner in the company's financial calendar. The dates already set for 2012 and 2013 can be found at www.continental-ir.com.

Compliance

One of our basic values is trust. Trust requires integrity, honesty and incorruptibility. Compliance with all the legal requirements that apply to Continental AG and its subsidiaries and all its internal regulations by its management and employees has therefore long been a goal of the company's and a fixed part of its corporate culture. In addition to our corporate guidelines, the BASICS, and the Corporate Governance Principles, this is reflected in particular in the Corporate Social Responsibility (CSR) declaration and the Code of Conduct that is binding for all employees.

In order to focus the company more strongly on these goals as well as to lend even greater support to management and employees, a separate Compliance organization was created with a central Compliance department. The Executive Board took this opportunity to again reaffirm its commitment to these principles and that of "zero tolerance", particularly with regard to corruption and antitrust violations.

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

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

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

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

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

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

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

Remuneration Report

In accordance with the German Stock Corporation Act *(Aktiengesetz – AktG)*, the plenary session of the Supervisory Board is responsible for determining the remuneration for the Executive Board. In the fall of 2009, the Supervisory Board thoroughly reviewed and completely reorganized the remuneration structure of the Executive Board with the assistance of an independent advisor.

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

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

The Executive Board members also receive variable remuneration (a performance bonus) linked to the attainment of certain targets relating to the year-on-year change in the Continental value contribution (CVC) and the return on capital employed (ROCE). Further, the Supervisory Board can determine a strategic target at the beginning of each fiscal year. For 2011, the Supervisory Board set a target based on the attainment of a specific free cash flow. It is possible that variable remuneration will not be paid if certain minimum values are not achieved. In order to take into account extraordinary factors that have influenced the degree to which targets are achieved, the Supervisory Board has the right to adjust the established attainment of goals on which the calculation of variable remuneration is based retroactively by 20% upwards or downwards at its due discretion. In any event, the performance bonus is capped at 150% of the fixed target bonus. 40% of variable remuneration awarded in a fiscal year is paid out in the form of a lump sum as an annual bonus. The remaining 60% is converted into virtual shares of Continental AG. Following a holding period of three years after the end of the fiscal year for which variable remuneration is awarded, the value of these virtual shares is paid out including the value of the dividends distributed over the holding period. The conversion of the variable remuneration into virtual shares and payment of their value after the holding period are based on the average share price for the three-month period immediately preceding the Annual Shareholders' Meeting in the year of conversion or payment. However, the amount paid after the holding period cannot be less than 50% of the value on conversion or more than three times this same value. In addition, the Supervisory Board may revise the amount calculated in such a way by 20% upward or downward retroactively to balance out extraordinary developments, for example a noticeable change in the share price that is wholly or mainly due to external influences. In addition to the performance bonus, a special bonus can be agreed for special projects in individual cases, and a recognition bonus can be granted.

In the employment contracts for the Executive Board concluded before the German Act on the Appropriateness of Management Board Remuneration *(Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG)* came into effect, variable remuneration depended in part on the dividends distributed. If the dividend rate rose significantly, the Chairman's Committee was authorized to amend the basis of calculation. The bonus was also dependent on the attainment of specific individually agreed targets that related to key performance indicators of the respective Executive Board member's area of responsibility. This variable remuneration component was limited to a maximum amount that was contingent upon fixed annual remuneration. The employment contracts of the Executive Board members appointed before 2009, Dr. Hans-Joachim Nikolin and Heinz-Gerhard Wente, were also adjusted in line with the new structure effective January 1, 2010.

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

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

All members of the Executive Board have been granted post-employment benefits that are paid starting at the age of 63 (but not before they leave the service of the company) or in the event of disability.

Dr. Hans-Joachim Nikolin has been granted his pension before his 63rd birthday after his employment agreement was terminated early by mutual consent before December 31, 2011. In each case, the maximum post-employment benefit amounts to 50% of the most recent fixed remuneration payment and 12% of the average variable remuneration achieved in the last five fiscal years. There is a basic rate for the post-employment benefits that is determined individually. For each year of service, a member of the Executive Board receives a benefit entitlement amounting to 10% of the difference between the basic rate and his or her maximum post-employment benefit, until the full entitlement has been achieved after ten years. Post-employment benefits are adjusted after commencement of such benefit payments in accordance with Section 16 of the German Occupational Pension Improvement Act *(Betriebsrentengesetz – BetrAVG)*. Any other income is counted towards post-employment benefit.

In the employment contracts it has been agreed that, in the event of premature termination of Executive Board work without justifiable grounds, payments to the Executive Board member to be agreed, including the additional benefits, shall not exceed the value of two annual salaries nor the value of remuneration for the remaining term of the employment contract for the Executive Board member. No compensation agreements exist with members of the Executive Board in the event of a takeover bid or a change of control in the company. In fiscal 2011, they neither received nor were promised payments by a third party with respect to their activities on the Executive Board.

Individual remuneration

The total remuneration of each individual member of the Executive Board for the year under review and the previous fiscal year, broken down into fixed and variable components, and the individual pension expense, plus the value reported in the consolidated financial statements pertaining to the stock options granted under stock option plans in previous fiscal years and redeemed in the past year, is disclosed in the following tables. In addition to his performance bonus, José A. Avila was awarded a special bonus of €450 thousand for each of the 2011 and 2012 fiscal years for 100% attainment of targets stipulated on the basis of the EBIT reported for the Powertrain division in these fiscal years. However, the combined special bonus and performance bonus for the respective fiscal year cannot exceed the amount of the performance bonus for 150% target attainment. In line with the regulations for the performance bonus, this special bonus is divided into a short-term and a long-term component. Dr. Hans-Joachim Nikolin, whose appointment as a member of the Executive Board and service agreement were terminated prematurely by mutual consent as of July 31, 2011, was granted a payment of €3.0 million in compensation of his contractual claims and a post-contractual no-competition clause.

Remuneration of the Executive Board in 2011

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

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

Remuneration of the Executive Board in 2010

in € thousands	Remuneration components: Fixed[1]	Variable, short-term	Variable, long-term[2]	Total	Share-based payment[2,3]
Dr. E. Degenhart	1,233	594	891	**2,718**	980
J. A. Avila	690	360	551	**1,601**	551
Dr. R. Cramer	636	480	721	**1,837**	782
H. Matschi	630	270	405	**1,305**	466
Dr. H.-J. Nikolin	633	320	479	**1,432**	834[4]
W. Schäfer	1,036	457	686	**2,179**	686
N. Setzer	636	540	810	**1,986**	871
H.-G. Wente	788	508	762	**2,058**	1,036[4]
Total	**6,282**	**3,529**	**5,305**	**15,116**	**6,206**

1 In addition to cash components, the fixed remuneration includes non-cash elements, such as company cars, insurance, and moving costs.
2 Long-term component of the variable remuneration which is converted into virtual shares of Continental AG in line with the new remuneration structure geared towards sustainable development of the company, including special bonuses.
3 Includes changes in the value of the virtual shares granted in previous years.
4 Includes the amount of personnel expenses carried in the consolidated financial statements (compensation cost) in 2010 for stock options granted and redeemed in previous fiscal years under the 2004 and 2008 stock option plans.

Long-term component of share-based payment

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

in € thousands or in thousand units	Degenhart	Avila	Cramer	Matschi	Nikolin	Schäfer	Setzer	Wente	Total
Outstanding at Jan. 1, 2010[1]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Fair Value at Jan. 1, 2010	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Commitments[1]	8,178	—	5,663	5,663	—	—	5,663	—	**25,167**
Fair value of commitments	392	—	271	271	—	—	271	—	**1,205**
Outstanding at Dec. 31, 2010[1]	**8,178**	**—**	**5,663**	**5,663**	**—**	**—**	**5,663**	**—**	**25,167**
Fair Value at Dec. 31, 2010	**392**	**—**	**271**	**271**	**—**	**—**	**271**	**—**	**1,205**
Change in fair value	-2	—	-1	-1	—	—	-1	—	**-5**
Commitments	14,532	8,978	11,750	6,604	7,819	11,177	13,205	12,419	**86,484**
Fair value of commitments	744	460	602	338	401	573	676	636	**4,430**
Outstanding at Dec. 31, 2011	**22,710**	**8,978**	**17,413**	**12,267**	**7,819**	**11,177**	**18,868**	**12,419**	**111,651**
Fair Value at Dec. 31, 2011	**1,134**	**460**	**872**	**608**	**401**	**573**	**946**	**636**	**5,630**

[1] The comparative figures at December 31, 2010, are shown adjusted accordingly.

Basis of fair value calculation

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

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

The following input parameters were used as of the measurement date of December 31, 2011:

- Constant zero rates as of the measurement date of December 31, 2011, of 0.08% for the 2009 tranche and 0.19% for the 2010 tranche.
- Interest rate based on the yield curve for government bonds.
- Dividend payments as the arithmetic mean based on publicly available estimates for 2012 and 2013; Continental AG did not distribute dividends in 2010 or 2011.
- Historic volatilities on the basis of daily XETRA closing rates for Continental shares based on the respective remaining term for virtual shares. The volatility for the 2009 tranche is 45.23%, for the 2010 tranche 47.60%.

Post-employment obligations and service costs

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

	Defined benefit obligation		Service cost	
in € thousands	**Dec. 31, 2011**	**Dec. 31, 2010**	**2011**	**2010**
Dr. E. Degenhart	2,238	1,111	801	681
J. A. Avila	1,238	545	542	541
Dr. R. Cramer	682	285	205	207
H. Matschi	734	374	270	240
Dr. H.-J. Nikolin (until July 31, 2011)	4,876	4,315	122	146
W. Schäfer	1,597	696	704	703
N. Setzer	585	248	180	153
H.-G. Wente	4,499	4,023	115	67
Total	**16,449**	**11,597**	**2,939**	**2,738**

2004 and 2008 stock option plans

	Number of subscription rights		Payments[1] (in € thousands)		
	Dec. 31, 2011	**Dec. 31, 2010**	**2010**	**2011**	**2012**
Dr. H.-J. Nikolin (until July 31, 2011)	—	—	38	96	—
H.-G. Wente	—	—	12	96	—
Total	**—**	**—**	**50**	**192**	**—**

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

Remuneration of the Supervisory Board

Article 16 of the Articles of Incorporation regulates the remuneration paid to members of the Supervisory Board. This remuneration also has fixed and variable components. The variable part depends on the net income attributable to the shareholders of the parent per share for the past fiscal year. The chairman and vice chairman of the Supervisory Board and the chairs and members of committees qualify for higher remuneration.

In 2011, the Supervisory Board had its remuneration reviewed by an independent consultant. On the basis of the findings of this examination, the Supervisory Board and the Executive Board intend to propose changes to the remuneration regulations at the Annual Shareholders' Meeting on April 27, 2012.

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

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

The remuneration of individual Supervisory Board members in 2011 as provided for under these arrangements is shown in the following table.

Remuneration of the Supervisory Board

	Remuneration components			
	2011		2010	
in € thousands	Fixed[1]	Variable	Fixed[1]	Variable
Prof. Dr.-Ing. Wolfgang Reitzle	83	105	84	22
Rolf Koerfer (until November 29, 2010)	—	—	58	15
Werner Bischoff	65	79	68	17
Michael Deister	64	79	68	17
Dr. Gunter Dunkel	42	53	42	11
Hans Fischl	65	79	68	17
Dr. Jürgen Geißinger	42	53	42	11
Prof. Dr.-Ing. E.h. Hans-Olaf Henkel	42	53	42	11
Michael Iglhaut	45	54	46	11
Jörg Köhlinger	45	53	46	11
Prof. Dr. Klaus Mangold	42	53	42	11
Hartmut Meine	66	79	52	12
Dirk Nordmann	45	53	46	11
Artur Otto (since May 1, 2010)	45	53	29	7
Dr. Thorsten Reese (until April 30, 2010)	—	—	24	5
Klaus Rosenfeld	64	79	64	17
Georg F. W. Schaeffler	63	79	43	11
Maria-Elisabeth Schaeffler	42	53	42	11
Jörg Schönfelder	45	53	46	11
Dr. Bernd W. Voss	84	105	84	22
Prof. KR Ing. Siegfried Wolf (since December 6, 2010)	42	53	3	1
Erwin Wörle	44	53	46	11
Total	**1,075**	**1,321**	**1,085**	**273**

[1] Including meeting-attendance fees.

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Structure of the Corporation

140 years after it was founded, Continental is a leading global automotive supplier with a successful management organization around the world.

We celebrated our 140th birthday in the year under review. Continental was founded in 1871 with capital of around 300,000 thalers (equivalent to a purchasing power today of around €6.3 million). At the parent plant in Hanover, a workforce of around 200 people manufactured, among other things, soft rubber products such as hot water bottles, rubberized fabrics and solid tires for carriages and bicycles. Today, we are one of the world's leading automotive suppliers and work on solutions for the mobility and transport of tomorrow. To protect all traffic participants even better, we are advancing the development of active and passive safety systems. Low environmental impact technologies from Continental help to lower emissions and contribute to climate protection. We also help drivers to concentrate and be receptive at all times – with intelligent information management inside the vehicle. Innovations can lead to big things only if they can be afforded by many and used economically for commercial purposes. We offer products for a wide range of automotive and commercial vehicle market requirements around the world. We also make significant contributions to benefit society for a number of other key industries – such as wind turbines for efficient energy generation or conveyor belt systems to transport raw materials without harming the environment.

The Continental Corporation comprises its parent company Continental AG, a stock corporation under German law, and 439 companies around the world, including minority holdings. Around 164,000 employees in 46 countries work to offer our customers the best possible products and solutions to their problems every single day.

Since August 2011, the Continental Corporation has been organized into five divisions with 27 business units. The previously separate divisions of Passenger and Light Truck Tires, and Commercial Vehicle Tires, have been merged organizationally as a new Tire division so as to be able to manage our market activities even more effectively. The divisions and business units are classified according to products, product groups and certain regions. The divisions and business units bear full responsibility for their business, including their results. This organizational structure ensures a high degree of flexibility and speedy coordination of operating business across countries and companies. It enables us to respond to technological changes and market developments rapidly and allows an optimal deployment of our economic resources.

Continental AG's Executive Board has overall responsibility for corporate management. The divisions are each represented by a member of the Executive Board. The central units are represented by the Chief Executive Officer, the Chief Financial Officer and the Chief Human Resources Officer.

The central units assume cross-divisional functions necessary for corporate management, including Finance and Controlling, Law and Compliance, and Quality Management in particular.

As a result, our organization ensures that Continental's strategic management is coordinated with its operating activities. On the one hand, this enables us to react flexibly and quickly to market conditions and the requirements of our global customers. On the other hand, it ensures that the overall success of the Continental Corporation is optimized in the interests of sustainable value added and value creation. With the Automotive Group and the Rubber Group, which contribute 60% and 40% of total sales respectively, the Continental Corporation is built on two stable pillars.

Structure of the Continental Corporation

Automotive Group			Rubber Group		
Sales: €18.4 billion Employees: 95,136			Sales: €12.2 billion Employees: 68,384		
Chassis&Safety	Powertrain	Interior	Passenger and Light Truck Tires	Commercial Vehicle Tires	ContiTech
Sales: €6.5 billion Employees: 32,665	Sales: €5.8 billion Employees: 30,805	Sales: €6.1 billion Employees: 31,666	Sales: €7.0 billion Employees: 31,153	Sales: €1.9 billion Employees: 9,982	Sales: €3.6 billion Employees: 27,249
			Tires		

Two of the Rubber Group's divisions – Passenger and Light Truck Tires, and Commercial Vehicle Tires – were merged organizationally in August 2011 to form the Tire division, reducing the total number of the corporation's divisions from six to five. Irrespective of this, the Passenger and Light Truck Tires division and the Commercial Vehicle Tires division have been reported separately for fiscal 2011.

Automotive Group:

- The Chassis & Safety division combines our core competences in the areas of networked driving safety, brakes, driver assistance, chassis, active and passive safety and sensor technology for the avoidance of accidents and injury.
- The Powertrain division is responsible for innovative and efficient powertrain system solutions to make drive concepts easier on the environment in future.
- The Interior division bundles all activities relating to information, communication and networking solutions, their presentation and operability in vehicles – including vehicles with alternative drives. The Interior division also includes the commercial vehicle and retail activities of the Automotive Group.

Rubber Group:

- The Tire division:

  Passenger and Light Truck Tires develops and produces tires for compact, mid-range and luxury segment vehicles, SUVs, vans, motorcycles and bicycles.

  Commercial Vehicle Tires offers a wide range of truck, bus, industrial and off-the-road tires for a wide range of uses and application requirements.

- ContiTech develops and manufactures functional parts, components and systems for the automotive industry and almost all key industries and is one of the world's biggest specialists for rubber and plastics technology.

Corporate Strategy

Our strategy safeguards our leading technology and quality position. It creates the foundation for strong growth and focuses on continuous value enhancement.

As a global automotive supplier, Continental operates in a dynamic market environment characterized by high pressure in terms of competition, innovation and costs. We counter this pressure foresightedly with our corporate strategy. The company's management is geared towards the return on capital employed, the absolute Continental Value Contribution (CVC) and the change in its absolute value contribution as against the previous year. This guarantees a sustained increase in the value of the company and is intended to secure our successful development of recent years.

We intend to rank among the three top providers in all our relevant markets

We offer leading technologies in the fields of active and passive vehicle safety. Our products facilitate energy and fuel savings, thereby reducing CO_2 emissions. We deliver innovative solutions for processing information inside vehicles and for the networking of vehicles. Our technologies lead the field in terms of quality and sophistication. In the area of automobility, we offer a broad, modular range of products – with well-engineered components, modules and systems for premium class vehicles and, at the same time, high-quality parts for low-cost affordable vehicles. The constant, ongoing development of our modular, scalable products in the OEM business, industrial and replacement business with the associated services helps us to rank among the top three providers in all our relevant markets.

We are growing strongly compared to our reference markets

Our strength in innovation, our systems expertise, our focus on the constantly rising level of electronics in automobiles and our gearing towards BRIC markets in the field of rubber products shall allow us to achieve annual sales increases at least 5 percentage points ahead of the growth in automotive production in the coming years as well. Assuming no crashes in the global economy, we anticipate consolidated sales of at least €40 billion by 2020, even with a relatively small rise in global automotive production. Our growth course will be buoyed not just by the rising demand among end customers for safe, environmentally friendly and networked vehicles, but also by the rising legal requirements for the safety and environmental impact of automobiles and the trend towards affordable vehicles.

We are enhancing our efficiency and productivity at all times

In recent years, we have made our global presence even more efficient and productive, today manufacturing more at locations that provide clear cost advantages. We will continue to pursue this policy systematically. The interaction of our growth, efficiency and productivity orientation allows us to compensate for the price concessions always expected by customers, rises in staff costs and inflation effects. Our cost discipline throughout the corporation extends across all stages of the value chain. It can therefore be seen in the procurement of raw materials as well. Where possible, we utilize dual-sourcing or multi-sourcing and secure our volumes in the long term.

We strive for a balanced distribution of sales between customers of the automotive industry and of other industries

In our two pillars – the Automotive Group and the Rubber Group – we have a stable footing that should protect us from the cyclical fluctuations of the automotive markets. This is why we are aiming to generate around 60% of our sales directly with vehicle manufacturers and 40% with customers in other branches of industry in the medium term. Today, the share of sales to vehicle manufacturers is still approximately 72%. We are pursuing three strategic directions in this regard: Firstly, we are investing specifically in the tire business, which is largely dependent on the number of kilometers driven by owners and not only on the production of vehicles; secondly, we are actively increasing sales with customers in industries without ties to the automotive sector; thirdly, we are boosting our business with customer-specific solutions and replacement parts. Particular importance will be attached to the growth of ContiTech in this regard.

We think “in the market for the market”
Continental maintains a comprehensive presence thanks to our globally networked research, development and production. We operate successfully in both the economically highly advanced and technologically leading markets and the high-growth future markets of Eastern Europe and the BRIC nations. We understand and serve different regional needs – a result of our intensive research and development work. The affinity between our competences and the characteristics of the respective sales region can be seen in the highly developed solutions and products that can be found in high-quality automobiles and affordable vehicles alike.

We are intensifying the operational cooperation with the Schaeffler Group to our mutual advantage
We work at operational level with the Schaeffler Group, our major shareholder, when this means clear value added for both sides – on a strict arm’s length basis. Our cooperation is strategically geared towards combining the Schaeffler Group’s skills in the field of mechanical components with Continental’s expertise in electronic components. In addition to the shared procurement activities already initiated and the joint production of turbochargers for gasoline engines, other development and production cooperations are also underway.

We are growing internally and externally as one Continental
Continental has grown organically and has also successfully integrated acquisitions, such as Teves in 1998, Temic in 2001, Phoenix in 2004, the automotive electronics business from Motorola in 2006, and Siemens VDO in 2007. Today, Continental operates “as one family” and pursues common goals with the help of a strong identity based on the values of *For One Another, Trust, Passion to Win* and *Freedom to Act*, which creates the requirements for a competitive, high-performance culture. Our proven ability to achieve internal and external growth will aid our development in the future as well.

We are safeguarding our growth in the long term with a solid and balanced financing profile
Our goal is to ensure that ongoing investment requirements are financed from the operating cash flow. Other investment projects should be financed from a balanced mix of equity and debt to achieve a constant stabilization or improvement in the corporation’s costs of capital in the respective capital market environment. Owing in particular to our current non-investment grade rating and the effects of the lingering debt crisis in Europe on the financial markets as well, we are pursuing the target of a gearing ratio below 60%. If justified by extraordinary financing reasons or special market circumstances, we can rise above this corridor for an appropriate period. The equity ratio should lie between 30% and 35%.

We regard our employees as the key factor in our success
As an innovative company that plays a leading role in quality and technology, the expertise of our employees is of enormous importance as it would not be possible to implement this strategy successfully without them. Utilizing comprehensive promotion and training activities as well as active applicant management, we strive to be seen as an employer of choice at all levels on the labor market. Parallel to our sales target, we want to raise the number of our employees to over 200,000 by 2020.

Guiding themes for the strategic orientation of Continental’s divisions:

- The vision of accident-free mobility.
- Mobility is possible without emissions, too.
- The smart vehicle – networking drivers with their environment.
- A vehicle’s safety starts with its tires.
- The specialists for green value engineering.

Research and Development

Our research and development activities are geared towards the market and megatrends of the automotive industry. This way, we can safeguard our leading position as a technology and quality-oriented provider.

In its research and development activities, Continental is pursuing the goal of making individual mobility safer, more environmentally compatible, more networked and globally affordable. In light of this, we are constantly improving and refining the products and solutions we offer and creating innovations. In our research and development work we are guided closely by what car drivers want and regularly perform internationally designed surveys on subjects such as the future viability of electric vehicles. The results give us valuable insight into the needs and desires of the people in whose vehicles our products are used.

Further increase in our research and development expenses of 10.9% year-on-year
With expenses totaling €1.6 billion in fiscal 2011, Continental increased R&D funding by 10.9% as against the previous year.

A constant willingness to drive innovation forwards is not just a consequence of our high standards of quality, but also an economic necessity in an intensely competitive market environment.

In accordance with our strategic objective, our research and development activities lead to results in the fields of safety, the environment and information management. Four examples of this are described below:

- In recent years, we have succeeded in reducing the physical weight of our brake components substantially while at the same time enhancing brake performance.

- We are constantly improving the average rolling resistance of our tires without making concessions in their safety-related properties.

- Our piezo injection valves for conventional gasoline and diesel engines reduce CO_2 emissions by up to 20%.

- Our telematics systems network the car with its environment, improve the flow of traffic and therefore contribute towards further decreasing emissions harmful to climate. Multi-platform solutions allow them to be used in the automotive industry's lower cost segments as well.

Research and development creates innovation
The response witnessed at the last three international motor shows – the Frankfurt Motor Show in Germany in September 2011, the Tokyo Motor Show in December 2011 in Japan, and the North American International Auto Show in Detroit, U.S.A., in January 2012 – showed us that our research and development activities are focusing on the right areas and that the innovations we create are being met with great interest by the market.

As a result of our research and development work, we were able to present a number of new developments in 2011 as well. Examples of this include:

- TEPEO and TEPEO2: These special foils made by the Benecke-Kaliko Group are especially light in terms of weight and are produced using low-emission manufacturing processes. They have a 48% better carbon footprint than standard foils. They are used, for example, on the door trim of the new Mercedes-Benz E-Class and the instrument panel of the new BMW 5 Series.

- Digital key in cell phone: Using near field communication technology, a radio interface, we are giving cell phones a "key role" in the safe and convenient opening of vehicles. A protected, unforgeable data set that contains access authorization to the vehicle is saved on the SIM card and sent to the locks by the phone.

- ContiEcoContact 5: Our latest premium tire for the compact car category features a shorter braking distance along with a one-fifth reduction in rolling resistance compared with our standard tires. A car equipped with ContiEcoContact 5 tires can run thus on around 3% less fuel.

- Drive assembly for electric vehicles without rare earths: Continental is the world's first automotive supplier to produce a highly efficient drive assembly for all-electric vehicles without using the rare earth metals prone to severe price fluctuations. This assembly will feature in electric car models from Renault entering volume production in September 2011.

- Intelligent stereo camera: This new kind of camera system has "two eyes". As a result, it can better discern and simultaneously measure distances and the size of possible obstacles. The stereo camera for vehicles offers significantly better person and obstacle recognition compared to previous solutions. This enables a more exact reaction by the vehicle to avoid accidents. Thus, a new generation of forward-looking emergency brake assists can be developed that will not only prevent accidents but also reduce accident severity.

Activities along the entire value chain

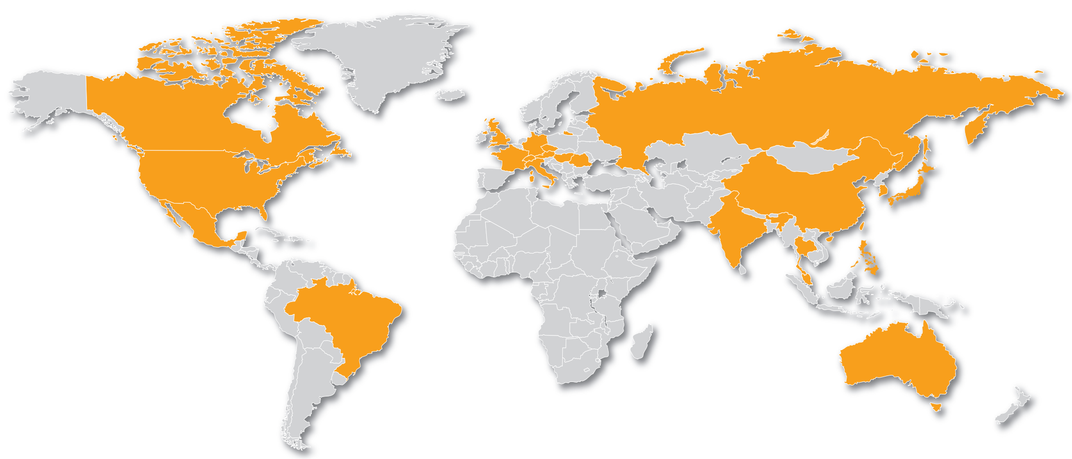
It is our goal to work locally along the entire value chain – from research and development through purchasing and production down to sales. In accordance with this objective, we invested in three new development centers in the period under review:

- In March 2011 we laid the foundation for a new development center in the Republic of Singapore. Costing a total of €21 million, this center will increase our development capacity in order to address the needs of global expansion as well as growth on the Asian markets.

- In June 2011, we began to build a new development center in Nuremberg, Germany, at an investment of around €7 million. In addition to transmission control units, the center in Nuremberg will also develop and produce systems for hybrid and electric vehicles, e.g. lithium ion batteries and power electronics, as well as control systems for other Continental business units. With this new center, we intend to broaden our success further in the area of transmission electronics.

- In the Salto Industrial Park near São Paulo, Brazil, we are creating a new technology center near the local Powertrain division plant, which will increase our capacity for testing in the fields of emissions, homologation and the tuning of gasoline and diesel engines. Investments of around €9 million are enabling us to work on new projects for local vehicle manufacturers and importers.

Countries with R&D sites



Divisions and Business Units

The divisions and their business units cover a broad range of applications and ensure that we can provide our customers with first-class products and systems at all times.

Chassis & Safety Division

- The Chassis & Safety division develops and produces intelligent systems for an automotive future in which life is protected and injuries are avoided.
- The division's sales increased by 12.7% in 2011 to €6.5 billion.

We create systems for an automotive future in which life is protected and injuries are prevented. All our expertise is bundled in the areas of driving safety and driving dynamics. Thanks to more than a century of experience in the automotive industry, we are capable of integrating active safety such as braking and driver assistance systems, sensors, driving stability and chassis components as well as passive safety such as airbag electronics that, from individual components to networked systems, only serve one purpose – to increase driving safety.

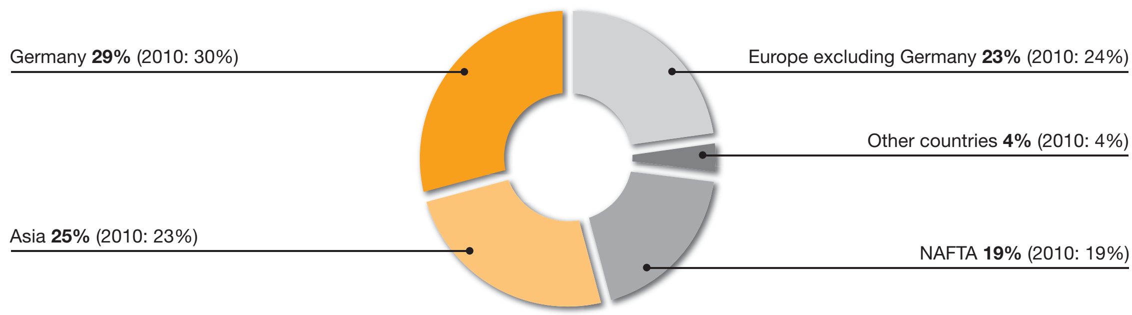
- Active safety systems, like electronic braking and driver assistance systems, warn of imminent dangers and intervene to assist with steering, braking and suspension control.
- Passive safety systems, such as airbags and pedestrian protection, provide the best possible protection in the event of an accident.

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

Chassis & Safety maintains a presence at 66 locations in 19 countries. Its roughly 33,000 employees generated sales of €6.5 billion in 2011. The division consists of five business units:

- Electronic Brake Systems (EBS): EBS develops and produces sophisticated and scalable electronic braking systems and software solutions to ensure vehicle stability and increase driving comfort for all vehicle types. Examples include anti-lock braking systems (ABS), electronic stability control (ESC) and hill start assist.
- Hydraulic Brake Systems (HBS): The HBS business unit is constantly developing and producing new and even better forms of classic brake technology and actuation units including the associated components such as brake hoses.
- Sensorics: This business unit is dedicated to the field of wheel speed, chassis control and ESC sensors as well as other areas of safety and chassis sensor technology. The fast and precise detection of rotational speeds, steering angles, movements and forces that affect a vehicle is this business unit's core competence. Its product portfolio is extended to include new markets such as those for vans and mobile equipment vehicles.
- Passive Safety & Advanced Driver Assistance Systems (PSAD): PSAD offers driver assistance systems and electronics for integral passenger safety, either as an individual function or in conjunction with environmental sensors such as cameras, infrared or radar. This also includes airbag electronics and innovative pedestrian protection technologies such as the stereo camera.

Chassis & Safety Division: Sales by region



- Chassis Components: This business unit develops and produces solutions for electronics-based active chassis technology. Electric power steering systems are designed to achieve precise and efficient control of the vehicle in all driving situations.

Our growth prospects

Opportunities for volume growth and application possibilities in all vehicle classes can arise from a number of factors, such as:

- Greater use of driver assistance systems.
- Growth in the Asian markets and our expanding presence in Asia.
- A rising awareness of safety and energy efficiency among the population.
- More stringent legislation worldwide.

The Chassis & Safety division is excellently prepared for the future in existing markets with innovative products and new developments. This is due to stronger market penetration, higher installation rates in the areas of ABS, ESC, sensors and passive safety, and impressive new products such as driver assistance and steering systems. We are benefiting in particular from the favorable environment. The growth market of Asia and international legislation in terms of the more widespread use of ABS, ESC, airbags and driver assistance systems are paving the way for further growth. We see good opportunities in all markets and regions for a positive and profitable development with the functions of our ContiGuard® safety system. Under the heading of “Safety for Everyone”, we are taking advantage of the opportunity to provide our scalable technologies for all vehicle classes, on all platforms and all markets, thereby offering a highly extensive safety portfolio on both industrialized and growth markets. We are actively seizing on the current issues of the environment and electromobility – for example by reducing the weight of components and solutions for energy recovery when braking, an intelligent gas pedal that conserves resources and a sensor for high-voltage battery separation. The possibilities of combining new products, higher installation rates for existing products and the penetration of new markets are what make up the strength of our growth.

Powertrain Division

- In the Powertrain division we integrate innovative and efficient powertrain system solutions into vehicles of all categories.

- The division's sales increased by 23.5% in 2011 to €5.8 billion.

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

The Powertrain division has 64 locations in 21 countries. In the year under review, its roughly 31,000 employees generated sales of €5.8 billion. The division is divided into five business units:

- Engine Systems: This business unit has extensive expertise in the development and production of engine management systems. These include component and system solutions for gasoline and diesel engines, control units for engine management in commercial vehicles, and technologies for turbochargers and exhaust gas aftertreatment.

- Transmission: The Transmission business unit specializes in control electronics for automatic transmissions for all classes and applications. The product portfolio extends from stand-alone external and add-on control units to mechatronics fully integrated into the transmission – including sensors and electric or hydraulic actuators. The applications optimize driving comfort, save fuel and reduce emissions.

- Hybrid Electric Vehicle: This business unit has developed a comprehensive product portfolio for drive electrification with which hybrid and electric vehicles are possible in various performance classes. The high degree of maturity of these technologies for saving fuel and therefore reducing pollutants has been demonstrated by volume production for various automotive manufacturers after a development period of just a few years.

- Sensors & Actuators: Using intelligent sensor technology and actuators interacting with engine management systems, this business unit works on solutions designed to satisfy current and anticipated emission standards and to reduce CO_2 emissions in all classes of vehicle.

- Fuel Supply: This business unit develops and produces all technologies relevant to fuel management. Its range of products includes fuel feed units, fuel-level sensors, fuel pumps, valves and electronics for on-demand control.

Our growth prospects

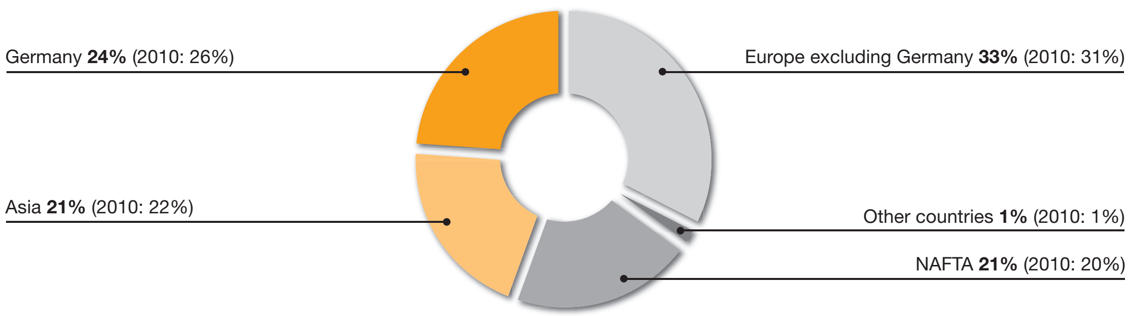
We utilize our system expertise for new applications:

- We help to conserve resources and actively pursue the corresponding megatrends.

- We are working to propel vehicles even more efficiently.

In the interests of reducing CO_2 emissions and in response to stricter emissions legislation and the need to use crude oil reserves sparingly, greater significance is being attached to combining various drive solutions. In addition, the customers want a vehicle that consumes as little fuel as possible. Together, this calls for a variety of activities and effective action. We are therefore dedicated to the goal of effectively increasing the efficiency of conventional combustion engines in the short term and driving forwards the advancing electrification of the powertrain for the mass market in the medium to long term.

Powertrain Division: Sales by region



Thanks to our general system expertise, we feel that the Powertrain division has good growth prospects. Our solutions can be selected and combined based on the vehicle category and the respective requirements profile, such as the combining of gasoline direct injection with exhaust gas turbocharging for high-efficiency gasoline engines, the further reduction of fuel consumption, diesel engines with precise and rapid piezo technology for further emissions reduction and innovative technologies for hybrid vehicles or all-electric vehicles. In March 2011, we were awarded the innovation prize for climate and the environment, jointly presented by the Federal Environment Ministry and the Federation of German Industries, for our new kind of diesel injection technology. This was based on a previous assessment by the Fraunhofer Institute for Systems and Innovation Research.

In addition, we anticipate further growth prospects in the field of exhaust gas aftertreatment and open system architectures in powertrain management to integrate various functions within the vehicle.

To enable us to better serve Russia's booming automotive market, we will set up a new production line for engine control units at our plant in Kaluga, Russia. Our goal is to be the leading international electronics supplier in this vehicle market.

Interior Division

- The Interior division ensures that information is presented and managed within the vehicle to enhance ride comfort and safety.
- The division's sales increased by 10.7% in 2011 to €6.1 billion.

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

Interior has production facilities at 93 locations in 25 countries. With nearly 32,000 employees, the division achieved sales of €6.1 billion in fiscal 2011, and comprises four business units:

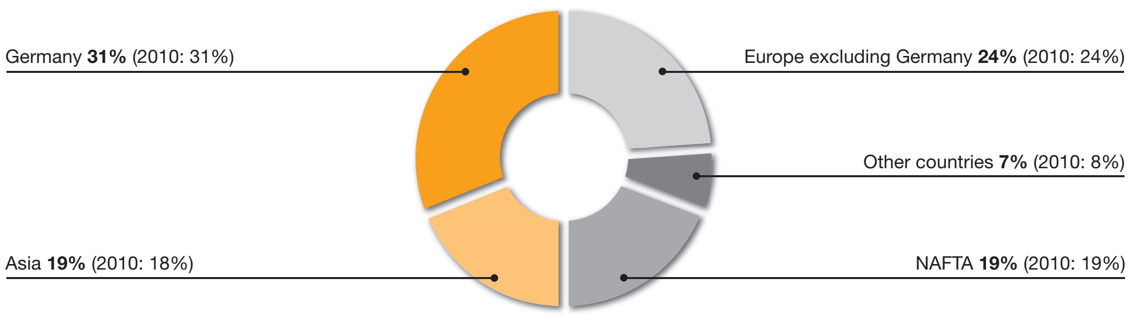
- Instrumentation & Driver HMI: The work of this business unit focuses on display and control concepts to provide the driver and all passengers with the best possible information via reliable and multifunctional instruments, displays and control elements that are easy to read in all driving situations.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

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

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

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

Interior Division: Sales by region



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

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

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

A new production plant was opened in Jinan in the Chinese province of Shandong in May 2011, where several major commercial vehicle and construction machinery manufacturers are based. It is our first production facility in China that specializes in the manufacture of electronics for commercial vehicles and the aftermarket with an annual capacity of around 800,000 instrument clusters for commercial vehicles. It is planned that production will expand into the areas of comfort and chassis electronics in 2012.

Electromobility will also be a major long-term growth driver. Using Interior technologies, the range of electric cars can be optimized while drivers maintain a clear overview of their remaining range at all times with range management assistance: The smart networking of vehicles, energy providers and mobile devices will provide drivers of future electric vehicles with solutions for minimizing the range risk.

Tire Division – Passenger and Light Truck Tires

- From sub-compacts to RVs: The Passenger and Light Truck Tires division has the right tires for every vehicle.

- The Passenger and Light Truck Tires division's sales increased by 19.5% in 2011 to €7.0 billion.

We have been developing and producing tires for cars since 1898. Continental tires stand for excellent transmission of forces and exceptionally reliable tracking in all weather conditions as they offer an outstanding connection between the vehicle and the road in all kinds of weather. The Passenger and Light Truck Tires division's range comprises tires for compact, mid-range and luxury segment vehicles, SUVs, vans, light trucks and RVs. The division produces tires under the brand names of Continental, Uniroyal (except in NAFTA, Colombia and Peru), Semperit, General Tire, Viking, Gislaved, Euzkadi, Sime Tyres, Barum, Mabor and Matador.

The division maintains a presence at 54 locations in 35 countries. In 2011 its approximately 31,000 employees generated sales of €7.0 billion. The Passenger and Light Truck Tires division comprises five business units:

- The Original Equipment business unit represents global business with automotive manufacturers. Thanks to the ongoing alignment of customers' wishes with development advancements, we can specifically optimize the properties of our products to the respective vehicle. This way, we satisfy the highest demands – and set standards. Continental brand products are marketed worldwide and General Tire brand products in NAFTA. We also supply OEMs with our runflat systems that, in the event of a puncture, make it possible to continue driving to the next repair shop.

- Replacement Business is divided into the regions of EMEA (Europe, Middle East, Africa), The Americas (North, Central and South America) and Asia Pacific (Asia and the Pacific region). In addition to the premium Continental brand and budget Barum brand, which are sold all over the world, it markets the regional brands Uniroyal, Semperit, General Tire, Viking, Gislaved, Euzkadi, Sime Tyres, Mabor and Matador. Our retail tire companies with more than 2,200 specialty tire outlets and franchises are also assigned to EMEA Replacement Business.

- The product portfolio of Two-Wheel Tires ranges from bicycle tires (city, trekking, mountain bike and high-performance racing tires) to motorcycle tires (scooter, Enduro and high-performance road tires). The tires are sold as original equipment and as replacement tires. Continental offers products for professional riders and hobby riders alike.

Distribution of sales
27% of sales in the Passenger and Light Truck Tires division relates to business with vehicle manufacturers, and 73% relates to the replacement business.

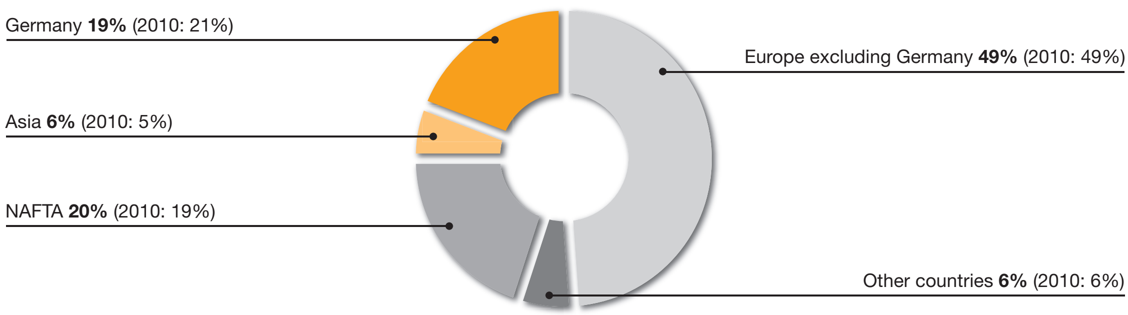
Our growth prospects
Above all, we will meet rising demand with:

- innovative new developments in the field of high-performance tires and tires with reduced rolling resistance,

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

We also intend to grow in the attractive UHP segment (ultra-high-performance) in particular in the coming years. The super sports tires ContiSportContact™ 5, ContiSportContact™ 5P and ContiForceContact launched in 2011 have been greeted very positively by vehicle manufacturers, tuners and test magazines and have completely satisfied our expectations with regards to volume sales. The ContiEcoContact 5, which features ultra-low rolling resistance, also received positive reviews.

Tire Division, Passenger and Light Truck Tires: Sales by region



The development and expansion of capacity, particularly in the BRIC nations for which a special investment program with a volume of more than €1 billion has been set up, will play a key role generating additional growth prospects in the coming years. By expanding the tire plant in Camaçari, Brazil, we are creating the basis for doubling the plant's production capacity in the next five years. At our site in Kaluga, Russia, 170 kilometers southwest of Moscow, we have begun construction of a plant slated to go into operation late in 2013, which will have an annual capacity of 4 million tires once production has been ramped up. In July 2011, Continental took over all tire operations of Modi Tyres Company in India. Parallel to the expansion of the associated commercial vehicle tire plant, we also plan to introduce passenger tire production in Modipuram. In May 2011, our first Chinese tire plant commenced operations in Hefei in Anhui Province. In its first phase, the production facility has been designed for an annual production capacity of 4 million passenger tires. This will then be gradually extended up to an annual production volume of 16 million passenger tires.

Finally, we are also continuing the expansion of our production capacity in the U.S.A., firstly by investing in our existing plant in Mt. Vernon, Illinois, and secondly by creating a new tire plant in Sumter, South Carolina. All new factories will primarily manufacture goods for their expanding local markets. Furthermore, we are also investing around €350 million per year in the expansion of our existing plants in order to adjust our global capacity to prevailing demand in the long term.

Tire Division – Commercial Vehicle Tires

- Thanks to its combination of premium tires and high-quality service, the Commercial Vehicle Tires division has evolved from being a tire manufacturer to a solutions provider.
- Sales in the Commercial Vehicle Tires division increased by 29.9% in 2011 to €1.9 billion.

The Commercial Vehicle Tires division stands for economic mobility in the fields of goods, people, construction and services. We provide our customers with high-mileage tires, a reliable transmission of forces and low fuel consumption. This is because, as a global partner to the transport and logistics industry, we are equally well acquainted with the world's markets and its roads. The division offers truck, bus and industrial tires for various applications and service requirements. Continental premium brand tires are marketed worldwide. The range is supplemented by the Barum, Semperit, Uniroyal and Matador brands in Europe, the General Tire and Ameri*Steel brands in America and the Euzkadi brand in Mexico. In Asia, the product portfolio includes Sime Tyres brand tires. To supplement Continental's new tire range, we have therefore also included a hot-retreaded and a cold-retreaded line of tires under the ContiRe and ContiTread brand names. The Industrial Tires unit develops and produces tires of the Continental, Barum, Simex, General Tire, Ameri*Steel and Novum brands.

The division operates at 44 sites in 33 countries and employs about 10,000 people who generated sales of €1.9 billion in the year under review. The division comprises four business units:

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

The original equipment business is organized on a global basis.

Continental's tires and service range is geared to the individual requirements of its customers. Thanks to our local employees and service partners, who are in constant contact with customers, we understand the real challenges of their day-to-day business and offer solutions with energy-efficient products and professional tire management that help our customers keep operating costs down.

Society's demands in terms of safety and environmental impact are incorporated in product and service development right from the start. In the Continental product portfolio, we cover a specific safety aspect with special winter tires for all truck axle positions and winter tires for buses. In ContiLifeCycle and Conti-360°Fleet Services, we offer our customers service solutions that significantly improve economy.

The products of the Industrial Tires business unit are used on roads, construction sites, at ports and airports, in major industrial manufacturing facilities and in the food industry. For example, its offering includes tires for municipal winter road clearance, road maintenance, forklifts or goods transportation on a wide range of surface types. The product range extends from solid tires to industrial bias-ply and radial tires through to pneumatic tires for heavy equipment in container handling.

Distribution of sales

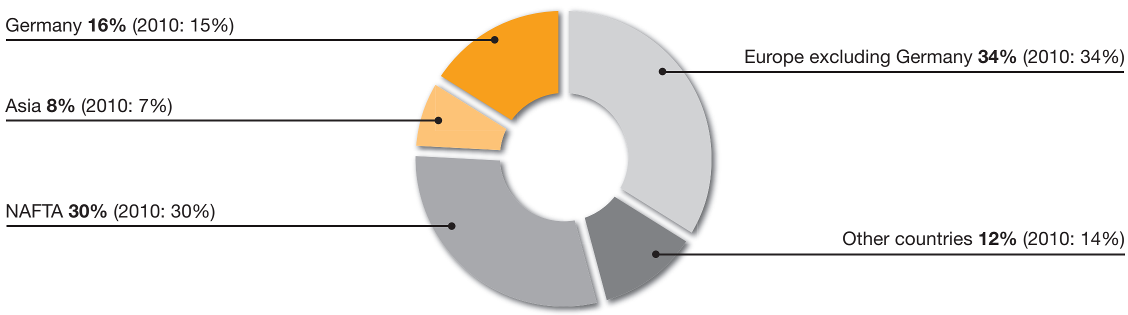
22% of sales in the Commercial Vehicle Tires division relates to business with vehicle manufacturers, and 78% relates to the replacement business. Our sales are largely characterized by replacement business, which is operated by our global service network.

Our growth prospects

In particular, we believe that our growth prospects lie

- in the greater proximity to the major commercial vehicle markets and
- in the intensive support for fleet customers.

Tire Division, Commercial Vehicle Tires: Sales by region



In the year under review, we gave our business in the growth market of India a significant boost with the acquisition of the Indian tire manufacturer Modi Tyres Company. At the plant in Modipuram near Delhi, we will increase the production of bias-ply tires for trucks and buses from originally 500,000 to more than 1 million units per year by 2013. Furthermore, we will establish radial tire production with investments of more than €50 million. Thanks to the local production of radial tires to be launched in 2013 in addition to the current bias-ply tire production, Continental will create a strong competitive position and therefore the opportunity to participate in India's rapidly growing demand for vehicles with high-quality tires and premium technology.

We are also expanding our activities once again in the growth market of Brazil. We will virtually double production capacity at the tire plant in Camaçari, Brazil, by the end of 2015. In the year under review, we already increased the production of truck tires significantly to over 400,000 units per year.

The Commercial Vehicle Tires division further consolidated its position as a provider of mobility solutions on the key markets of Europe by continuing its integration of products and services. The pan-European Conti-360° network was extended from eight to ten countries in 2011 to handle the growing business with fleet customers. The ContiBreakdownService is available in 37 European countries.

Conti360° Fleet Services are being set up in Asia. The fleet services will be launched there from 2012 – starting with Malaysia. In addition, we are continuing to expand our product portfolio into growth segments and are preparing for the launch of ContiLifeCycle and therefore the integration of retreading solutions for end customers.

The Americas business unit is also continuing its accelerated start-up of ContiLifeCycle solutions. The first license agreements for the ContiLifeCycle dealer network in North America were concluded in 2011. In the next few years, tire production and sales will also be increased further. The additional new tire volumes, combined with the ContiLifeCycle, will together strengthen the clear fleet approach.

The Industrial Tires business unit is consolidating its global market presence with local sales organizations to generate further strong growth in America and Asia. We are systematically gaining new clients in our partnership with the tire trade. There is further growth potential in the successfully launched CRT20 radial tire line, which is designed for the extreme requirements in materials handling, and in the launch of the secondary brand Ameri*Steel in the U.S.A.

ContiTech Division

- The ContiTech division develops sustainable products made from rubber and plastic – products that are individually customized.
- The division's sales increased by 15.8% in 2011 to €3.6 billion.

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

The division maintains a presence at 78 locations in 24 countries. In 2011 its approximately 27,000 employees generated sales of €3.6 billion. ContiTech is divided into seven business units:

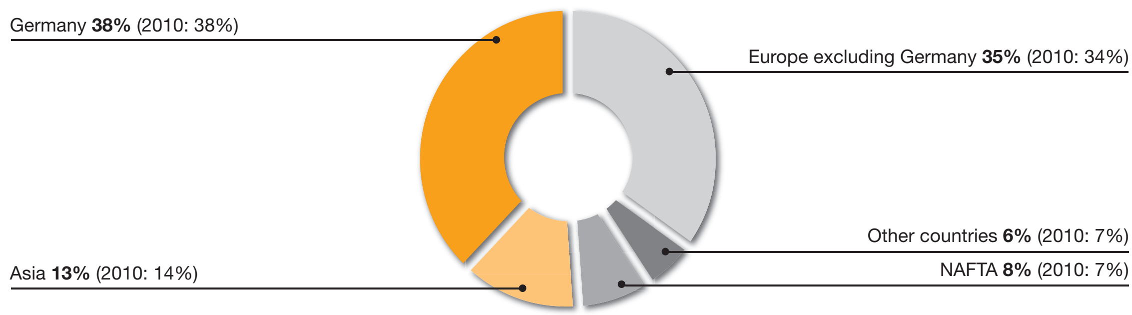
- Air Spring Systems: This business unit is a leading development partner and manufacturer for self-adjusting air suspension systems. Its components and complete systems are installed in commercial vehicles, buses and rail vehicles for vibration and level control, or in stationary machines as foundation supports. The unit also offers air actuators for industrial pneumatic systems and rubber compensators used in machine and plant engineering.
- Benecke-Kaliko Group: The Benecke-Kaliko Group produces foils and artificial leather products for vehicle interiors. Its products are used, for example, on instrument panels, door trim panels, center consoles and seats.
- Conveyor Belt Group: The Conveyor Belt Group manufactures steel cord and textile conveyor belts, special-purpose conveyor belts, conveyor belt accessories and service materials. ContiTech's conveyor belts are built for energy optimization and can transport materials both cost effectively and with very low environmental impact.
- Elastomer Coatings: This business unit develops and manufactures innovative printing blankets, coated fabrics and diaphragm materials as well as three-dimensionally engineered products like gas holder diaphragms and flexible tanks.
- Fluid Technology: The Fluid Technology business unit makes a broad range of hoses, hose lines and line systems for the automotive and other industries.
- Power Transmission Group: As a development partner and manufacturer of drive belts and matched components through to complete belt drive systems, the Power Transmission Group offers products and systems used in the automotive industry and in machine and plant construction.
- Vibration Control: The Vibration Control business unit is a specialist in noise and vibration control and in sealing technology. It develops and produces a wide variety of elastomer and rubber-metal products such as vibration absorbers, mounting systems, precision molded parts, blow molded parts and plastic parts for a broad range of applications.

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

Our growth prospects
Our manufacturing facilities located in close proximity to our customers in regions and sectors of high growth provide us with significant potential:

- We are continuing to expand our presence in China, India and Eastern Europe.
- We are strengthening our market position in South America and NAFTA.

ContiTech Division: Sales by region



We see special growth opportunities in the Chinese market. The plant in Changshu, China, began operations in 2010 and was expanded further in 2011. The Vibration Control, Air Spring Systems and Fluid Technology units produce at this location. In June 2011, in order to boost the special-purpose belts unit and expand its customer base, we took over the conveyor belt business of Tianjin Xinbinhai Conveyor Belt Co., Ltd., in Tianjin, China. The company predominantly produces conveyor belts for the metal, cement and mining industries and improves our export opportunities. We are standing by our goal of more than doubling sales in China by 2015 as against 2010.

The Conveyor Belt Group has expanded its presence in Australia and the South Pacific region by buying the trading company Mining Industrial Resource Supplies Pty Ltd, Perth, Australia. Furthermore, capacity is being increased substantially at the successful conveyor belt plant in India. Technology advancement should help us achieve significant growth.

As a result of the planned plant expansions in Ponta Grossa, Brazil, and San Luis Potosí, Mexico, and the increases in Chilean conveyor belt production, we are anticipating further growth in South America and NAFTA.

We expect stronger growth in Eastern Europe thanks to the Conveyor Belt Group's increased production capacity in Serbia. There, Fluid Technology is also building a production facility for hose lines for the automotive industry. A plant will be built for rubber compounds in Nyíregyháza, Hungary, in 2012. Following an extensive conversion of the plant in Dolné Vestenice, Slovakia, the Vibration Control business unit is well positioned for new orders from the automotive industry. Polyamide engine mounts and structural components, which are as much as 50% lighter than metal parts, are enjoying global demand. In addition, capacity expansions for conveyor belts in Greece and for air spring systems in Turkey will enable sales gains in the short term.

The ContiTech Power Transmission Group is expanding its business with drive belts that help to make vehicles more environmentally compatible. Benecke-Kaliko is using resource-efficient products such as Acella® and TEPEO 2® surface materials to combine quality, comfort and sustainability in interior design. Demand for these products is on the rise.

In 2012, the Fluid Technology business unit will further develop its expertise for plastic components and systems, striving for growth in the markets outside Europe, including China, South America and NAFTA in particular.

Corporate Management

Our corporate management is focused on the sustainable development of enterprise value and on balanced financing.

Value management

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

- Operating earnings before interest and taxes are calculated from the ongoing sales process. The figure is the net total of sales and costs plus earnings from associates but before interest and taxes. Consolidated EBIT amounted to €2.6 billion in 2011.

- Capital employed is the funds used by the company to generate its sales. At Continental, this figure is calculated as the average of operating assets as of the end of the quarterly reporting periods. In 2011, average operating assets amounted to €16.0 billion.

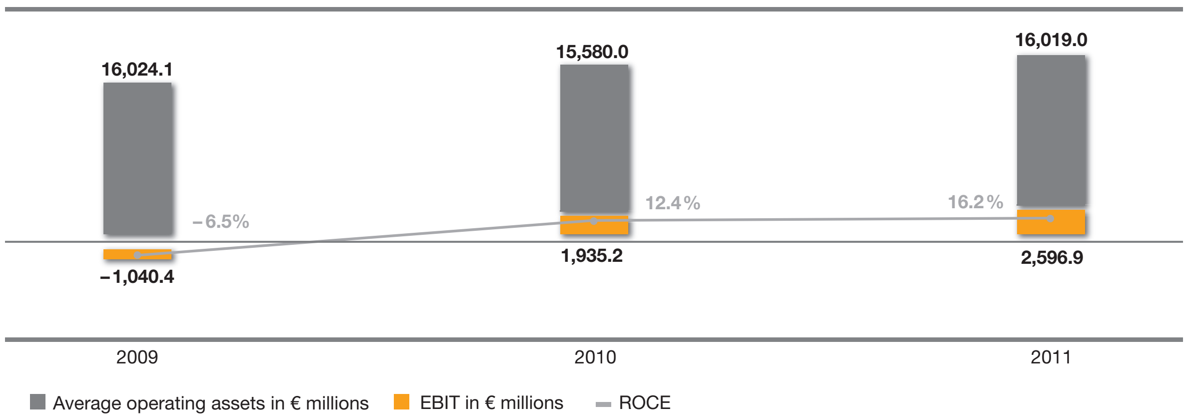
- If one relates these two calculated values, it produces the return on capital employed (ROCE). Comparing a figure from the statement of comprehensive income (EBIT) with one from the statement of financial position (capital employed) produces a holistic analysis. We solve the problem of the different periods of analysis by calculating the capital employed as an average figure over the ends of quarterly reporting periods. ROCE amounted to 16.2% in 2011, thus rising for the second year in a row.

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

- Value is added only if the return on capital employed (ROCE) exceeds the weighted average cost of capital (WACC). We call this value added, produced by subtracting WACC from ROCE multiplied by average operating assets, the Continental Value Contribution (CVC). By increasing ROCE by 3.8 percentage points, value added was also created in 2011.

- In the long term, enterprise value by our definition will only increase if the CVC shows positive growth from year to year. CVC rose for the second year in a row in 2011.

Development of ROCE



Financing strategy

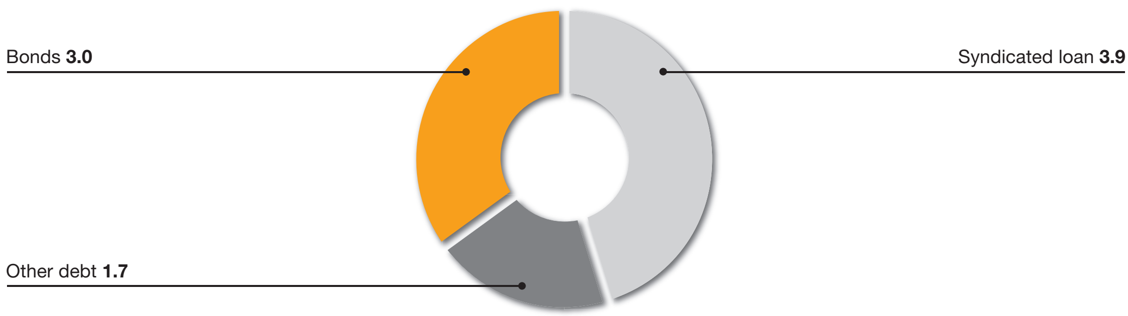
Our financing strategy allows value-adding growth while at the same time complying with an equity and liabilities structure adequate to the risks and rewards of our business.

The central function Finance & Treasury coordinates the provision of the necessary financial framework to finance corporate growth and secure the long-term existence of the company. The long-term average for the company's annual investment needs is currently between 5% and 6% of sales. However, this figure will rise slightly above this corridor in 2012 and 2013 on account of the implementation of investment projects in the Rubber Group. Our goal is to ensure that ongoing investment requirements are financed from the operating cash flow. Other investment projects should be financed from a balanced mix of equity and debt to achieve a constant stabilization or improvement in the corporation's costs of capital in the respective capital market environment. Owing above all to our current non-investment grade rating and the effects of the lingering debt crisis in Europe on the financial markets as well, we are pursuing the goal of a gearing ratio below 60%. If justified by extraordinary financing grounds or special market circumstances, we can rise above this corridor. If possible, the equity ratio should lie between 30% and 35%. In the past fiscal year, the gearing ratio was 90% and the equity ratio 29%.

Our financial debt should be a balanced mix of liabilities to banks and other sources of financing on the capital market, whereby we seek to use a wide range of financing instruments for short-term financing in particular. As of the end of 2011, this mix consisted of syndicated loan (45%), bonds (35%), other bank liabilities (7%) and other indebtedness (13%) based on the gross financial liabilities of €8.6 billion. We do not see any reason to make significant changes in this mix at this time.

The corporation generally strives for liquidity as of the end of reporting periods of between €0.9 billion and €1.5 billion, which is supplemented by unutilized bank commitments in order to cover liquidity requirements at all times. These requirements fluctuate during a calendar year owing in particular to the seasonal nature of some business areas. In addition, the amount of liquidity requirements is also influenced by strong corporate growth. Cash and cash equivalents amounted to €1.5 billion on December 31, 2011. There were also fully committed and unutilized lines of credit of €2.2 billion.

Gross debt at December 31, 2011 (in € billions)

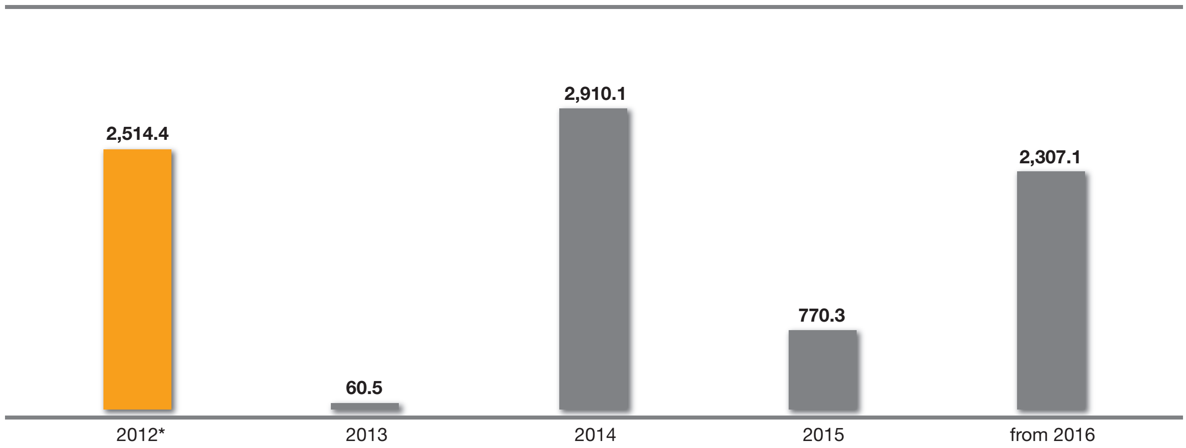


Gross debt amounted to €8.6 billion as of December 31, 2011. The biggest financing instrument is a syndicated loan with a volume of €5.375 billion (as of December 31, 2011). It consists of a fixed loan (tranche C2) for a nominal amount of €2.875 billion and a revolving credit line of €2.5 billion. The latter had been utilized in the amount of €1.0 billion as of December 31, 2011. Both tranches mature in April 2014. Around a third of gross debt is financed on the capital market in the form of bonds maturing between July 2015 and October 2018. The interest coupons vary between 6.5% and 8.5% depending on the term of the bond. Repayment amounts on maturity are €625 million each in 2016 and 2018, €750 million in 2015 and €1.0 billion in 2017. All four bonds grant the issuer the right to early repayment under certain conditions. In addition, there are bilateral lines of credit with various banks in the amount of €1.1 billion as of December 31, 2011. Furthermore, there is an investment loan of €300 million from the European Investment Bank (EIB). In addition to finance leases, Continental's other corporate financing instruments currently include sales of receivables and a commercial paper program.

Maturity profile

Continental always strives for a balanced maturity profile of its liabilities in order to be able to repay the amounts due each year from free cash flow. After the repayment of tranche C1 of the syndicated loan in the amount of €625 million as of the end of 2011, other than short-term maturities (which are usually rolled on to the next year) the biggest single maturity in 2012 is €300 million owed to the EIB in November. Maturities in 2013 amount to less than €100 million. The amounts drawn under the syndicated loan of €5.375 billion mature in April 2014. As we should have achieved our medium-term financing targets in terms of the gearing ratio and the equity ratio by that time, we do not see the refinancing of the bank lines then needed as a significant challenge even if the credit market conditions should deteriorate further. Talks on this shall be initiated at an early stage. The amounts of the individual bonds maturing are within a balanced range.

Gross debt maturities (in € millions)



* Includes the maturity of the nominal amount of €1,026.4 million currently drawn down under the revolving line of credit for €2.5 billion of the syndicated loan due in 2014.

Rating goal

Continental is currently assessed by several rating agencies. Moody's evaluation is Ba3; outlook stable, and Standard & Poor's classifies Continental as B+; outlook positive. Continental's goal is to return to a higher credit category, the investment grade which is characterized by low default rates, in the medium term. The minimum target ratings are BBB and Baa2. By the end of fiscal 2012 at the latest, the critical financial ratios as defined by the rating agencies should reach levels characteristic of the investment grade category.

Sustainability

We actively exercise our corporate social responsibility (CSR) by pursuing economic, ecological and social goals equally.

It is therefore an element of our corporate strategy and governance to combine financial and non-financial performance indicators and to make a positive contribution to our employees, the environment and society through holistic management. This contributes significantly to the protection and value enhancement of our company.

Employees

We afford our employees the best possible advancement and training opportunities. Attracting young, talents is one of our strategic priorities.

We attach great importance to the advancement and training of employees. Continental AG's workforce of around 164,000 forms the basis worldwide for our sustained success. Responsibility for our employees is therefore a central component of the corporation's commitment as an employer. This also includes respect for the countries and cultures in which we operate.

Continental stands for taking a leading position on markets characterized by strong competition. In light of the rapid technological developments on these markets, attracting first-class employees and their training enjoys the utmost attention from the company's management.

Our HR work is based on the following strategic work areas:

- designing competitive working conditions,
- positioning Continental on the market as an attractive employer,
- supporting organizational development,
- ensuring first-class HR work by developing skills and improving processes,
- securing executive talent for future years at an early stage through the talent management program and continuous human resources development,
- promoting a values-based leadership and performance culture.

We develop the activities that arise from this in all our divisions.

Profit sharing program for all employees

In 2011, the Executive Board decided to introduce an annual profit sharing program for all employees around the world. A corporate-wide agreement to this effect was concluded with the corporate works council in Germany.

The program allows Continental Corporation employees to participate directly in the success of the company in that they receive a bonus. The amount of the bonus paid depends on the Continental Corporation's absolute value contribution (CVC) for the respective fiscal year. The portion of profits distributed for 2011 totaled about €70 million.

HR development at all levels

In recent years, Continental has launched a series of programs focusing on different aspects of HR development. The concept that comprises all levels and carefully calibrated instrumentation allow us to offer current and future Continental employees optimal conditions for their successful professional and personal development. The performance of programs and their evaluation offer key indicators for the measurement and improvement of the organization's performance. The following programs are examples of this:

- "Corporate Entry Program": A tailored package for new employees with university degrees offering a comprehensive insight into the corporation and helping them to hone their qualifications profile.
- "Assessment and Development Center": The identification and fostering of highly talented employees with the potential to become future managers in preparation for management positions.
- "Leadership Entry Program": Preparing new managers for their duties with a focus on social skills, leadership and thereby further strengthening the management culture at Continental.
- "International Management Program": Handling challenging corporate projects at a high academic level coupled with a practical application for Continental.
- "BIG SIX Radar": 360° feedback for managers that covers the aspects of vision, entrepreneurship, execution, action, learning and interaction.
- We offer our industrial employees training activities based on established standards at all our production locations. The effectiveness of these measures is evaluated, documented and regularly and systematically reviewed for sustainability.

"BASICS live" employee survey provides suggestions for extensive improvement measures

In "BASICS live", Continental has created a tool for conducting global surveys of all employees which it uses both regularly and highly actively — for example in defining our values. The survey is an important tool for improving corporate culture and cooperation within the corporation. In addition to the standard questions for employees throughout the corporation, each division or location can also add extra questions of its own. Among other things, the survey assesses overall satisfaction, management quality and the attitude of Continental employees. More than 80% of all employees at all locations around the world took part in "BASICS live 2011", which ran until November 2011 and was subtitled "Be heard and improve together". Improvement activities will be derived from the analysis of "BASICS live" and implemented in the coming months.

Structure of the workforce	Dec. 31, 2011	Dec. 31, 2010
Total number of employees	163,788	148,228
thereof permanent staff	149,817	135,802
outside Germany	104,624	92,666
in Germany	45,193	43,136
Trainees*	1,884	1,837
Female employees in %*	21.8	21.9
Average years of service to the company*	14.6	14.6
Average age of employees* in years	41.9	42.1

*in Germany

International assignments rising further

In addition to the opportunities for ongoing professional and personal development, the mobility of our employees is playing a growing role in light of the advancing internationalization of Continental. By sending employees on assignments, which can last between six months and five years, we ensure that the expertise that exists within the corporation is applied uniformly and comprehensively. At the same time, this raises awareness of Continental as a global provider. In fiscal 2011, a total of around 900 employees worked outside their native countries as part of our assignment program. The trend has been rising for years. Asia is still leading the field regionally, with more than 40% of participants working there.

Assignments are based on a global policy that ensures that international assignments are designed cost optimally while simultaneously taking into account employees' concerns. The experiences of participants in the assignment program are regularly evaluated to identify points for further improvement. Thanks to a careful assignment concept with comprehensive support and regular monitoring for the employees assigned, we ensure that they and their families quickly settle in their new environments and can continue their careers within the corporation smoothly after the end of their assignment.

Professional training as an investment in our future

Professional training is a further important part of human resources development at Continental.

The shortage of employees due to demographic changes makes it increasingly difficult to find people suitably qualified to fill the jobs in the companies. Reflecting this development are the new, sometimes greatly elevated expectations on the part of trainees of the content of their professional work. Continental will therefore continue to ensure that it is still seen as an attractive employer that knows how to recruit the necessary next generation with initiative in this segment of the labor market as well.

We are currently training 1,884 (PY: 1,837) young people in Germany in around 20 technical and commercial professions. In this context, we also offer high school graduates the opportunity to combine theory and practice in 17 dual courses of study.

Continental known as an attractive employer at universities

Continental also works actively and visibly at universities to attract talented and motivated new employees. The initiatives are part of a comprehensive university marketing concept that is monitored by central and local employees from Employer Branding to ensure that Continental can meet its annual requirement of around 1,500 excellently qualified graduates.

It is our goal to achieve a top position in employer rankings among potential recruits with an academic background. Our human resources marketing underpins our efforts with activities focusing on Asia, Germany, Eastern Europe and the U.S.A. As part of our successful "Ambassador Initiative" program, we held roughly 300 events at key universities in these regions and countries in 2011 alone, with around 600 managers and specialists acting as Conti ambassadors at higher education institutions. During the "Student Day 2011", students at around 20 locations were given the opportunity to find out about the diverse career opportunities within the corporation.

Safety and health take top priority

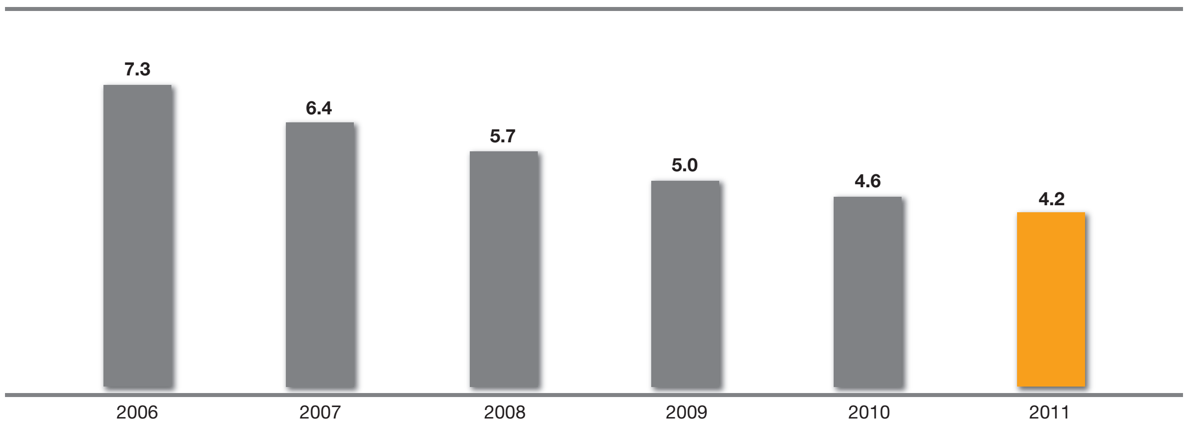
Safety in the workplace is a matter of central importance to Continental. The ongoing improvement in the safety of our employees is managed by way of performance indicators and targets that are defined for each location around the world and are binding. The success of these measures can be seen by the steady drop in the incidence rate of accidents since 2005. At the end of 2011 the corporation was delighted to achieve a drop of 10% as against 2005 – even though production has expanded significantly in this period.

Continental attaches similar importance to promoting the health of our employees. This topic is addressed in seminars, workshops and other events during which we offer professional support and practical help for promoting employee health and "healthy management" by executives. We also devote particular attention to one of today's main causes of illness, stress. In our series of seminars on stress reduction, we help our employees, especially those in production, to maintain their health and performance under rising mental strain. A further element of our health program is an independent consultancy service for employees and their families facing professional and personal problem situations (Employee Assistance Program). The aim of this is to always have professional medical, psychological or educational support on hand. Our executives can also seek advice there on how to manage employees or their own personal development.

Our wide-ranging activities create a key foundation for ensuring that our employees and executives are healthy, motivated and ready to work for Continental.

Trend in the accident rate

Number of work accidents worldwide resulting in the loss of one or more workday equivalents per million hours of work



The Environment

Environmental protection is a fixed component of our operating management activities.

Within our extremely diverse range, we also face many ecological duties. In light of this, environmental protection is a particularly important management activity that has a tangible impact on our operating business and to which each of our employees is committed. We are therefore constantly optimizing production, quality and product benefit for better environmental soundness. Our technologies and products make a substantial contribution to environmental protection.

Continental first set out its responsibility for protecting the environment in its corporate policies at the beginning of the 1990s. By doing so, we acknowledged early on the fact that the global expansion of our corporate activities is also reflected in an increasing use of natural resources, rising energy consumption and the release of substances into the environment.

At the heart of our environmental policy is a systematic approach to reducing our impact on the environment. At the same time, we are pursuing the goal of improving the basic economic and social conditions of our activities. Specifically, Continental practices its responsibility for protecting the environment and the climate around the world in its ESH (environment, security/safety and health) policy.

Environmental protection is embedded in a comprehensive management system

As part of its ESH policy, environmental protection is integrated into a corporation-wide guideline globally based on six principles.

These principles serve as guidance and a benchmark for all the company's actions that affect the environment:

- We practice responsible management of our natural resources.
- Environmentally-friendly products are the basis of our economic success in the long term.
- We consider the ecological impact of our products' entire life cycles – even during their development.
- We continuously and systematically improve our products and production processes.
- All employees at Continental feel a commitment to environmental protection.
- Our environmental policy addresses the demands of our customers, our employees, our shareholders, our suppliers and those actively participating in the social arena where we operate.

Continental's ESH policy takes into account environmental protection requirements at all stages of the product life cycle. The ESH management manual contains specifications on the implementation of ESH policy goals in the divisions and business units, production sites and development departments.

Within our organization, environmental protection is part of the Corporate Quality and Environment function, the head of which reports directly to the CEO. It is from there that the strategic specifications for environmental protection are issued to the corporation's divisions. Responsibility for implementing the specifications lies with the environmental managers who have regional and location authority in the divisions. The divisions of the Rubber Group operate separately while the three Automotive divisions share one environmental protection organization.

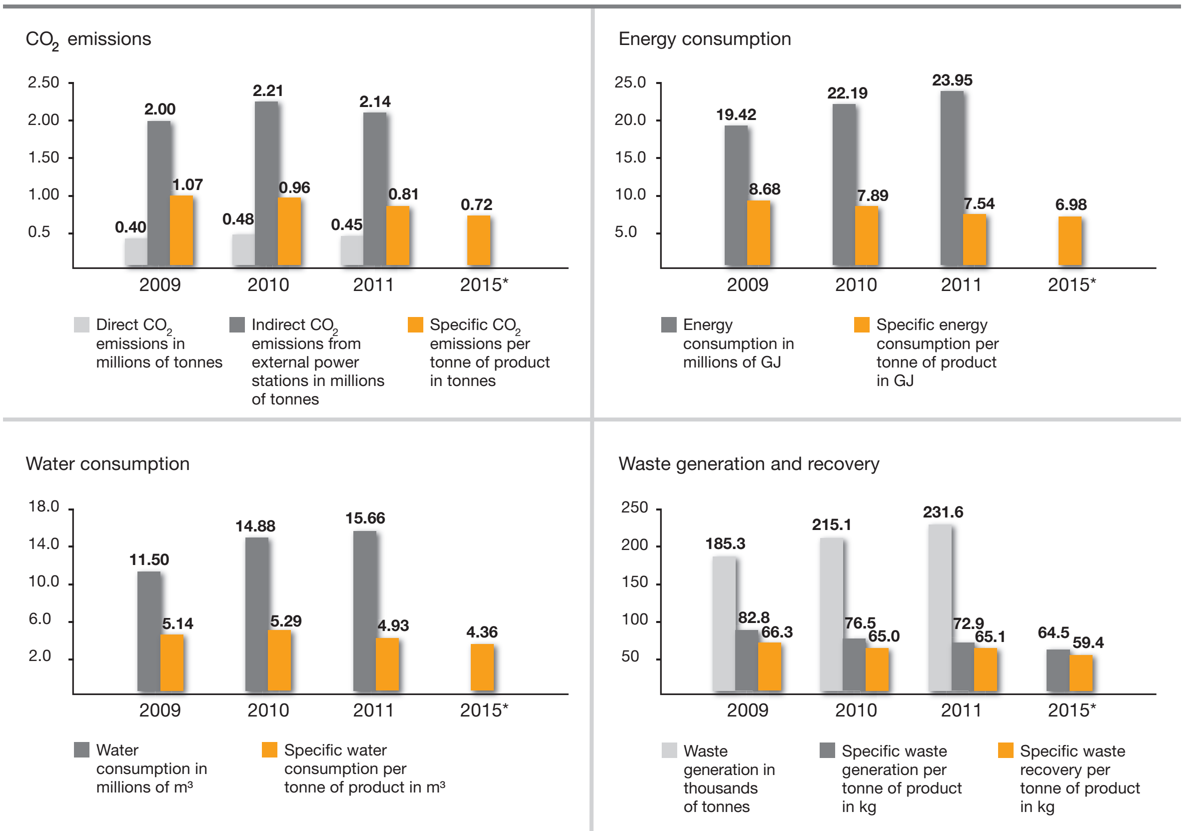
The environmental managers for each division are networked with their relevant divisions at the individual locations. Depending on requirements, the local environmental managers also have regional authority for environmental protection matters. Through this lean organizational structure, Continental is able to communicate its strategic goals directly and implement them efficiently. At the same time, the divisional structure of the environmental protection function ensures the necessary freedom for specific ecological requirements within the corporation's various fields of activity.

Constantly reducing impact per tonne of product

The aim of Continental's global environmental management system is to minimize the consumption of resources and to constantly reduce environmental impact, particularly in terms of CO_2 emissions, energy and water consumption and waste volumes. In the context of the international standard ISO 14001, regular internal and external audits monitor the attainment of these objectives, identify any need for action and ensure a knowledge transfer within the corporation. Environmental indicators that show the consumption of resources and emissions per tonne of finished product are calculated and used for controlling purposes.

At present, 89 of the Automotive Group's 107 locations around the world are already ISO 14001 certified, while 67 out of 98 international locations in the Rubber Group have this certification. We are constantly working to gradually reduce the environmental impact of our production facilities: By the year 2015, we intend to reduce the CO_2 emissions of our production processes by more than 10%. In addition, we are also aiming to further reduce our energy and water consumption and the amount of waste generated with the goal of achieving annual reductions of 3% in each of these areas. A further objective to help reduce the consumption of resources is to increase the recycling rate by 2% p.a.

Environmental key performance indicators



*Target

Environmental protection beyond value chains and life cycles

At the heart of the ongoing development of our environmental protection activities into a comprehensive environmental protection concept is the integration of all stages of the value chain – from our suppliers through to our customers. Responsibility for this extends throughout the entire life cycle of a product, starting with the raw materials, through development, production, utilization and recycling:

- Even in the development of our products, we are promoting the use of renewable commodities, such as natural rubber and plant oils, in the Rubber Group and recycled metals and plastics in the Automotive Group. This conserves resources and moreover contributes to climate protection.
- As a global company, Continental ensures that its manufacturing operations involve its suppliers in its environmental protection goals when procuring raw materials on international markets. New suppliers are therefore subjected to a detailed analysis that examines environmental aspects such as energy consumption, operational cleanliness and environmental and emergency management before orders are placed. In addition, we encourage our suppliers to obtain similar environmental data from their upstream suppliers. Continental regularly inquires as to the status of the environmental certification of a large majority of the suppliers with which it already has contracts. The supplier data on environmental protection obtained in this way is integrated into a practical and informative assessment system.

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

Participation in the Carbon Disclosure Project
In the Carbon Disclosure Project (CDP), Continental is participating in an initiative to improve transparency regarding greenhouse emissions. The CDP, a non-profit organization, is based on an initiative by 551 institutional investors who manage assets of more than $71 trillion. Once a year, the CDP requests data and information on environmental protection from listed companies on behalf of its investors. This applies in particular to the management's assessment of climate change and its effects on the company, the systematic recording of CO_2 emissions and the management's strategies for reducing these emissions.

We have been answering the CDP's extensive catalog of questions since 2009. In the current fiscal year, we have decided to publish our data for the first time. Continental improved its ranking by eleven points in the year under review to secure a good mid-table position. This motivates us to continue and expand our activities even further.

Social Responsibility

We accept our social responsibility and participate in a wide range of initiatives.

To Continental, achieving sustainability means establishing an acceptable balance between the economic requirements of the corporation and the valid expectations of our stakeholders – groups such as customers, shareholders, employees, partners and suppliers.

As one of the leading global technology companies and development partners, we accept our social responsibility. We believe that a company today must also prove itself to be a valuable member of our society outside the direct economic categories of product, growth and profitability. Our corporate policies document the principles of cooperation with our stakeholders and are practiced within the company. Compliance with these is monitored by the Executive Board. They include the following principles that adhere to international agreements and internal regulations at Continental:

- We respect the laws and culture of the countries in which we operate.
- We live and work in accordance with ethical and legal principles that we have set out in our Code of Conduct.
- We act with honesty and integrity at all times.
- We conduct an open and constructive dialog with all groups in society.
- We respect the interests of our stakeholders and allow them to participate appropriately 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.

As an international corporation, we at Continental are committed in particular to actively promoting the observance of human rights where we can. As part of our sustainability policy, Continental is involved in a number of voluntary initiatives, including public-private partnerships, with which we take responsibility for ensuring that human rights are put into practice. The guiding principle here is that a company and its regional branches can only contribute towards compliance with human rights as a complement to politics, not as a replacement of it. We ensure that Continental does not contribute towards any human rights infringements within its sphere of influence, particularly with regard to forced, compulsory or child labor.

In the spring of 2011, for example, Continental Tyre South Africa (CTSA) was presented with the Golden Arrow Award by the business magazine PMR. The prize is based on a survey and rates companies and institutions in South Africa on how they contribute to the stability, growth and economic development of South Africa. The attributes of this are: Fostering economic equality of the black population, social commitment in the vicinity of sites, commitment to employees, corporate governance, equal employment opportunities, environmental protection, crime prevention, HIV/AIDS prevention and control, combating poverty, job creation and training, quality of service and improvements in social conditions.

Commitment to social welfare and traffic safety

As a corporation on the global market, Continental has a decentralized organization with strong local responsibility. This applies not just to the business units, but also to the social commitment of the corporation and its branches, as well as private initiatives founded and supported by the corporation's committed employees. Charitable projects, donations and other activities are therefore initiated and supervised as far as possible at the discretion of the decentralized units. Exceptions to this include national projects and challenges or our commitment in the event of international disasters. In such matters, the corporation practices its social responsibility as a whole. A primary goal of all the activities of the corporation and its employees is direct, fast and lasting support. In fiscal 2011, for example, we were involved in the following local projects:

- Employees of the tire plant in Camaçari, Brazil, are doing their bit for local troubled children: they help with renovations and donate school materials, clothes and toys.

- Employees at the Automotive locations in Thailand went to regions hit by flooding to bring the people there donations of food and other urgently needed aid.

- A central and local crisis team of specialists from several departments quickly met up to do everything possible to help colleagues and their families in regions of Japan destroyed by the earthquake and tsunami. The corporation also donated €250,000 in emergency aid for the people affected.

- The Continental plant in Budapest, Hungary, helped the victims of the toxic mud slide that hit Western Hungary in October 2010.

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

- Continental's "Bus School" project helps children get the bus to school safely, as children often do not know how to behave at bus stops, when getting on or off the bus or how to cross the road safely. This way, we help to reduce the number of children injured while taking the bus to school.

- Since 2008, Continental has run the international Internet-based school route planner campaign, in which around 1,250 schools have taken part to date. The planner systematically shows sidewalks, pedestrian crossings and traffic signals as well as accident hotspots, and then comes up with a precise route for the safest possible way to and from school.

- In Germany, we are supporting a campaign initiated by the ADAC, the nation's biggest automobile club. Fluorescent yellow safety vests are distributed to 775,000 first graders to make sure they get to school safely during the dark winter mornings, for every 27 minutes a child is hit by a car in Germany because the driver did not see the child or saw it too late.

Commitment to education and science

Training and advancing the next generation are key tasks for every company hoping to secure its long-term success. For Continental, the ongoing shortage of qualified engineers represents a particular challenge. In 2011, we hired around 1,500 university graduates and young professionals, some 400 of whom were in Germany.

Continental constantly invests in the training of young people and promotes the integration of young people into the world of work. Moreover, both centrally and at our locations, we maintain an intensive exchange with universities and research facilities and long-term dialog with both high school and higher education students. Here, the opinions of younger workers on subjects such as qualifications, working hours, career, university reforms and the location's competitiveness form the heart of discussions. In student surveys conducted each year since 2004, the corporation questions around 1,000 students annually in cooperation with the opinion poll institute tns/infratest. Since 2005, the student survey has been carried out in Romania, as well. Chinese students also took part in the survey for the first time in 2011. So far the company has conducted eight surveys in Germany, four in Romania and one in China.

Our activities for young adults and children include, for example, the following activities:

- In Frankfurt, Germany, we are a cooperation partner of the Junior Engineer Academy Ziehenschule. Here, young people interested in the natural sciences are given the opportunity to experience the day-to-day working life of engineers through training sessions, workshops and practical insights.

- In the multi-award winning Global Engineering Internship Program (GEIP), we offer a platform that makes a valuable contribution to internationally themed practical training.

- As a member of *Wissensfabrik* – a society of more than 70 companies and related foundations promoting early childhood and elementary education – we have formed 37 education partnerships with elementary schools in Germany and Romania. With its technical and science projects "*KiTec – Kinder entdecken Technik*" and "*NaWi – geht das?*", Continental sponsors schools with science or technology boxes and know-how.

- In order to get school children enthusiastic about the world of work and help them in selecting a career, the plant management in Waltershausen, Germany, initiated a coordinated career orientation project in collaboration with four schools and 28 other companies. Pupils from grades 7 to 10 are in the companies once a week to get a practical introduction to various professions in mechanical/technical, commercial, social and agricultural fields. Before completing school, each pupil thus gathers job-related experience in four different career fields.

- The management of the plant in Carei, Romania, initiated and supports the establishment of a house for 19 children from socially disadvantaged families and broken homes. The children live in a house run by the Lacramioara association, and the plant in Carei pays the rent for the house. In addition, the children are supported in pursuing hobbies like sports and music in their free time. This is to foster the young persons' personal development and social skills and thus, help give them a better start in life. The initiative is to be expanded starting in 2013 with the establishment of a professional training program at the Carei plant.

Commitment to sports

Sports inspire, sports connect. They mean something to people all over the world, whether the focus is on fun or striving for perfect technique, if their motivation is joy or pride in achievement. All aspects affect people at their core and strike a valuable balance with other activities. For years, we have been actively promoting long-term sports projects and programs for our employees and the general public, as with the following initiatives, for example:

- Up to 1,500 young people between the ages of six and 17 in the Brazilian city of Várzea Paulista can become "sportspeople of tomorrow" with the help of their local Continental plant. They can play soccer, basketball, handball, volleyball or mini-soccer, at the same time learning about the value of teamwork and cooperation, responsibility, discipline and social commitment.

- Every four years, at the same intervals as the World Cup sponsored by Continental, Continental holds a corporation-wide soccer world championship — we call it the ContiTeamCup. In 2010, employees from around 100 sites in 25 countries formed teams and entered the competition. The victorious teams use their winnings to help various social projects in their region.

- The ContiRunningDay – a further corporation-wide sports event – forms a bridge to the ContiTeamCup and, staggered with it, also takes place every four years. Worldwide, employees in 20 countries took part in the last ContiRunningDay – starting in Asia, followed by Europe and then America. At a number of sites, the ContiRunningDay was accompanied by events supporting local charities.

- The corporation launched the initiative “Pro Sport Hanover” in January 2011. With this, the company is planning to spark a discussion of activities in the Hanover region worthy of sponsorship and, by selecting and lending financing support to four projects per year, to generate attention for interesting performers in the Hanover region, Germany, where the company’s head office is based.

Economic Environment

Global economic growth slowed in 2011.

Macroeconomic development

The following information on inflation and growth rates in 2011 reflects the status of estimates at the time this Annual Report went to press.

Global economy

According to the latest information from the International Monetary Fund (IMF), global economic growth in 2011 amounted to 3.8% after 5.1% in the previous year. Thus, after three years of severe financial and economic crisis, the global economy not only grew more slowly, it was also dominated by high volatility on the financial markets. At the start of the year under review, the IMF had anticipated a rise in global economic activity of 4.4%.

Growth slowed over the course of the year, particularly in what the IMF calls the “advanced economies”. These countries were impacted in particular by the financial and economic crisis. In 2011 the economic activity of these countries rose only 1.6% as against 2010, thus falling far short of the 2.5% growth rate that was expected at the beginning of the year. With a growth rate of 1.8%, the U.S.A. missed forecasts by 1.2 percentage points, the largest deviation amongst these countries. Here, the U.S. government’s extensive stimulus measures showed little effect, especially in the first half of the year. Furthermore, the natural disaster in Japan led to interruptions in industrial production there and in the U.S.A. The eurozone was less affected by the events in Japan, though its growth also slowed over the course of the year. This was essentially due to high public deficits, a downturn in global demand and a substantial waning of the business climate and consumer confidence. This slowdown was intensified by the tension on the capital markets and deteriorating financing conditions for a rising number of euro nations.

Among what the IMF calls the major advanced economies, Germany again acted as the growth driver in 2011 with an increase in real gross domestic product of 3% as against 2010, followed by Canada (up 2.3% as against the previous year) and the U.S.A. (up 1.8% as against the previous year). Due to the effects of the natural disaster, economic activity in Japan declined by 0.9% as against 2010.

The significance of what the IMF defines as “emerging and developing markets” to global economic growth is continuing to rise. In 2011, the economy in the emerging and developing markets again expanded substantially by 6.2%, though the pace here has also slowed. Economic activity in these countries had still increased by 7.3% in 2010. Restrictive monetary and fiscal policies to combat inflation contributed to the slowdown in growth. Economic performance in Central and Eastern European countries rose 5.1% in 2011. The biggest contribution to growth in the emerging and developing markets came from China, with an increase in economic activity of 9.2% as compared to 2010. Thus, the Chinese government landed in its target corridor for economic growth in the high single digits after real economic growth in 2010 of 10.4%. India’s economy expanded much more moderately in 2011 by 7.4% after 9.9% in the previous year. In 2011, Brazil’s economic growth was only 2.9%, less than half of the rate reached in the previous year. This is also substantially less than had been forecast at the start of 2011 (+4.5% as against 2010).

According to provisional calculations by the IMF, 2011 also saw a sharp rise in consumer prices, mainly on account of the greater cost of energy and food. After strong increases in the price of crude oil, with Brent oil reaching a high for 2011 in early April of $128.04 per barrel, the situation on the commodities markets eased in spite of the highly unstable political situation in many countries of the Middle East and Northern Africa. This led to a decline in inflation at the end of 2011. A similar trend was observed in food prices. In the advanced economies, consumer prices increased 2.7% in 2011 (up 1.6% in the previous year). In the emerging and developing economies, prices climbed 7.2% (up 6.1% in the previous year).

The eurozone

The economy in the eurozone grew by 1.9% in real terms in 2010. Germany posted the highest growth of the core Western European countries of the currency union. The recovery in economic activity also continued in the period under review. The opening quarter of 2011 saw vigorous development on account of production restrictions due to poor weather conditions during the closing quarter of 2010, though this exaggerated the momentum somewhat. Gross domestic product in the eurozone climbed by 0.75% in this period as against the fourth quarter of 2010. In the second quarter, economic activity expanded by only 0.25% as against the previous quarter. France even reported a slight decline in growth of 0.1% while Germany's economy rose by 0.3% in the second quarter as compared to the previous quarter. However, both countries posted stronger economic growth of 0.5% in the third quarter after seasonal adjustment, thereby simultaneously making the most significant contributions to growth within the eurozone. Real economic growth in the eurozone was again 0.25% in the third quarter as compared to the previous quarter. A key factor behind the modest growth was probably the increasing uneasiness among consumers and investors as a result of the escalation of the debt crisis in the eurozone during the summer months as events on the capital market since the middle of the year were largely stamped by uncertainty regarding the repercussions of the crisis for the real economy. This was why the increase in economic performance in the third quarter was mainly driven by investments and exports while private consumer spending again stifled overall economic growth.

There were a total of three EU summits to tackle the debt crisis in the second half of 2011. The governments passed various measures at the end of July, essentially resolving a second bailout package of €109 billion for Greece. The participants in this package are to include the euro nations, the IMF and private lenders. Furthermore, the scope of the euro bailout fund (European Financial Stability Facility (EFSF)/European Stability Mechanism (ESM)) was extended so that it will be able to act on the secondary market in future and support the recapitalization of financial institutes. However, this failed to ease the capital market's doubts as to the viability of the public finances of some periphery European nations. Among other things, the summit resolutions from the end of October 2011 specified the voluntary participation of private lenders of 50% in the Greece package yet to be negotiated, and agreed more stringent equity requirements for banks as well as an extended scope for the EFSF. The Member States of the eurozone were also called on to establish the requirements of a structurally balanced budget (debt limit) in their constitutions by the end of 2012 and to prepare budget planning on the basis of independent growth forecasts. Further steps were taken to ensure budget discipline with the resolutions of the European Council and the EU summit at the start of December 2011. An understanding was reached that members would strive more strongly for economic union. A significant aspect in terms of financial policy is the fact that the rule agreed at European level for a structurally balanced budget will not just be implemented in national law but also provides for an automatic correction mechanism in the event of deviations. For example, sanctions have been stipulated for the event of nations exceeding the deficit ceiling of 3% of gross domestic product. It was also decided in January 2012 to launch the standing European Stability Mechanism (ESM) in July 2012. In addition, the heads of state and government leaders of the EU agreed for the national central banks and other organizations to issue further bilateral lines of credit to the IMF of up to €200 billion.

The political situation in some EU countries is also still fragile. This applies particularly to Greece, where a referendum was even recently discussed, and which has since formed a new government, as is also the case in Italy and Spain. However, the resolved implementation of the necessary reforms to strengthen economic growth and reorganize national budgets is especially significant. As the year progressed, Greece came under fire for its slow rate of reform in particular. However, Italy also found itself under pressure and was ordered to impose further austerity measures on account of its weak growth forecasts and high debt. This is the first time that the financial markets have focused on a major EU Member State. Parallel to this, the considerably dimmer economic prospects hampered developments on the capital market.

Economic activity in the eurozone increased by 1.6% in 2011, thus falling within the forecast issued by the IMF at the beginning of the year. According to the IMF, the downward risks for economic development had however intensified substantially by the end of the year. That is why the European Central Bank (ECB) cut interest rates for the second time within the fourth quarter by 25 basis points to currently 1%. Moreover, special monetary measures have been resolved by the ECB Council. Among other things, the ECB will expand its range of refinancing transactions to limit the effects of the difficult situation on the refinancing markets for banks and to support lending in the eurozone.

The recovery on the labor market faltered over the course of the year. After seasonal adjustments, the unemployment rate was 10.3% in November 2011 and has risen steadily since its low point in March 2011.

According to provisional calculations by the European Union's Statistical Office (EuroStat), consumer prices in the eurozone were up on average by 2.7% for the whole of 2011 against the previous year. For the full-year 2010, consumer prices increased by 1.6%. The future risks of inflation within the eurozone are however considered moderate.

Germany

In 2010, the German economy expanded by 3.6%, not just marking its strongest growth since reunification but also becoming the economic engine for the entire eurozone as Europe's biggest economy. This upswing continued in 2011, albeit at a lower level. After strong growth in the first quarter at 1.3% as against the previous quarter, expansion slowed in Germany as well in the second quarter to 0.3%, before gaining a little momentum again in the third quarter at 0.5% as compared to the previous quarter. After the German real economy remained relatively unaffected by the effects of the debt crisis in the eurozone in the first nine months of 2011, the downgrades in business forecasts observed for some time now and several macroeconomic leading indicators as well as the level of incoming orders pointed to a slowdown in economic performance. Accordingly, growth of the gross domestic product fell by 0.25% in the fourth quarter of 2011 as against the previous quarter. Nonetheless, economic activity rose by 3.0% in 2011 as a whole, based upon preliminary calculations. This is 0.8 percentage points more than the IMF had forecast at the start of the period under review. Domestic contributions to growth increased as compared to exports, which were positively influenced mainly by the strong rise in private consumer spending. This sets Germany apart from most eurozone countries, where the recovery in private consumption has been only halting. According to provisional calculations by the German Federal Office of Statistics, retail sales are believed to have risen by around 1.2% in 2011 after adjustment for inflation.

The labor market has so far benefited from this positive economic performance. According to provisional calculations by the German Federal Office of Statistics, the number of people in employment in Germany rose by 521,000 in November 2011 to 41.61 million. The unemployment rate as calculated by the German Federal Office of Statistics based on the European method (ILO employment concept) was 5.5% in November 2011.

There was a moderate budget deficit of 1% of real gross domestic product in 2011. In 2010, this value was still 4.3%. Consumer prices were up in 2011 as a whole by 2.5% as against the previous year.

Russia

Economic growth in Russia in 2010 amounted to 4%, still significantly less than the pre-crisis growth rate of 8.5% in 2007. In 2011, gross domestic product rose moderately by 4.1% as against the same period of the previous year. Growth of 4.5% had been forecast by the IMF at the start of the period under review. Above all, this was due to the higher commodities prices, a very good harvest season, increased industrial production and rising employment. According to preliminary calculations, the Russian budget has a surplus for the period from January to October 2011. According to the IMF, the downward risks in relation to global economic activity have continued to intensify. As a result, there is a greater risk of price declines on the commodities exported from Russia as well as a greater risk regarding growth forecasts for the entire Russian economy.

The unemployment rate in Russia declined to 6.3% in November 2011 according to the Finnish central bank. As a result of the faltering price increases for food thanks to the excellent grain crop, the rise in consumer prices in the second half of the year slowed, amounting to 6.1% for 2011 as a whole. Effective December 26, 2011, the Russian central bank surprisingly cut interest rates by a further 25 basis points to 8%, after they had been raised to 8.25% in May 2011. The effects on the Russian economy of the debt crisis in

Europe have so far been limited. However, the country experienced increasing outflows of capital.

U.S.A.

Economic development in the United States was divided in 2011. After an increase of 3% in 2010, economic growth amounted to only 1.0% in the first half of 2011 according to the IMF. This is above all due to the negative, exceptional factors such as the rise in the price of commodities and the repercussions of the natural disaster in Japan for the U.S. economy. The extensive stimulus measures by the government and the Federal Reserve Bank (Fed) to boost the economy have had only a minor impact. Catch-up effects, a rise in consumer spending and corporate investments also helped the country to more stable growth in the second half of the year. According to the IMF, there was 1.8% growth in 2011.

Economic growth in the U.S.A. is still being curbed by the high level of unemployment. The labor market is showing only slow signs of recovery. The unemployment rate was at 9.6% in 2010, recovering slightly until April 2011. However, the number of new jobs had fallen substantially by the start of the third quarter. There were then signs of recovery again in the fourth quarter, with the result that the unemployment rate dropped to 8.5% in December 2011. This was not yet able, however, to provide any substantial impulse to the American economy, around 70% of which depends on private consumption. The slight upward trend on the construction and real estate markets until mid-2010 was due to pull-forward effects as a result of government aid. Residential construction in 2011 suffered setbacks again after these measures expired.

After 1.6% in 2010, the U.S. inflation rate climbed to 3.9% by September 2011 as a result of the rise in the price of commodities and oil until the spring. However, this seems to be the highest point for inflation. It dropped again at the start of the fourth quarter, reaching 3.0% in December – essentially as a result of the drop in commodity and food prices.

The Fed has been focusing a great deal on stimulating the economy for some time now. It is still maintaining a zero interest rate policy with a range of 0.00% to 0.25% and has reiterated that the key lending rate should remain at a low level until 2014. No new stimulus programs were announced in its December meeting, though it did announce that further liquidity measures (for instance quantitative easing 3) will be initiated if necessary.

The billion-dollar spending and tax cut programs during the financial market crisis have further elevated the U.S. debt levels. The IMF currently estimates the budget deficit for 2011 at 9.5% of gross domestic product after 10.5% in 2010. Discussions in the summer of 2011 over raising the U.S. debt ceiling and the failure of the “Super Committee”, which was supposed to draft proposals for budget reorganization, have harmed the environment for the U.S. economy. This prompted the rating agency Standard & Poor’s to downgrade the United States from AAA to AA+ with negative outlook. This move triggered greater uncertainty on global financial markets.

Brazil

The slowdown of the global economy, combined with the delayed effects of Brazil’s restrictive domestic monetary policy, impaired the country’s economic growth in the second half of 2011. This is being widely shown by declining production, demand and labor market indicators. After economic growth of 7.5% in the “exceptional year” 2010, the gross domestic product rose 2.9% in 2011 according to the IMF. At 7% in October, inflation fell far from the target of 4.5% and even exceeded the tolerance limit of 6.5% as defined by the central bank. The IMF has forecast an inflation rate of 6.6% for 2011 as a whole. However, given the significant deterioration in prospects for the global economy and the effects of the debt crisis in Europe on retail and investments in South America’s biggest economy, the Brazilian central bank is assuming that the country’s inflation will decline. Between April 2010 and July 2011, it raised the key interest rate in seven steps from 8.75% to 12.5% and in August switched from its cycle of interest rate hikes to a moderate monetary policy to support the domestic economy. By the end of the year, interest rates were lowered in three phases from 12.5% to currently 11%. At 6.7%, the unemployment rate is consistent with that of 2010.

The strong appreciation of the Brazilian real as against the U.S. dollar and the euro in recent years has proved problematic, leading to a strong capital inflow and increase in imports. In a move to curb the capital influx from abroad and the high inflation rate, in October 2010 the government raised the tax rate on foreign capital inflow in Brazilian fixed-rate bonds in two phases from 2% to 6%.

Japan

On March 11, 2011, Japan was rocked by an underwater earthquake 72 kilometers off its east coast. It registered over 9.0 on the Richter scale and caused an immense tsunami. Although the areas affected were a relatively unimportant region economically, certain value chains were substantially disrupted worldwide. As a result, the Japanese economy shrank by 1.7% in the second quarter of 2011 as against the previous quarter. The heavy drop in exports also weakened the third quarter, with a decrease of 0.8% in comparison to the previous quarter. The economy did not begin to recover significantly from the consequences of the natural disaster until the fourth quarter, when it grew by 1.4% as against the previous quarter. The recovery was driven by a rise in domestic demand and strong expansion in exports as a result of foreign customers replenishing stock levels after delivery bottlenecks following the earthquake. In the third quarter, the export sector compensated for the slump in the second quarter with an increase of 6.2% as against the previous quarter.

Residential construction investments also picked up sharply as a result of redevelopment measures and the expiry of an incentive program for environmentally friendly renovations. An additionally stabilizing factor was the labor market. The unemployment rate dropped to 4.5% in October after 5.1% at the end of 2010. In the fourth quarter, the Japanese economy waned as a result of the strong appreciation of the yen and the drop in global demand. According to the IMF, economic activity in 2011 fell 0.9%.

The annual inflation rate dropped further to -0.5% in November. The IMF is anticipating an inflation rate of -0.4% for the whole of 2011. Thus, the deflation phase is believed to have continued. At its monetary policy meeting at the end of November, the Bank of Japan resolved to leave interest rates at between 0.0% and 0.1% for unsecured deposits. Additional government spending to revive the economy further increased Japan's public deficit. According to IMF information, this is now thought to be 233.4% of GDP for 2011 and therefore by far the highest debt ratio of all of what the IMF calls advanced economies. As Japan is mostly refinanced by investors from within the country and has little need for capital inflows from abroad, its high debt level is considered to be less critical.

China

After 2010, the Chinese economy was again one of the world's growth guarantees in 2011. Although the tempo did slow down finally, growth nevertheless amounted to 9.2% in 2011 according to the IMF. In 2010, growth was still at 10.3%. Retail sales rose slightly more slowly in 2011 than in the previous year. Among other things, this was due to lost purchase power among consumers as a result of the consistently high inflation rate in the first half of the year. This reached its provisional high in July at 6.5%. The main drivers behind inflation were the high costs of certain foodstuffs. The inflation rate declined again by the end of the year as a result of slowing inflation of food prices and lower economic growth, coming closer to the government's 4% target at 4.2% in November.

In response to the rapidly rising inflation, a turnaround in monetary policy was implemented at the end of 2010. On October 19, 2010, China's central bank raised key interest rates for the first time since December 2007. Further hikes brought rates to currently 6.6%. As of the end of 2011, however, the first signs of an easing of monetary policy were seen. For example, the minimum reserve rate, a standard instrument for controlling the amount of money in China, was cut by 0.5%.

According to the IMF, the unemployment rate is expected to have dropped to a lower level of 4% by the end of 2011. A major issue in 2011 was lending to local governments. The instruction to the largely state-owned banking sector resulting from the 2008/2009 economic package to massively increase lending resulted in more relaxed financing conditions. Local governments, which are unable to issue bonds, utilized this to finance infrastructure projects. At the end of 2011, the central government's debt amounted to 26.6% of gross domestic product. If it were to assume all local government debt, this figure would rise to 50% of gross domestic product – still well below the debt level of other major nations.

India

Economic activity in India increased by 7.4% in 2011 (PY: 9.9%). This represents a downturn compared to 2010, but still exceeds the global average. Following the rapid rise in food prices in 2010, the government increased the social spending detailed in its budget for the 2011/2012 fiscal year presented in February 2011 by 17% to cushion the cost explosion for the population at large. This centered on direct food aid and the subsidization of everyday goods to help the poorer members of society in particular. The inflation rate is still at a relatively high level. It rose to double digits in September 2011 at 10.1% and amounted to 9.4% in October. The IMF is assuming 10.6% for 2011. India's central bank raised lending rates to 8.5% in November 2011. This was its seventh interest hike in 2011. By increasing public spending by 13%, the government has distanced itself from the policy of budget consolidation it had announced in 2010. Public debt climbed to 65.8% of gross domestic product in 2011.

Industry development

As an international automotive supplier, global business with the manufacturers of passenger and commercial vehicles is our most important market segment. This is where we generate around 72% of our revenue. The second-biggest market segment is global replacement tire business for passenger and commercial vehicles. Geographically, the most important sales markets are Europe and NAFTA. The share of revenues generated by the corporation in Asia has increased significantly in recent years.

According to preliminary figures, new registrations of light vehicles around the world rose to roughly 75 million units

A key factor for our revenues in original equipment is the globally produced volume of passenger cars, station wagons, and light commercial vehicles weighing less than 6 tons. The regions of Europe and NAFTA, where Continental generates around 78% of its revenues, are particularly significant.

Among the major vehicle markets within the triad (Europe, NAFTA, and Japan), the U.S. vehicle market posted the highest growth rates in 2011. In total, around 1.2 million more new vehicles were registered in 2011 than 2010. Thus, the U.S. market is still falling well short of the peak figure from 2005, when more than 17 million vehicles were sold.

The situation in Europe was highly mixed in 2011: While new registrations in Germany increased by almost 9% to 3.17 million units according to the VDA (German Association of the Automotive Industry), sales figures from national associations in Italy (down 11% to 1.74 million vehicles), Spain (down 18% to 0.8 million vehicles) and the U.K. (down 4% to 1.95 million vehicles) slipped significantly on prior-year figures. Of the big five markets within Europe, only France showed a stable performance. New registrations in France were down just 2% to 2.20 million vehicles.

The drop in new registrations in Japan of nearly 700,000 units is due solely to the natural disaster in Fukushima (March 2011). However, there were already signs of a significant recovery in the third quarter, and especially in the fourth quarter.

Following a significant recovery (30%) in 2010, the scrapping bonus available since March 2010 for old vehicles in Russia brought the market a further considerable rise in new registrations of almost 39% in 2011 to around 2.7 million vehicles. Thus, the Russian market has almost returned to its old high levels of 2007. As anticipated, the high growth of recent years waned in the rest of the BRIC markets. This was particularly clear, for instance, on the Brazilian market where, in the fourth quarter of 2011 alone, new registrations dropped by 7% as against the fourth quarter of 2010. This equates to an increase of just 3% over the year as a whole. Growth also slowed in India, particularly in the fourth quarter, shrinking the year's expansion to only 6%. Despite the expiry of several purchase incentive programs and the restriction of the number of licenses for new registrations in some cities (e.g. Beijing), the swell in new registrations in China amounted to 8%. Thus, the absolute increase in newly registered vehicles was for the first time significantly less than the growth on the U.S. market.

New car registrations and sales in millions of units

2011	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total	∆ Prior Year
Europe (E27+EFTA)	3.7	3.7	3.1	3.1	13.6	-2%
Russia	0.5	0.7	0.7	0.7	2.7	39%
U.S.A.	3.0	3.3	3.2	3.2	12.7	10%
Japan	1.0	0.6	1.0	0.9	3.5	-16%
Brazil	0.8	0.9	0.9	0.9	3.4	3%
India	0.7	0.6	0.6	0.6	2.5	6%
China	3.1	2.8	2.8	3.5	12.2	8%
Worldwide	**18.8**	**18.7**	**18.0**	**19.3**	**74.8**	**5%**

Source: VDA, Renault

Based on preliminary data, light vehicle production was up around 4% to 76 million units

In 2011, the number of light vehicles produced climbed to nearly 76 million units, almost hitting the forecast we had formulated in March 2011. About 1 million more vehicles were thus produced than sold worldwide in 2011.

In absolute terms, the biggest increase in vehicle production was also in NAFTA, where the number of vehicles produced rose by more than 10% to 13.2 million units. This represents an increase of more than 1.2 million light vehicles. The rise in production in Europe was 6% in 2011 where the number of light vehicles produced increased by almost 1.2 million units to around 20.1 million. Thus, both vehicle markets fell well short of the high levels of 2007 (Europe 22.2 million) and 2005 (NAFTA 15.7 million).

The production of light vehicles in Asia fell slightly, particularly as a result of the events in Japan. Owing to the earthquake and the destruction of or damage to key production facilities of Japanese vehicle manufacturers, about 1.2 million fewer light vehicles were produced in 2011 compared to 2010. In China, light vehicle production grew more slowly than new registrations by only 2% to 17.5 million vehicles.

Production of light vehicles in millions of units**

	2011*	2010	2009	2008	2007
Total Europe	20.1	18.9	16.3	21.2	22.2
Western Europe	14.9	14.3	11.8	14.6	16.2
Eastern Europe	5.2	4.6	4.5	6.6	6.0
NAFTA	13.2	11.9	8.6	12.6	15.0
South America	4.1	3.9	3.7	3.8	3.6
Asia	37.2	37.1	27.8	28.7	27.7
Africa and Middle East	0.9	0.6	1.8	1.9	1.7
Worldwide	**75.5**	**72.3**	**58.2**	**68.2**	**70.2**

Source: IHS *preliminary figures and own estimates **passenger cars, station wagons, and light commercial vehicles (<6t)

Production of heavy vehicles in thousands of units**

	2011*	2010	2009	2008	2007
Total Europe	547	438	271	745	718
Western Europe	435	353	215	602	572
Eastern Europe	112	85	56	143	146
NAFTA	408	265	217	353	421
South America	253	251	177	234	199
Asia	2,228	2,323	1,597	1,729	1,709
Worldwide	**3,436**	**3,276**	**2,262**	**3,060**	**3,048**

Source: IHS *preliminary figures and own estimates **commercial vehicles (>6t)

Heavy vehicle production recovered significantly in 2011

On the basis of preliminary figures, the biggest percentage increase in heavy vehicle production was also in NAFTA, where output rose by 54% to 408,000 units. Heavy vehicle output was up substantially in Europe as well, rising nearly one fourth to 547,000 units. Growth in Western and Eastern Europe was nearly just as high. In contrast, the prior year's growth drivers South America and Asia took a breather. In South America, heavy vehicle production was up by only 1% to 253,000 units, and in Asia, the world's largest region for heavy vehicles, production fell by 4% to 2.2 million units.

Replacement market for passenger and light truck tires grew 4% based on preliminary data

In our replacement business for passenger and light truck tires, the markets of Western and Central Europe and NAFTA are particularly important. Of these, only the replacement business for passenger and light truck tires in Europe posted positive growth rates for 2011. Particularly as a result of strong stock deliveries of winter tires to the dealer organizations, the market expanded by 4% to 297 million tires, slightly ahead of the performance for the year we forecast in March 2011. In addition, this market is the only automobile-related one to have already exceeded the high level of 2007 (289 million passenger and light truck tires sold) in 2011.

In NAFTA, the number of passenger and light truck tires sold in the replacement business declined by around 2% to 253 million units in spite of the relatively stable trend in miles driven. Thus, sales of these tires in the replacement market were well below the 2007 high of 276 million, although the number of registered vehicles has barely diminished, particularly in the U.S.A.

In Asia and South America, where Continental also operates several tire factories, the number of passenger and light truck tires sold in the replacement business increased significantly. Figures were up by almost 8% in South America and – as we had anticipated – by nearly 10% in Asia.

In total, almost 986 million passenger and light truck tires were sold in the replacement business in 2011.

Replacement sales of passenger, light truck and 4x4 tires

in millions of units	2011*	2010	2009	2008	2007
Western and Central Europe	297.0	285.5	261.6	276.8	288.7
NAFTA	253.0	257.5	243.5	261.3	275.9
South America	56.9	52.9	48.1	50.2	48.6
Asia	268.0	244.4	214.7	210.8	205.6
Other markets	111.0	107.0	98.2	98.5	95.1
Worldwide	**985.9**	**947.2**	**866.1**	**897.5**	**913.9**

Source: LMC World Tyre Forecast Service *preliminary figures and own estimates

After a strong start, the replacement business for truck tires eased off significantly in the second half of the year

In 2011, replacement business for truck tires increased by around 5% worldwide. However, most regions saw a significant downturn in momentum during the second half of the year. The European market for replacement truck tires slipped into negative territory even after a strong first half of the year with high double-digit growth rates at times. By the end of 2011, the number of replacement tires sold amounted to 18.6 million, or about 1% less than the volume achieved as of the end of 2010. By contrast, NAFTA posted an increase of 5% to 20.5 million units. However, this market experienced a clear slowdown in the fourth quarter of 2011 and growth rates were negative year-on-year starting in October. Nonetheless, the region almost matched the record sales volume of 2007 (20.6 million replacement truck tires). The Asia region, which accounts for around half of all replacement truck tires sold, again posted the highest growth rates with a gain of 7%. Sales volume in Asia rose to around 67 million replacement tires.

Replacement sales of truck tires

in millions of units	2011*	2010	2009	2008	2007
Western and Central Europe	18.6	18.8	15.1	20.3	20.6
NAFTA	20.5	19.6	15.9	18.6	20.6
South America	14.0	12.6	10.7	12.1	11.8
Asia	66.5	62.2	59.6	59.4	57.9
Other markets	18.4	18.1	16.2	16.5	16.1
Worldwide	**138.1**	**131.3**	**117.4**	**126.9**	**127.0**

Source: LMC World Tyre Forecast Service *preliminary figures and own estimates

Raw material markets

Important raw materials for our production include metals such as copper, steel, nickel and aluminum. Oil-based raw materials and natural rubber are also used in tire manufacturing. Following the increases in 2010, prices for natural rubber, petroleum-based raw materials and some metals rose again substantially in the first half of the period under review before dropping again significantly as the year progressed on account of uncertainty regarding ongoing global economic developments. Prices for aluminum ($2.02 per kilogram; down 18%), copper ($7.60 per kilogram; down 21%) and nickel ($18.26 per kilogram; down 27%) slumped heavily by the end of 2011 as compared to the closing prices for 2010. Only the price for heat-treated steel ($0.64 per kilogram; up 23%) continued to rise year-on-year after having risen only slightly by 2% in 2010 as against 2009. However, the average prices for these metals were between 5% and 21% higher than in the previous year. Prices were also up as against the three-year averages (2008 to 2010). The increases for heat-treated steel, aluminum and nickel were between 8% and 19%. The average price for copper in the period under review was even 35% above the average for recent years (2008 to 2010).

Another basic material for our production materials is metals that we buy only in a more refined form such as turned, stamped and drawn parts. The Automotive Group was again hit by price hikes for raw materials in 2011. Triggered by high demand and rising procurement costs for iron ore and coking coal, steel prices in particular surged in the first half of the year 2011. Some of this increase in raw materials was passed on to Continental by suppliers of turned, stamped and drawn parts. In addition to steel, procurement prices were also up for precious metals such as gold and silver.

Furthermore, in the procurement of electric motors/magnets, the Automotive Group was affected by extreme increases in the price of the rare earths dysprosium and neodymium. On December 31, 2011, neodymium was quoted at €137.07 per kilogram and dysprosium at €1,413.78 per kilogram. This marks a surge as against the end of 2010 of 272% and 574% respectively. In 2011, the average prices for neodymium and dysprosium were 347% and 570% above the average prices for 2010. The highest price for neodymium was noted on June 27, 2011, at €201.79 per kilogram and for dysprosium on August 12, 2011, at €1,707.31 per kilogram. As against the lowest price in January 2010, this corresponds to an 11-fold and an 18-fold price increase respectively. Although Continental purchases only very small quantities of rare earths, the dramatic surge in prices for dysprosium and neodymium resulted in additional expense for the Automotive Group of more than €30 million in 2011.

The jump in requirements for electrical and/or electromechanical components in 2010 continued to result in isolated supply bottlenecks at the start of 2011. The earthquake in Japan in March 2011 and the flooding in Thailand in October 2011 contributed to a deterioration in the supply situation, particularly for the local suppliers affected. In many cases, production downtime at vehicle manufacturers could only be avoided by accelerating the logistics. This led to a corresponding rise in freight expenses at Continental in 2011.

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, mainly from Thailand, Malaysia and Indonesia. The price trend is generally level. After natural rubber (TSR 20) reached a price of around $5.05 per kilogram at the end of 2010 (up by more than 72% from the end of 2009), there were initially further significant price increases, leading to a new record high of $5.80 per kilogram on February 14, 2011. By the end of the year, the price for TSR 20 fell by around $2.50 per kilogram and closed at $3.36 per kilogram on December 31, 2011. This corresponds to a drop of 34% as against the closing price for 2010.

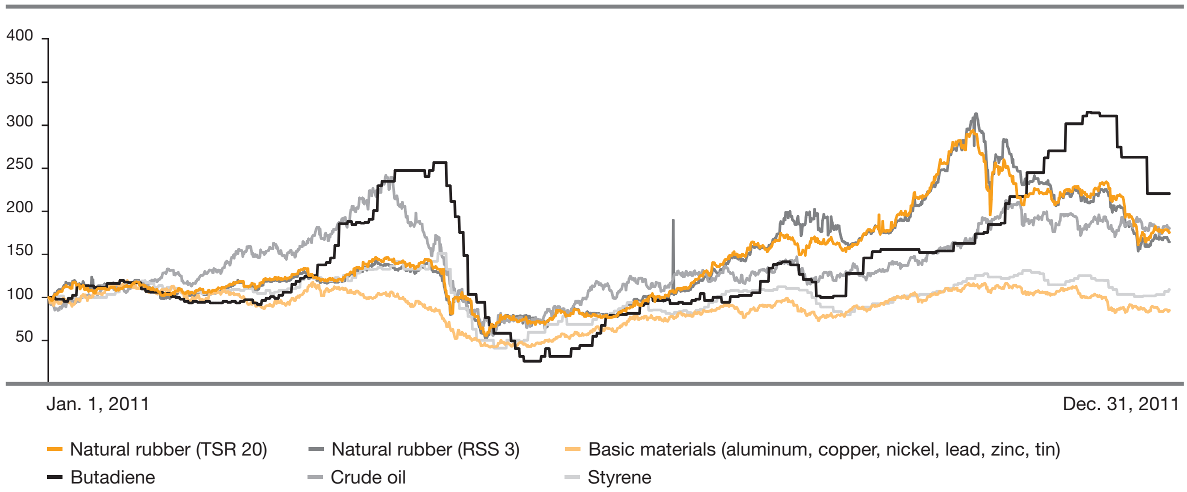
The average increase amounted to 34% ($4.63 per kilogram in 2011). The average price for TSR 20 in 2011 was therefore about 74% above the three-year average (2008 to 2010) of $2.67 per kilogram.

In addition to natural rubber as a raw material used directly, crude oil is the most important basic building block of many production materials such as synthetic rubber, carbon black and some chemicals. Sometimes multi-stage production processes are performed by primary suppliers to make the crude oil into the materials purchased by Continental. Following the sharp price decline on the crude oil market in the wake of the financial crisis, prices for crude oil have risen since

2009. On December 31, 2011, Brent oil, sourced in the North Sea, cost $108.68 per barrel and was therefore up 14% on the end of 2010. Compared to the average price for the previous year, this equates to mean price growth of 40% to $111.82 per barrel, in turn 39% above the average price for 2008 to 2010 of $80.10 per barrel. In addition to the rise in the price of oil, the price of butadiene, the feedstock of synthetic rubber, also soared in the course of the year under review. Prices for this material had already risen since 2009, though the increase was particularly high in 2011. On December 31, 2011, butadiene was quoted at $2.45 per kilogram. This corresponds to an increase of 43% as against the end of 2010. On August 19, 2011, the price of butadiene reached a new all-time high of $3.50 per kilogram and then fell $1.05 by the end of the year. The average increase amounted to 85% ($2.66 per kilogram in 2011). Thus, the average price of butadiene in 2011 was 94% higher than the average price for 2008 to 2010.

Price increases for raw materials traded in U.S. dollars were cushioned slightly by the appreciation of the euro of 4.9% based upon a comparison of the average prices against the U.S. dollar in the year under review. Overall, the high prices for natural and synthetic rubber in particular had a negative effect on our earnings in 2011.

Price trends

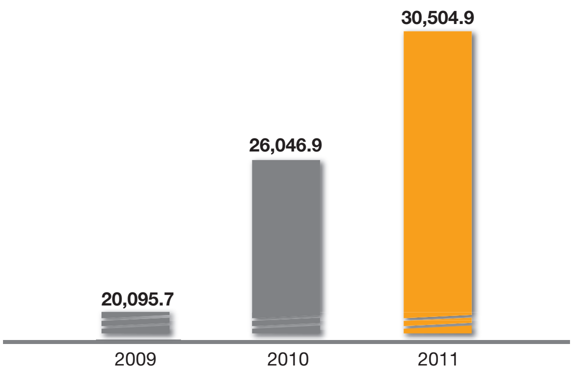


Earnings, Financial and Net Assets Position

What we have achieved:

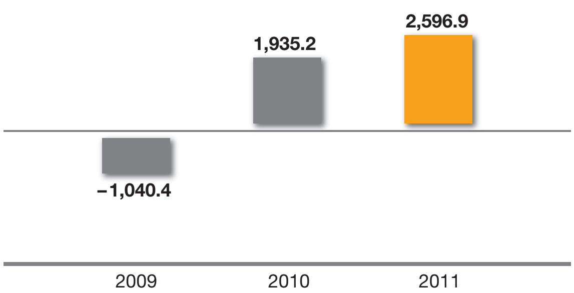
Sales up 17.1%

Sales (in € millions)



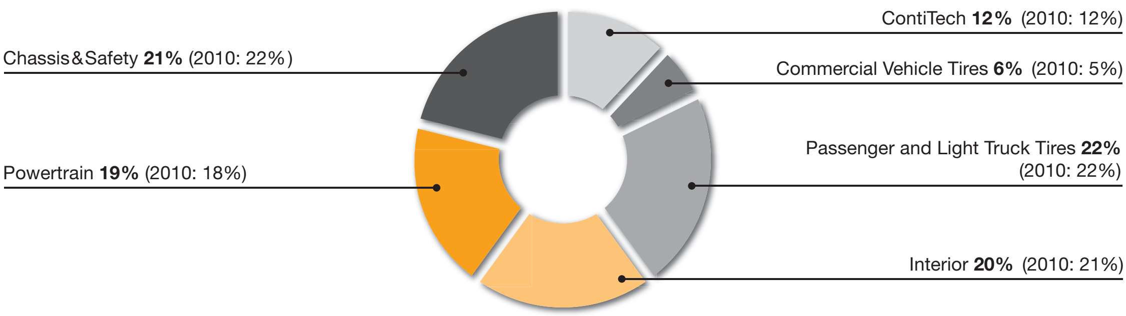
EBIT up 34.2%

EBIT (in € millions)



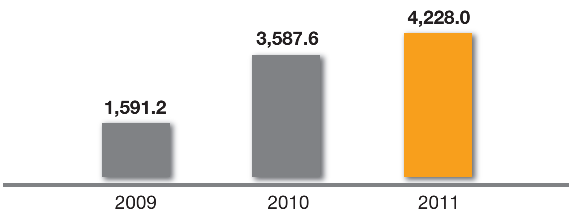
Sales

Sales by division



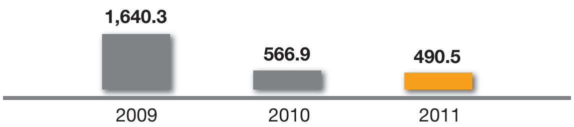
EBITDA up 17.9%

EBITDA (in € millions)



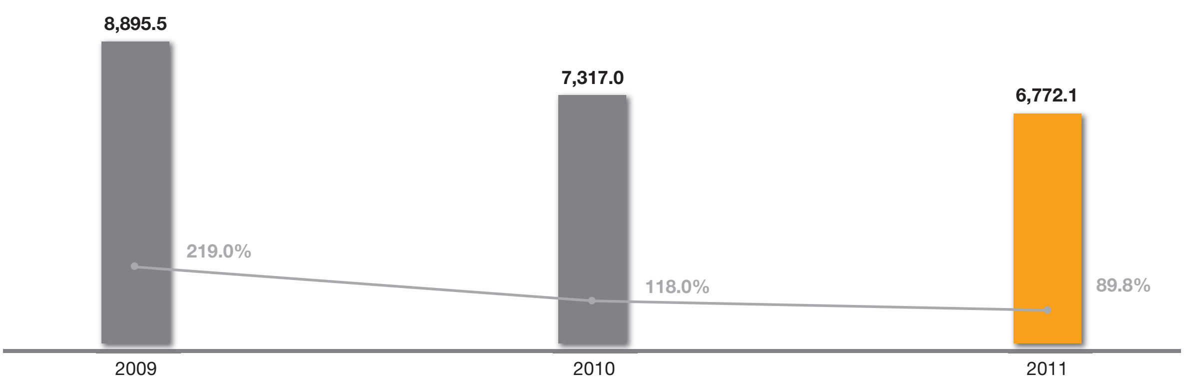
Free cash flow amounting to €490.5 million

Free cash flow (in € millions)



Net indebtedness down by €544.9 million and gearing ratio of 89.8%

Net indebtedness (in € millions) **Gearing ratio**



Earnings Position

- Sales up 17.1%
- Sales up 16.7% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 20.7%

Continental Corporation in € millions	2011	2010	Δ in %
Sales	30,504.9	26,046.9	17.1
EBITDA	4,228.0	3,587.6	17.9
in % of sales	13.9	13.8	
EBIT	2,596.9	1,935.2	34.2
in % of sales	8.5	7.4	
Net income attributable to the shareholders of the parent	1,242.2	576.0	115.7
Earnings per share (in €)	6.21	2.88	115.7
Research and development expenses	1,608.7	1,450.4	10.9
in % of sales	5.3	5.6	
Depreciation and amortization[1]	1,631.1	1,652.4	-1.3
– thereof impairment[2]	20.4	57.7	-64.6
Operating assets (at December 31)	16,198.6	15,282.8	6.0
EBIT in % of operating assets (at December 31)	16.0	12.7	
Operating assets (average)	16,019.0	15,580.0	2.8
EBIT in % of operating assets (average)	16.2	12.4	
Capital expenditure[3]	1,711.3	1,296.4	32.0
in % of sales	5.6	5.0	
Number of employees (at December 31)[4]	163,788	148,228	10.5
Adjusted sales[5]	30,192.7	26,043.0	15.9
Adjusted operating result (adjusted EBIT)[6]	3,043.0	2,521.1	20.7
in % of adjusted sales	10.1	9.7	

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Sales up 17.1%

Consolidated sales rose by €4,458.0 million or 17.1% year-on-year in 2011 to €30,504.9 million (PY: €26,046.9 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 16.7%. This further increase was the result of the outstanding product portfolio of our Automotive divisions, which is strongly concentrated on the high-growth segments of the automotive supplier industry, and of the ongoing recovery in our relevant markets. The increase in the production of cars, station wagons and light commercial vehicles had a positive influence on business performance in 2011. We also posted significant increases in our non-automotive business.

In 2011, sales by region changed as follows as against the previous year:

Sales by region in %	2011	2010
Germany	26	27
Europe excluding Germany	33	33
NAFTA	19	19
Asia	17	16
Other countries	5	5

Sales in the regions of Europe, America and Asia surged by a double-digit percentage. The negative effects of exchange rate changes were more than offset by the positive effects of the change in the scope of consolidation.

Adjusted EBIT up 20.7%

The corporation's adjusted EBIT rose by €521.9 million or 20.7% year-on-year in 2011 to €3,043.0 million (PY: €2,521.1 million), equivalent to 10.1% (PY: 9.7%) of adjusted sales.

In the fourth quarter of 2011, the corporation's adjusted EBIT increased by €89.1 million or 12.3% as against the same quarter of the previous year to €816.0 million (PY: €726.9 million), equivalent to 10.5% (PY: 10.5%) of adjusted sales. In the third quarter of 2011, adjusted EBIT amounted to €743.7 million on a like-for-like basis.

EBIT up 34.2%

EBIT was up by €661.7 million year-on-year in 2011 to €2,596.9 million, an increase of 34.2% (PY: €1,935.2 million). The return on sales rose to 8.5% (PY: 7.4%).

The amortization of intangible assets from the purchase price allocation (PPA) reduced EBIT by €435.5 million (PY: €454.3 million) in the year under review. There were no impairment losses from the purchase price allocation of intangible assets in 2011 (PY: €0.8 million).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 16.2% (PY: 12.4%).

Special effects in 2011

The economic situation of the Fuel Supply business unit in the Powertrain division in Europe is characterized by insufficient and constantly decreasing profitability. For this reason, the location in Dortmund, Germany, is being restructured. Parts of production and assembly are being relocated and the site is being expanded into a competence center for fuel feed units of the Fuel Supply business unit. Restructuring expenses of €35.8 million have been incurred in this connection.

An impairment test on an at-equity investment of the Chassis & Safety division resulted in an impairment loss of €5.4 million.

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

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

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

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

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

In addition, there were positive effects totaling €52.1 million in the divisions (Chassis & Safety €4.6 million, Powertrain €9.5 million, Interior €32.9 million, Passenger and Light Truck Tires -€1.7 million, Commercial Vehicle Tires €6.5 million, ContiTech €0.3 million). These chiefly resulted from the reversal of restructuring provisions that were no longer required and from lower health care obligations in connection with restructuring.

Owing to the anticipated higher cash outflow for the syndicated loan resulting from rising interest margins, the carrying amount was adjusted in profit or loss in 2009 and 2010. However, a drop in the margins for the syndicated loan was observed as of June 30, 2011. The associated expectation of lower cash outflows for this loan then led to an adjustment of the carrying amount in profit or loss in the amount of €9.1 million. These deferrals will be amortized over the term of the loan, reducing or increasing expenses accordingly. The amortization of the carrying amount adjustments resulted in a positive effect of €15.0 million in 2011. As a result of partial repayments of the syndicated loan, the adjustments attributable to the repayment amount pro rata were reversed in early April and December 2011. These reversals resulted in a gain of €5.0 million. The above effects resulted in a net gain of €29.1 million as of December 31, 2011.

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

Special effects in 2010

In total, there were impairments on property, plant and equipment, and intangible assets of €29.3 million (Chassis & Safety €3.4 million, Powertrain €16.3 million, Interior €0.0 million, Passenger and Light Truck Tires €7.5 million, Commercial Vehicle Tires —, ContiTech €2.1 million) in 2010 that did not relate to restructuring measures. This includes an impairment loss of €0.3 million on capitalized intangible assets from the purchase price allocation.

The Interior division incurred expenses of €5.6 million for additional final activities relating to the disposal of certain business operations.

Due to the winding-up activities for the disposal of an associated company, a gain of €2.1 million was generated in the Interior division while a tax expense for the corporation was incurred in the same amount.

Owing to the withdrawal of a customer order for the development and production of diesel injection systems at the plant in Blythewood, U.S.A., restructuring measures had to be introduced in 2009. This resulted in additional restructuring expenses of €11.9 million in the Powertrain division in 2010. This primarily relates to impairments on production plants that were partially offset by provisions for supplier claims that were no longer needed.

Additional restructuring-related expenses of €14.7 million were incurred in the Passenger and Light Truck Tires division in connection with the end of tire production in Clairoix, France.

Additional restructuring expenses of €6.0 million were incurred at the Traiskirchen, Austria, location in the Passenger and Light Truck Tires division.

A still available production cell in Hanover-Stöcken, Germany, was finally closed down. This led to further restructuring expenses totaling €34.6 million in the Commercial Vehicle Tires division in 2010.

Expenses of €34.8 million (Chassis & Safety €4.0 million, Powertrain €18.9 million, Interior income of €3.2 million, Passenger and Light Truck Tires €9.4 million, Commercial Vehicle Tires €2.3 million, ContiTech €3.0 million, Holding €0.4 million) were also incurred, primarily due to restructuring activities and severance payments. For the Passenger and Light Truck Tires division, this includes an impairment loss of €0.5 million on intangible assets from the purchase price allocation (PPA).

The sale of our North American OTR activities to the Titan Tire Corporation in 2006 led to a gain of €3.3 million in the Commercial Vehicle Tires division.

The antitrust proceedings initiated in 2007 against Dunlop Oil & Marine Ltd., U.K., a subsidiary of ContiTech AG in the area of offshore hoses, resulted in further expenses of €20.8 million in the ContiTech division.

Owing to the higher expected cash outflows for the syndicated loan as a result of rising margins, the carrying amount was adjusted as expense in 2009 and June 2010. The adjustment in 2010 resulted in expenses of €27.4 million. These deferrals will be amortized over the term of the loan and reduce expenses accordingly. This amortization resulted in a positive effect of €37.6 million in 2010. Due to the partial repayments of the syndicated loan, the adjustments attributable to the amounts repaid were reversed on a pro-rata basis. In addition to largely using the net income of the bonds placed at the end of September 2010 for a total nominal amount of €1,250.0 million, another partial repayment of €100.0 million in nominal terms was made in December 2010. A pro-rated amount of €9.6 million was incurred from the adjustment on the above-mentioned amounts that were paid early, which then also led to a gain in the same amount. Income of €19.8 million resulted from all the previously mentioned effects in 2010 as a whole.

The total consolidated expense from special effects amounted to €132.5 million in 2010. Adjusted for impairment on capitalized intangible assets from the purchase price allocation in an amount of €0.8 million, special effects had an adverse impact totaling €131.7 million.

Procurement

2011 presented a major challenge for Purchasing. The rise in business activity in all divisions, combined with the momentum on the global markets intensified the strategic importance of this department. Corporate growth and the overall increase in business activity, particularly in the first half of 2011, meant a high level of tension in the corporation's procurement chains. Natural disasters such as the earthquake in Japan or the political unrest in some countries of the Middle East placed further strain along the entire procurement chain. Under these conditions, the various teams and departments demonstrated the strength of our purchasing and procurement chain strategy by emphasizing consistent system solutions and cross-functional cooperation. Overall, the purchasing volume rose significantly as against the previous year. The main factors influencing this other than the normal growth in business activities were high price hikes for some key raw materials and the considerable investments.

Research and development

Research and development expenses rose by €158.3 million or 10.9% year-on-year to €1,608.7 million (PY: €1,450.4 million), or 5.3% (PY: 5.6%) of sales.

In the Chassis & Safety, Powertrain and Interior divisions, costs in connection with initial product development projects in the original equipment business are capitalized. Costs are capitalized as of the time at which we are named as a supplier by the original equipment manufacturer and have successfully achieved a specific pre-release stage. Capitalization ends with the approval for unlimited series production. The costs of customer-specific applications, pre-production prototypes and testing for products already being sold still do not qualify as development expenditure which may be recognized as an intangible asset. Capitalized development expenses are amortized on a straight-line basis over a useful life of three years. In Continental's opinion, the assumed useful life reflects the period for which an economic benefit is likely to be derived from the corresponding development projects. €84.3 million (PY: €74.5 million) of the development costs incurred in the three divisions in 2011 qualified for recognition as an asset.

The requirements for the capitalization of development activities (IAS 38) were not met in the Passenger and Light Truck Tires, Commercial Vehicle Tires and ContiTech divisions in the year under review or the previous year.

Depreciation and amortization

Depreciation and amortization declined by €21.3 million to €1,631.1 million (PY: €1,652.4 million) and amount to 5.3% (PY: 6.3%) of sales. Impairment losses of €20.4 million (PY: €57.7 million) were recognized in the period under review.

Net interest expense

The net interest expense rose by €38.3 million year-on-year to €735.5 million (PY: €697.2 million). This is essentially due to the negative development in the exchange rate effects that were not fully offset by the lower interest expenses described below.

Interest expenses, which primarily result from the utilization of the syndicated loan and the bonds issued in the third quarter of 2010 by Conti-Gummi Finance B.V., Maastricht, Netherlands, declined by €98.9 million as against the figure for the previous year to €661.5 million (PY: €760.4 million). In particular, in addition to the significant drop in net indebtedness as of the end of 2010, the decrease is due to the lower margins for the syndicated credit than in the previous year. Both effects by far more than compensated for the expenses due to higher average market interest rates in 2011 and the four bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, in the third quarter of 2010. The margin reduction and its link to the Continental Corporation's leverage ratio (net indebtedness/EBITDA, as defined in the syndicated loan agreement) were agreed as part of the successful renegotiation in late March 2011 of the syndicated loan originally due in August 2012. In the third quarter of 2011, a further margin reduction was already achieved for this loan as a result of the improved leverage ratio as of June 30, 2011. In 2011, interest expenses for the syndicated loan amounted to €342.4 million (PY: €595.9 million). The bonds issued in the third quarter of 2010, with higher nominal interest rates due in particular to the longer terms, resulted in total interest expenses of €227.4 million (PY: €73.6 million). Other borrowings of the companies gave rise to interest expense totaling €91.7 million.

Interest income amounted to €29.2 million in 2011, €6.6 million higher than the previous year's level (€22.6 million).

The negative trend in the exchange rate effects, which were down €138.4 million year-on-year from €33.0 million to -€105.4 million as of December 31, 2011, was due to the performance on the currency markets in the second half of 2011. A key factor in this was the strong devaluation of the Mexican peso as against the U.S. dollar, while the devaluation of the Hungarian forint against the euro also squeezed net interest.

Gains from changes in the fair value of derivatives include total expenses of €29.7 million from the termination of cash flow hedge accounting and the resulting fair values changes of the affected derivatives to be recognized in profit or loss. For more information please see "Financing and indebtedness".

Tax expense

Income tax expense for fiscal 2011 amounted to €536.2 million (PY: €592.1 million). The tax rate was 28.8% after 47.8% in the previous year.

The tax expense in the year under review was influenced by tax income for previous years of €68.2 million. Continental implemented a pending prior-year tax position out of court by way of a reassessment. The resulting tax income was recognized in profit or loss in full.

A negative effect resulted from non-cash valuation allowances recognized by international units on deferred tax assets totaling €81.8 million, €29.3 million of which was for previous years. An allowance of €36.0 million (PY: €51.2 million) was also recognized on the increases in the year under review for the tax interest carryforward in Germany. Since 2008, there has been a limit on the deductible interest that can be carried forward in Germany; the amount deductible under tax law is limited to 30% of taxable income before depreciation, amortization and interest.

Due to the positive business development in the year under review in the U.S.A. and Mexico in particular, deferred tax assets of €33.9 million which had not been recognized in the past could be realized – mainly through the utilization of loss carryforwards.

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

Among other things, the tax expense for the prior-year period was influenced by a valuation allowance of €120.1 million on deferred tax assets relating to the tax interest carryforward in Germany measured using the relevant tax rate. The corresponding deferred tax assets from 2009 of €68.9 million and the increases in the previous year of €51.2 million were written down in full. In addition, valuation allowances on deferred tax assets by international units of €234.4 million, €11.8 million of which were from 2009, were recognized in the previous year and had a negative effect on the tax rate.

Net income attributable to the shareholders of the parent

The net income attributable to the shareholders of the parent increased by €666.2 million in 2011 to €1,242.2 million (PY: €576.0 million). This corresponds to earnings per share of €6.21 (PY: €2.88).

Reconciliation of EBIT to net income in € millions	2011	2010	Δ in %
Chassis & Safety	661.9	569.0	16.3
Powertrain	31.3	-198.1	115.8
Interior	331.2	197.0	68.1
Passenger and Light Truck Tires	1,080.3	993.3	8.8
Commercial Vehicle Tires	115.4	50.1	130.3
ContiTech	417.1	369.6	12.9
Other/consolidation	-40.3	-45.7	
EBIT	**2,596.9**	**1,935.2**	**34.2**
Net interest expense	-735.5	-697.2	-5.5
Earnings before income taxes	**1,861.4**	**1,238.0**	**50.4**
Income taxes	-536.2	-592.1	9.4
Net income	**1,325.2**	**645.9**	**105.2**
Non-controlling interests	-83.0	-69.9	-18.7
Net income attributable to the shareholders of the parent	**1,242.2**	**576.0**	**115.7**
Basic earnings per share (in €)	6.21	2.88	115.7

Financial Position

Reconciliation of cash flow
Continental's cash flow from operating activities rose by €439.4 million year-on-year to €2,288.6 million (PY: €1,849.2 million) in 2011, corresponding to 7.5% (PY: 7.1%) of sales.

Free cash flow for fiscal 2011 amounted to €490.5 million (PY: €566.9 million). This corresponds to a decline of €76.4 million year-on-year.

Interest payments resulting in particular from the syndicated loan and the bonds fell by €34.6 million to €691.0 million (PY: €725.6 million).

Income tax payments decreased by €27.4 million to €465.6 million (PY: €493.0 million).

The increase in working capital had a negative impact, leading to a €59.3 million greater outflow of funds as against fiscal 2010. This cash-effective impact of the rise in operating working capital resulted from the expansion in operating receivables of €199.7 million, a reduction in inventories of €107.9 million and an increase in operating liabilities of €32.5 million.

The positive cash inflow of €38.2 million in 2010 from pension provisions was partially offset by outflows of €2.8 million in fiscal 2011.

Total cash outflows amounting to €1,798.1 million (PY: €1,282.3 million) resulted from investing activities, primarily due to the €478.6 million increase in investments in property, plant and equipment, and software to €1,721.2 million (PY: €1,242.6 million).

The acquisition of companies and business units resulted in a €29.4 million greater outflow of funds than in the previous year.

Capital expenditure (additions)
Capital expenditure for property, plant and equipment, and software amounted to €1,711.3 million in 2011. Overall, there was a significant increase of €414.9 million as against the previous year's level of €1,296.4 million, with all divisions contributing to this increase. Capital expenditure amounted to 5.6% (PY: 5.0%) of sales.

Financing and indebtedness
As of the end of 2011, gross indebtedness amounted to €8,562.4 million (PY: €8,990.5 million), down €428.1 million on the previous year's level.

On average, based on quarter-end values, 76.6% (PY: 56.6%) of gross indebtedness after hedging measures had fixed interest rates over the year.

The carrying amount of bonds rose slightly from €2,988.5 million at the end of 2010 to €2,996.2 million as of the end of fiscal 2011. The increase is essentially due to the marketing of a bond with a nominal volume of $8.0 million and an interest rate of 7.75% p.a. launched by the company Continental Tire Andina S.A., Cuenca, Ecuador, in the fourth quarter of 2011. By the end of 2011, a nominal amount of $7.2 million of this bond was placed with investors. The remaining $0.8 million were issued in January 2012.

in € millions	Dec. 31, 2011	Dec. 31, 2010
Cash provided by operating activities	2,288.6	1,849.2
Cash used for investing activities	-1,798.1	-1,282.3
Cash flow before financing activities (free cash flow)	**490.5**	**566.9**
Dividends paid and repayment of capital to non-controlling interests	-37.9	-35.2
Proceeds from the issuance of shares	—	1,056.0
Non-cash changes	162.0	6.8
Other	-42.7	-28.1
Foreign exchange effects	-27.0	12.1
Change in net indebtedness	**544.9**	**1,578.5**

Liabilities to banks amounted to €4,492.6 million as of December 31, 2011 (PY: €5,144.9 million) and were therefore down €652.3 million on the previous year's level. In particular, this reduction is due to partial repayments of the syndicated loan.

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

The repayment of the first tranche of the syndicated loan of €625.0 million originally agreed for August 2012 was implemented early at the end of December 2011 thanks to the positive business performance. The other two tranches, one of which is a revolving credit line of €2.5 billion, mature in April 2014. Following an early partial repayment of €484.9 million in April 2011, the committed volume of this loan was reduced to initially €6.0 billion and, after the further repayment described above in December 2011, to €5,375.0 million (PY: €6,484.9 million) as of December 31, 2011. As of the end of 2011, the syndicated loan had been utilized by Continental AG and Continental Rubber of America, Corp. (CRoA), Wilmington, U.S.A., and had a total value as of the end of the reporting period of €3,860.0 million (PY: €4,297.0 million). As a further outcome of the renegotiation, the credit margins for the syndicated loan were lowered. They have since been based on the Continental Corporation's leverage ratio (net indebtedness/EBITDA, according to the definition in the syndicated loan) rather than its rating. The leverage ratio had already improved as of June 30, 2011, which meant that Continental benefited from a further margin reduction for the syndicated loan in the third quarter of 2011. The associated expectation of a lower cash outflow for this loan led to an adjustment in profit or loss of the syndicated loan's carrying amount of €9.1 million as of June 30, 2011. Together with the adjustments of the carrying amount in profit or loss that were required in 2009 and 2010 due to rising margins and the associated anticipated higher cash outflow for the syndicated loan, the negative value of the carrying amount adjustments totaled €15.7 million as of the end of December 2011. These deferrals will be amortized over the term of the loan and increase or reduce expenses accordingly.

As of the end of December 2011, there were still interest rate hedges of €3,125.0 million for the syndicated loan (PY: €3,125.0 million). The average fixed interest rate to be paid resulting from the hedges maturing in August 2012 is still 4.19% p.a. plus margin.

As of the end of July 2011, the cash flow hedge accounting for the partial amount of €2.5 billion of the tranche of the syndicated loan due in April 2014 was voluntarily terminated prematurely. Changes in the fair value of these hedges are now recognized directly in profit or loss. Income of €16.9 million has arisen since the de-designation of the cash flow hedges. Changes in value recognized in equity as a difference arising from financial instruments for the hedges by the end of July 2011 are reversed over the remaining term of the hedges. As of December 31, 2011, an expense of €25.1 million was recognized in profit or loss.

At the end of December 2011, hedge accounting for the partial amount of €625.0 million was terminated on account of the early repayment of the tranche of the syndicated loan originally due in August 2012. Changes in the fair value of these hedges are now recognized directly in profit or loss. An expense of €7.3 million has been incurred since the reversal of the cash flow hedges. Changes in value recognized in equity as a difference arising from financial instruments for the hedges by the end of December 2011 were recognized in full in profit or loss. This resulted in an expense of €14.2 million. There is still an economically effective hedge as the tranche repaid early at the end of December 2011 was refinanced in full by utilizing the revolving tranche of the syndicated loan, and the parameters of this utilization are still consistent with those of the interest hedge.

Furthermore, the promissory loans of Conti-Gummi Finance B.V., Maastricht, Netherlands, with a total value of €110.0 million maturing in August 2011, were repaid.

The various financial liabilities increased by €216.5 million to €1,073.6 million (PY: €857.1 million) as of the end of 2011. This is essentially due to the greater utilization of factoring programs as against the previous year, partly in connection with the rise in the financing volume, and a significantly higher volume of commercial papers issued. However, the finance lease liabilities and the negative fair values of derivatives were down on the previous year at €122.9 million (PY: €149.0 million) and €163.0 million (PY: €234.0 million) respectively.

The use of factoring programs increased by €168.0 million to €549.5 million (PY: €381.5 million). Since October 2011, the factoring program concluded in November 2010 with Norddeutsche Landesbank Luxembourg S.A. and Coface Finanz GmbH has continued with Norddeutsche Landesbank Luxembourg S.A. as the sole partner. The term of the prolonged program ends on September 28, 2012. The financing volume still amounts to €230.0 million (PY: €230.0 million). This program was fully utilized at the end of 2011 in the amount of €230.0 million (PY: €224.0 million). The indefinite factoring program in place with Landesbank Hessen-Thüringen Girozentrale since December 2010 provides for a financing volume of €150.0 million (PY: €150.0 million) and was fully utilized at €150.0 million (PY: €82.8 million) at the end of 2011. At the end of September 2011, the factoring program concluded with Wells Fargo Bank N.A. and The Bank of Nova Scotia was extended to include Partner Bank of America N.A. and, in this context, its financing volume was increased from $150.0 million to $400.0 million. The agreement runs until September 30, 2012, with the option of prolongation by a further year. €169.5 million of its volume had been utilized as of the end of 2011 (PY: €74.7 million).

At €216.6 million, the volume of the commercial papers issued was up €130.1 million on the end of the previous year (€86.5 million).

At €1,790.3 million (PY: €1,673.5 million), cash and cash equivalents, derivative instruments and interest-bearing investments were up €116.8 million.

Net indebtedness fell by €544.9 million as against the end of 2010 to €6,772.1 million (PY: €7,317.0 million). The gearing ratio improved significantly year-on-year to 89.8% (PY: 118.0%).

As of December 31, 2011, Continental had liquidity reserves totaling €3,730.7 million (PY: €4,245.5 million), consisting of cash and cash equivalents of €1,541.2 million (PY: €1,471.3 million) and committed, unutilized credit lines totaling €2,189.5 million (PY: €2,774.2 million).

Net Assets Position

Total assets
As of December 31, 2011, total assets increased by €1,647.9 million year-on-year from €24,390.5 million to €26,038.4 million. This is mainly due to the growth in inventories and trade accounts receivable totaling €1,239.4 million in line with the expansion of business activities. Strong investment activity was the main reason for the €509.8 million rise in property, plant and equipment. This was offset by the decline in other intangible assets of €357.4 million, mainly due to amortization from the purchase price allocation (PPA).

Non-current assets
Non-current assets increased by €187.6 million to €15,075.5 million (PY: €14,887.9 million). This growth is mainly due to property, plant and equipment, which rose by €509.8 million to €6,608.5 million (PY: €6,098.7 million). The increase in goodwill of €48.8 million to €5,692.4 million (PY: €5,643.6 million) is due in particular to the acquisition of companies in the year under review. Other intangible assets fell by €357.4 million to €1,365.9 million (PY: €1,723.3 million). The deferred tax assets included in other non-current assets decreased by €114.9 million to €565.8 million (PY: €680.7 million) as a result of the utilization of loss carryforwards and necessary valuation allowances. Other non-current assets showed no material changes as against the previous year.

Current assets
Current assets increased by €1,460.3 million to €10,962.9 million (PY: €9,502.6 million). The €887.5 million rise in trade accounts receivable from €4,454.0 million to €5,341.5 million is primarily due to higher sales as of the end of 2011 as against the previous year. Rising business activity also led to a €351.9 million expansion in inventories to €2,989.7 million (PY: €2,637.8 million). Cash and cash equivalents rose slightly in the year under review by €69.9 million to €1,541.2 million (PY: €1,471.3 million). Other current assets rose by €151.0 million to €1,090.5 million (PY: €939.5 million), mainly as a result of the rise in prepaid expenses and high sales tax assets.

Total equity
Equity increased by €1,340.4 million to €7,543.3 million (PY: €6,202.9 million). This was essentially due to the net income attributable to shareholders of the parent amounting to €1,242.2 million. The equity ratio improved from 25.4% to 29.0%.

Non-current liabilities
At €8,136.4 million, non-current provisions and liabilities were down €1,593.8 million from €9,730.2 million in the previous year. This is mainly due to the non-current financial indebtedness included here, which declined by €1,704.4 million to €6,048.0 million (PY: €7,752.4 million) particularly on account of partial repayments and reclassifications to current liabilities.

Deferred tax liabilities rose by €61.6 million to €269.3 million (PY: €207.7 million). Other non-current liabilities showed no material changes as against the previous year.

Current liabilities
At €10,358.7 million, current provisions and liabilities were up €1,901.3 million from €8,457.4 million in the previous year, mainly due to the increase in current financial indebtedness. This climbed by €1,276.3 million to €2,514.4 million (PY: €1,238.1 million) particularly as a result of reclassification from non-current financial indebtedness. The increase in trade accounts payable by €600.9 million to €4,111.4 million (PY: €3,510.5 million) was due to the rise in production volumes as of the end of the year. The rise in other current financial liabilities of €211.8 million to €1,415.2 million (PY: €1,203.4 million) was due mainly to increased deferrals for bonuses and special payments and higher related party liabilities. This was offset by the €258.9 million decline in other current provisions to €905.1 million (PY: €1,164.0 million), particularly as a result of payments for restructuring activities and warranty provisions initiated in previous years. At €764.4 million, other current liabilities were up by €120.9 million from €643.5 million in the previous year.

Operating assets
The corporation's operating assets increased by €915.8 million year-on-year to €16,198.6 million (PY: €15,282.8 million) as of December 31, 2011.

The key factor in this development was the rise in working capital by €631.8 million to €4,219.8 million (PY: €3,588.0 million). Inventories climbed by €351.9 million to €2,989.7 million (PY: €2,637.8 million). Total operating receivables rose by €880.8 million to €5,341.5 million (PY: €4,460.7 million) as of the end of the reporting period also due to higher sales at the end

Consolidated balance sheets

Assets in € millions	Dec. 31, 2011	Dec. 31, 2010
Goodwill	5,692.4	5,643.6
Other intangible assets	1,365.9	1,723.3
Property, plant and equipment	6,608.5	6,098.7
Investments in associates	480.2	440.4
Other long-term assets	928.5	981.9
Non-current assets	**15,075.5**	**14,887.9**
Inventories	2,989.7	2,637.8
Trade accounts receivable	5,341.5	4,454.0
Other short-term assets	1,090.5	939.5
Cash and cash equivalents	1,541.2	1,471.3
Current assets	**10,962.9**	**9,502.6**
Total assets	**26,038.4**	**24,390.5**

Total equity and liabilities in € millions	Dec. 31, 2011	Dec. 31, 2010
Total equity	**7,543.3**	**6,202.9**
Non-current liabilities	**8,136.4**	**9,730.2**
Trade accounts payable	4,111.4	3,510.5
Other short-term provisions and liabilities	6,247.3	4,946.9
Current liabilities	**10,358.7**	**8,457.4**
Total equity and liabilities	**26,038.4**	**24,390.5**
Net indebtedness	**6,772.1**	**7,317.0**
Gearing ratio in %	**89.8**	**118.0**

of the year as against the previous year. Operating liabilities were up by €600.9 million to €4,111.4 million (PY: €3,510.5 million).

Non-current operating assets amounted to €14,213.6 million (PY: €13,975.6 million), a €238.0 million increase year-on-year. Goodwill rose by €48.8 million to €5,692.4 million (PY: €5,643.6 million) as a result of the acquisition of companies in particular. Property, plant and equipment climbed by €509.8 million to €6,608.5 million (PY: €6,098.7 million) due to investing activities. Other intangible assets fell by €357.4 million to €1,365.9 million (PY: €1,723.3 million). This was mainly due to the amortization of intangible assets from the purchase price allocation (PPA) in the amount of €435.5 million (PY: €454.3 million).

The acquisition of the tire and service sales group Alençon Pneus SAS, Alençon, France, by Continental Holding France SAS, Sarreguemines, France, as part of a share deal increased the Passenger and Light Truck Tires division's operating assets by €56.5 million. The acquisition of Modi Tyres Company Limited, Modipuram, India, as part of a share deal expanded the operating assets of the Commercial Vehicle Tires division by €77.7 million. The acquisition of the companies ContiTech Tianjin Conveyor Belt Ltd., Tianjin, China, and Mining Industrial Resource Supplies Pty Ltd, Perth, Australia, increased operating assets by €6.8 million. Other changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets at corporation level.

In the fiscal year, exchange rate effects increased the corporation's total operating assets by €6.0 million (PY: €522.8 million).

In line with the rise in operating assets as of the end of the reporting period, the average operating assets of the corporation increased by €439.0 million as against fiscal 2010 to €16,019.0 million (PY: €15,580.0 million).

Employees

The number of employees in the Continental Corporation rose by 15,560 as against 2010 (148,228) to 163,788. As a result of both the volume increase and the further expansion in best-cost countries, the number of staff in the Automotive Group increased by 8,413 employees. In the Rubber Group, primarily the increased market demand also caused the number of employees to rise by 7,119.

Employees by region in %	2011	2010
Germany	30	31
Europe excluding Germany	31	32
NAFTA	15	14
Asia	18	16
Other countries	6	7

Key Figures for the Automotive Group

Automotive Group in € millions	2011	2010	Δ in %
Sales	18,354.2	15,917.0	15.3
EBITDA	2,225.8	1,779.1	25.1
in % of sales	12.1	11.2	
EBIT	1,024.5	567.9	80.4
in % of sales	5.6	3.6	
Research and development expenses	1,367.5	1,227.1	11.4
in % of sales	7.5	7.7	
Depreciation and amortization[1]	1,201.3	1,211.2	-0.8
– thereof impairment[2]	22.8	35.6	-36.0
Operating assets (at December 31)	11,394.6	11,308.8	0.8
EBIT in % of operating assets (at December 31)	9.0	5.0	
Operating assets (average)	11,427.2	11,512.0	-0.7
EBIT in % of operating assets (average)	9.0	4.9	
Capital expenditure[3]	968.5	739.8	30.9
in % of sales	5.3	4.6	
Number of employees (at December 31)[4]	95,136	86,723	9.7
Adjusted sales[5]	18,159.2	15,917.0	14.1
Adjusted operating result (adjusted EBIT)[6]	1,470.1	1,070.3	37.4
in % of adjusted sales	8.1	6.7	

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Development in the Divisions: Chassis & Safety

- Sales up 12.7%
- Sales up 9.7% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 13.7%

Sales volumes
Sales volumes in the Electronic Brake Systems business unit rose by 10.1% year-on-year to 18.3 million units.

In the Hydraulic Brake Systems business unit, sales of brake boosters increased by 24.0% year-on-year to 18.7 million units in the period under review. Sales of brake calipers surged by 27.9% as against the year before to 42.0 million units.

In our Passive Safety & Advanced Driver Assistance Systems business unit, sales of air bag control units were up 15.1% as against the previous year to 14.3 million units. Sales of driver assistance systems soared by 61.4% year-on-year to 1.7 million units.

Sales up 12.7%;
Sales up 9.7% before changes in the scope of consolidation and exchange rate effects
Sales in the Chassis & Safety division rose by 12.7% as against the previous year to €6,510.8 million in 2011 (PY: €5,775.4 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 9.7%.

Adjusted EBIT up 13.7%
The Chassis & Safety division's adjusted EBIT rose by €86.5 million or 13.7% year-on-year in 2011 to €716.7 million (PY: €630.2 million), equivalent to 11.3% (PY: 10.9%) of adjusted sales.

EBIT up 16.3%
As against the previous year, the Chassis & Safety division posted growth in EBIT of €92.9 million or 16.3% to €661.9 million in 2011 (PY: €569.0 million). The return on sales rose to 10.2% (PY: 9.9%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 16.4% (PY: 14.2%).

The amortization of intangible assets from the purchase price allocation (PPA) reduced EBIT by €53.0 million (PY: €53.8 million).

Special effects in 2011
The Chassis & Safety division's total net income due to special effects from the reversal of restructuring provisions no longer required amounted to €4.6 million.

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

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

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

An impairment test on an at-equity investment of the Chassis & Safety division resulted in an impairment loss of €5.4 million.

The total expense to the Chassis & Safety division from special effects amounted to €1.8 million in 2011.

Special effects in 2010
Smaller impairment losses totaling €3.4 million were recognized on property, plant and equipment in the Chassis & Safety division.

The initial consolidation of a company in South Korea and the disposal of shares in an associated company in China resulted in a gain of €1.3 million.

There was also income of €3.6 million mainly due to the reversal of provisions that were no longer needed as part of finishing up various restructuring activities.

Chassis & Safety in € millions	2011	2010	Δ in %
Sales	6,510.8	5,775.4	12.7
EBITDA	982.3	891.7	10.2
in % of sales	15.1	15.4	
EBIT	661.9	569.0	16.3
in % of sales	10.2	9.9	
Research and development expenses	463.1	422.3	9.7
in % of sales	7.1	7.3	
Depreciation and amortization[1]	320.4	322.7	-0.7
– thereof impairment[2]	1.6	3.8	-57.9
Operating assets (at December 31)	4,014.9	3,940.5	1.9
EBIT in % of operating assets (at December 31)	16.5	14.4	
Operating assets (average)	4,024.7	3,997.0	0.7
EBIT in % of operating assets (average)	16.4	14.2	
Capital expenditure[3]	327.1	247.1	32.4
in % of sales	5.0	4.3	
Number of employees (at December 31)[4]	32,665	30,495	7.1
Adjusted sales[5]	6,315.8	5,775.4	9.4
Adjusted operating result (adjusted EBIT)[6]	716.7	630.2	13.7
in % of adjusted sales	11.3	10.9	

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

The cost-cutting program initiated worldwide in response to the economic crisis led to expenses for severance payments of €8.9 million in 2010.

The total expense to the Chassis & Safety division from special effects amounted to €7.4 million in 2010.

Procurement

Residual capacity bottlenecks on the part of suppliers were almost totally eliminated thanks to the strong economic situation at the start of 2011. The regional disasters (earthquake in Japan, March 2011, flooding in Thailand, October 2011) resulted in production stoppages at the suppliers affected in these areas. Supply shortages to customers were prevented by the use of alternate supply sources, technical alternative solutions and the fast redevelopment or resumption of production.

Rising commodities prices were passed on by suppliers in some cases. In particular, materials prices were negatively affected by the prices for rare earths as of the end of the year.

Research and development

Research and development expenses rose by €40.8 million or 9.7% year-on-year to €463.1 million (PY: €422.3 million), or 7.1% (PY: 7.3%) of sales.

Depreciation and amortization

Depreciation and amortization declined by €2.3 million as against fiscal 2010 to €320.4 million (PY: €322.7 million) and amount to 4.9% (PY: 5.6%) of sales. This included impairment losses totaling €1.6 million (PY: €3.8 million) in 2011.

Operating assets
Operating assets in the Chassis & Safety division increased by €74.4 million year-on-year to €4,014.9 million (PY: €3,940.5 million) as of December 31, 2011.

Rising by €89.2 million to €613.9 million (PY: €524.7 million), working capital played a key factor in this development. Inventories expanded by €16.3 million to €356.0 million (PY: €339.7 million). Operating receivables rose by €185.1 million to €1,104.2 million (PY: €919.1 million) as of the end of the reporting period also due to the improvement in business as against the previous year. Operating liabilities were up by €112.2 million to €846.3 million (PY: €734.1 million).

Non-current operating assets amounted to €3,898.6 million (PY: €3,874.6 million), up €24.0 million year-on-year. Goodwill increased by €2.7 million as a result of currency effects to €2,333.6 million (PY: €2,330.9 million). Property, plant and equipment increased by €48.5 million to €1,270.0 million (PY: €1,221.5 million) due to investing activities. Other intangible assets fell by €28.2 million to €202.6 million (PY: €230.8 million). This was mainly due to the amortization of intangible assets from the purchase price allocation (PPA) in the amount of €53.0 million (PY: €53.8 million).

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

In the fiscal year, exchange rate effects increased the Chassis & Safety division's total operating assets by €16.4 million (PY: €122.2 million).

In line with the rise in operating assets as of the end of the reporting period, the average operating assets of the Chassis & Safety division increased by €27.7 million as against fiscal 2010 to €4,024.7 million (PY: €3,997.0 million).

Capital expenditure (additions)
Additions to the Chassis & Safety division rose by €80.0 million year-on-year to €327.1 million (PY: €247.1 million). Capital expenditure amounted to 5.0% (PY: 4.3%) of sales.

Production capacity was systematically expanded in all business units and set up for new products. The main additions related to investments in the production of the next generation of electronic braking systems.

Employees
The number of employees in the Chassis & Safety division rose by 2,170 to 32,665 (PY: 30,495). The increase in all business units is primarily due to an adjustment in line with greater volumes. Capacity was mainly boosted in best-cost countries.

Development in the Divisions: Powertrain

- Sales up 23.5%
- Sales up 24.1% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 657.2%

Sales volumes

Sales in the Powertrain division expanded by 23.5% year-on-year in 2011. The Transmission business unit extended its position with strong growth rates in Asia and NAFTA in particular. The Engine Systems business unit posted significant sales increases with its gasoline injection systems in NAFTA especially and diesel injection systems mainly in Europe. The Sensors & Actuators business unit generated growth rates of over 20% on emission control products in particular. The Hybrid Electric Vehicle business unit had a major start-up in start-stop applications while the Fuel Supply business unit enhanced its sales in Asia and NAFTA particularly.

Sales up 23.5%;
Sales up 24.1% before changes in the scope of consolidation and exchange rate effects

Sales in the Powertrain division rose by 23.5% as against the previous year to €5,842.0 million in 2011 (PY: €4,730.8 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 24.1%.

Adjusted EBIT up 657.2%

The Powertrain division's adjusted EBIT soared by €209.0 million or 657.2% year-on-year in 2011 to €240.8 million (PY: €31.8 million), equivalent to 4.1% (PY: 0.7%) of adjusted sales.

EBIT up 115.8%

As against the previous year, the Powertrain division posted growth in EBIT of €229.4 million or 115.8% to €31.3 million in 2011 (PY: -€198.1 million). The return on sales rose to 0.5% (PY: -4.2%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 1.0% (PY: -6.4%).

The amortization of intangible assets from the purchase price allocation (PPA) reduced EBIT by €173.9 million (PY: €178.7 million).

Special effects in 2011

The economic situation of the Fuel Supply business unit in the Powertrain division in Europe is characterized by insufficient and constantly decreasing profitability. For this reason, the location in Dortmund, Germany, is being restructured. Parts of production and assembly are being relocated and the site is being expanded into a competence center for fuel feed units of the Fuel Supply business unit. Restructuring expenses of €35.8 million have been incurred in this connection.

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

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

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

The total expense to the Powertrain division from special effects amounted to €35.6 million in 2011.

Powertrain in € millions	2011	2010	Δ in %
Sales	5,842.0	4,730.8	23.5
EBITDA	484.7	268.2	80.7
in % of sales	8.3	5.7	
EBIT	31.3	-198.1	115.8
in % of sales	0.5	-4.2	
Research and development expenses	454.9	396.9	14.6
in % of sales	7.8	8.4	
Depreciation and amortization[1]	453.4	466.3	-2.8
– thereof impairment[2]	8.5	36.6	-76.8
Operating assets (at December 31)	3,080.1	2,997.8	2.7
EBIT in % of operating assets (at December 31)	1.0	-6.6	
Operating assets (average)	3,027.4	3,112.2	-2.7
EBIT in % of operating assets (average)	1.0	-6.4	
Capital expenditure[3]	393.7	301.5	30.6
in % of sales	6.7	6.4	
Number of employees (at December 31)[4]	30,805	26,614	15.7
Adjusted sales[5]	5,842.0	4,743.0	23.2
Adjusted operating result (adjusted EBIT)[6]	240.8	31.8	657.2
in % of adjusted sales	4.1	0.7	

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Special effects in 2010

Due to the withdrawal of a customer order for the development and production of diesel injection systems at the plant in Blythewood, U.S.A., restructuring measures had to be introduced in 2009. This resulted in additional restructuring expenses of €11.9 million in the Powertrain division in 2010. This primarily related to impairments on production lines that were partially offset by provisions for supplier claims that were no longer needed.

There were additional restructuring-related expenses and severance payments of €18.9 million in the Powertrain division, of which €5.1 million related to the closure of the Asnière, France, location.

Impairment requirements of €16.3 million in the Powertrain division include an impairment loss on property, plant and equipment at the Costa Rica location of €7.7 million.

The total expense to the Powertrain division from special effects amounted to €47.1 million in 2010.

Procurement

The natural disasters in Japan and Thailand posed a threat to production supplies. However, thanks to focused crisis management and close cooperation with customers, existing and alternative suppliers, production shutdowns were avoided both internally and at customers.

Price hikes for commodities (steel, copper, etc.), and especially for rare earths, had a negative impact on costs of materials. The procurement cooperation with the Schaeffler Group was successfully continued and helped to reduce the negative effects of commodity prices.

Research and development

Research and development expenses rose by €58.0 million or 14.6% year-on-year to €454.9 million (PY: €396.9 million), or 7.8% (PY: 8.4%) of sales.

Depreciation and amortization

Depreciation and amortization declined by €12.9 million as against fiscal 2010 to €453.4 million (PY: €466.3 million) and amount to 7.8% (PY: 9.9%) of sales. This included impairment losses totaling €8.5 million (PY: €36.6 million) in 2011.

Operating assets

Operating assets in the Powertrain division rose by €82.3 million year-on-year to €3,080.1 million (PY: €2,997.8 million) as of December 31, 2011.

Working capital increased by €127.7 million to €421.1 million (PY: €293.4 million). Inventories expanded by €68.6 million to €334.1 million (PY: €265.5 million). Total operating receivables rose by €229.5 million to €1,038.6 million (PY: €809.1 million) as of the end of the reporting period, due in part to the improvement in business as against the previous year. Operating liabilities were up by €170.4 million to €951.6 million (PY: €781.2 million).

Non-current operating assets amounted to €3,106.4 million (PY: €3,168.2 million), down €61.8 million year-on-year. At €1,008.3 million, goodwill was affected only insignificantly by foreign currency effects (PY: €1,007.3 million). Property, plant and equipment increased by €97.2 million to €1,538.2 million (PY: €1,441.0 million) due to investing activities. Other intangible assets fell by €169.7 million to €420.6 million (PY: €590.3 million). This was mainly due to the amortization of intangible assets from the purchase price allocation (PPA) in the amount of €173.9 million (PY: €178.7 million).

Changes in the scope of consolidation and asset deals did not result in any additions or disposals of operating assets in the Powertrain division in 2011.

In the fiscal year, exchange rate effects increased the Powertrain division's total operating assets by €12.4 million (PY: €109.3 million).

Average operating assets in the Powertrain division decreased by €84.8 million to €3,027.4 million as against fiscal 2010 (€3,112.2 million).

Capital expenditure (additions)

Additions to the Powertrain division rose by €92.2 million year-on-year to €393.7 million (PY: €301.5 million). Capital expenditure amounted to 6.7% (PY: 6.4%) of sales.

In the Engine Systems business unit, manufacturing capacity for engine injection systems was expanded in response to rising demand. Investments were made in the development of a new plant in Amata City, Thailand. The Transmission business unit expanded its production of transmission control units, particularly at the Cuautla, Mexico, location.

Employees

The number of employees in the Powertrain division increased by 4,191 compared with the previous year to 30,805 (PY: 26,614). In line with sales trends, the number of employees increased by 1,194 in the Engine Systems business unit, 1,208 in the Transmission business unit, 1,069 in Sensors & Actuators and 247 in Fuel Supply. 473 staff were added in the Hybrid Electric Vehicle unit due to new projects and production start-ups.

Development in the Divisions: Interior

- Sales up 10.7%
- Sales up 11.5% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 25.5%

Sales volumes

Sales volumes in the Body & Security business unit were up for the majority of product groups in 2011. Particularly high increases were seen in access control and starting systems, door control units, comfort locking systems and seating comfort systems. In the Infotainment & Connectivity business unit, sales volumes for audio and connectivity components declined in fiscal 2011. This development was primarily influenced by lower demand for audio products in the U.S. market as well as for audio and connectivity products at some European vehicle manufacturers. In the area of multimedia systems, sales volumes rose thanks to increased demand from China and Europe. Volumes sold by the Commercial Vehicles & Aftermarket business unit were up significantly on the previous year's figures. The biggest increases were in the original equipment business, with spare part and aftermarket activities continuing at a high level. Volumes in the Instrumentation & Driver HMI business unit climbed significantly as against the previous year, especially for instrument clusters.

Sales up 10.7%;
Sales up 11.5% before changes in the scope of consolidation and exchange rate effects

Sales in the Interior division rose by 10.7% as against the previous year to €6,110.7 million in 2011 (PY: €5,518.1 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 11.5%.

Adjusted EBIT up 25.5%

The Interior division's adjusted EBIT climbed by €104.2 million or 25.5% year-on-year in 2011 to €512.5 million (PY: €408.3 million), equivalent to 8.4% (PY: 7.4%) of adjusted sales.

EBIT up 68.1%

As against the previous year, the Interior division posted growth in EBIT of €134.2 million or 68.1% to €331.2 million in 2011 (PY: €197.0 million). The return on sales rose to 5.4% (PY: 3.6%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 7.6% (PY: 4.5%).

The amortization of intangible assets from the purchase price allocation (PPA) reduced EBIT by €201.5 million (PY: €215.1 million).

Special effects in 2011

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

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

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

The total income generated by the Interior division from special effects amounted to €20.2 million in 2011.

Interior in € millions	2011	2010	Δ in %
Sales	6,110.7	5,518.1	10.7
EBITDA	758.8	619.1	22.6
in % of sales	12.4	11.2	
EBIT	331.2	197.0	68.1
in % of sales	5.4	3.6	
Research and development expenses	449.6	407.9	10.2
in % of sales	7.4	7.4	
Depreciation and amortization[1]	427.6	422.1	1.3
– thereof impairment[2]	12.7	-4.8	364.6
Operating assets (at December 31)	4,299.6	4,370.5	-1.6
EBIT in % of operating assets (at December 31)	7.7	4.5	
Operating assets (average)	4,375.1	4,402.8	-0.6
EBIT in % of operating assets (average)	7.6	4.5	
Capital expenditure[3]	247.7	191.3	29.5
in % of sales	4.1	3.5	
Number of employees (at December 31)[4]	31,666	29,614	6.9
Adjusted sales[5]	6,110.7	5,505.9	11.0
Adjusted operating result (adjusted EBIT)[6]	512.5	408.3	25.5
in % of adjusted sales	8.4	7.4	

1 Excluding impairments on financial investments.
2 Impairment also includes necessary reversals of impairment losses.
3 Capital expenditure on property, plant and equipment, and software.
4 Excluding trainees.
5 Before changes in the scope of consolidation.
6 Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Special effects in 2010

In 2010, the Interior division incurred expenses of €5.6 million for additional final activities regarding the disposal of certain business operations.

Winding-up activities for the disposal of an associated company led to a gain of €2.1 million and tax expenses for the corporation in the same amount.

As part of finishing up various restructuring activities, there was also income of €12.4 million from the reversal of provisions that were no longer needed as well as reversals of impairments on property, plant and equipment.

The cost-cutting program initiated worldwide in response to the economic crisis led to expenses for severance payments of €9.2 million in 2010.

The total expense to the Interior division from special effects amounted to €0.3 million in 2010.

Procurement

The procurement market for Interior was marked by continuing high demand for electrical and electromechanical components. The natural disasters in Japan and Thailand and the regional production standstills this caused exacerbated the supply situation. Semiconductors, displays, relays, disc drives and circuit boards in particular were hit by delivery bottlenecks. Internal and customer production shutdowns were avoided thanks to systematic crisis management. The supply chain delays that developed were worked off by the end of 2011.

Research and development

Research and development expenses rose by €41.7 million or 10.2% year-on-year to €449.6 million (PY: €407.9 million), or 7.4% (PY: 7.4%) of sales.

Depreciation and amortization

Depreciation and amortization rose by €5.5 million as against fiscal 2010 to €427.6 million (PY: €422.1 million) and amount to 7.0% (PY: 7.6%) of sales. This included impairment losses totaling €12.7 million (PY: reversals of impairment losses of €4.8 million) in 2011.

Operating assets

Operating assets in the Interior division declined year-on-year by €70.9 million to €4,299.6 million as of December 31, 2011 (PY: €4,370.5 million).

Working capital increased by €17.1 million to €721.7 million (PY: €704.6 million). Inventories expanded by €24.4 million to €577.4 million (PY: €553.0 million). Operating receivables rose by €85.9 million to €987.0 million (PY: €901.1 million) as of the end of the reporting period also due to the improvement in business as against the previous year. Operating liabilities were up by €93.2 million to €842.7 million (PY: €749.5 million).

Non-current operating assets amounted to €4,065.7 million (PY: €4,209.2 million), down €143.5 million year-on-year. Goodwill dropped by €0.2 million as a result of currency effects to €2,201.4 million (PY: €2,201.6 million). Property, plant and equipment were virtually unchanged year-on-year at €987.0 million (PY: €984.1 million). Other intangible assets fell by €167.6 million to €667.1 million (PY: €834.7 million). This was mainly due to the amortization of intangible assets from the purchase price allocation (PPA) in the amount of €201.5 million (PY: €215.1 million).

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

In the fiscal year, exchange rate effects increased the Interior division’s total operating assets by €9.5 million (PY: €116.1 million).

In line with the reduction in operating assets as of the reporting date, the average operating assets of the Interior division declined €27.7 million as against fiscal 2010 to €4,375.1 million (PY: €4,402.8 million).

Capital expenditure (additions)

Additions to the Interior division increased by €56.4 million to €247.7 million (PY: €191.3 million). Capital expenditure amounted to 4.1% (PY: 3.5%) of sales.

Investments focused primarily on the expansion of manufacturing capacity for the Body & Security and Instrumentation & Driver HMI business units. In particular, these investments relate to sites in Germany, Mexico, Brazil, the Czech Republic, Romania and China.

Employees

The number of employees in the Interior division increased by 2,052 to 31,666 (PY: 29,614). The headcount in the Body & Security business unit rose by a total of 1,019 people, 763 of whom due to the volume increase in North America in particular and 256 employees resulting from the expansion in development operations. The positive global sales performance coupled with the broader presence in Asia (mainly in Malaysia and China) and the extension of the development site at Timişoara, Romania, meant a rise in the number of staff of 359 in the Commercial Vehicles & Aftermarket business unit. Significant sales growth with strong growth rates in the NAFTA market and Asia plus a rise in the number of employees in R&D at best-cost locations led to an increase of 682 people in the Instrumentation & Driver HMI unit.

Key Figures for the Rubber Group

Rubber Group in € millions	2011	2010	Δ in %
Sales	12,176.6	10,152.5	19.9
EBITDA	2,041.5	1,851.5	10.3
in % of sales	16.8	18.2	
EBIT	1,612.8	1,413.1	14.1
in % of sales	13.2	13.9	
Research and development expenses	241.2	223.3	8.0
in % of sales	2.0	2.2	
Depreciation and amortization[1]	428.7	438.4	-2.2
– thereof impairment[2]	-2.4	22.1	-110.9
Operating assets (at December 31)	4,863.5	4,019.3	21.0
EBIT in % of operating assets (at December 31)	33.2	35.2	
Operating assets (average)	4,640.3	4,112.1	12.8
EBIT in % of operating assets (average)	34.8	34.4	
Capital expenditure[3]	747.7	555.8	34.5
in % of sales	6.1	5.5	
Number of employees (at December 31)[4]	68,384	61,265	11.6
Adjusted sales[5]	12,059.4	10,148.6	18.8
Adjusted operating result (adjusted EBIT)[6]	1,642.5	1,516.0	8.3
in % of adjusted sales	13.6	14.9	

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Development in the Divisions: Tires – Passenger and Light Truck Tires

- Sales up 19.5%
- Sales up 19.2% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 4.8%

Sales volumes
We posted double-digit increases in volumes for the original equipment business, with the highest rise seen in the NAFTA market. We also achieved a double-digit growth rate for replacement business in the Americas region. Single-digit percentage growth was recorded for the replacement business in Asia Pacific and in Europe.

Sales up 19.5%;
Sales up 19.2% before changes in the scope of consolidation and exchange rate effects
Sales in the Passenger and Light Truck Tires division rose by 19.5% as against the previous year to €6,957.5 million in 2011 (PY: €5,820.8 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 19.2%.

Adjusted EBIT up 4.8%
The Passenger and Light Truck Tires division's adjusted EBIT climbed by €49.3 million or 4.8% year-on-year in 2011 to €1,083.3 million (PY: €1,034.0 million), equivalent to 15.7% (PY: 17.8%) of adjusted sales. The year-on-year decline in the return on sales of 2.1 percentage points is mainly due to rising raw material prices, which resulted in a gross cost to the division of €575 million.

EBIT up 8.8%
As against the previous year, the Passenger and Light Truck Tires division posted growth in EBIT of €87.0 million or 8.8% to €1,080.3 million in 2011 (PY: €993.3 million). The return on sales fell to 15.5% (PY: 17.1%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 38.5% (PY: 41.0%).

Special effects in 2011
The total expense to the Passenger and Light Truck Tires division from special effects amounted to €1.7 million in 2011.

Special effects in 2010
Additional restructuring-related expenses of €14.7 million were incurred in connection with the end of tire production in Clairoix, France.

Additional restructuring expenses of €6.0 million were incurred at the Traiskirchen, Austria, location.

€3.0 million in expenses mainly from restructuring were incurred, of which €0.5 million related to capitalized intangible assets from the purchase price allocation.

The cost-cutting program initiated worldwide in response to the economic crisis led to expenses for severance payments of €6.4 million in 2010.

An impairment of €7.2 million on property, plant and equipment in Puchov, Slovakia, arose in 2010.

An impairment loss of €0.3 million on capitalized intangible assets from the purchase price allocation was incurred at a ContiTrade company.

The total expense to the Passenger and Light Truck Tires division from special effects amounted to €37.6 million in 2010. Adjusted for impairment of capitalized intangible assets from the purchase price allocation in an amount of €0.8 million, special effects had an adverse impact totaling €36.8 million.

Passenger and Light Truck Tires in € millions	2011	2010	Δ in %
Sales	6,957.5	5,820.8	19.5
EBITDA	1,335.5	1,241.0	7.6
in % of sales	19.2	21.3	
EBIT	1,080.3	993.3	8.8
in % of sales	15.5	17.1	
Research and development expenses	129.9	120.8	7.5
in % of sales	1.9	2.1	
Depreciation and amortization[1]	255.2	247.7	3.0
– thereof impairment[2]	-1.1	7.2	-115.3
Operating assets (at December 31)	2,941.5	2,351.3	25.1
EBIT in % of operating assets (at December 31)	36.7	42.2	
Operating assets (average)	2,804.2	2,422.9	15.7
EBIT in % of operating assets (average)	38.5	41.0	
Capital expenditure[3]	527.2	404.3	30.4
in % of sales	7.6	6.9	
Number of employees (at December 31)[4]	31,153	28,276	10.2
Adjusted sales[5]	6,892.4	5,820.8	18.4
Adjusted operating result (adjusted EBIT)[6]	1,083.3	1,034.0	4.8
in % of adjusted sales	15.7	17.8	

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Procurement

2011 was dominated by highly volatile commodity prices for the Passenger and Light Truck Tires division. Following the sharp rise in the price of natural rubber in 2010, it went on to reach a record level in the first quarter of 2011. Although it dropped again significantly by the end of the year, the price level for the year as a whole was still significantly higher than that of past years. The price of butadiene, a key primary product for synthetic rubber, also climbed as a result of strong demand in the first half of the year and had reached a record level by the middle of the year. Following this rapid rise, the uncertain economic situation caused the price level to normalize again just as quickly in the second half of the year.

The strong demand and the volatility on the commodities markets led to strong price pressure, particularly for the key primary products of natural rubber, synthetic rubber and carbon blacks. Textiles and steel cord were largely spared by this significant development.

Owing to the consistently high sales level in the Passenger and Light Truck Tires division, ensuring flexible sourcing of commodities in order to overcome delivery bottlenecks proved a major challenge in 2011.

Research and development

Research and development expenses rose by €9.1 million or 7.5% year-on-year to €129.9 million (PY: €120.8 million), or 1.9% (PY: 2.1%) of sales.

Depreciation and amortization

Depreciation and amortization rose by €7.5 million as against fiscal 2010 to €255.2 million (PY: €247.7 million) and amount to 3.7% (PY: 4.3%) of sales. This included reversals of impairment losses totaling €1.1 million (PY: impairment losses of €7.2 million) in 2011.

Operating assets

Operating assets in the Passenger and Light Truck Tires division rose by €590.2 million year-on-year to €2,941.5 million as of December 31, 2011 (PY: €2,351.3 million).

The Passenger and Light Truck Tires division posted a €242.3 million rise in working capital to €1,457.9 million (PY: €1,215.6 million). Inventories expanded by €137.8 million to €1,053.0 million (PY: €915.2 million). Total operating receivables rose by €258.4 million to €1,277.1 million (PY: €1,018.7 million) as of the end of the reporting period, due in part to the significant improvement in business as against the previous year. Operating liabilities were up by €153.9 million to €872.2 million (PY: €718.3 million).

Non-current operating assets amounted to €1,926.5 million (PY: €1,628.1 million), up €298.4 million year-on-year. This increase was essentially as a result of the €265.1 million rise in property, plant and equipment to €1,768.4 million (PY: €1,503.3 million). Goodwill increased by €23.8 million to €43.7 million (PY: €19.9 million) as a result of the acquisition of a tire and service sales group in particular.

The acquisition of the tire and service sales group Alençon Pneus SAS, Alençon, France, by Continental Holding France SAS, Sarreguemines, France, as part of a share deal increased operating assets by €56.5 million. There were no other changes in the scope of consolidation or asset deals with notable additions or disposals of operating assets in the Passenger and Light Truck Tires division in fiscal 2011.

In the year under review, exchange rate effects reduced the Passenger and Light Truck Tires division's total operating assets by €3.0 million. In the previous year, this effect had increased operating assets by €109.3 million.

Average operating assets in the Passenger and Light Truck Tires division climbed by €381.3 million to €2,804.2 million as against fiscal 2010 (€2,422.9 million).

Capital expenditure (additions)

Additions to the Passenger and Light Truck Tires division increased by €122.9 million to €527.2 million (PY: €404.3 million). Capital expenditure amounted to 7.6% (PY: 6.9%) of sales.

Investments focused on expanding capacity for the production of passenger and light truck tires at European low-cost locations and in North and South America. The division also invested in the construction of a new plant in Kaluga, Russia, and the expansion of the existing site in Hefei, China. Quality assurance and cost-cutting measures were also implemented.

Employees

The number of employees in the Passenger and Light Truck Tires division rose by 2,877 to 31,153 (PY: 28,276). The growth in sales volumes was reflected in an increase of 1,905 employees at the manufacturing companies. Expansion projects at retail companies and the adjustment in line with the improved market situation at the sales companies also drove up staff numbers by 708.

Development in the Divisions: Tires – Commercial Vehicle Tires

- Sales up 29.9%
- Sales up 29.7% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 35.0%

Sales volumes
2011 saw a further year-on-year recovery on the markets, lifting sales figures above the previous year's level. Growth rates in Europe and in the Americas business unit topped the division's average growth. We achieved our biggest increases in original equipment. Before changes in the scope of consolidation, sales volumes remained constant in Asia.

Sales up 29.9%;
Sales up 29.7% before changes in the scope of consolidation and exchange rate effects
Sales in the Commercial Vehicle Tires division rose by 29.9% as against the previous year to €1,854.0 million in 2011 (PY: €1,427.8 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 29.7%.

Adjusted EBIT up 35.0%
The Commercial Vehicle Tires division's adjusted EBIT climbed by €29.3 million or 35.0% year-on-year in 2011 to €113.0 million (PY: €83.7 million), equivalent to 6.2% (PY: 5.9%) of adjusted sales. Rising raw material prices – particularly for natural rubber – reduced the division's earnings by a gross figure of €267 million year-on-year. Despite this, the return on sales rose slightly.

EBIT up 130.3%
As against the previous year, the Commercial Vehicle Tires division posted growth in EBIT of €65.3 million or 130.3% to €115.4 million in 2011 (PY: €50.1 million). The return on sales rose to 6.2% (PY: 3.5%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 15.2% (PY: 8.0%).

Special effects in 2011
The Commercial Vehicle Tires division's total income from special effects from the reversal of restructuring provisions no longer required amounted to €6.5 million in 2011.

Special effects in 2010
A still available production cell in Hanover-Stöcken, Germany, was finally closed down, creating additional restructuring expenses of €34.6 million in 2010.

The sale of our North American OTR activities to the Titan Tire Corporation in 2006, led to a gain in 2010 of €3.3 million.

There was also an impairment on an at-equity investment in the amount of €0.5 million in 2010.

The cost-cutting program initiated worldwide in response to the economic crisis led to expenses for severance payments of €1.8 million in 2010.

The total expense to the Commercial Vehicle Tires division from special effects amounted to €33.6 million in 2010.

Procurement
The use of materials for the products of the Commercial Vehicle Tires division is similar to that of the Passenger and Light Truck Tires division, hence rising prices were also recorded here in the first half of 2011 in particular. Price pressure was particularly intense on account of the higher share of natural rubber in commercial vehicle tires.

The considerable increase in production volume caused the purchasing volume of the entire business unit to rise.

Commercial Vehicle Tires in € millions	2011	2010	Δ in %
Sales	1,854.0	1,427.8	29.9
EBITDA	191.0	142.2	34.3
in % of sales	10.3	10.0	
EBIT	115.4	50.1	130.3
in % of sales	6.2	3.5	
Research and development expenses	46.2	41.8	10.5
in % of sales	2.5	2.9	
Depreciation and amortization[1]	75.6	92.1	-17.9
– thereof impairment[2]	-2.1	12.8	-116.4
Operating assets (at December 31)	855.1	631.3	35.5
EBIT in % of operating assets (at December 31)	13.5	7.9	
Operating assets (average)	757.3	628.4	20.5
EBIT in % of operating assets (average)	15.2	8.0	
Capital expenditure[3]	109.9	51.2	114.6
in % of sales	5.9	3.6	
Number of employees (at December 31)[4]	9,982	7,156	39.5
Adjusted sales[5]	1,820.6	1,427.8	27.5
Adjusted operating result (adjusted EBIT)[6]	113.0	83.7	35.0
in % of adjusted sales	6.2	5.9	

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Research and development
Research and development expenses rose by €4.4 million or 10.5% year-on-year to €46.2 million (PY: €41.8 million), or 2.5% (PY: 2.9%) of sales.

Depreciation and amortization
Depreciation and amortization declined by €16.5 million as against fiscal 2010 to €75.6 million (PY: €92.1 million) and amount to 4.1% (PY: 6.5%) of sales. This included reversals of impairment losses totaling €2.1 million (PY: impairment losses of €12.8 million) in 2011.

Operating assets
Operating assets in the Commercial Vehicle Tires division rose by €223.8 million year-on-year to €855.1 million as of December 31, 2011 (PY: €631.3 million).

Working capital increased by €122.6 million to €474.5 million (PY: €351.9 million). Inventories expanded by €100.9 million to €304.6 million (PY: €203.7 million). Operating receivables rose by €82.5 million to €429.0 million (PY: €346.5 million) as of the end of the reporting period also due to the improvement in business as against the previous year. Operating liabilities were up €60.8 million to €259.1 million (PY: €198.3 million).

Non-current operating assets amounted to €517.3 million (PY: €397.8 million), up €119.5 million year-on-year. This increase was essentially a result of the €93.5 million rise in property, plant and equipment to €473.0 million (PY: €379.5 million). Goodwill increased by €20.5 million to €29.1 million (PY: €8.6 million), essentially as a result of the acquisition of a company.

The acquisition of Modi Tyres Company Limited, Modipuram, India, as part of a share deal increased operating assets by €77.7 million. There were no other changes in the scope of consolidation or asset deals with notable additions or disposals of operating assets in the Commercial Vehicle Tires division in fiscal 2011.

In the fiscal year, exchange rate effects reduced the Commercial Vehicle Tires division's total operating assets by €18.0 million. In the previous year, this effect had increased operating assets by €40.7 million.

Average operating assets in the Commercial Vehicle Tires division climbed by €128.9 million to €757.3 million as against fiscal 2010 (€628.4 million).

Capital expenditure (additions)

Additions to the Commercial Vehicle Tires division increased by €58.7 million to €109.9 million (PY: €51.2 million). Capital expenditure amounted to 5.9% (PY: 3.6%) of sales.

Key additions in the Commercial Vehicle Tires division related to expanding capacity and improving the quality of truck tire production. Investments focused on locations in Slovakia, the Czech Republic, Brazil and the U.S.A.

Employees

The number of employees in the Commercial Vehicle Tires division rose by 2,826 to 9,982 (PY: 7,156). This is essentially due to the rise in market demand and the acquisition of Modi Tyres Company Limited, Modipuram, India.

Development in the Divisions: ContiTech

- Sales up 15.8%
- Sales up 16.0% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 12.1%

Sales up 15.8%;
Sales up 16.0% before changes in the scope of consolidation and exchange rate effects
Sales in the ContiTech division rose by 15.8% as against the previous year to €3,583.1 million in 2011 (PY: €3,095.3 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 16.0%.

Non-automotive business posted the biggest year-on-year increase, climbing by roughly 18%. Sales in automotive OE business were up by around 14%, while growth in automotive aftermarket business was around 10%. With the exception of the Benecke-Kaliko and Power Transmission business units, all business units enjoyed considerable double-digit growth rates.

Adjusted EBIT up 12.1%
The ContiTech division's adjusted EBIT climbed by €48.0 million or 12.1% year-on-year in 2011 to €446.2 million (PY: €398.2 million), equivalent to 12.5% (PY: 12.9%) of adjusted sales. The year-on-year decline in the return on sales is mainly due to rising raw material prices, which resulted in a gross cost to the division of €157 million.

EBIT up 12.9%
As against the previous year, the ContiTech division posted growth in EBIT of €47.5 million or 12.9% to €417.1 million in 2011 (PY: €369.6 million). The return on sales fell to 11.6% (PY: 11.9%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 38.7% (PY: 34.8%).

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

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

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

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

The total expense to the ContiTech division from special effects amounted to €25.2 million in 2011.

Special effects in 2010
The antitrust proceedings initiated in 2007 against Dunlop Oil & Marine Ltd., U.K., a subsidiary of ContiTech AG in the area of offshore hoses, resulted in further expenses of €20.8 million.

Impairment losses of €2.1 million were reported in the ContiTech division.

The cost-cutting program initiated worldwide in response to the economic crisis led to expenses for severance payments of €2.7 million in 2010.

There were also negative one-time effects totaling €0.3 million primarily due to restructuring expenses and income from disposals of companies.

The total expense to the ContiTech division from special effects amounted to €25.9 million in 2010.

ContiTech in € millions	2011	2010	Δ in %
Sales	3,583.1	3,095.3	15.8
EBITDA	515.0	468.2	10.0
in % of sales	14.4	15.1	
EBIT	417.1	369.6	12.9
in % of sales	11.6	11.9	
Research and development expenses	65.0	60.7	7.1
in % of sales	1.8	2.0	
Depreciation and amortization[1]	97.9	98.6	-0.7
– thereof impairment[2]	0.8	2.1	-61.9
Operating assets (at December 31)	1,066.9	1,036.7	2.9
EBIT in % of operating assets (at December 31)	39.1	35.7	
Operating assets (average)	1,078.8	1,060.7	1.7
EBIT in % of operating assets (average)	38.7	34.8	
Capital expenditure[3]	110.6	100.3	10.3
in % of sales	3.1	3.2	
Number of employees (at December 31)[4]	27,249	25,833	5.5
Adjusted sales[5]	3,564.4	3,091.4	15.3
Adjusted operating result (adjusted EBIT)[6]	446.2	398.2	12.1
in % of adjusted sales	12.5	12.9	

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Procurement
ContiTech was also heavily impacted by the general price trends. Its broad product portfolio and the significant growth rates in its various business units posed a challenge to ContiTech to ensure the availability of specific commodities to meet customer requirements. A balance of central materials sourcing and flexible local purchasing ensures optimum procurement results for the ContiTech division.

Research and development
Research and development expenses rose by €4.3 million or 7.1% year-on-year to €65.0 million (PY: €60.7 million), or 1.8% (PY: 2.0%) of sales.

Depreciation and amortization
Depreciation and amortization declined by €0.7 million as against fiscal 2010 to €97.9 million (PY: €98.6 million) and amount to 2.7% of sales (PY: 3.2%). This included impairment losses totaling €0.8 million (PY: €2.1 million) in 2011.

Operating assets
Operating assets in the ContiTech division rose by €30.2 million year-on-year to €1,066.9 million as of December 31, 2011 (PY: €1,036.7 million).

The key factor in this development was the rise in working capital by €31.7 million to €554.8 million (PY: €523.1 million). Inventories expanded by €4.1 million to €364.6 million (PY: €360.5 million). Operating receivables rose by €39.3 million to €548.3 million (PY: €509.0 million) as of the end of the reporting period due to the growth in business as against the previous year. Operating liabilities were up €11.7 million to €358.1 million (PY: €346.4 million).

Non-current operating assets amounted to €684.6 million (PY: €675.7 million), up €8.9 million year-on-year. This increase was essentially due to the €9.1 million rise in property, plant and equipment to €568.1 million (PY: €559.0 million).

The formation of the company ContiTech Tianjin Conveyor Belt Ltd., Tianjin, China, and the acquisition of Mining Industrial Resource Supplies Pty Ltd, Perth, Australia, by Phoenix BV, Amsterdam, Netherlands, as part of a share deal led to growth in operating assets of €6.8 million. There were no other changes in the scope of consolidation or asset deals with notable additions or disposals of operating assets in the ContiTech division in 2011.

In the fiscal year, exchange rate effects reduced the ContiTech division’s total operating assets by €11.1 million. In the previous year, this effect had increased operating assets by €25.1 million.

Average operating assets in the ContiTech division climbed by €18.1 million to €1,078.8 million as against fiscal 2010 (€1,060.7 million).

Capital expenditure (additions)

Additions to the ContiTech division rose by €10.3 million year-on-year to €110.6 million (PY: €100.3 million). Capital expenditure amounted to 3.1% (PY: 3.2%) of sales.

In addition to rationalization and expansion investments in Germany, production capacity was increased at the European locations in Romania and Hungary. The division also invested in the expansion of production facilities at its locations in Brazil and Mexico. Production capacity was increased for the Asian market in China and South Korea.

Employees

The number of employees in the ContiTech division increased by 1,416 compared with the previous year to 27,249 (PY: 25,833). The rise in staff numbers was due to volume increases in all areas and the expansion of production by several business units in Mexico, China, Romania and Hungary. The acquisition of the companies ContiTech Tianjin Conveyor Belt Ltd., Tianjin, China, and Mining Industrial Resource Supplies Pty Ltd, Perth, Australia, in the Conveyor Belt Group business unit also led to a further rise in headcount.

Net Assets, Financial and Earnings Position of the Parent Company

In addition to the reporting on the corporation as a whole, the performance of the parent company is presented separately below.

Unlike the consolidated financial statements, the annual financial statements of Continental AG are prepared in accordance with German commercial law (the German Commercial Code or *Handelsgesetzbuch – HGB* and the German Stock Corporation Act or *Aktiengesetz – AktG*). The management report of Continental AG has been combined with the consolidated report of the Continental Corporation in accordance with Section 315 (3) *HGB* as the parent company's future risks and opportunities and its expected development are inextricably linked to that of the corporation as a whole. In addition, the following presentation of the parent company's business performance, including its results, net assets and financial position, provides a basis for understanding the Executive Board's proposal for the distribution of net income.

Net assets and financial position of Continental AG	**Dec. 31, 2011**	**Dec. 31, 2010**
Assets in € millions		
Intangible assets	9.3	6.6
Property, plant and equipment	1.5	3.3
Investments	11,072.7	11,075.4
Non-current assets	**11,083.5**	**11,085.3**
Inventories	0.0	0.4
Receivables and other assets	7,150.2	7,019.9
Short-term securities	—	0.0
Cash and cash equivalents	117.9	325.1
Current assets	**7,268.1**	**7,345.4**
Prepaid expenses and deferred charges	**79.9**	**57.5**
Total assets	**18,431.5**	**18,488.2**
Shareholders' equity and liabilities in € millions		
Subscribed capital	512.0	512.0
Capital reserves	4,179.1	4,179.1
Revenue reserves	54.7	54.7
Accumulated profits (PY: Accumulated losses) brought forward from the previous year	61.1	-993.7
Net income	447.4	1,054.8
Shareholders' equity	**5,254.3**	**4,806.9**
Provisions	**661.6**	**645.5**
Liabilities	**12,515.5**	**13,035.7**
Deferred income	**0.1**	**0.1**
Total equity and liabilities	**18,431.5**	**18,488.2**
Gearing ratio in %	102.3	119.4
Equity ratio in %	28.5	26.0

Effective January 1, 2011, Continental AG sold the Chassis & Safety division's legally dependent research and development/prototyping business operations to Continental Teves AG & Co. oHG, Frankfurt.

Following the disposal of the last remaining operating unit of Continental AG – after the carve-out of its tire activities in 2009 – Continental AG now acts solely as a management and holding company for the Continental Corporation.

In order to duly reflect the nature of Continental AG as a holding company, its net investment income will be presented as its primary earnings figure from this fiscal year onwards.

The reporting in the previous year's statement of income has been restated to ensure comparability. As a result, the sales figure for the previous year (€27.6 million) has been reclassified as other operating income, while the cost of sales (€26.4 million) and selling expenses (€0.1 million) have been reclassified to other operating expenses.

Total assets declined by €56.7 million year-on-year to €18,431.5 million (PY: €18,488.2 million). This change is essentially due to the €207.2 million reduction in cash and cash equivalents. Offsetting this, receivables from affiliated companies rose by €124.7 million.

Investments decreased by €2.7 million as against the previous year to €11,072.7 million (PY: €11,075.4 million) and now account for 60.1% of total assets after 59.9% in the previous year. Shares in affiliated companies fell by €21.1 million to €10,797.1 million (PY: €10,818.2 million), essentially as a result of the sale of Continental Automotive Systems Changshu Co., Ltd., Changshu, China, for the amount of €25.3 million to another member of corporation. Offsetting this, the trust assets of Continental Pension Trust e.V. rose by €10.6 million and its investment securities by €7.8 million.

Prepaid expenses and deferred charges increased by €22.4 million to €79.9 million (PY: €57.5 million). This rise essentially resulted from expenses that arose for the renegotiation of the syndicated loan originally set to mature in August 2012.

On the liabilities side, liabilities to banks decreased by €644.6 million year-on-year to €3,526.9 million (PY: €4,171.5 million), corresponding to 15.4%. The reduction results primarily from an early partial repayment of the syndicated loan in April 2011 in the amount of €484.9 million.

Subscribed capital remained unchanged as against the previous year and amounted to €512,015,316.48 as of the end of the reporting period.

As in the previous year, net investment income mainly relates to profit transfer agreements. The income from profit transfer agreements essentially results from Continental Automotive GmbH, Hanover (€464.1 million), Formpolster GmbH, Hanover (€250.5 million) UMG Beteiligungsgesellschaft mbH, Hanover (€68.8

Statement of income of Continental AG in € millions	2011	2010
Net investment income	**1,229.1**	**2,025.0**
General administrative expenses	74.7	60.3
Other operating income	94.0	122.7
Other operating expenses	213.6	364.4
Income from other securities and long-term loans	14.2	12.5
Net interest expense	-565.4	-594.0
Result from ordinary activities	**483.6**	**1,141.5**
Extraordinary result	—	-2.7
Income tax expense	-36.2	-84.0
Net income	**447.4**	**1,054.8**
Accumulated profits (PY: Accumulated losses) brought forward from the previous year	61.1	-993.7
Retained earnings	**508.5**	**61.1**

million) and Continental Caoutchouc-Export-GmbH, Hanover (€416.8 million). As compared to the previous year, the decline in net investment income of €795.9 million to €1,229.1 million (PY: €2,025.0 million) was due in particular to the profit transfer from Continental Caoutchouc-Export-GmbH, Hanover. In the previous year, it had received a non-recurring dividend distribution of €1,000.0 million from Continental Global Holding Netherlands B.V., Amsterdam, Netherlands, through the profit transfer from CAS-One Holdinggesellschaft mbH, Hanover.

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

The €28.6 million year-on-year improvement in net interest expense to €565.4 million is due to the reduction of net indebtedness and the drop in margins for the syndicated loan to below prior-year levels. These two effects by far more than offset the costs of higher average market interest rates in 2011 and of the bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, which were passed on to Continental AG by way of corporation loans.

The tax expense of €36.2 million resulted from current expenses in Germany, non-imputable foreign withholding tax and a tax refund for previous years owing to a reassessment of a pending tax position.

After taking this tax expense into account, Continental AG posted net income for the year of €447.4 million (PY: €1,054.8 million). The after-tax return on equity was 8.5% (PY: 21.9%).

Taking into account the profit carryforward from the previous year of €61.1 million, retained earnings amounted to €508.5 million. The Supervisory Board and the Executive Board will propose to the Annual Shareholders' Meeting the distribution of a dividend of €1.50 per share. With 200,005,983 shares entitled to dividends, the total distribution will therefore amount to €300,008,974.50. The remaining amount is to be carried forward to new account.

We expect a continuing positive development in the operating results of our subsidiaries in fiscal 2012.

Report Pursuant to Section 289 (4) and Section 315 (4) of the German Commercial Code *(Handelsgesetzbuch – HGB)*

1. **Composition of subscribed capital**
   The subscribed capital of the company amounts to €512,015,316.48 as of the end of the reporting period and is divided into 200,005,983 no-par-value shares. These shares are, without exception, common shares; different classes of shares have not been issued and have not been provided for in the Articles of Incorporation. Each share bears voting and dividend rights from the time it is issued. Each share entitles the holder to one vote at the Annual Shareholders' Meeting (Article 20 (1) of the Articles of Incorporation).

2. **Restrictions on voting rights or the transfer of shares**
   As part of Continental AG's investment agreement with Schaeffler KG, Mrs. Maria-Elisabeth Schaeffler and Mr. Georg F. W. Schaeffler concluded on August 20, 2008, which has since been transferred to the current Schaeffler AG by Schaeffler KG, the Schaeffler Group 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, the Schaeffler Group undertook, in the event that it resells parcels of its maximum shareholding by August 31, 2012, to grant a pre-emptive right to a buyer nominated by the guarantor appointed by the agreement, if the sale to such buyer is in the best interest of Continental AG and the Schaeffler Group.

3. **Shareholdings exceeding 10% of voting rights**
   For details of the equity interests exceeding 10% of the voting rights (reported level of equity interest), please refer to the notice in accordance with the German Securities Trading Act *(Wertpapierhandelsgesetz)* under Note 39 to the consolidated financial statements.

4. **Bearers of shares with privileges**
   There are no shares with privileges granting control.

5. **Type of voting right control for employee shareholdings**
   The company is not aware of any employees with shareholdings not directly exercising control of voting rights.

6. **Provisions for the appointment and dismissal of members of the Executive Board and for the amendment of the Articles of Incorporation**
   a) In accordance with the Articles of Incorporation, the Executive Board consists of at least two members; beyond this the number of members of the Executive Board is determined by the Supervisory Board. Members of the Executive Board are appointed and dismissed in accordance with Section 84 of the German Stock Corporation Act *(Aktiengesetz – AktG)* in conjunction with Section 31 of the German Codetermination Act *(Mitbestimmungsgesetz – MitbestG)*. In line with this, the Supervisory Board is responsible for the appointment and dismissal of members of the Executive Board. It passes decisions with a majority of two-thirds of its members. If this majority is not reached, the so-called Mediation Committee must submit a nomination to the Supervisory Board for the appointment within one month of voting. Other nominations can also be submitted to the Supervisory Board in addition to the Mediation Committee's nomination. A simple majority of the votes is sufficient when voting on these nominations submitted to the Supervisory Board. In the event that voting results in a tie, a new vote takes place in which the Chairman of the Supervisory Board has the casting vote in accordance with Section 31 (4) *MitbestG*.

   b) Amendments to the Articles of Incorporation are made by the Annual Shareholders' Meeting. In Article 20 (3) of the Articles of Incorporation, the Annual Shareholders' Meeting has exercised the option granted in Section 179 (1) Sentence 2 *AktG* to confer on the Supervisory Board the power to make amendments affecting only the wording of the Articles of Incorporation.

In accordance with Article 20 (2) of the Articles of Incorporation, resolutions of the Annual Shareholders' Meeting to amend the Articles of Incorporation are usually adopted by a simple majority and, insofar as a capital majority is required, by a simple majority of the capital represented unless otherwise stipulated by mandatory law or the Articles of Incorporation. The law prescribes a mandatory majority of three quarters of the share capital represented when resolutions are made, for example, for amendments to the Articles of Incorporation involving substantial capital measures, such as resolutions concerning the creation of authorized or contingent capital.

7. Authorizations of the Executive Board, particularly with regard to its options for issuing or withdrawing shares

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

a) By way of resolution of the Annual Shareholders' Meeting of April 23, 2009 (Article 4 (2) of the Articles of Incorporation), the Executive Board is authorized, with the approval of the Supervisory Board, to increase the share capital by up to €66 million by issuing up to 25,781,250 new shares against cash or non-cash contributions by April 22, 2014 (Authorized Capital 2009).

In doing so, the Executive Board may exclude shareholders' pre-emptive rights with the approval of the Supervisory Board,

(1) in order to exclude any fractional amounts from shareholders' pre-emptive rights;

(2) to ensure that holders of option or conversion rights from warrant-linked bonds or convertible bonds are granted pre-emptive rights to new shares to the extent they would have been entitled after exercising their option or conversion rights or meeting the conversion requirement as shareholders;

(3) if capital is increased against cash contributions and the entire pro rata amount relating to shares issued on the basis of this authorization exceeds neither the amount of €43,265,000 nor the amount of 10% of share capital at the time of this authorization first being exercised ("maximum amount") and the issue price of the new shares is not significantly less than the quoted price of shares of the same type already listed at the time the issue price is conclusively established. The pro rata amount of share capital relating to new or previously acquired treasury shares issued or sold during the term of this authorization with the simplified disapplication of pre-emptive rights as per or in accordance with Section 186 (3) Sentence 4 *AktG*, and the pro rata amount of share capital relating to shares that can or must be subscribed to on the basis of option or conversion rights issued during the term of this authorization with pre-emptive rights disapplied in accordance with Section 186 (3) Sentence 4 *AktG*, mutatis mutandis, must be deducted from this maximum amount;

(4) if new shares are issued against contributions in kind and the pro rata amount of share capital relating to the new shares does not exceed 10% of the share capital at the time of this authorization taking effect.

b) By way of resolution of the Annual Shareholders' Meeting of April 24, 2007 and resolution of the Annual Shareholders' Meeting of April 25, 2008 (Article 4 (3) of the Articles of Incorporation), the Executive Board is authorized, with the approval of the Supervisory Board, to increase the share capital of the company by up to €70,628,545.28 by issuing new shares in the company on one or more occasions against cash or non-cash contributions by April 23, 2012 (Authorized Capital 2007). In doing so, the Executive Board may exclude pre-emptive rights with the approval of the Supervisory Board,

(1) in order to exclude any fractional amounts from shareholders' pre-emptive rights;

(2) to ensure that holders of option or conversion rights from warrant-linked bonds or

convertible bonds are granted pre-emptive rights to new shares to the extent they would have been entitled after exercising their option or conversion rights or meeting the conversion requirement as shareholders;

(3) if the capital is increased against cash contributions and the entire pro rata amount relating to new shares issued under this authorization exceeds neither the amount of €37,500,000 nor the amount of 10% of share capital at the time of this authorization to disapply pre-emptive rights first being exercised (“maximum amount”) and the issue price of the new shares is not significantly less than the quoted price of shares of the same type already listed at the time the issue price is conclusively established. The pro rata amount of share capital relating to new or previously acquired treasury shares issued or sold since April 25, 2008 with the simplified disapplication of pre-emptive rights as per or in accordance with Section 186 (3) Sentence 4 *AktG*, and the pro rata amount of share capital relating to shares that can be subscribed to on the basis of option or conversion rights issued since April 25, 2008 in accordance with Section 186 (3) Sentence 4 *AktG*, mutatis mutandis, must be deducted from this maximum amount;

(4) if new shares against contributions in kind and the pro rata amount of share capital relating to the new shares do not exceed 10% of the share capital at the time of this authorization taking effect.

c) By way of resolution of the Annual Shareholders’ Meeting on April 23, 2009, the Executive Board is authorized, with the approval of the Supervisory Board, to issue convertible bonds, warrant-linked bonds and/or participating bonds and other financial instruments up to a total nominal amount of €0.85 billion by April 22, 2014. In this context, the Annual Shareholders’ Meeting approved contingent capital of €43.5 million. If the Executive Board issues convertible bonds, bonds cum warrants, income bonds or similar financial instruments 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 authorized to issue new shares to the beneficiaries of the 2004 and 2008 stock option plans resolved by the Annual Shareholders’ Meeting in accordance with the conditions of these plans. 84,300 pre-emptive rights have been issued that can be exercised when the exercise price is met. In total, no more than 84,300 shares can therefore be issued under the stock option plans. This corresponds to pro rata share capital of up to €215,808.

7.2 The Executive Board may only buy back shares under the conditions codified in Section 71 *AktG*. The Annual Shareholders’ Meeting has not authorized the Executive Board to acquire treasury shares in line with Section 71 (1) Number 8 *AktG*.

8. Material agreements of the company subject to a change of control following a takeover bid and their consequences

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

a) The agreement for a syndicated loan of originally €13.5 billion (since reduced to €5.375 billion) concluded in August 2007 and last amended on April 4, 2011, grants each creditor the right to prematurely terminate its share of the credit facility 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 do not lead to an agreement. The loan agreement for originally €600.0 million concluded with the European Investment Bank and valued at €300.0 million as of December 31, 2011, also grants the bank the right to demand talks concerning the situation in the event of a change of control and, if the negotiation period expires with no outcome, to demand early repayment. The terms “control” and “change of control event” are defined as the holding of more than 50% of the voting rights or if Continental AG concludes a domination agreement as defined under Section 291 *AktG* with Continental AG as the company dominated.

b) The bonds issued by a subsidiary of Continental AG, Conti-Gummi Finance B.V. Amsterdam, Netherlands ("issuer"), on July 16, 2010, September 13, 2010, and October 5, 2010, at a nominal amount of €750 million, €1,000 million, €625 million and €625 million respectively and guaranteed by Continental AG entitle each bondholder to demand that the issuer redeem or acquire the bonds held by the bondholder at a price established in the bond conditions in the event of a change of control at Continental Aktiengesellschaft. The bond conditions define a change of control as one person or several persons acting in concert, pursuant to Section 2 (5) of the German Securities Acquisition and Takeover Act *(Wertpapiererwerbs- und Übernahmegesetz – WpÜG)*, holding more than 50% of the voting rights in Continental AG by means of acquisition or as a result of a merger or other form of combination with the participation of Continental AG. The holding of voting rights by Schaeffler GmbH (now Schaeffler AG), its legal successor or its affiliated companies does not constitute a change of control within the meaning of the bond conditions.

   If a change of control occurs as described in the agreements above and a contractual partner exercises its respective rights, it is possible that required follow-up financing may not be approved under the existing conditions, which could therefore lead to higher financing costs.

c) In 1996, Compagnie Financière Michelin and Continental AG founded MC Projects B.V. in the Netherlands, with each owning 50%. Michelin contributed the rights to the Uniroyal brand for Europe to the company. MC Projects B.V. licenses these rights to Continental. According to the agreements, this license can be terminated without notice if a major competitor in the tire business acquires more than 50% of the voting rights of Continental. In this case Michelin also has the right to acquire a majority in MC Projects B.V. and to have MC Projects B.V. increase its minority stake in the manufacturing company of Barum Continental s. r. o. in Otrokovice, Czech Republic, to 51%. In the case of such a change of control and the exercise of these rights, there could be losses in sales of the tire divisions and a reduction in the production capacity available to them.

9. Compensation agreements of the company with members of the Executive Board or employees for the event of a takeover bid
No compensation agreements have been concluded between the company and the members of the Executive Board or employees providing for the event of a takeover bid.

Remuneration of the Executive Board

The total remuneration of the members of the Executive Board comprises a number of remuneration components. Specifically, these components comprise the fixed salary, the bonus including components with a long-term incentive effect, and additional benefits including post-employment benefits. Further details including the individual remuneration are specified in the Remuneration Report contained in the Corporate Governance Report starting on page 44. The Remuneration Report is a part of the Management Report.

Report on Subsequent Events

As of February 6, 2012, there were no events or developments that could have materially affected the measurement and presentation of individual asset and liability items at December 31, 2011.

Dependent Company Report

Final declaration from the Executive Board's report on relations with affiliated companies pursuant to Section 312 of the German Stock Corporation Act *(Aktiengesetz – AktG)*

In fiscal 2011, Continental AG was a dependent company of Schaeffler Holding GmbH & Co. KG, Herzogenaurach, as defined under Section 312 *AktG*. In line with Section 312 (1) *AktG*, the Executive Board has prepared a report on relations with affiliated companies, which contains the following final declaration:

"We declare that the company received an appropriate consideration for each transaction and measure listed in the report on relations with affiliated companies from January 1 to December 31, 2011, under the circumstances known to us at the time the transactions were made or the measures taken or not taken. To the extent the company suffered any detriment thereby, the company was granted the right to an appropriate compensation before the end of the 2011 fiscal year. The company did not suffer any detriment because of taking or refraining from measures."

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

The Corporate Governance Declaration pursuant to Section 289a of the German Commercial Code *(Handelsgesetzbuch – HGB)* is available to our shareholders under the Corporate Governance section of our Investor Relations site at www.continental-corporation.com.

Risk Report

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

The management of the Continental Corporation is geared towards creating added value. For us, this means sustainably increasing the value of each individual business unit and the corporation as a whole. This is achieved if Continental generates a long-term return on capital that exceeds our weighted-average costs of capital. In the context of our global activities, we evaluate the risks and opportunities that arise responsibly and on an ongoing basis in order to achieve our goal of adding value.

We understand risk as the possible occurrence of internal or external events that can have a negative influence on the attainment of our strategic and operational targets. As a global corporation, Continental is exposed to a number of different risks that could impair business and, in extreme cases, endanger the company's existence. We accept manageable risks if the resulting opportunities lead us to expect to achieve a sustainable growth in value.

Risk management and internal control system
Pursuant to sections 289 (5) and 315 (2) of the German Commercial Code *(Handelsgesetzbuch – HGB)*, the main characteristics of the internal control and risk management system in respect of the accounting process must be described. All parts of the risk management system and internal control system which could have a material effect on the annual and consolidated financial statements must be included in the reporting.

To ensure that risks are detected in time, their causes analyzed, and that the risks are assessed and avoided or at least minimized, there is a uniform corporation-wide risk management system, which also comprises the early detection system for risks to the company as a going concern in accordance with Section 91 (2) of the German Stock Corporation Act *(Aktiengesetz – AktG)*. The risk management system regulates the identification, recording, assessment, documentation and reporting of risks and is integrated into the company's strategy, planning, and budgeting processes. By including risk management in the management and reporting systems, Continental ensures that risk management is an integral component of business processes in the corporation.

In order to operate successfully as a company in our complex business sector and to ensure the effectiveness, efficiency and propriety of accounting and compliance with the relevant legal and sublegislative regulations, Continental AG has created an effective, integrated internal control system that encompasses all relevant business processes. The internal control system forms an integral part of the risk management system. A summary is therefore given below. The risk management system also includes the compliance management system which is described in detail in the Corporate Governance Declaration (pages 42 et seq.).

The Executive Board is responsible for the risk management system and the internal control system. The Supervisory Board and the Audit Committee monitor and review its effectiveness. For this purpose, the internal control system includes regulations on reporting to the Supervisory Board, the Audit Committee, the Executive Board and the Compliance & Risk Management Committee.

The risk management system and the internal control system include all subsidiaries significant to the consolidated financial statements with their relevant accounting processes. Key elements of the corporation-wide control systems are the clear allocation of responsibilities and controls inherent in the system when preparing the financial statements. The dual control principle and separation of functions are fundamental principles of this organization. In addition, Continental's management ensures accounting that complies with the requirements of law via guidelines on the preparation of financial statements and on accounting, access authorizations for IT systems and regulations on the involvement of internal and external specialists.

Risk reporting

The effectiveness of the accounting-related internal control system is evaluated in major areas through effectiveness testing of the reporting units. The results of the effectiveness tests must be recorded in the Continental Corporation's reporting systems on a quarterly basis and are then evaluated by the corporation management. If any weaknesses are identified, the corporation's management initiates the necessary measures.

Identifying and assessing risk

Responsibility for identifying and assessing key risks is distributed among various levels and organizational units within Continental AG.

For purposes of risk identification, assessment and reporting, the management of each unit of the corporation analyzes the material risks relating to that unit. Local management can utilize instruments for this, such as local operations management handbooks, centrally-developed function-specific questionnaires and the process and control descriptions of Internal-Controls@Continental system, which were developed for all major companies for implementing the requirements of the revised version of the 8th EU Directive. In line with this, the key controls in business processes (e.g. purchase to pay, order to cash, asset management, HR, IT authorizations and the financial statement process) are controlled on a quarterly basis and reviewed with respect to their effectiveness.

Corporate functions such as Compliance, HR, Quality, Law, Purchasing, Insurance and Systems & Standards, Finance, Interest and Currency Management also conduct additional audits with respect to the implementation of the respective corporate guidelines relevant to each area and analyze the processes concerned in terms of efficiency and potential weak points. The aim is to monitor compliance with the guidelines, identify potential risks in processes and to support the standardization of the operating processes.

In addition to the risk analyses carried out by the local management and the corporate functions, the internal audit department also performs audits.

Continental AG has set up a Compliance & Anti-Corruption Hotline to give the employees and third parties outside the corporation the opportunity to report violations of legal regulations, its fundamental values and ethical standards. Information on any kind of potential violations, such as bribery or antitrust behavior, but also accounting manipulation, can be reported anonymously via the hotline where permissible by law. Tips received by the hotline are examined and pursued by Corporate Audit and the Compliance department.

The risks identified within the framework described above are categorized and evaluated according to specified criteria. Risks are normally assessed according to their negative impact on the unit's operating result.

The evaluation of risks and their impact on accounting takes into account their probability and their impact on sales, results or total assets.

Risk reporting

As with risk assessment, the reporting of the identified, analyzed and assessed risks is also allocated to various organizational levels.

Using an extensive risk inventory, the units regularly report any changes to previously reported risks plus any new developments that could turn into material risks as part of their reporting. Any new material risks arising between regular reporting dates have to be reported immediately. This also includes risks identified in the audits of the corporate functions. Furthermore, the central controlling function analyzes the key figures provided as part of this reporting at corporation and division level so that the causes of potential risks can be identified early on.

The Compliance & Risk Management Committee informs the Executive Board of Continental on a regular basis of existing risks, their assessment and the measures taken. In addition, there is reporting to the management levels below the Executive Board according to their area of responsibility. The Supervisory Board and the Audit Committee are also informed regularly of the major risks, any weaknesses in the control system and measures taken. Furthermore, the auditors are to report to the Audit Committee of the Supervisory Board regarding any weaknesses in the accounting-related internal control system which the auditors identified as part of their audit activities.

Risk management

The responsible management initiates suitable countermeasures that are also documented in the reporting systems for each risk identified and assessed as material. The Compliance & Risk Management Committee monitors and consolidates the identified risks at the corporation level. It regularly reports to the Executive Board and recommends further measures if needed. The Executive Board discusses and resolves these measures, and reports to the Supervisory Board's Audit Committee. The responsible bodies continually monitor the development of all identified risks and the progress of actions initiated. Regular audits of the risk management process by the internal auditors guarantee its efficiency and further development.

Material risks

Financial risks

Continental is exposed to a number of risks associated with its syndicated loan.
To finance the takeover of Siemens VDO Automotive AG ("Siemens VDO") in 2007, Continental and a banking syndicate entered into a syndicated credit facilities agreement for €13.5 billion, which was amended and restated most recently late in March 2011 ("syndicated loan"). Loans and credit lines provided as part of this agreement totaled €5.375 billion as of December 31, 2011. Among other obligations, the syndicated loan agreement requires Continental to meet specific financial covenants, in particular a maximum leverage ratio (calculated as the ratio of Continental's consolidated net financial indebtedness to consolidated adjusted EBITDA) and a minimum interest cover ratio (calculated as the ratio of Continental's adjusted consolidated EBITDA to consolidated net interest). The maximum leverage ratio is now 3.00. The interest cover ratio cannot fall below 2.50.

Owing to the market and operational risks presented below, under certain circumstances it may not be possible for Continental to comply with the ratios described above. If Continental fails in one of these obligations, the creditors are entitled to declare their facilities immediately due and payable. In this case, the facilities granted under the syndicated loan will become due for payment immediately and/or all credit lines will be canceled. As of December 31, 2011, the leverage ratio was 1.48 and the interest cover ratio was 6.33.

By way of an early repayment of €484.9 million in April 2011, Continental reduced the committed amount of the loan to €6 billion. A further early repayment of the tranche of €625 million originally due in August 2012 was made at the end of December 2011. The remaining €5.375 billion breaks down into a fixed loan of €2.875 billion and a revolving credit line of €2.5 billion. Both tranches are due in April 2014. If Continental still has a non-investment grade rating when this loan matures in 2014, in the event of a renewed significant disruption of the global or European finance markets, it cannot be ruled out that the refinancing of the total amount then due would fail on the bond or bank market, with the result that Continental would be unable to repay it. In addition, any refinancing of these liabilities through further bank financing or on the capital markets (if possible at all) could lead to a material increase of Continental's net interest expense.

Furthermore, under the terms of the loan agreements, a prepayment event also occurs in the event of a change-of-control at Continental AG. Under the loan agreements, a change-of-control occurs when one person or several persons acting in concert (pursuant to Section 2 (5) *Wertpapiererwerbs- und Übernahmegesetz – WpÜG*) acquire more than 50% of the voting rights in the company or gain control of the company by means of a domination agreement *(Beherrschungsvertrag)* pursuant to Section 291 of the German Stock Corporation Act *(Aktiengesetz – AktG)*. Upon occurrence of such change-of-control event, each lender may demand repayment of its share in all outstanding loans, plus interest, and all other amounts accrued under the loan agreements. A change-of-control could occur, in particular, if the shareholding of Schaeffler Group, Herzogenaurach, in the company's voting capital stock exceeds 50% due to Schaeffler acquiring further shares in the company or as a result of Schaeffler being regarded as acting in concert with other shareholders in the company, or if a domination agreement pursuant to Section 291 *AktG* is concluded between Schaeffler and the company. The loans described here could also become immediately due and payable if grounds for termination arise under other financing agreements for debt of a total amount of more than €75.0 million.

Continental faces liquidity risks due to its relatively high debt level and the turbulence on the financial markets.
Continental faces liquidity risks arising from tense credit markets and its existing financial liabilities. As Continental still has above-average high levels of debt by industry standards (net indebtedness amounting to €6,772.1 million as of December 31, 2011), the situation on the credit markets (including the market for high-yield bonds) could make it difficult for the company to obtain financing at commercially reasonable terms. In addition, owing to Continental's non-investment grade rating, the company may be unable to continue its factoring programs under which it has

factored invoices to banks and other institutions in the past or to continue to issue high-yield bonds. Continental's cash from operating activities, current cash resources and available sources of external financing could be insufficient to meet Continental's future capital requirements.

Furthermore, disruptions on the financial markets, including the insolvency or restructuring of a number of financial institutions, and the generally restricted availability of liquidity could adversely affect the availability and cost of additional financing for Continental and also the availability of financing already arranged or committed. Continental's liquidity could also suffer if its suppliers introduce more stringent terms of payment or if its customers were to extend their normal payment terms.

Continental's credit rating has been downgraded several times in the past and could be downgraded again in spite of the recent improvement.
Continental's net indebtedness increased significantly as a result of the acquisition of Siemens VDO in 2007. As a result, its net equity-to-debt ratio also deteriorated substantially. In the course of 2008 and 2009, Continental's equity ratio decreased due to the effects of the financial crisis and the resulting economic downturn on Continental's business and earnings situation as well as due to extraordinary goodwill impairment in the Powertrain, Interior and Chassis & Safety divisions. These developments, as well as the uncertainty regarding the effects of the stake held by Schaeffler in Continental's capital on its strategy and credit quality, have caused the rating agencies covering Continental to downgrade its credit rating from BBB+ (Standard & Poor's) and Baa1 (Moody's), both with stable outlook, in June 2007, to "B+ Creditwatch Negative" (Standard & Poor's) and "B1 Negative Outlook" (Moody's) in August 2009. In May 2010, Standard & Poor's reduced Continental's rating further from B+ to "B Stable Outlook", in particular due to the influence of major shareholder Schaeffler on Continental's credit standing and Continental's forthcoming refinancing requirements for 2012. After Continental successfully placed the first high-yield bond, Moody's changed its forecast in July 2010 from "negative" to "stable". In 2011, Moody's and Standard & Poor's improved Continental's rating. Moody's has rated Continental as Ba3 since April 2011 while Standard & Poor's improved its rating to B+ in July 2011. However, Continental's current credit rating is still in the non-investment grade range. Continental will therefore have more difficulty in refinancing at economically reasonable conditions. For example, as a consequence of its rating, Continental may be unable to continue the factoring programs under which it has factored trade receivables to banks and other institutions in the past. This could also increase Continental's difficulty in issuing high-yield debt or even render this impossible.

It is uncertain whether the current global economic performance and production level in the automotive sector are sustainable. If the present situation proves not to be lasting, this could have negative effects on Continental's liquidity and lead to a further deterioration of its credit rating. Any such downgrade could have adverse effects on Continental's options for obtaining funding as well as its financing costs and interest expenses. A further downgrade of Continental's credit rating could also impact Continental's liquidity position if its suppliers change the terms of payment offered to Continental for this reason, for example by requesting payment in advance. These negative consequences could be exacerbated if credit insurers were to further restrict coverage for Continental's accounts payable. In addition, a further downgrade of Continental's credit rating could cause Continental's customers to extend their normal payment terms or even to terminate their business relationships with Continental and to engage other suppliers.

Continental's other financing agreements contain, and future debt obligations are also likely to contain, restrictive covenants and change-of-control provisions.
In addition to the risks related to the syndicated loan, Continental also faces risks in connection with its other financing agreements, especially a loan from the European Investment Bank ("EIB"), which amounted to €300.0 million as of the end of 2011, the bond of €750.0 million (due for repayment in 2015) that Continental issued in July 2010, the bond of €1,000.0 million that Continental issued in September 2010 (due in 2017) and the two bonds issued in October 2010 of €625.0 million each (due in 2016 and 2018 respectively). These other financing agreements also contain numerous covenants that limit Continental's operations and require Continental to maintain specific

financial ratios, as well as change-of-control provisions. Under the covenants of the loan agreement with the EIB, an example of a change-of-control is when one person or several persons acting in concert (pursuant to Section 2 (5) *WpÜG*) acquire more than 50% of the voting rights in the company or gain control of the company by means of a domination agreement pursuant to Section 291 *AktG*. In this case, the EIB may request information on the change-of-control from the company. If the EIB sees its interests affected by the change-of-control, it may demand repayment of the outstanding amount under the EIB loan plus interest within 30 days.

Any future credit financing is likely to contain similar restrictive covenants and change-of-control provisions. If Continental fails to comply with any of these covenants or if a change-of-control occurs and Continental is unable to obtain a waiver from the respective lenders, this could provide grounds for the termination of the relevant debt instrument, which would then become immediately due and payable. In addition, the EIB can declare its loan immediately due and payable if there are grounds for the termination of other financing agreements exceeding €40.0 million.

Continental is exposed to risks in connection with interest rate changes and hedging.
Continental is exposed to risks associated with changes in variable interest rates, as a number of Continental's credit facilities (in particular the facilities granted under the syndicated loan) bear interest at a floating rate. Therefore, an increase or decrease in interest rates would affect Continental's current interest expenses and its future refinancing costs. These risks are monitored and evaluated as part of our interest rate management activities and managed by means of derivative interest rate hedging instruments. In 2008, Continental hedged a portion of the syndicated loan in an amount of €3,125.0 million in order to mitigate Continental's exposure to fluctuating interest rates. The average fixed interest rate to be paid resulting from the hedges with a term until August 2012 is 4.19% p.a. plus margin. However, the future use of derivative interest rate hedging instruments is generally dependent on the availability of adequate credit lines. Currently, the availability of additional credit lines is being negatively affected by the disruptions in the financial markets, Continental's high level of financial indebtedness and its credit rating. As a result, Continental could be unable to use derivative financial instruments in the future and Continental's hedging strategy could therefore ultimately be negatively impacted. Moreover, any hedging transactions executed in the form of derivative financial instruments could result in losses.

Risks related to the markets in which Continental operates

Continental could be exposed to significant risks in connection with a global financial and economic crisis.
Continental generates a large percentage (approximately 72%) of its sales from automotive manufacturers (OEMs). The remainder of Continental's sales is generated from the replacement or industrial markets, mainly in the replacement markets for passenger, van and truck tires, and to a lesser extent in the non-automotive end-markets of the other divisions.

During the most recent global economic crisis, automotive sales and production deteriorated substantially, resulting in a sharp decline in demand for Continental's products among its OEM customers. At present it is not known if the current economic situation will persist. If this is not the case, automobile production could fall again and remain at a low level for an extended period of time, especially in Europe and the NAFTA region, where Continental generated approximately 78% of its sales in 2011. A prolonged weakness in or deterioration of the global automotive markets or consumer credit markets is likely to adversely affect Continental's sales and results of operations. Tax increases that reduce consumers' disposable income could be another factor to weaken global demand on the vehicle markets. Especially in the member countries of the European Union, tax increases are a likely reaction to the increase in public debt due to the various aid programs for banks and the EU's aid measures for its member states. Furthermore, Continental's five largest OEM customers (BMW, Ford, Daimler, VW and General Motors) generated approximately 41% of the Continental Corporation's sales in 2011. In 2009, a combination of significantly lower global production levels, a shortage of liquidity and increased costs of capital caused severe financial distress among a number of OEMs and forced these companies to implement restructuring measures extending to reorganization under bankruptcy laws. There can be no assurance that any of these restructuring measures will be successful in the long term. If one or more of Continental's OEM customers is lost or terminates a supply contract prematurely, the original investments made by Continental to provide such products or outstanding claims against such customers could be wholly or partially lost. In many markets important to Continental, governments introduced scrapping programs in 2009, such as the Car Allowance Rebate System (CARS) in the United States and the Car Scrapping Bonus *(Umweltprämie)* in Germany, intended to provide economic incentives to car owners to trade in older vehicles and purchase new vehicles. Most of these programs, which were designed to stimulate the economy by boosting vehicle sales, have since expired. As these scrapping programs may have led to increased sales by bringing forward potential demand from later years rather than increasing demand incrementally in the relevant markets, vehicle sales may decline in the short term with likely negative consequences for production volumes on which Continental depends.

Continental operates in a cyclical industry.

Global production of vehicles and, as a result, sales to OEM customers (from whom Continental currently generates approximately 72% of its sales) are cyclical. They depend, among other things, on general economic conditions and consumer spending and preferences, which can be affected by a number of factors, including fuel costs and the availability of consumer financing. As the volume of automotive production fluctuates, the demand for Continental's products also fluctuates, as OEMs generally do not commit to purchasing minimum quantities from their suppliers, or to fixed prices. It is difficult to predict future developments in the markets Continental serves, which creates problems in estimating the requirements for production capacity. Since its business is characterized by high fixed costs, Continental risks underutilization of its facilities (particularly in the Automotive Group) or having insufficient capacity to meet customer demand if the markets in which Continental is active either grow or decline faster than Continental has anticipated. Underutilization of Continental's facilities could result in idle capacity costs, write-offs of inventories and losses on products due to falling average sale prices. Furthermore, falling production volumes can produce declines in sales and margins, as well as earnings.

The automotive supply industry is characterized by intense competition, which could reduce Continental's sales or put continued pressure on its sales prices.

The automotive supply industry is highly competitive and has been characterized by rapid technological change, high capital expenditures, intense pricing pressure from major customers, periods of oversupply and continuous advancements in process technologies and manufacturing facilities. As OEMs are increasingly affected by innovation and cost-cutting pressures from competitors, they seek price reductions in both the initial bidding process and during the term of the contract with their suppliers. In particular, vehicle manufacturers expect lower prices from suppliers for the same, and in some cases even enhanced functionality, as well as a consistently high product quality. Should Continental be unable to offset continued price reductions through improved operating efficiencies and reduced expenditures, price reductions could impact profit margins. In addition, Continental's existing competitors, in particular its competitors from Asia, may pursue an aggressive pricing policy and offer conditions to customers that are more favorable than Continental's. Aside from this, the markets in which Continental is active are characterized by a trend towards consolidation. Increased consolidation among Continental's competitors or between Continental's competitors and any of its OEM customers could allow competitors to further benefit from economies of scale, offer more comprehensive product portfolios and increase the size of their serviceable markets. This could require Continental to accept considerable reductions in its profit margins and the loss of market share due to price pressure. Furthermore, competitors may gain control over or influence suppliers or customers of Continental by shareholdings in such companies, which could adversely affect Continental's supplier relationships.

Continental is exposed to fluctuations in prices of raw materials, electronic components and energy.
For the divisions of the Automotive Group, cost increases could result, in particular, from rising rare earth, steel and electronic components prices, while the divisions of the Rubber Group are mainly affected by the development of prices of natural and synthetic rubber as well as oil. In the recent past, prices for rare earths, steel and electronic components, oil, natural and synthetic rubber have been subject to at times substantial fluctuations around the world. Continental does not actively hedge against the risk of rising prices of electronic components or raw materials by using derivative financial instruments. Therefore, if Continental is unable to compensate for or pass on its increased costs to customers, such price increases could have a significant adverse impact on Continental's results of operations.

While the lower prices for natural and synthetic rubber had a positive effect on Continental's earnings in 2009, price increases in 2010 resulted in additional costs of €483 million. In 2011 these additional costs even exceeded €950 million. As long as Continental is able to pass on these additional costs by increasing its selling prices, it is possible that the positive effects of the price increases will not end until after the period in which the additional costs are incurred. In this case, the additional costs may not be compensated for at the time they arise. As a manufacturer dependent on large quantities of energy for production purposes, Continental is also affected by changes in energy prices. If Continental is unable to compensate for or pass on its increased costs resulting from rising energy prices to customers, such price increases could have a material adverse impact on Continental's earnings situation.

Continental generates by far the greatest share of its total sales in Europe and, in particular, in Germany.
In 2011, Continental generated 59% of its total sales in Europe, of which 26% were generated in Germany. By comparison, 19% of Continental's total sales in 2011 were generated in NAFTA, 17% in Asia, and 5% in other countries. Therefore, in the event of an economic downturn in Europe or in Germany in particular, Continental's business and earnings situation could be affected more extensively than its competitors'. Furthermore, the automotive and tire markets in Europe and NAFTA are largely saturated. Continental is therefore seeking to generate more sales in emerging markets, particularly Asia, to mitigate the risks resulting from Continental's strong focus on Europe and Germany. In the current global economic situation, adverse changes in the geographical distribution of automotive demand could also cause Continental to suffer. The current level of automotive production is driven mainly by solid demand from the Asian and North American markets, while demand in Europe is relatively low. It is not known if the demand from Asia and North America will prove sustainable. If demand falls there and is not compensated for by an increase on another regional market, this could adversely affect demand for Continental products.

Continental is exposed to risks associated with the market trends and developments that could affect the vehicle mix sold by OEMs.
Continental currently generates approximately 72% of its sales from OEMs, mainly in its Automotive Group. Global production of vehicles and, as a result, sales to OEM customers are currently subject to a number of market trends and technical developments that may affect the vehicle mix sold by OEMs.

- Due to increasingly stringent consumption and emission standards throughout the industrial world, including the EU, the U.S.A. and Japan, as well as oil price fluctuations and the resulting significant increase in fuel costs, car manufacturers are increasingly being forced to develop environmentally-friendly technologies aimed at lower fuel consumption and a reduction of CO_2 emissions. These developments have caused a trend towards lower-consumption vehicles. The emerging markets are focusing strongly on the small car segment as their introduction to mobility.

- In recent years, the market segment of "affordable" cars (those costing less than $10,000/€7,000) has grown steadily, particularly in emerging markets such as China, India, Brazil and Eastern Europe.

- Over the past decade, hybrid electric vehicles, which combine a conventional internal combustion engine drive system with an electric drive system, have become increasingly popular. Their market share will increase further in the coming years. Furthermore, the first purely electric vehicles that use (just) one or more electric motors for propulsion have already been launched. If the industry is able to develop functional electric vehicles in line with consumers' expectations, these could gain a considerable market share in the medium to long term.

As a result of the market trends described above and technical developments, the vehicle mix sold by Continental's customers has shifted significantly over the past two years and can also change further in future.

Continental is exposed to risks associated with changes in currency exchange rates and hedging.
Continental operates worldwide and is therefore exposed to financial risks that arise from changes in exchange rates. This could result in losses if assets denominated in currencies with a falling exchange rate lose value, while at the same time liabilities denominated in currencies with a rising exchange rate appreciate. In addition, fluctuations in foreign exchange rates could enhance or minimize fluctuations in the prices of raw materials, as Continental sources a considerable portion of its raw materials in foreign currency. As a result of these factors, fluctuations in exchange rates could influence Continental's earnings situation. External and internal transactions involving the delivery of products and services to third parties and companies of the Continental Corporation result in cash inflows and outflows which are denominated in currencies other than the functional currency of the respective member of the Continental Corporation ("transaction risk"). In particular, Continental is exposed to fluctuations in the U.S. dollar, Mexican peso, Czech koruna, Chinese renminbi, Romanian leu, Japanese yen and Hungarian forint. To the extent that cash outflows of the respective member of the Continental Corporation in any one foreign currency are not offset by cash flows resulting from operational business in the same currency, the remaining net foreign currency exposure is hedged against on a case-by-case-basis using the appropriate derivative financial instruments, particularly currency forwards, currency swaps and currency options with a term of up to twelve months. Moreover, Continental is exposed to foreign exchange risks arising from external and internal loan agreements, which result from cash inflows and outflows in currencies which are denominated in currencies other than the functional currency of the respective member of the Continental Corporation. These foreign exchange risks are in general hedged against by using appropriate derivative financial instruments, particularly currency forwards/swaps and cross-currency interest-rate swaps.

Continental's hedging strategy could ultimately be unsuccessful. Moreover, any hedging transactions executed in the form of derivative financial instruments can result in losses. Continental's net foreign investments are generally not hedged against exchange rate fluctuations. In addition, a number of Continental's consolidated companies report their results in currencies other than the euro, which requires Continental to convert the relevant items into euro when preparing Continental's consolidated financial statements ("translation risk"). Translation risks are not hedged.

Risks related to Continental's business operations

The Powertrain division is exposed to particular operational risks.
Continental has identified a number of problem areas within the Powertrain division (consisting mainly of Siemens VDO businesses acquired in 2007), including a number of unprofitable long-term supply contracts, technical and quality problems involving product design, materials and mechanical parts, organizational problems and a high fixed cost base. The company has initiated a turnaround program and several restructuring measures, involving among other things several changes at the division's management level and a reduction of the organizational structure. Continental has not yet succeeded in remedying all of the problems identified within the Powertrain division by implementing these measures. In particular, the technical and quality issues encountered by the Powertrain division have led in the past, and continue to lead, to cost-intensive application engineering. Moreover, the problems encountered by the Powertrain division were intensified due to the 2009 global recession and its consequences, since the Powertrain division's high fixed cost base prevented a quick adjustment of the cost structure to lower production volumes caused by the sharp decline in demand.

After the Powertrain division's reported EBIT passed the break-even point in 2011, the medium-term objective is still to generate a reported EBIT margin of 8% in this division by 2015. However, the problems described could make achieving this goal more difficult. The technical quality issues encountered by the Powertrain division with respect to product design, materials and mechanical parts could cause warranty or product liability claims which exceed customary standards by far and which may not be covered by Continental's insurance policies. Moreover, defective products could result in a loss of sales, contracts, customers or market acceptance. Furthermore, Continental could still be forced to dedicate a considerable amount of additional management capacity to solve these problems. Any failure or delay in solving the operational issues at the Powertrain division could affect Continental's competitive position in a number of important and rapidly growing market segments, such as the market for efficient engine management systems for gasoline and diesel engines and the hybrid electric or the electric vehicle market. As a consequence, the goodwill recognized for the Powertrain division could be subject to further impairment in future.

Continental is exposed to risks in connection with the sale and transfer of shares in ContiTech AG to Continental Pension Trust e.V.

On August 19, 2009, Continental AG, ContiTech Universe Verwaltungs-GmbH (a wholly owned subsidiary of the company; "ContiTech Universe"), ContiTech AG and Continental Pension Trust e.V. (the trustee of the contractual trust arrangements (CTAs) for Continental AG, Continental Reifen Deutschland GmbH and Continental Teves AG & Co. oHG) entered into an agreement concerning the sale and transfer of 22,148,273 shares (representing 24.9% of the capital stock of ContiTech AG) by ContiTech Universe to Continental Pension Trust against payment of a purchase price of €475.6 million. Among other stipulations, the purchase agreement contains a number of regulations on the sale and transfer of the shares to ContiTech AG. Under certain conditions, these authorize the Continental Pension Trust (i) to obligate ContiTech Universe to repurchase the ContiTech shares at a purchase price of at least €475.6 million, (ii) to sell its ContiTech shares to a third party, (iii) to sell its ContiTech shares to a third party which acquires the ContiTech shares held by ContiTech Universe, or (iv) to obligate ContiTech Universe to sell its ContiTech shares to a third party which acquires the ContiTech shares held by Continental Pension Trust.

Continental depends on its ability to develop and launch innovative products in a timely manner, which includes securing sufficient funds for this purpose.

The future success of Continental depends on the company's ability to develop and launch new and improved products in a timely manner. The automotive market in particular is characterized by a trend towards higher performance and simultaneously more fuel-efficient, less polluting and quieter engines, growing demands by customers and stricter regulations with respect to engine efficiency and by the trend towards affordable cars and hybrid and electric vehicles. These new developments could entail technical challenges, the mastering of which could be very time-consuming for Continental. Consequently, Continental may be unable to develop innovative products and adapt them to market conditions quickly enough. Furthermore, developing new and improved products is very costly and therefore requires a substantial amount of funding. The general lack of liquidity caused by the disruptions in the financial markets, combined with the company's debt and non-investment grade rating, is adversely impacting the availability and cost of additional financing and could also limit the availability of credit already arranged or committed. If Continental is unable to secure sufficient funding to finance its development activities, it could lose its competitive position in a number of important and rapidly growing sub-markets. Furthermore, Continental devotes significant resources to research and development, especially in the divisions of its Automotive Group, but also in the Rubber Group. In recent years, Continental's R&D expenses in relation to total sales accounted for more than 5%. If Continental devotes resources to the pursuit of new technologies and products that fail to be accepted in the marketplace or that fail to be commercially viable, all or part of these significant R&D expenses may be lost and Continental's business may suffer.

Continental depends on a limited number of key suppliers for certain products.

Continental is subject to the risk of unavailability of certain raw materials and production materials. Although Continental's general policy is to source input products from a number of different suppliers, a single sourcing cannot always be avoided and, consequently, Continental is dependent on certain suppliers in the Rubber Group as well as with respect to certain products manufactured in the Automotive Group. Since Continental's procurement logistics are mostly organized on a just-in-time or just-in-sequence basis, supply delays, cancellations, strikes, insufficient quantities or inadequate quality can lead to interruptions in production and, therefore, have a negative impact on Continental's business operations in these areas. Continental tries to limit these risks by endeavoring to select suppliers carefully and monitoring them regularly. However, if one of Continental's suppliers is unable to meet its delivery obligations for any reason (for example, insolvency, destruction of production plants or refusal to perform following a change in control), Continental may be unable to source input products from other suppliers upon short notice at the required volume. The economic crisis in 2009, in addition to the natural disasters in Japan and Thailand, have shown how quickly the financing strength and ability of some automotive suppliers to deliver can be impaired, even resulting in insolvency. This mainly affected Tier 2 and 3 suppliers (suppliers who sell their products to Tier 1 or 2 suppliers respectively), while Tier 1 suppliers (suppliers who sell their products to OEMs directly) were not affected to the same degree. Such developments and events can cause delays in the delivery or completion of Continental products or projects and could result in Continental having to purchase products or services from third parties at higher costs or even to financially support its own suppliers. Furthermore, in many cases OEM customers have approval rights with respect to the suppliers used by Continental, making it impossible for Continental to source input products from other suppliers upon short notice if the relevant OEM customer has not already approved other suppliers at an earlier point in time. All of this could lead to order cancellations or even claims for damages. Furthermore, Continental's reputation amongst OEM customers could suffer, with the possible consequence that they select a different supplier.

Continental is exposed to warranty and product liability claims.

Continental is constantly subject to product liability lawsuits and other proceedings alleging violations of due care, violation of warranty obligations or material defects, and claims arising from breaches of contract, recall campaigns or fines imposed by governments. Any such lawsuits, proceedings and other claims could result in increased costs for Continental. Moreover, defective products could result in loss of sales and of customer and market acceptance. Such risks are insured up to levels considered economically reasonable by Continental, but its insurance coverage could prove insufficient in individual cases. Additionally, any defect in one of Continental's products (in particular tires and safety-related products) could also have a considerable adverse effect on the company's reputation and market perception. This could in turn have a significant negative impact on Continental's sales and income. Moreover, vehicle manufacturers are increasingly requiring a contribution from their suppliers for potential product liability, warranty and recall claims. In addition, Continental has long been subject to continuing efforts by its customers to change contract terms and conditions concerning warranty and recall participation. Furthermore, Continental manufactures many products pursuant to OEM customer specifications and quality requirements. If the products manufactured and delivered by Continental do not meet the requirements stipulated by its OEM customers at the agreed date of delivery, production of the relevant products is generally discontinued until the cause of the product defect has been identified and remedied. Furthermore, Continental's OEM customers could potentially claim damages, even if the cause of the defect is remedied at a later point in time. Besides this, failure to fulfill quality requirements could have an adverse effect on the market acceptance of Continental's other products and its market reputation in various market segments.

Continental's operations depend on qualified executives and key employees.

Continental's success depends on its Executive Board members, other qualified executives, and employees in key functions. The loss of executives or key employees could have a material adverse effect on the market position and prospects of Continental. Considerable expertise could be lost or access thereto gained by competitors. Due to the intense competition in the automotive industry, there is a risk of losing qualified employees to competitors or being unable to find a sufficient number of appropriate new employees. There is no guarantee that Continental will be successful in retaining these executives and the employees in key positions or in attracting new employees with corresponding qualifications. Continental tries to retain the commitment of its qualified executives and key employees through performance-based remuneration systems.

Continental is exposed to risks in connection with its pension commitments.
Continental provides defined benefit pension plans in Germany, the U.S.A., the U.K. and certain other countries. As of December 31, 2011, the pension obligations amounted to €3,342.8 million. These existing obligations are financed predominantly through externally invested pension plan assets. In 2006, Continental established legally independent trust funds under contractual trust arrangements for the funding of pension obligations of certain subsidiaries in Germany. In 2007, Continental assumed additional pension trust arrangements in connection with the acquisition of Siemens VDO. As of December 31, 2011, Continental's net pension obligations (pension obligations less pension plan assets) amounted to €1,563.0 million.

Continental's externally invested pension plan assets are funded through externally managed funds and insurance companies. While Continental generally prescribes the investment strategies applied by these funds, it does not determine their individual investment alternatives. The assets are invested in different asset classes including equity, fixed-income securities, real estate and other investment vehicles. The values attributable to the externally invested pension plan assets are subject to fluctuations in the capital markets that are beyond Continental's influence. Unfavorable developments in the capital markets could result in a substantial coverage shortfall for these pension obligations, resulting in a significant increase in Continental's net pension obligations.

Any such increase in Continental's net pension obligations could adversely affect Continental's financial condition due to an increased additional outflow of funds to finance the pension obligations. Also, Continental is exposed to risks associated with longevity and interest rate changes in connection with its pension commitments, as an interest rate decrease could have an adverse effect on Continental's liabilities under these pension plans. Furthermore, certain U.S.-based subsidiaries of Continental have entered into obligations to make contributions to healthcare costs of former employees and retirees. Accordingly, Continental is exposed to the risk that these costs will increase in the future.

Continental is exposed to risks in connection with its interest in MC Projects B.V. and its interests in other companies.
Continental and Compagnie Financière Michelin, Granges-Paccot, Switzerland ("Michelin"), each hold a 50% stake in MC Projects B.V., Amsterdam, Netherlands, a company to which Michelin contributed the rights to the Uniroyal brand for Europe as well as for certain countries outside Europe. In turn, MC Projects B.V. licensed to Continental certain rights to use the Uniroyal brand on or in connection with tires in Europe and elsewhere. Under the terms of the agreement concluded in this connection, both the agreement and the Uniroyal license can be terminated if a major competitor in the tire business acquires more than 50% of the voting rights of Continental AG or of its tire business. Furthermore, in this case Michelin also has the right to acquire a majority in MC Projects B.V. and to have MC Projects B.V. increase its minority stake in the manufacturing company Barum Continental spol. s. r. o., Otrokovice, Czech Republic – Continental's largest tire plant in Europe – to 51%. These events could have an adverse effect on the business, financial and earnings position of Continental's Tire division.

Furthermore, Continental conducts its business in part via other companies carried at equity in which Continental holds an interest. Continental's ability to fully exploit the strategic potential in markets in which it operates through associated companies would be impaired if it were unable to agree with its partners or other interest groups on a strategy and the implementation thereof. Moreover, Continental could be subjected to fiduciary obligations to its partners or other shareholders, which could prevent or impede its ability to unilaterally expand in a business area in which the company in question operates. Additionally, there is a risk that the transfer of know-how and/or trade secrets to partners in the context of such collaborations could result in a drain of expertise from Continental. In particular, after a potential separation from a collaboration partner, there is no guarantee that the know-how and/or trade secrets transferred to such partner will not be used or disclosed to third parties, thereby adversely affecting Continental's competitive position.

Continental's operations rely on complex IT systems and networks.
Continental relies heavily on centralized, standardized information technology systems and networks to support business processes, as well as internal and external communications. These systems and networks are potentially vulnerable to damage or interruption from a variety of sources. Although Continental has taken precautions to manage its risks related to system and network disruptions, an extended outage in a data center or telecommunications network or a similar event could lead to an extended unanticipated interruption of Continental's systems or networks. Furthermore, Continental has outsourced all its SAP operations and certain other business-critical systems to a third-party service provider, making it and thus Continental vulnerable to damage and loss caused by fire, natural hazards, terrorism, power failures, or other disturbances at such third party's facilities and networks.

Continental could be adversely affected by property loss and business interruption.
Fire, natural hazards, terrorism, power failures, or other disturbances at Continental's production facilities or within Continental's supply chain – with customers and with suppliers – can result in severe damage and loss. Such far-reaching negative consequences can also arise from political unrest or instability, especially in emerging economies. The risks arising from business interruption and loss of production are insured up to levels considered economically reasonable by Continental, but its insurance coverage could prove insufficient in individual cases. Furthermore, such events could injure or damage individuals, third party property or the environment, which could, among other things, lead to considerable financial costs for Continental.

Continental is exposed to risks from performance bonds that were granted to customers of its divested Public Transport Solutions business.
In the past, Continental has regularly granted performance bonds in connection with orders received from customers in its Public Transport Solutions business. On August 31, 2009, four subsidiaries of Continental AG, as sellers, entered into a framework agreement, which was closed on November 2, 2009, concerning the sale of the Public Transport Solutions business to subsidiaries of Trapeze Software Inc., Ontario, Canada ("Trapeze"). Under this framework agreement, Trapeze did not assume liability under any performance bonds issued by Continental to secure obligations under the contracts entered into with customers of the Public Transport Solutions business before or after the sale of the business.

Trapeze is obliged to indemnify Continental, should Continental make a payment in response to a performance bond. However, Continental's recourse is limited, unless the claim of the customer under the performance bond was made due to Trapeze's willful deceit or other intentional breach of the relevant customer contract. As a consequence, Continental may still be held liable under the performance bonds and has only limited recourse vis-à-vis Trapeze, although Continental can no longer influence the way in which the obligations towards the customer are fulfilled.

Legal, environmental and taxation risks

Continental could be held liable for soil, water or groundwater contamination or for risks related to hazardous materials.
Many of the sites at which Continental operates have been used for industrial purposes for many years, leading to risks of contamination and the resulting site restoration obligations. Moreover, Continental could be responsible for the remediation of areas adjacent to its sites if these areas were contaminated due to Continental's activities, that is, if Continental were to be found the polluter of these areas. Furthermore, soil, water and/or groundwater contamination has been discovered at a number of sites operated by Continental in the past, including Mayfield, Kentucky, U.S.A.; Adelheidsdorf, Germany; Culpeper, Virginia, U.S.A.; Gifhorn, Germany; Mechelen, Belgium; and Várzea Paulista, Brazil. The responsible authorities could assert claims against Continental, as the owner and/or tenant of the affected plots, for the examination or remediation of such soil and/or groundwater contamination, or order Continental to dispose of or treat contaminated soil excavated in the course of construction. Continental could also be sued for damages by the owner of plots leased by Continental or of other properties, if the authorities were to pursue claims against the relevant owner of the property and if Continental had caused the contamination.

On several of the sites where contamination has been discovered, remediation activities have already taken place upon order by or agreement with the competent authorities. Costs typically incurred in connection with such claims are generally difficult to predict. Moreover, if any contamination were to become a subject of public discussion, there is a risk that Continental's general reputation or its relations with its customers could be harmed.

Furthermore, at some of the sites at which Continental operates, hazardous materials were used in the past, such as asbestos-containing building materials used for heat insulation. The health and safety of third parties (for example former employees) may have been affected due to the use of such hazardous materials and Continental could therefore be exposed to related damage claims in the future.

Continental faces similar risks with respect to former sites which it has since sold. Even if Continental has contractually excluded or limited its liability vis-à-vis a purchaser, it could be held responsible for currently unknown contamination on properties which it previously owned or used. Likewise, there can be no assurance that environmentally hazardous substances will not pollute the environment or that Continental will not be called upon to remove such contamination.

Continental could become subject to additional burdensome environmental or safety regulations and additional regulations could adversely affect demand for Continental's products and services.
Continental, as a worldwide operating corporation, must observe a large number of different regulatory systems across the world that change frequently and are continuously evolving and becoming more stringent, particularly with respect to the environment, chemicals and hazardous materials, as well as health regulations. This also applies to air, water and soil pollution regulations and to waste legislation, all of which have recently become more stringent through new laws, particularly in the EU and the U.S.A. Moreover, Continental's sites and operations necessitate various permits and Continental has to comply with the requirements specified therein. In the past, adjusting to new requirements has necessitated significant investments and Continental assumes that further significant investments in this regard will be required in the future.

Furthermore, any additional regulations restricting or limiting car traffic with the aim of managing global warming (climate change) could lead to a material decrease in car sales and consequently adversely affect demand for Continental's products and services.

Continental could be unsuccessful in adequately protecting its intellectual property and technical expertise.
Continental's products and services are highly dependent upon its technological know-how and the scope and limitations of its proprietary rights therein. Continental has obtained or applied for a large number of patents and other industrial property rights that are of considerable importance to its business. The process of obtaining patent protection can be lengthy and

expensive. Furthermore, patents may not be granted on currently pending or future applications or may not be of sufficient scope or strength to provide Continental with meaningful protection or commercial advantage. In addition, although there is a presumption that patents are valid, this does not necessarily mean that the patent concerned is effective or that possible patent claims can be enforced to the degree necessary or desired.

A major part of Continental's know-how and trade secrets is not patented or cannot be protected through industrial property rights. Consequently, there is a risk that certain parts of Continental's know-how and trade secrets could be transferred to collaboration partners, customers and suppliers, including Continental's machinery suppliers or plant vendors. This poses a risk that competitors will copy Continental's know-how without incurring any expenses of their own.

Furthermore, prior to the acquisition of Siemens VDO by Continental, Siemens AG (i) contributed to Siemens VDO industrial property rights, know-how and software that were exclusively attributed to the "Siemens VDO Automotive" business unit, (ii) granted to Siemens VDO non-exclusive rights to use industrial property rights, know-how and software that were not exclusively attributed to the "Siemens VDO Automotive" business unit as of the contribution date, including certain industrial property rights of Siemens AG related to electric motors and voice recognition systems, and (iii) granted to Siemens VDO exclusive rights to use certain industrial property rights of Siemens AG related to the piezo fuel injection system. At the same time, Siemens AG retained non-exclusive, irrevocable, unrestricted, transferable and royalty-free rights to use such contributed industrial property rights, inventions on which such rights are based, know-how and software. As a consequence, Siemens AG may still use the industrial property rights, inventions on which such rights are based, know-how and software which were contributed to Siemens VDO, or for which non-exclusive rights of use were granted to Siemens VDO, to compete with Continental on the market or could license such industrial property to third parties, thereby materially adversely affecting Continental's competitive position.

Moreover, Continental has concluded a number of license, cross-license, collaboration and development agreements with its customers, competitors and other third parties under which Continental is granted rights to industrial property and/or know-how of such third parties. It is possible that license agreements could be terminated, under certain circumstances, in the event of the licensing partner's insolvency or bankruptcy and/or in the event of a change-of-control in either party, leaving Continental with reduced access to intellectual property rights to commercialize its own technologies.

There is a risk that Continental could infringe on the industrial property rights of third parties.

There is a risk that Continental could infringe on industrial property rights of third parties, since its competitors, suppliers and customers also submit a large number of inventions for industrial property protection. It is not always possible to determine with certainty whether there are effective and enforceable third-party industrial property rights to certain processes, methods or applications. Therefore, third parties could assert claims (including illegitimate ones) of alleged infringements of industrial property rights against Continental. As a result, Continental could be required to cease manufacturing, using or marketing the relevant technologies or products in certain countries or be forced to make changes to manufacturing processes and/or products. In addition, Continental could be liable to pay compensation for infringements or could be forced to purchase licenses to continue using technology from third parties.

Continental could be threatened with fines and claims for damages for alleged or actual antitrust behavior.

In 2007, the European Commission and the U.S. Department of Justice ("DoJ") initiated their investigations into antitrust behavior in the marine hose market. The European Commission found Continental AG, ContiTech AG and Dunlop Oil & Marine Limited ("DOM"), in addition to other companies, to be responsible for violations of antitrust law. The proceedings of the European Commission and the DoJ against the company were concluded in 2009. In addition to the European Commission and the DoJ, the authorities in other countries (Brazil, Japan, Australia, South Korea and

Canada) had initiated their own investigations of DOM for the infringement of national competition law. After DOM reached a settlement with the Brazilian antitrust authorities in December 2011, all proceedings have now been concluded or, as was the case in Canada, are not being pursued further. DOM is still facing claims for damages by third parties due to the infringement of antitrust law as a result of the marine hose cartel. Class actions in the U.S.A. were settled. A claim brought before the British High Court was also settled. However, further claims are still threatened in the U.K. and other countries (e.g. Japan, South Korea, Australia and Brazil).

In May 2005, the Brazilian competition authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Indústria Automotiva ("CBIA") following a complaint of anticompetitive behavior in the area of commercialization of tachographs. On August 18, 2010, the Brazilian competition authorities determined an "invitation to cartel" and imposed a fine of BRL 12 million (about €5.0 million) on CBIA. CBIA denies the accusation and has filed an appeal with the relevant court. However, third parties may also claim damages from CBIA resulting from the infringement of Brazilian antitrust law. On October 2, 2006, South African antitrust authorities received a complaint from a third party accusing several South African tire manufacturers of alleged antitrust behavior, including Continental Tyre South Africa (Pty.) Limited ("CTSA"), a company that is 74% owned by Continental. On August 31, 2010, the South African antitrust authorities came to the conclusion that CTSA had violated South African antitrust law and referred the matter to the responsible antitrust court for a decision. CTSA denies the allegation of infringements of South African antitrust law. However, the tribunal could impose a fine of up to 10% of CTSA's sales. In addition, third parties may also claim damages from CTSA resulting from the infringement of South African competition law.

On February 24, 2010, the European Commission conducted searches at several companies that manufacture wiring harnesses for automotive purposes, including S-Y Systems Technologies Europe GmbH ("S-Y"), Regensburg, Germany. S-Y is a company in which Continental and the Japanese company Yazaki, a wiring harness manufacturer, each own 50%. The European Commission announced that it has indications that the companies in question have violated EU antitrust law. However, it is not clear whether the European Commission will impose fines against S-Y or Continental. Searches are a preliminary step in investigations into antitrust behavior and are not indicative of the outcome. If the European Commission determines that S-Y or Continental can be accused of antitrust behavior, it could impose a fine based on the severity and the duration of the violations not to exceed 10% of the previous year's sales of the participating company. Even if the European Commission determines that only S-Y exhibited antitrust behavior, it cannot be ruled out that the parent companies may be included in the fine due to joint and several liability. Continental has conducted internal audits in certain business units to check compliance with antitrust law. These audits revealed anticompetitive behavior with respect to one product group. Continental took measures to end this behavior. There is a risk that antitrust authorities may conduct investigations due to this behavior and impose fines and that third parties, especially customers, may file claims for damages. The amount of such fines and any subsequent claims is unknown from the current perspective, but could be significant. It also cannot be ruled out that future internal audits may reveal further actual or potential violations of antitrust law that in turn could result in fines and claims for damages. In addition, alleged or actual antitrust behavior could seriously disrupt the relationships with our business partners.

Continental might be exposed to tax risks regarding the use of tax loss and interest carryforwards in connection with changes in the shareholder structure of the company.

Section 8c of the German Corporate Income Tax Act *(Körperschaftsteuergesetz – KStG)* provides for the pro rata elimination of tax loss and interest carryforwards and current losses as a rule in cases where more than 25% and up to 50% of the shares in a company have been acquired within a five-year period by an individual purchaser. If more than 50% of the shares have been acquired by an individual shareholder, carryforwards and current losses are as a rule eliminated completely.

Continental could be subject to tax risks attributable to previous tax assessment periods. Additional tax expenses could accrue at the level of the company or its subsidiaries in relation to previous tax assessment periods which have not been subject to a tax audit yet. The last completed tax audit for the company and its German subsidiaries related to the assessment periods up to and including 2003. A routine tax audit for the company and its German subsidiaries is currently being conducted by the German tax authorities for the assessment periods of 2004 to 2007. Tax audits are also pending in foreign jurisdictions for essentially the same assessment periods. As a result of the aforementioned tax audits, a material increase in the company's or its subsidiaries' tax burden is currently not expected. It cannot however be ruled out that tax audits may lead to an additional tax burden.

Furthermore, Continental is exposed to risks in connection with the takeover of Siemens VDO in 2007, since the tax indemnity provided by the seller of Siemens VDO does not cover the entire tax exposure potentially materializing for pre-acquisition periods.

Continental is exposed to risks from legal disputes. Companies from the Continental Corporation are involved in a number of legal and arbitration proceedings and could become involved in other such proceedings in future. These proceedings could involve substantial claims for damages or payments, particularly in the U.S.A. Further information on legal disputes can be found in Note 34.

Statement on overall risk situation

In the opinion of the Executive Board, the risk situation of the Continental Corporation has not changed significantly in the past fiscal year. However, isolated risks have increased as against fiscal 2010:

- There are growing indications of a slowdown in economic growth around the world and particularly in the eurozone. Accordingly, market risks in conjunction with falling demand have risen in precisely the most important market of Europe – despite the good performance in the past fiscal year.

- The risks of price fluctuations in raw materials, electronic components and energy have risen. The costs of natural and synthetic rubber and rare earths especially increased significantly in fiscal 2011.

- However, despite the changes in individual risks, the analysis in the corporation-wide risk management system did not reveal any risks that, individually or collectively, pose a threat to the company or the corporation as going concerns. In the opinion of the Executive Board, there are also no discernible risks to the corporation as a going concern in the foreseeable future.

Report on Expected Developments

Economic conditions in the following two fiscal years.

Macroeconomic development

The expansion of the global economy in the winter-half of 2011/12 is expected to be only modest. Major factors here include the slowdown in economic performance in Europe owing to the debt crisis and the effects of restrictive monetary and fiscal policy in some emerging economies. Global demand should pick up again later in 2012 provided that there are no further external blows to confidence, e.g. in connection with the debt crisis in the eurozone. According to the most recent estimates of the International Monetary Fund (IMF), global economic activity will continue to expand in 2012. Economic growth of 3.3% is anticipated. This global growth will largely be propped up by the resilience of what the IMF refers to as “emerging and developing” markets. The highest growth among what the IMF refers to as the “advanced” economies is forecast for the U.S.A. at 1.8%. However, this value is significantly less than the historic growth rates. Although some leading macroeconomic indicators are brightening, the IMF feels that the high unemployment, the devastated housing market and the need to reduce high public debt with austerity measures will keep growth in the U.S.A. moderate in the coming years compared to its historic average. Japan’s economy, which shrank by 0.9% in 2011 owing to the natural disaster, is also expected to return to growth and expand by 1.7%. Canada’s gross domestic product is likewise expected to rise by the same amount (+1.7%) relative to 2011. By contrast, the IMF’s latest update from January 2012 forecasts a slight recession for the eurozone in 2012 with a decline in economic growth of 0.5%. Before economic activity gains pace again later in the year, growth in 2012 will initially be hampered by the repercussions of the debt crisis, the significant downturn in corporate and consumer confidence and the slower momentum of foreign demand. Of the euro area’s four biggest economies (Germany, France, Italy and Spain), only Germany and France are expected to post slight increases in gross domestic product of 0.3% and 0.2% respectively.

The rise in consumer prices in the advanced economies should drop significantly in 2012 to 1.6%. This assumption is largely based on the projection that energy and food prices will increase only moderately.

The emerging and developing economies will increase their economic activity by 5.4% in 2012 (+6.2% in 2011). The slight slowdown in growth momentum is essentially due to the restrictive monetary and fiscal policy measures to reduce financial imbalance and inflation risks as well as weaker international demand. Given the close economic interactions of the countries of Central and Eastern Europe with those of the eurozone, the region is only expected to see growth of 1.1% after 5.1% in 2011. The biggest contribution to growth is again predicted to come from China. Its gross domestic product should grow by 8.2% in 2012. In turn, the IMF is projecting the second-highest contribution to growth from India. Accordingly, its economy will expand by 7.0% in 2012. Brazil’s economy is set to grow by only 3.0% in 2012 (+2.9% in 2011). The rise in consumer prices in the emerging and developing economies is expected to drop from 7.2% in 2011 to 6.2% in 2012.

In accordance with the global growth profile, the expansion of world trade will slow to 3.8% in 2012.

The IMF is estimating an increase in global economic activity of 3.9% in 2013.

According to the IMF, the biggest risks to global economic development in the coming months are the debt crisis in the eurozone and the possibility that the crisis will spread within the European currency union. Furthermore, the lack of a tenable plan for U.S. budget consolidation is also considered to be a risk. If, contrary to expectations, no agreement is reached on convincing medium-term financial planning to cushion the austerity measures legally set to take effect automatically in 2013, the U.S. economy could again slip into recession. All in all, the IMF is not anticipating any far-reaching turbulence as was experienced following the insolvency of Lehman Brothers in 2008. It does however feel that downward risks have risen significantly with regard to the economic outlook for 2012.

Eurozone

The economy in the euro area is being shaped primarily by the debt crisis and the necessary structural adjustments, including those to national budgets in particular. If the debt crisis and the tension on the international financial markets do not escalate further and, as a result, the insecurity felt by investors, companies and consumers gradually diminishes, it is assumed that the gathering momentum of the global economy over the year will also lift growth in eurozone. However, growth is expected to be significantly more muted in the euro nations with a more moderate subsequent recovery than in other industrialized nations. The IMF is forecasting a decline in gross domestic product in the eurozone of 0.5% for 2012. Of the euro area's four major economies (Germany, France, Italy and Spain), only Germany and France are expected to grow in 2012, although only slight rises in gross domestic product of 0.3% and 0.2% are expected. According to recent estimates, Italy's economy is expected to slide back into recession owing to the extensive restructuring reforms passed at the end of 2011. A decline in gross domestic product of 2.2% is forecast. Economic activity in Spain will also contract by 1.7% in 2012 following minor expansion of 0.7% in 2011. The substantial uncertainty with regard to the eurozone's economic performance in 2012 can also be clearly seen by the most recent forecasts from the IMF, OECD, European Commission and euro system experts. Growth in gross domestic product for 2012 as against the previous year ranges from -0.5% to 1.0%.

The IMF is projecting a slight rise in gross domestic product in the eurozone of 0.8% in 2013.

Germany

The public debt crises of some euro nations, the unease this is causing among companies and consumers and the general downturn in global economic activity will hamper performance in Germany in 2012. However, the deceleration in growth will seep into Germany above all through its exports. Despite this, the domestic conditions for a further recovery are still rated positively. Thus, it is expected that Germany's sideways economic movement with the possibility of a slight recession will have no impact on employment in the winter half of 2011/12 and that this will in fact improve moderately over 2012 as a whole. The slowing price rises for energy and food will reduce the increase in consumer prices in Germany in 2012 as against the previous year and have a positive impact on real income. Supported by a resurgence in growth in the global economy and the expansive monetary policy of the ECB, the German economy should return to more solid growth as the year progresses. As described above, the requirement for this scenario is that the debt crisis in Europe does not escalate and the nervousness this has caused gradually lessens. The IMF is forecasting an 0.3% rise in gross domestic product in 2012. However, it feels that the uncertainty and therefore the downward risks in relation to economic performance are particularly high at this time.

According to the IMF, gross domestic product in Germany should increase by 1.5% in 2013.

Russia

According to the World Bank, Russian companies and banks are directly affected by the debt crisis in the eurozone to only a limited extent as they have only minor trade relations with Greece and other highly indebted euro nations. Indirectly, however, a broad economic downswing in Europe could have extensive negative repercussions on economic activity in Russia, as a result of which prices for the commodities exported by Russia, predominantly oil and gas, could fall substantially, causing the country to suffer a considerable capital drain. As described above, it is currently assumed that the gathering momentum of the global economy over 2012 will also have a positive effect on growth in the eurozone. In light of this and given the geopolitical risks, the IMF is forecasting only a slight drop in oil prices. After a balanced budget in 2011, a deficit is anticipated for 2012 on account of the lower growth in gross domestic product and high government spending, particularly in the election year.

The IMF believes that the Russian economy will expand moderately in 2012 by 3.3% as against the previous year. A slight increase in gross domestic product growth of 3.5% is anticipated for 2013.

U.S.A.

The failure of the Super Committee to decide budget consolidation measures means that austerity measures arising from legal stipulations must now be implemented. It is difficult to forecast whether or to what extent these will affect the economy in 2012.

The U.S. economy is highly dependent on the growth of private domestic demand. The extent to which the economy could receive stimulus from this sector is dependent on the unemployment rate and the wage level. In 2011, higher consumption was financed in part only by a lower savings rate. The savings rate in 2011 was just 4.6%, its lowest level since 2007. In its World Economic Outlook of September 2011, the IMF is still predicting a high unemployment rate of 9.0% for 2012. The biggest stumbling blocks for the American economy other than its restrained domestic demand are external factors such as the European debt crisis. This could spread through the financial markets, U.S. banks with European exposure or what the IMF refers to as a global confidence shock. Replacement investments in 2012 are expected to suffer under the expiry of beneficial depreciation regulations at the end of 2011. These had caused a pull-forward effect for corporate investments in the past year.

However, more positive trends are emerging in the construction industry. The high level of unsold apartments is gradually falling. In the long-term, investments in residential construction would have to rise as the steady population growth in the U.S.A. should ensure corresponding demand. The U.S.A. will be dominated by the election in 2012, with Americans voting for their president on November 6. At the same time, a third of the senators and the entire House of Representatives will also be up for election. The conditions for effective decision-making in such an environment are likely to be relatively poor. Presumably, the new Congress will not get to grips with budget consolidation before January 2013. Essentially, this can only be achieved through a combination of lower spending and higher income from tax hikes. The resulting uncertainty in terms of general conditions could harm the momentum of economic performance in 2012. The IMF is assuming economic growth of 1.8% for 2012. However, the gross deficit should continue to rise owing to the delays in budget consolidation. According to the Organisation for Economic Co-operation and Development (OECD), the deficit is currently 97.6% of GDP and is set to climb to 103.6% in 2012 and 108.5% in 2013. Stronger price rises are not expected in 2012 on account of the relatively high unemployment rate and the somewhat moderate growth. According to the IMF, the inflation rate should drop to 1.2% by mid-2012. The Federal Reserve Bank (Fed) is therefore not expected to reverse its zero-interest policy before the middle of 2013. However, it is still signaling its willingness to assist the U.S. economy with further easing.

Brazil

The slowdown of the Brazilian economy in the 2011 reporting year was more severe than anticipated in spite of a relatively solid growth rate of 2.9%. Given its dependence on exports, including commodities, Brazil is likely to feel the effects of global economic cooling in 2012. The debt crisis in Europe should only impact Brazil in the event of an extreme scenario such as a shock or crisis of confidence, as a decline in risk propensity would also mean capital draining away from the emerging economies. Economic developments in emerging economies such as China could also have a not insignificant effect on the development of the Brazilian economy. Firstly, China is now a major customer for Brazilian exports and, secondly, it has a major influence on the development of global commodities prices. Commodity exports have played an important role in the economy in Latin American countries in recent years.

However, Brazil has significantly wider options for supporting its economy with monetary policy than the industrialized nations. Its central bank had begun raising interest rates early on, which means that it still has room to aid the economy by easing lending rates in spite of a cut at the end of the year. There is also greater flexibility in fiscal policy and its debt level is still healthy. The IMF is assuming growth of 3.0% in economic activity in 2012. The inflation rate is set to drop; the latest estimate by the IMF was 5.2%.

Japan

The strong yen and the global economic downturn – particularly in Europe and some emerging economies such as China – are continuing to exert pressure on Japanese exports. However, Japan is not expected to slip back into a recession in the first half of 2012 on account of the redevelopment of the region destroyed by the disaster and its strong domestic demand. In addition, the extra budget for 2012 passed in November 2011 should lend support in the first quarter. The IMF is forecasting economic growth of 1.7% for 2012.

The Bank of Japan has emphasized that it will continue its expansive monetary policy until sustainable growth and price stability have been achieved. Falling prices and a high budget deficit are still expected for 2012. The IMF is forecasting that the unemployment rate will remain below 5% in 2012. Its last estimate from September 2011 was 4.8%. The asset purchase program launched in 2010 to cut long-term interest rates has already been gradually expanded to ¥55 trillion. Further securities purchases of around ¥13 trillion are planned for 2012. It is also possible that the securities purchase program could be boosted in the event of a breakdown in growth.

China

In light of the slowing economic momentum in key sales markets of the eurozone, economic growth is set to decline further in the first half of 2012. As a result of the progressive tightening of monetary policy in the past 18 months, domestic demand is likely to become weaker for the time being. By starting to streamline its monetary policy, the Chinese government is pursuing the goal of cooling down its overheated residential market and limiting a rise in inflation. While the private residential market is cooling slowly, social residential construction is receiving massive subsidies under the new five-year plan. The government is aiming to build 36 million subsidized residential units by 2015. The resulting strength in the public sector should largely balance the weakness in the private sector. The IMF's growth forecast for the Chinese economy in 2012 is currently 8.2%. Given its relatively low public debt, the Chinese government should have enough scope to implement monetary and fiscal policy easing (e.g. by continuing to lower minimum reserve requirements for banks or relaxing lending standards). Furthermore, with inflation on the retreat, there is also a certain potential for lending rates to be cut in the first two quarters of 2012. Taking into account the delay needed for such stimulus measures to take effect in the past, a resurgence in growth would not be seen until later in 2012. The IMF is assuming a rate of inflation for 2012 of 3.3%, with unemployment still forecast at 4%.

India

Not all sections of India's population have been able to share in its rising affluence to date. In particular, one reason for this is thought to be the country's obsolete infrastructure, which is apparently limiting the volume of investments from abroad. India should be investing more heavily in the development of its infrastructure in future. In order to avoid a further increase in public debt, it should facilitate direct international investment in this area moving forwards. The Indian central bank is not expected to stray from its restrictive monetary policy. Given the high inflation rate, further interest rate hikes can also not be ruled out in 2012. A more restrictive monetary policy coupled with a slower expansion of the global economy should keep the growth rate for the Indian economy below 8%. The IMF is assuming growth of 7.0% for 2012. A drop in the inflation rate is not expected before the end of the first quarter of 2012. Basis effects are then likely to have a positive influence on inflation, with an inflation rate of 8.6% expected for 2012.

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. Western and Central Europe and NAFTA are particularly important in this context. Asia represents the third largest region, accounting for 17% of consolidated sales in 2011. Original equipment business with vehicle manufacturers has a significant influence on the performance of the Automotive divisions Chassis & Safety, Powertrain and Interior. The ContiTech division also generated more than 50% of its sales with the global vehicle manufacturers. By contrast, the replacement markets for passenger, light truck and commercial vehicle tires are vital for the Tire division.

For 2012, we are currently forecasting a rise in global car production to 77 million units. This corresponds to a 1% increase as against 2011. Asia will remain the key growth driver. In addition to a more than 7% increase in China's car production, we anticipate a recovery in vehicle production as against 2011 particularly in Japan, which recorded substantial production losses as a result of the natural disaster in March 2011. This assumption is supported by the fact that the Japan Automobile Manufacturers Association (JAMA) is forecasting a rise in new passenger car registrations of almost 800,000 units (+20%) for 2012.

In our opinion, these two factors alone will lead to an increase in car production volumes in Asia of at least 1.7 million units, 800,000 of which are attributable solely to the recovery of the Japanese market. For NAFTA, we likewise expect a mid single-digit growth rate. We are forecasting a 4% rise in production to 13.7 million units. Here, too, the complete restoration of Japanese manufacturers' production capacity will play a major role.

Production of light vehicles* in millions of units**

	2011	**2012**	**2013**
Total Europe	20.1	19,0	19.8
Western Europe	14.9	12.8	13.4
Eastern Europe	5.2	6.2	6.4
NAFTA	13.2	13.7	14.3
South America	4.1	4.1	4.3
Asia	37.2	38.9	40.3
Africa and Middle East	0.9	0.9	1.0
Worldwide	**75.5**	**76.6**	**79.6**

Source: IHS *passenger cars, station wagons, and light commercial vehicles (<6t) **preliminary figures and own estimates

Production of heavy vehicles* in thousands of units**

	2011	2012	2013
Total Europe	547	520	575
Western Europe	435	385	420
Eastern Europe	112	135	155
NAFTA	408	440	472
South America	253	239	255
Asia	2,228	2,472	2,620
Worldwide	**3,436**	**3,671**	**3,922**

Source: IHS *commercial vehicles (>6t) **preliminary figures and own estimates

Due to the weak economic outlook for large parts of the eurozone, we expect to see a considerable decline in new registrations for this region, which is also likely to be reflected in falling production volumes for cars. However, thanks to the good export capabilities of German manufacturers in particular, we anticipate a decrease in car production of only around 5% to 19.0 million units.

For the production of commercial vehicles, we expect a 7% increase to 3.7 million units worldwide in 2012. After taking a breather in 2011, the Asian markets in particular should see significant growth again. For instance, Information Handling Services (IHS) – one of the leading research institutes for this region – forecasts an 11% increase in commercial vehicle production. The North American market is also expected to record high single-digit growth again in 2012. Only in Europe do we anticipate a decline in commercial vehicle production of 5%.

We expect demand for replacement passenger and light truck tires to rise by 3% globally in 2012. Following the strong stock deliveries of winter tires and the relatively late onset of winter weather in Europe, it remains uncertain how high dealers' stock levels of winter tires will be at the end of March 2012. For this reason, and owing to the high comparative figures from the previous year, we anticipate at best a stagnation of the European replacement tire market at the previous year's high level. However, we also consider a mid single-digit decline possible if certain upcoming regulatory projects are not implemented in 2012.

In contrast, we are confident that the number of replacement tires sold in NAFTA will pick up again slightly in 2012. One reason for this positive assessment is that the total number of cars driven in the U.S.A. grew again in 2011 for the first time in three years. Furthermore, there has recently been a stabilization in miles driven, which are calculated by the

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

in millions of units	2011	2012	2013
Western and Central Europe	297.0	297.0	303.0
NAFTA	253.0	260.6	268.0
South America	56.9	59.2	61.0
Asia	268.0	286.8	310.0
Other markets	111.0	116.0	122.0
Worldwide	**985.9**	**1,019.6**	**1,064.0**

Source: LMC World Tyre Forecast Service *preliminary figures and own estimates

Replacement sales of truck tires*

in millions of units	2011	2012	2013
Western and Central Europe	18.6	19.2	19.6
NAFTA	20.5	20.9	21.0
South America	14.0	14.6	15.0
Asia	66.5	70.5	76.0
Other markets	18.4	18.0	18.0
Worldwide	**138.1**	**143.2**	**149.6**

Source: LMC World Tyre Forecast *preliminary figures and own estimates

Department of Transportation (DOT) on a monthly basis. We anticipate growth of 3% on the replacement passenger tire market in NAFTA.

In 2012, Asia will once again be the fastest-growing replacement passenger tire market. We anticipate growth of 7% in 2012, bringing the Asia region almost to the level of the European replacement passenger tire volume.

We expect demand for replacement commercial vehicle and trailer tires to rise by 4% globally in 2012. Following the recent very weak development of demand for commercial vehicles tires on the European replacement market, which has recorded declining sales volumes since July 2011, we anticipate a 3% rise in demand to 19.2 million units in 2012. This assumption is backed up not least by monthly toll statistics published by the German Federal Office for Goods Transport (BAG). These statistics, which measure the kilometers driven on German roads by trucks subject to tolls with a permitted weight of 12 t and more, show that the number of kilometers driven increased by 4% in 2011. In NAFTA, we also anticipate a further increase in demand for replacement commercial vehicle tires in 2012. Here, too, the tonnage index calculated by the American Trucking Associations (ATA) displayed an upward trend particularly in the past months – in December 2011 alone, it recorded a 6.8% rise as against the previous year. Based on the recovery of the U.S. economy, we anticipate a continued increase in the tonnage data, which we also expect to cause demand for replacement commercial vehicle tires to rise by another 2%. This will bring NAFTA close to the peak levels seen in 2005, when there was demand for more than 21 million replacement commercial vehicle tires in the region.

Outlook for the Continental Corporation

Expected development of business
Based on the assumption that global vehicle production will increase to approximately 77 million units in 2012 and demand on Continental's key replacement tire markets in the U.S.A. and Europe will grow only slightly, we expect the corporation's sales to rise by more than 5% to over €32 billion. Our goal is to match the high level of the adjusted EBIT margin from 2011 in 2012 as well. There are risks arising from a slowdown in global economic growth, and particularly from a significant downturn in economic activity in the eurozone with the corresponding consequences for the assumptions regarding production trends in Europe.

However, if the economic development proves to be more stable than assumed in this report on expected developments, then we should achieve a more significant increase in consolidated sales growth.

We are essentially aiming for sales growth that is roughly 5 percentage points higher than the growth of our reference markets (vehicle production and tire replacement markets worldwide).

In light of this background, we are forecasting sales growth for the Automotive Group of at least 5% to more than €19 billion in 2012. The strongest driver of this growth will be the Powertrain division, followed by the Chassis & Safety division. The Interior division will post the lowest growth of the three Automotive divisions in 2012 due to its comparatively high share of replacement market business.

The Automotive Group's adjusted EBIT is expected to increase further in 2012. However, there will be a serious burden from the expected negative impact of higher prices for rare earths in the amount of around €150 million in 2012. All in all, we anticipate an adjusted EBIT margin of over 8% for the Automotive Group.

In the Rubber Group, we expect sales to climb by 6% to about €13 billion. The sales increase within the Tire division will primarily be determined by price effects from 2011 as well as volume increases and mix improvements in 2012. For the ContiTech division, we expect sales growth of approximately 5%.

Adjusted EBIT is also expected to increase further in 2012. Despite the recent stabilizing of prices for natural and synthetic rubber – at, however, a high level – it cannot be ruled out that we will have to initiate further price increases in the course of 2012 in order to compensate for the cumulative negative impact from 2010 and 2011 of €1.5 billion. With this goal in mind, we already raised prices for summer tires in the European replacement market by between 3% and 5% early in January 2012. For 2012, we expect an average price of $4.10 per kilogram for natural rubber and $3.00 per kilogram for butadiene, a base material for synthetic rubber. All in all, on the basis of these assumptions we anticipate an adjusted EBIT margin of over 13% for the Rubber Group. Opportunities will arise for the Rubber Group in particular if the prices for natural and/or synthetic rubber fall significantly below the average prices that we have assumed for the year.

For 2012, we anticipate special effects of approximately €50 million. As a result of further progress in reducing indebtedness, we expect interest expense to decrease further in 2012 to just under €600 million. The development of individual currencies can heavily influence the net interest result in 2012. In 2012, amortization from the purchase price allocation of the Siemens VDO activities in 2007 will remain roughly at the level of 2011 (€436 million). It will decrease substantially starting in 2014 and will not occur from 2015 onwards. The tax rate will increase slightly to around 32% in 2012.

Capital expenditure in 2012 will amount to more than 6% of sales. The main focus within the Automotive divisions will be on expanding our manufacturing capacity in Asia. The boosting of production capacity for high-pressure gasoline injectors in Changchun, China, in the Powertrain division, and the establishment of new manufacturing capacity in Wuhu, China, in the Interior division will be among the largest investment projects. The Chassis & Safety division will invest approximately €150 million in expanding manufacturing capacity for the latest generation of ESC and ABS systems (MK 100), particularly at the locations in Mechelen, Belgium, and Morganton, U.S.A. Within the Tire division, investments will be made in boosting capacity in Eastern Europe and in Asia. The largest single investment here is the expansion of truck tire production in Puchov, Slovakia. In the ContiTech division, the addition of a calender in Northeim, Germany, for the production of printing blankets is also worthy of mention.

Reducing net indebtedness continues to take high priority. The goal is to reduce this figure to under €6.5 billion in 2012 despite resuming payment of dividends. In total, we are planning a free cash flow of more than €600 million in 2012. After the repayment of parts of the syndicated loan already at the end of 2011, no credit tranches or bonds will fall due in 2012 and 2013 besides standard short-term financing, with the exception of a loan from the European Investment Bank totaling €300 million. There will be no major refinancing requirements until April 2014, when the amounts drawn under the syndicated loan of €5.375 billion will fall due. We plan to begin negotiations for refinancing the syndicated loan in early 2013. The ratio of net indebtedness to EBITDA will fall below a factor of 1.5 in 2012 and the gearing ratio, calculated as the ratio of net indebtedness to equity, will continue to improve towards 70% even though dividend payment has been resumed. The medium-term goal is to reduce this ratio to under 60%.

We expect to continue to create value in 2012. Despite rising capital expenditure, particularly in the Tire division, operating assets will increase proportionally to consolidated sales on average in 2012, meaning that with increasing EBIT there is likely to be a further slight improvement in the return on capital employed (ROCE). Our medium-term goal for the corporation is a ROCE of 20%.

A proposal will be made to the Annual Shareholders' Meeting on April 27, 2012, to distribute a dividend of €1.50 per share for fiscal 2011. In relation to net income attributable to the shareholders of the parent, this corresponds to a dividend payout ratio of 24.2%. The dividend yield in relation to the average price in 2011 is 2.6%.

Start to 2012

According to current estimates, car production will grow by around 2% to over 20 million units in the first quarter of 2012. In Europe, a decline in production of roughly 7% to around 4.9 million units is expected, which will be only partly offset by the increase in NAFTA to more than 3.6 million units. However, we still expect consolidated sales in the first quarter of 2012 to slightly exceed the very good level from the fourth quarter of 2011. In comparison to the first quarter of 2011, this would represent high single-digit growth. We do not expect any significant positive impact in the Rubber Group yet in the first quarter of 2012 as a result of the recent decreases in natural and synthetic rubber costs. Continental will issue the report on its first-quarter 2012 performance on May 3, 2012.

Outlook for 2013 is also promising

For 2013, we likewise anticipate increases in consolidated sales and adjusted EBIT. The volume of new cars manufactured is expected to grow by around 4% to some 80 million units. The forecast for the global passenger tire replacement markets also remains positive: A rise of more than 4% is anticipated here. The IMF also paints a more positive picture for 2013 after the slowdown of the global economy in 2012. According to its data, the global economy will grow by 3.9%, with the emerging and developing economies as well as the advanced economies contributing to this growth.

If this scenario proves correct, we again anticipate high single-digit growth in consolidated sales in 2013, outperforming the reference markets by about 5%. Adjusted EBIT is also expected to increase in 2013 at least to the same extent as sales. The corporation's investment volume will remain slightly above the target corridor of 5% to 6% in 2013. No significant special effects are currently expected in 2013. Net indebtedness is to be reduced to under €6 billion in 2013.

Within the corporation, we are keeping to our long-term goals for the divisions which were set in 2010. These stipulate that the Chassis & Safety and Interior divisions should generate a double-digit adjusted EBIT margin. The Powertrain division is confirming its goal of achieving an adjusted EBIT margin of at least 8% by 2014 at the latest. The Tire division is aiming for an adjusted EBIT margin of over 13%. The ContiTech division's goal is to stabilize the level of its adjusted EBIT margin at 11% to 12% in the long term. The development in fiscal 2012 will demonstrate that we are well on our way to reliably achieving these EBIT margin goals.

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Consolidated Financial Statements

Statement of the Executive Board

The Executive Board of Continental AG is responsible for the preparation, completeness, and integrity of the consolidated financial statements, the management report for the corporation and Continental AG, and the other information provided in the annual report. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and include any necessary and appropriate estimates. The management report for the corporation and Continental AG contains an analysis of the net assets, financial and earnings position of the corporation, as well as further information provided in accordance with the provisions of the German Commercial Code *(Handelsgesetzbuch – HGB)*.

An effective internal management and control system is employed to ensure that the information used for the preparation of the consolidated financial statements, including the management report for the corporation and Continental AG as well as for internal reporting, is reliable. This includes standardized guidelines at corporation level for accounting and risk management in accordance with Section 91 (2) of the German Stock Corporation Act *(Aktiengesetz – AktG)* and an integrated financial control concept as part of the corporation's value-oriented management, plus internal audits. The Executive Board is thus in a position to identify significant risks at an early stage and to take countermeasures.

The Audit Committee of the Supervisory Board engaged KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, as the auditor for the 2011 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 auditor issued the report presented on the following page.

The consolidated financial statements, the management report for the corporation and Continental AG, the auditor's report, and the risk management system will be discussed in detail by the Audit Committee of the Supervisory Board together with the auditor. These documents relating to the annual financial statements and these reports will then be discussed with the entire Supervisory Board, also in the presence of the auditor, at the meeting of the Supervisory Board held to approve the financial statements.

Hanover, February 6, 2012

The Executive Board

Independent Auditor's Report

We have audited the consolidated financial statements prepared by the Continental Aktiengesellschaft, comprising the statement of income and comprehensive income, 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, 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Article 315a paragraph 1 *HGB* are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Article 317 *HGB* and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a paragraph 1 *HGB* and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hanover, February 15, 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Bartels-Hetzler
Wirtschaftsprüfer

Dr. Thümler
Wirtschaftsprüfer

Consolidated Statements of Income and Comprehensive Income

in € millions	See Note	2011	2010
Sales		**30,504.9**	**26,046.9**
Cost of sales		-24,107.9	-20,267.6
Gross margin on sales		**6,397.0**	**5,779.3**
Research and development expenses		-1,608.7	-1,450.4
Selling and logistics expenses		-1,433.0	-1,311.0
Administrative expenses		-651.6	-645.7
Other expenses and other income	6	-196.8	-517.7
At-equity share in earnings of associates	8	86.5	76.5
Other income from investments	8	3.5	4.2
Earnings before interest and taxes		**2,596.9**	**1,935.2**
Interest income	9	29.2	22.6
Interest expense[1]	9	-764.7	-719.8
Net interest expense		**-735.5**	**-697.2**
Earnings before taxes		**1,861.4**	**1,238.0**
Income tax expense	10	-536.2	-592.1
Net income		**1,325.2**	**645.9**
Non-controlling interests		-83.0	-69.9
Net income attributable to the shareholders of the parent		1,242.2	576.0
Basic earnings per share in €	**36**	**6.21**	**2.88**
Diluted earnings per share in €	**36**	**6.21**	**2.88**

[1] Including gains and losses from foreign currency translation, from changes in the fair value of derivative instruments, as well as from available-for-sale financial assets.

in € millions	See Note	2011	2010
Net income		**1,325.2**	**645.9**
Currency translation		-20.9	443.9
Difference from currency translation		-20.3	443.6
Reclassification adjustments to profit and loss		-0.7	0.2
Portion for at-equity accounted investees		0.1	0.1
Available-for-sale financial assets		-2.2	-0.6
Fair value adjustments		-2.2	-0.6
Reclassification adjustments to profit and loss		—	0.0
Cash flow hedges	29	122.4	31.8
Fair value adjustments		83.1	31.8
Reclassification adjustments to profit and loss		39.3	—
Deferred taxes on other comprehensive income		-35.0	-12.1
Other comprehensive income		**64.3**	**463.0**
Comprehensive income		**1,389.5**	**1,108.9**
Attributable to non-controlling interests		-94.3	-100.7
Attributable to the shareholders of the parent		1,295.2	1,008.2

Consolidated Balance Sheets

Assets

in € millions	See Note	Dec. 31, 2011	Dec. 31, 2010
Goodwill	11	5,692.4	5,643.6
Other intangible assets	11	1,365.9	1,723.3
Property, plant and equipment	12	6,608.5	6,098.7
Investment property	13	19.0	19.9
Investments in associates	14	480.2	440.4
Other investments	15	6.9	7.0
Deferred tax assets	16	565.8	680.7
Deferred pension charges	25	102.9	73.8
Long-term derivative instruments and interest-bearing investments	29	193.2	157.9
Other long-term financial assets	17	26.7	29.5
Other assets	18	14.0	13.1
Non-current assets		**15,075.5**	**14,887.9**
Inventories	19	2,989.7	2,637.8
Trade accounts receivable	20	5,341.5	4,454.0
Other short-term financial assets	17	263.5	213.3
Other assets	18	624.0	536.5
Income tax receivable	27	101.7	123.4
Short-term derivative instruments and interest-bearing investments	29	55.9	44.3
Cash and cash equivalents	21	1,541.2	1,471.3
Assets held for sale	22	45.4	22.0
Current assets		**10,962.9**	**9,502.6**
Total assets		**26,038.4**	**24,390.5**

Total Equity and Liabilities

in € millions	See Note	Dec. 31, 2011	Dec. 31, 2010
Subscribed capital		512.0	512.0
Capital reserves		4,155.6	4,149.0
Retained earnings		2,454.6	1,212.4
Other comprehensive income		23.9	-13.8
Equity attributable to the shareholders of the parent		**7,146.1**	**5,859.6**
Non-controlling interests		397.2	343.3
Total equity	**23**	**7,543.3**	**6,202.9**
Provisions for pension liabilities and other post-employment benefits	25	1,432.2	1,404.5
Deferred tax liabilities	16	269.3	207.7
Long-term provisions for other risks and obligations	26	321.8	325.4
Long-term portion of indebtedness	28	6,048.0	7,752.4
Other long-term financial liabilities	30	8.0	0.8
Other long-term liabilities	32	57.1	39.4
Non-current liabilities		**8,136.4**	**9,730.2**
Trade accounts payable	31	4,111.4	3,510.5
Income tax payable	27	648.2	697.9
Short-term provisions for other risks and obligations	26	905.1	1,164.0
Indebtedness	28	2,514.4	1,238.1
Other short-term financial liabilities	30	1,415.2	1,203.4
Other liabilities	32	764.4	643.5
Current liabilities		**10,358.7**	**8,457.4**
Total equity and liabilities		**26,038.4**	**24,390.5**

Consolidated Cash Flow Statements

in € millions	See Note	2011	2010
Net income		**1,325.2**	**645.9**
Income tax expense	10	536.2	592.1
Net interest expense	9	735.5	697.2
EBIT		**2,596.9**	**1,935.2**
Interest paid		-691.0	-725.6
Interest received		29.0	22.6
Income tax paid	10, 27	-465.6	-493.0
Dividends received		45.8	47.4
Depreciation, amortization and impairments	6, 11, 12, 13	1,631.1	1,652.4
At-equity share in earnings of associates and accrued dividend income from other investments, incl. impairments	8	-90.0	-80.7
Gains from the disposal of assets, subsidiaries and business units		-19.4	-6.6
Other non-cash items	1	-29.1	-19.8
Changes in			
inventories	19	-335.3	-443.2
trade accounts receivable	20	-810.8	-611.1
notes sold		-6.7	-7.0
trade accounts payable	31	596.9	564.4
pension and post-employment provisions	25	-2.8	38.2
other assets and liabilities		-160.4	-24.0
Cash provided by operating activities		**2,288.6**	**1,849.2**
Proceeds on the disposal of property, plant and equipment, and intangible assets	11, 12	59.3	46.3
Capital expenditure on property, plant and equipment, and software	11, 12	-1,721.2	-1,242.6
Capital expenditure on intangible assets from development projects and miscellaneous	11	-92.1	-81.5
Proceeds on the disposal of subsidiaries and business units	5	10.4	20.6
Acquisition of subsidiaries and business units	5	-54.5	-25.1
Cash used for investing activities		**-1,798.1**	**-1,282.3**
Cash flow before financing activities (free cash flow)		**490.5**	**566.9**
Changes in short-term debt		945.8	-276.6
Proceeds from the issuance of long-term debt		52.5	3,084.3
Principal repayments on long-term debt		-1,398.8	-4,706.6
Successive purchases		-0.4	-25.8
Proceeds from the issuance of shares	24	—	1,056.0
Dividends paid and repayment of capital to non-controlling interests		-37.9	-35.2
Cash used for financing activities		**-438.8**	**-903.9**
Change in cash and cash equivalents		**51.7**	**-337.0**
Cash and cash equivalents at January 1		1,471.3	1,712.8
Effect of exchange rate changes on cash and cash equivalents		18.2	95.5
Cash and cash equivalents at December 31		**1,541.2**	**1,471.3**

Consolidated Statements of Changes in Total Equity

in € millions	Number of shares[1] (thou-sands)	Common stock	Capital reserves	Retained earnings	Successive purchases[2]	Difference from currency translation[3]	Difference from financial instruments[4]	Subtotal	Non-controlling interests	Total
At January 1, 2010	**169,006**	**432.6**	**3,139.5**	**636.4**	**-34.4**	**-276.0**	**-125.5**	**3,772.6**	**289.1**	**4,061.7**
Net income	—	—	—	576.0	—	—	—	**576.0**	69.9	**645.9**
Comprehensive income	—	—	—	—	—	410.6	21.6	**432.2**	30.8	**463.0**
Net profit for the period	**—**	**—**	**—**	**576.0**	**—**	**410.6**	**21.6**	**1,008.2**	**100.7**	**1,108.9**
Dividends paid	—	—	—	—	—	—	—	**—**	-34.4	**-34.4**
Issuance of shares[5]	31,000	79.4	1,009.5	—	—	—	—	**1,088.9**	—	**1,088.9**
Successive purchases[2]	—	—	—	—	-10.1	—	—	**-10.1**	-16.8	**-26.9**
Changes in non-controlling interests[6]	—	—	—	—	—	—	—	**—**	4.7	**4.7**
At December 31, 2010	**200,006**	**512.0**	**4,149.0**	**1,212.4**	**-44.5**	**134.6**	**-103.9**	**5,859.6**	**343.3**	**6,202.9**
Net income	—	—	—	1,242.2	—	—	—	**1,242.2**	83.0	**1,325.2**
Comprehensive income	—	—	—	—	—	-29.3	82.3	**53.0**	11.3	**64.3**
Net profit for the period	**—**	**—**	**—**	**1,242.2**	**—**	**-29.3**	**82.3**	**1,295.2**	**94.3**	**1,389.5**
Dividends paid/declared	—	—	—	—	—	—	—	**—**	-37.9	**-37.9**
Issuance of shares[5]	—	—	6.6	—	—	—	—	**6.6**	—	**6.6**
Successive purchases[2]	—	—	—	—	-15.3	—	—	**-15.3**	-3.2	**-18.5**
Changes in non-controlling interests[6]	—	—	—	—	—	—	—	**—**	0.7	**0.7**
At December 31, 2011	**200,006**	**512.0**	**4,155.6**	**2,454.6**	**-59.8**	**105.3**	**-21.6**	**7,146.1**	**397.2**	**7,543.3**

See Notes 2, 5, 23 and 24 to the consolidated financial statements.

[1] Shares outstanding.

[2] Successive purchases of shares of fully consolidated companies as well as subsequent purchase price adjustments.

[3] Includes the shareholder's €0.1 million (PY: €0.1 million) portion of the foreign currency translation of companies consolidated according to the equity method.

[4] The difference from financial instruments, including deferred taxes, is mainly due to changes in the market value of the cash flow hedges (-€19.9 million; PY: -€104.0 million) on interest and currency. The cash flow hedge accounting was terminated in the year under review. See note 29.

[5] Includes the expenditure resulting from stock option plans, the compensation offer for granted and not yet exercised stock options. The net proceeds from the capital increase, net of tax effects, are also included in 2010.

[6] Changes in non-controlling interests from consolidation changes or capital increases.

Notes to the Consolidated Financial Statements

1. Segment Reporting

Notes to segment reporting
In accordance with the provisions of IFRS 8, Operating Segments, Continental AG's segment reporting is based on the management approach with regard to segment identification, under which information regularly provided to the chief operating decision maker for decision-making purposes is considered decisive.

The activities of the Continental Corporation are divided into the following segments:

- **Chassis & Safety** with its core competence in the areas of driver assistance, brakes, driving dynamics, passive safety and sensors.
- **Powertrain** represents innovative and efficient system solutions for vehicle powertrains.
- **Interior** combines all activities relating to the presentation and management of information in the vehicle.
- **Passenger and Light Truck Tires** develops and manufactures tires for compact, medium-size and full-size passenger cars, as well as for SUVs, vans, motorcycles and bicycles.
- **Commercial Vehicle Tires** offers a wide range of truck, bus, industrial and off-road tires for the most diverse service areas and application requirements.
- **ContiTech** develops and produces functional parts, components and systems for the automotive industry and for other key industries.

Other/Consolidation
This comprises centrally managed subsidiaries and affiliates, such as holding, financing and insurance companies, as well as the holding function of Continental AG and certain effects of consolidation. It also contains the effects on earnings of uncertain risks, particularly those in connection with contractual and similar claims or obligations representing, among other things, risks from investments that cannot currently be assigned to the individual operating units.

Internal control and reporting within the Continental Corporation is based on International Financial Reporting Standards (IFRS) as described in Note 2. The corporation measures the performance of its segments on the basis of their operating result (EBIT). This is expressed as the return on sales (ROS) and as the return on capital employed (ROCE), which represents EBIT as a percentage of average operating assets. Intersegment sales and other proceeds are determined at arm's length prices. For administrative services performed by centrally operated companies or by the corporation's management, costs are calculated on an arm's length basis in line with utilization. Where direct allocation is not possible, costs are assigned according to the services performed.

The segment assets comprise the operating assets of the assets side of the balance sheet as of the end of the reporting period. The segment liabilities show the operating asset parts of the liabilities side of the balance sheet.

Capital expenditure relates to additions to property, plant and equipment, and software as well as additions to capitalized finance leases and capitalized borrowing costs in line with IAS 23. Depreciation and amortization include the scheduled diminution of and the impairments on intangible assets, property, plant and equipment, and investment properties as well as the impairments on goodwill. This figure does not include impairments on financial investments.

Non-cash expenses/income mainly include the changes in provisions for pension liabilities – except for contributions to/withdrawals from the associated funds – and the profit or loss of and impairments on associates. This item also includes carrying amount adjustments in profit or loss on the syndicated loan. The previous year's figures are presented comparably.

In the segment information broken down by region, sales are allocated on the basis of the domicile of the respective customers; in contrast, capital expenditure and segment assets are allocated on the basis of the domicile of the respective companies.

Segment report for 2011

in € millions	Chassis & Safety	Powertrain	Interior	Passenger and Light Truck Tires
External sales	6,473.7	5,782.9	6,096.9	6,934.5
Intercompany sales	37.1	59.1	13.8	23.0
Sales (total)	**6,510.8**	**5,842.0**	**6,110.7**	**6,957.5**
EBIT (segment result)	661.9	31.3	331.2	1,080.3
in % of sales	10.2	0.5	5.4	15.5
– thereof at-equity share in earnings of associates	12.7	11.6	45.7	14.4
Capital expenditure[1]	327.1	393.7	247.7	527.2
in % of sales	5.0	6.7	4.1	7.6
Depreciation and amortization[2]	320.4	453.4	427.6	255.2
– thereof impairment[3]	1.6	8.5	12.7	-1.1
Internally generated intangible assets	26.7	7.5	50.1	—
Significant non-cash expenses/income	11.4	37.3	61.6	38.4
Segment assets	5,459.9	4,580.6	5,789.5	4,350.4
– thereof investments in associates	81.5	127.8	190.6	69.2
Operating assets (at December 31)	4,014.9	3,080.1	4,299.6	2,941.5
ROCE in % (at December 31)	16.5	1.0	7.7	36.7
Operating assets (average)	4,024.7	3,027.4	4,375.1	2,804.2
ROCE in % (average)	16.4	1.0	7.6	38.5
Segment liabilities	1,445.0	1,500.5	1,489.9	1,408.9
Number of employees at December 31[4]	32,665	30,805	31,666	31,153

in € millions	Commercial Vehicle Tires	ContiTech	Other/ Consolidation	Continental Corporation
External sales	1,770.4	3,446.5	—	30,504.9
Intercompany sales	83.6	136.6	-353.2	—
Sales (total)	**1,854.0**	**3,583.1**	**-353.2**	**30,504.9**
EBIT (segment result)	115.4	417.1	-40.3	2,596.9
in % of sales	6.2	11.6	—	8.5
– thereof at-equity share in earnings of associates	1.2	0.2	0.7	86.5
Capital expenditure[1]	109.9	110.6	-4.9	1,711.3
in % of sales	5.9	3.1	—	5.6
Depreciation and amortization[2]	75.6	97.9	1.0	1,631.1
– thereof impairment[3]	-2.1	0.8	—	20.4
Internally generated intangible assets	—	—	—	84.3
Significant non-cash expenses/income	15.3	2.0	33.2	199.2
Segment assets	1,276.4	1,638.9	-21.8	23,073.9
– thereof investments in associates	3.7	1.2	6.2	480.2
Operating assets (at December 31)	855.1	1,066.9	-59.5	16,198.6
ROCE in % (at December 31)	13.5	39.1	—	16.0
Operating assets (average)	757.3	1,078.8	-48.5	16,019.0
ROCE in % (average)	15.2	38.7	—	16.2
Segment liabilities	421.3	572.0	37.7	6,875.3
Number of employees at December 31[4]	9,982	27,249	268	163,788

[1] Capital expenditure on property, plant and equipment, and software.
[2] Excluding impairments on financial investments.
[3] Impairment also includes necessary reversals of impairment losses.
[4] Excluding trainees.

Segment report for 2010

in € millions	Chassis & Safety	Powertrain	Interior	Passenger and Light Truck Tires
External sales	5,746.9	4,663.1	5,506.7	5,803.8
Intercompany sales	28.5	67.7	11.4	17.0
Sales (total)	**5,775.4**	**4,730.8**	**5,518.1**	**5,820.8**
EBIT (segment result)	569.0	-198.1	197.0	993.3
in % of sales	9.9	-4.2	3.6	17.1
– thereof at-equity share in earnings of associates	19.3	-0.4	45.5	11.8
Capital expenditure[1]	247.1	301.5	191.3	404.3
in % of sales	4.3	6.4	3.5	6.9
Depreciation and amortization[2]	322.7	466.3	422.1	247.7
– thereof impairment[3]	3.8	36.6	-4.8	7.2
Internally generated intangible assets	11.9	22.9	39.7	—
Significant non-cash expenses/income	25.3	15.8	35.4	10.5
Segment assets	5,214.0	4,336.2	5,764.1	3,650.5
– thereof investments in associates	80.8	118.7	164.0	67.3
Operating assets (at December 31)	3,940.5	2,997.8	4,370.5	2,351.3
ROCE in % (at December 31)	14.4	-6.6	4.5	42.2
Operating assets (average)	3,997.0	3,112.2	4,402.8	2,422.9
ROCE in % (average)	14.2	-6.4	4.5	41.0
Segment liabilities	1,273.5	1,338.4	1,393.6	1,299.2
Number of employees at December 31[4]	30,495	26,614	29,614	28,276

in € millions	Commercial Vehicle Tires	ContiTech	Other/ Consolidation	Continental Corporation
External sales	1,351.3	2,975.1	—	26,046.9
Intercompany sales	76.5	120.2	-321.3	—
Sales (total)	**1,427.8**	**3,095.3**	**-321.3**	**26,046.9**
EBIT (segment result)	50.1	369.6	-45.7	1,935.2
in % of sales	3.5	11.9	—	7.4
– thereof at-equity share in earnings of associates	-0.4	0.2	0.5	76.5
Capital expenditure[1]	51.2	100.3	0.7	1,296.4
in % of sales	3.6	3.2	—	5.0
Depreciation and amortization[2]	92.1	98.6	2.9	1,652.4
– thereof impairment[3]	12.8	2.1	—	57.7
Internally generated intangible assets	—	—	—	74.5
Significant non-cash expenses/income	-4.6	13.1	28.1	123.6
Segment assets	968.3	1,588.6	-15.9	21,505.8
– thereof investments in associates	2.5	1.0	6.1	440.4
Operating assets (at December 31)	631.3	1,036.7	-45.3	15,282.8
ROCE in % (at December 31)	7.9	35.7	—	12.7
Operating assets (average)	628.4	1,060.7	-44.0	15,580.0
ROCE in % (average)	8.0	34.8	—	12.4
Segment liabilities	337.0	551.9	29.4	6,223.0
Number of employees at December 31[4]	7,156	25,833	240	148,228

[1] Capital expenditure on property, plant and equipment, and software.
[2] Excluding impairments on financial investments.
[3] Impairment may also include necessary reversals of impairment losses.
[4] Excluding trainees.

Reconciliation of EBIT to net income

in € millions	2011	2010
Chassis & Safety	661.9	569.0
Powertrain	31.3	-198.1
Interior	331.2	197.0
Passenger and Light Truck Tires	1,080.3	993.3
Commercial Vehicle Tires	115.4	50.1
ContiTech	417.1	369.6
Other/consolidation	-40.3	-45.7
EBIT	**2,596.9**	**1,935.2**
Net interest expense	-735.5	-697.2
Earnings before income taxes	**1,861.4**	**1,238.0**
Income tax expense	-536.2	-592.1
Net income	**1,325.2**	**645.9**
Non-controlling interests	-83.0	-69.9
Net income attributable to the shareholders of the parent	**1,242.2**	**576.0**

Segment report by region

in € millions	Germany	Europe excluding Germany	NAFTA	Asia	Other countries	Continental Corporation
Sales to external customers 2011	**8,021.6**	**10,066.4**	**5,802.3**	**4,997.5**	**1,617.1**	**30,504.9**
Sales to external customers 2010	7,092.6	8,507.7	4,836.7	4,167.1	1,442.8	26,046.9
Capital expenditure 2011[1]	**457.3**	**574.1**	**278.9**	**233.6**	**167.4**	**1,711.3**
Capital expenditure 2010[1]	330.2	408.5	172.0	317.6	68.1	1,296.4
Segment assets at December 31, 2011	**9,482.7**	**5,752.2**	**3,565.7**	**3,209.6**	**1,063.7**	**23,073.9**
Segment assets at December 31, 2010	9,569.2	5,166.0	3,205.4	2,549.4	1,015.8	21,505.8
Number of employees at December 31, 2011[2]	**48,548**	**50,687**	**24,743**	**29,969**	**9,841**	**163,788**
Number of employees at December 31, 2010[2]	46,136	47,230	21,155	24,175	9,532	148,228

[1] Capital expenditure on property, plant and equipment, and software.
[2] Excluding trainees.

Reconciliation of total assets to operating assets

in € millions	Dec. 31, 2011	Dec. 31, 2010
Total assets	**26,038.4**	**24,390.5**
– cash and cash equivalents	1,541.2	1,471.3
– current and non-current derivatives, interest-bearing investments	249.1	202.2
– other financial assets	52.5	30.0
Less financial assets	**1,842.8**	**1,703.5**
Less other non-operating assets	**454.2**	**383.8**
– deferred tax assets	565.8	680.7
– income tax receivable	101.7	123.4
Less income tax receivable	**667.5**	**804.1**
Plus discounted bills for trade accounts receivable	**—**	**6.7**
Segment assets	**23,073.9**	**21,505.8**
Total liabilities and provisions	**18,495.1**	**18,187.6**
– current and non-current indebtedness	8,562.4	8,990.5
– interest payable	209.8	199.4
Less financial liabilities	**8,772.2**	**9,189.9**
– deferred tax liabilities	269.3	207.7
– income tax payable	648.2	697.9
Less income tax liabilities	**917.5**	**905.6**
Less other non-operating liabilities	**1,930.1**	**1,869.1**
Segment liabilities	**6,875.3**	**6,223.0**
Operating assets	**16,198.6**	**15,282.8**

2. General Information and Accounting Principles

Continental Aktiengesellschaft (Continental AG), whose registered office is Vahrenwalder Strasse 9, Hanover, Germany, is the parent company of the Continental Corporation and a listed stock corporation. It is registered in the commercial register (HRB No. 3527) of the Hanover Local Court *(Amtsgericht)*. Continental AG is a supplier to the automotive industry, with worldwide operations. The areas of business and main activities in which Continental AG is engaged are described in more detail in Note 1 on Segment Reporting. By way of resolution of the Executive Board of February 6, 2012, the consolidated financial statements of Continental AG for 2011 were approved and will be submitted to the electronic German Federal Gazette *(elektronischer Bundesanzeiger)* and published there.

The consolidated financial statements of Continental AG as of December 31, 2011, have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union, in accordance with EU Regulation (EC) No. 1606/2002 in conjunction with Section 315a (1) of the German Commercial Code *(Handelsgesetzbuch – HGB)*. The term IFRS also includes the International Accounting Standards (IAS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the former Standing Interpretations Committee (SIC). All International Financial Reporting Standards mandatory for fiscal 2011 have been applied, subject to recognition by the European Union.

The consolidated financial statements have been prepared on the basis of amortized cost, except for certain assets held for sale and derivative financial instruments recognized at fair value.

The annual financial statements of companies included in the corporation have been prepared using accounting principles consistently applied throughout the corporation, in accordance with IAS 27. The end of the reporting period for the subsidiary financial statements is the same as the end of the reporting period for the consolidated financial statements.

The consolidated financial statements have been prepared in euro. Unless otherwise stated, all amounts are presented in millions of euro. Please note that differences may arise as a result of the use of rounded amounts and percentages.

Consolidation principles

All major subsidiaries in which Continental AG directly or indirectly holds a majority of voting rights and has the possibility of control have been included in the consolidated financial statements and fully consolidated. In accordance with the provisions of SIC 12 (Consolidation – Special Purpose Entities), the consolidated financial statements must also include companies that can be controlled by Continental AG, despite a lack of majority voting rights, by other means such as agreements or guarantees. No companies were required to be included in the consolidated financial statements as a result of these provisions in either 2011 or 2010. The consolidation of subsidiaries is based on the purchase method, by offsetting the acquisition cost against the proportion of net assets attributed to the parent company at fair value at the date of acquisition. Intangible assets not previously recognized in the separate financial statements of the acquired company are carried at fair value. Intangible assets identified in the course of a business combination, including for example brand names, patents, technology, customer relationships and order backlogs, are recognized separately at the date of acquisition only if the requirements under IAS 38 for an intangible asset are met. Measurement at the time of acquisition is usually provisional only. Increases or reductions of assets and liabilities that become necessary within twelve months after the acquisition are adjusted accordingly. These adjustments are presented in the notes to the financial statements.

Any positive remaining amount is capitalized as goodwill. The share of non-controlling interests is measured using the pro rata (remeasured) net assets of the subsidiary (goodwill proportionate to the equity holding). In order to ensure the recoverability of goodwill arising from an as yet incomplete measurement and the corresponding purchase price allocation, the goodwill is allocated provisionally to the affected management units as of the end of the reporting period. This provisional allocation can deviate significantly from the final allocation. Any negative difference that arises is recognized in other operating income.

The shares in the net assets of subsidiaries that are not attributable to the corporation are shown under “non-controlling interests” as a separate component of total equity.

For the term during which Continental or any of its subsidiaries have made binding offers to minority shareholders to purchase their shares in subsidiaries, those non-controlling interests are reported as financial liabilities and not as equity. These financial liabilities are recognized at fair value, which corresponds to the price offered. In the event that the offer was made simultaneously at the time of the business combination, then the fair value of the binding purchase offer is considered part of the total cost of acquisition. On the other hand, if that offer was made separately from the business combination, then any difference between the binding purchase offer and the carrying amount of the non-controlling interests at the time that offer is made is recognized outside profit or loss.

Once control has been obtained, any differences arising from successive purchases of shares from non-controlling interests between the purchase price and the carrying amount of those non-controlling interests are recognized outside profit or loss.

Where there are successive purchases of shares resulting in control, the difference between the carrying amount and the fair value at the time of first-time consolidation is recognized in profit and loss under other income and expenses.

Significant investments where Continental AG holds between 20.0% and 50.0% of the voting rights, thereby enabling it to exert significant influence on the associated companies, are accounted for using the equity method. No companies are included in the consolidated financial statements using the proportionate consolidation method.

Companies that are dormant or have only a low level of business activity and therefore no significant impact on the net assets, financial and earnings position of the Continental Corporation are not included in the consolidated financial statements. Such companies are recognized in the consolidated financial statements at cost unless their fair value can be determined in accordance with IAS 39.

Associates are included using the equity method in which the carrying amount is adjusted to reflect the share in the associate's net equity. If the annual financial statements of the associates are not available, the pro rata earnings or losses are recognized as necessary based on estimated amounts. Goodwill arising from first-time consolidation is reported using the equity method. Goodwill is not amortized but the carrying amount of investments in associates consolidated using the equity method is tested for impairment if there are relevant indications.

Intercompany receivables and liabilities, in addition to income and expenses, are eliminated on consolidation. Intercompany profits arising from internal transactions, and dividend payments made within the corporation, are eliminated on consolidation. Deferred taxes on the elimination of intercompany transactions are carried in the amount derived from the average income tax rate for the corporation.

Currency translation

The assets and liabilities of foreign subsidiaries with a functional currency other than the euro are translated into euro at the year-end middle rates. The statement of comprehensive income is translated at the average exchange rates for the period. Differences resulting from currency translation are recognized in accumulated other comprehensive income until the disposal of the subsidiary, without recognizing deferred taxes.

In the separate financial statements of Continental AG and its subsidiaries, foreign currency receivables and liabilities are measured on recognition at the transaction rate and adjusted at the end of the reporting period to the related spot rates. Gains and losses arising on foreign currency translation are recognized in profit or loss, except for certain loans. Foreign currency adjustments relating to the translation of intercompany financing made in the functional currency of one of the parties, and for which repayment is not expected in the foreseeable future, are charged directly to other reserves.

Goodwill is recognized directly as an asset of the subsidiary acquired and therefore also translated into euro for subsidiaries whose functional currencies are not the euro at the end of the reporting period using the middle rate. Differences resulting from foreign currency translation are recognized in other reserves.

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, 2011	Dec. 31, 2010	2011	2010
Brazil	BRL	2.42	2.22	2.33	2.33
Switzerland	CHF	1.22	1.25	1.23	1.38
China	CNY	8.16	8.82	9.00	8.99
Czech Republic	CZK	25.82	25.12	24.59	25.29
United Kingdom	GBP	0.84	0.86	0.87	0.86
Hungary	HUF	311.14	277.90	279.42	275.30
Japan	JPY	100.09	108.82	111.05	116.54
South Korea	KRW	1,500.35	1,501.40	1,541.86	1,533.80
Mexico	MXN	18.11	16.59	17.28	16.77
Malaysia	MYR	4.11	4.13	4.26	4.28
Philippines	PHP	56.70	58.00	60.27	59.84
Romania	RON	4.32	4.28	4.24	4.21
U.S.A.	USD	1.29	1.34	1.39	1.33
South Africa	ZAR	10.51	8.89	10.10	9.72

Revenue recognition

Only sales of products resulting from the ordinary business activities of the company are shown as revenue. Continental recognizes revenue for product sales when there is proof or an agreement to the effect that delivery has been made and the risks have transferred to the customer. In addition, it must be possible to reliably measure the amount of revenue and the recoverability of the receivable must be assumed.

Revenues from made-to-order production are recognized using the percentage of completion method. The ratio of costs already incurred to the estimated total costs associated with the contract serves as the basis of calculation. Expected losses from these contracts are recognized in the reporting period in which the current estimated total costs exceed the sales expected from the respective contract. The percentage-of-completion method is of no significance to the Continental Corporation.

Product-related expenses

Costs for advertising, sales promotion and other sales-related items are expensed as incurred. Provisions are recognized for probable warranty claims on sold products on the basis of past experience, as well as legal and contractual terms. Additional provisions are recognized for specific known cases.

Research and development expenses

Research and development expenses comprise expenditure on research and development and expenses for customer-specific applications, prototypes and testing. Advances and reimbursements from customers are netted against expenses at the time they are invoiced. In addition, the expenses are reduced by the amount relating to the application of research results from the development of new or substantially improved products, if the related activity fulfills the recognition criteria for internally generated intangible assets set out in IAS 38. This portion of the expenses is capitalized as an asset and amortized over a period of three years from the date that the developed products become marketable. However, expenses for customer-specific applications, pre-production prototypes or tests for products already being marketed (application engineering) do not qualify as development expenditure which may be recognized as an intangible asset. Furthermore, expenses incurred directly in connection with the start-up of new operations or the launch of new products or processes are recognized directly in profit or loss.

New developments for the original equipment business are not marketable until Continental AG has been nominated as the supplier for the particular vehicle platform or model and, furthermore, has successfully fulfilled preproduction release stages. Moreover, these release stages serve as the prerequisite to demonstrate the technical feasibility of the product, especially given the high demands imposed on comfort and safety technology. Accordingly, development costs are recognized as an asset only as of the date of nomination as supplier and fulfillment of a specific pre-production release stage. The development is considered to be completed once the final approval for the unlimited series production is granted. Only very few development projects fulfill the recognition criteria as intangible assets since our major medium-term projects are for supplying automobile manufacturers (original equipment business).

Although suppliers are nominated by original equipment manufacturers with the general obligation to supply products over the entire life of the particular model or platform, these supply agreements constitute neither long-term contracts nor firm commitments, in particular because the original equipment manufacturers make no commitments in regard of the purchase quantities. For this reason, all pre-series production expenses – with the exception of the capitalized development costs described above – are recognized immediately in profit or loss.

Interest and investment income and expenses
Interest income and expenses are recognized for the period to which they relate; dividends receivable are recognized upon the legal entitlement to payment.

Earnings per share
Earnings per share are calculated on the basis of the weighted average number of shares outstanding. Treasury stock is deducted for the period it is held. Diluted earnings per share also include shares from the potential exercise of option or conversion rights. The corresponding expenses that would no longer be incurred after the conversion or exchange are eliminated.

Balance sheet classification
Assets and liabilities are reported 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 defer settlement of the liability for at least twelve months after the end of the reporting period. Provisions for pensions and other post-employment obligations as well as deferred tax assets and liabilities are shown as non-current. If assets and liabilities have both current and non-current portions, the amounts are classified separately and shown as current and non-current assets or liabilities.

Goodwill
Goodwill corresponds to the difference between the purchase cost and the fair value of the acquired assets and liabilities of a business combination. Goodwill is not subject to amortization; it is tested for impairment at least annually and, if necessary, impaired.

Intangible assets
Purchased intangible assets are carried at acquisition costs and internally generated intangible assets at their production costs, provided that the conditions for recognition of an internally generated intangible asset are met in accordance with IAS 38. If intangible assets have finite useful lives, they are amortized on a straight-line basis over a useful life of three to eight years. Intangible assets with indefinite useful lives are tested at least annually for impairment and, if necessary, impaired.

Property, plant and equipment
Property, plant and equipment is carried at cost less straight-line depreciation. If necessary, additional impairment losses are recognized on the affected items. Investment grants are deducted from cost.

Production cost consists of the direct costs and attributable material and manufacturing overheads, including depreciation.

Under certain conditions, portions of the borrowing costs were capitalized as part of the acquisition cost. This also applies to finance leases and investment property.

As soon as an asset is available for its intended use, subsequent cost is capitalized only to the extent the related modification changes the function of the asset or increases its economic value and the cost can be clearly identified. All other subsequent expenditure is recognized as current maintenance expense.

Property, plant and equipment is broken down into the lowest level of the components that have significantly different useful lives and, to the extent integrated in other assets, when they are likely to be replaced or overhauled during the overall life of the related main asset. Maintenance and repair costs are recognized in profit or loss as incurred. The corporation has no property, plant or equipment that by the nature of its operation and deployment can be repaired and serviced only in intervals over several years. The useful lives are up to 33 years for buildings and land improvements; up to twelve years for technical equipment and machinery; and up to ten years for operating 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.

Leases
Continental leases property, plant and equipment, especially buildings. If the substantial risks and rewards from the use of the leased asset are controlled by Continental, the agreement is treated as a finance lease and an asset and related financial liability are recognized. In the case of an operating lease, where the economic ownership remains with the lessor, only the lease payments are recognized as incurred and charged to income. Other arrangements, particularly service contracts, are also treated as leases to the extent they require the use of a particular asset to fulfill the arrangement and the arrangement conveys a right to control the use of the asset.

Impairment
The corporation immediately reviews intangible assets and property, plant and equipment, investment property and goodwill as soon as there is an indication of impairment (triggering event). Impairment is assessed by comparing the carrying amount with the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the present value of the expected future cash flow from the continued use of the asset (value in use). If the carrying amount is higher than the recoverable amount, the difference is recognized as an impairment loss. If the indications for the prior recognition of impairment no longer apply, the impairment losses are reversed for intangible assets, property, plant and equipment, and investment property.

Capitalized goodwill is tested for impairment once per year in the fourth quarter at the level of cash-generating units (CGU). Cash-generating units are the strategic business units that come below the segments (sub-segments) and are the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The impairment test is performed by comparing the carrying amount of the business unit including its goodwill and the recoverable amount of this business unit. The recoverable amount in this case is the value in use calculated on the basis of discounted cash flows before taxes. An impairment loss is recognized to the extent the carrying amount exceeds the recoverable amount for the business unit. If the reasons for this cease to apply in future, impairment losses on goodwill are not reversed.

The expected cash flows for the business units are derived from long-term planning that covers the next five years and is approved by the management. The plans are based in particular on assumptions for macroeconomic developments, as well as trends in sales prices, raw material prices and exchange rates. In addition to these current market forecasts, past developments and experience are also taken into account. The perpetuity beyond the period of five years is extrapolated using the expected growth rates for the individual business units. However, a more detailed model with a longer period of detailed planning was used for one CGU on account of its specific situation.

Annual impairment testing was performed on the basis of the bottom-up business plan for the next five years approved by management in the period under review. A uniform interest rate of 10.6% before taxes was used to discount cash flows. This pre-tax WACC is based on a target capital structure that was defined by comparison with a relevant peer group. The risk-free interest rate is 3.0% and the market risk premium 5.0%. The bonds issued in the past year were used to determine borrowing costs.

The long-term growth rate for the CGUs of the Interior, Chassis & Safety and Powertrain segments was 1.0% in the year under review (PY: 1.0% in the Interior and Chassis & Safety segments and 1.5% in the Powertrain segment). For the cash-generating units of the Passenger and Light Truck Tires, Commercial Vehicle Tires and ContiTech segments, the long-term growth rate was 0.5% (PY: 0.5%). These growth rates do not exceed the long-term average growth rates for the fields of business in which the cash-generating units operate.

The goodwill impairment test for 2011 did not identify any impairment requirements (PY: —). Assuming a 0.5 percentage point increase in the discount rate to 11.1%, impairment would have been €25.4 million. Reducing long-term growth rates by 0.5 percentage points would have resulted in an impairment requirement of €12.2 million.

Assets held for sale and related liabilities
Individual non-current assets or a group of non-current assets and related liabilities are classified separately as held for sale in the statement of financial position if their disposal has been resolved and is probable. Assets held for sale are recognized at the lower of their carrying amount and their fair value less costs to sell, and are no longer depreciated once they are classified as held for sale.

Financial Instruments
A financial instrument in accordance with IAS 32 is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. This includes primary financial instruments such as trade receivables and payables, securities and financial receivables or liabilities and other financial liabilities. It also includes 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 AG. Non-derivative financial instruments are classified under one of the following four categories according to the purpose for which they are held. The classification is reviewed at the end of each reporting period and affects whether the asset is reported as non-current or current as well as determining whether measurement is at cost or fair value.

- Changes in the fair value of financial assets at fair value through profit and loss – which are either designated as such (fair value option) on initial recognition or are classified as held for trading – are recognized immediately in the income statement. In addition, they are reported as current assets if they are either held for trading purposes or are expected to be realized within twelve months of the end of the reporting period. The fair value option is not applied in the Continental Corporation.

- Held-to-maturity financial assets – which have fixed or determinable payments at the date of initial recognition as well as a fixed maturity and are intended to be held until that maturity – are recognized at amortized cost and reported as non-current or current assets in accordance with their term. Any impairment losses are reported in profit or loss. No financial assets are classified as held-to-maturity at present.

- Loans and receivables – which have fixed or determinable payments and are not quoted in an active market – are measured at amortized cost less any necessary impairments. They are reported in the balance sheet in accordance with their term as non-current or current assets.

- Available-for-sale financial assets – which were designated as available for sale and not assigned to the other categories at the date of initial recognition – are measured at fair value and reported as non-current or current assets according to the expected date of sale. Unrealized gains or losses are recognized in other reserves, net of tax effects, until the date of derecognition. In the event of a significant or long-lasting decline in fair value to below cost, the loss is recognized immediately in profit or loss. Reversals of impairment losses on equity instruments are recognized outside profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss. Where there is no price quoted on an active market and the fair value cannot be measured reliably, for example in the case of investments in unconsolidated affiliated companies or other equity investments, the assets are measured at cost.

Liabilities arising from non-derivative financial instruments may be recognized either at amortized cost or at fair value through profit and loss. Continental AG measures all 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 in an active market are reported in the balance sheet under other financial liabilities in accordance with their term.

In the case of information reported in accordance with IFRS 7, classification is in line with the items disclosed in the balance sheet and/or the measurement category used in accordance with IAS 39.

Hybrid financial instruments

Financial instruments that have both a debt and an equity component are classified and measured separately by those components. Instruments under this heading primarily include bonds with warrants and convertible bonds. In the case of convertible bonds, the fair value of the share conversion rights is recognized separately in capital reserves at the date the bond is issued and therefore deducted from the liability incurred by the bond. Fair values of conversion rights from bonds with below-market interest rates are calculated based on the present value of the difference between the coupon rate and the market rate of interest. The interest expense for the debt component is calculated 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 increases the carrying amount of the bond indebtedness. In the event of maturity or conversion, the equity component previously recognized in capital reserves at the date of issue is offset against the accumulated retained earnings in accordance with the option permitted by IAS 32.

Derivative financial instruments

Derivative financial instruments are only used to hedge balance sheet items or forecast cash flows, and are recognized at their fair values. The fair value is generally the market or exchange price. In the absence of an active market, the fair value is determined using financial models, for example by discounting expected future cash flows at the market rate of interest or by applying recognized option pricing models. Derivative financial instruments are recognized at the date when the obligation to buy or sell the instrument arises.

Changes in the fair values of derivative financial instruments used for fair value hedging purposes (fair value hedges) to offset fluctuations in the market value of recognized assets or liabilities are charged to income together with the changes in value of the hedged item. Changes in the fair values of derivative financial instruments used to hedge future cash flows (cash flow hedges) where effectiveness is demonstrated are recognized directly in other income 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 profit or loss as incurred, independently of the hedged item. Once the forecast 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 recognized are released to profit or loss 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.

Embedded derivatives

Non-derivative host 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 host contract if the assessment finds that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. Separable embedded derivatives are measured at fair value.

Receivables

Receivables are carried at their nominal value. Valuation allowances on special items are recognized in specific cases where default is known, or based on experience. Default risks leading to lower payment inflows usually manifest themselves in financial difficulties, non-fulfillment, probable insolvency or breach of contract.

Continental sells some of its trade receivables under factoring programs with banks. Receivables are 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 financial liabilities.

Inventories

Inventories are recognized at the lower of cost and net realizable value. Acquisition cost is generally determined using the weighted-average method. Production cost includes direct costs, production-related material costs, overheads and depreciation. Inventory risks resulting from decreased marketability or excessive storage periods are accounted for with allowances.

Other assets

Other assets are recognized at amortized cost. Allowances are recognized as appropriate to reflect any possible risk related to recoverability.

Accounting for income taxes

Income taxes are measured using the concept of the 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.

Deferred taxes include expected tax payments and refunds from temporary differences between the carrying amounts in the consolidated financial statements and the related tax bases, as well as from the utilization of loss carryforwards. No deferred tax is recognized for non-tax-deductible goodwill. The deferred tax assets and liabilities are measured at the applicable tax rates related to the period when the temporary differences are expected to reverse. Changes in tax rates are recognized once the rate has been substantially enacted. Deferred tax assets are not recognized if it is not probable that they will be realized in the future.

Provisions for pension liabilities and other post-employment benefits

The retirement benefits offered by the corporation comprise both defined benefit and defined contribution plans.

Pension liabilities under defined benefit plans are actuarially measured pursuant to IAS 19, using the projected unit credit method that reflects salary, pension, and employee fluctuation trends. The discount rate to determine the present value is based on long-term loans in the respective capital market. Actuarial gains and losses that exceed the greater of 10% of the defined benefit 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 effects of other long-term employee benefits is included in the corresponding function costs and not in net finance costs. Pension liabilities for some companies of the corporation are covered by pension funds. Furthermore, plan assets comprise all assets, as well as claims from insurance contracts, that are held exclusively towards payments to those entitled to pensions and are not available to meet the claims of other creditors. Pension obligations and plan assets are reported on a net basis in the balance sheet.

The other post-employment benefits also shown under the provision for pension and other post-employment liabilities relate to obligations to pay for health costs for retired workers in the U.S.A. and Canada in particular.

Defined contribution plans represent retirement benefits where the company only contributes contractually fixed amounts for current service entitlements, which are generally invested by independent, external asset managers until the date of retirement of the employee. The fixed amounts are partly dependent on the level of the employee’s own contribution. The company gives no guarantees of the value of the asset after the fixed contribution, either at the retirement date or beyond. The entitlement is therefore settled by the contributions paid in the year.

Provisions for other risks

Provisions are recognized when a legal or constructive obligation has arisen that is likely to result in a future cash outflow to third parties and the amount can be reliably determined or estimated. The provisions are recognized as of the end of the reporting period at the value at which the obligations could probably be settled or transferred to a third party. Non-current provisions such as litigation or environmental risks are discounted to their present value. The resulting periodic interest charge for the provisions is shown under net interest expenses including an effect from a change in interest.

Non-financial liabilities

Current liabilities are carried at their payable amount. Non-current non-financial liabilities are measured at amortized cost.

Stock option plans

The amount of personnel expenses recognized in respect to 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.

On the announcement of compensation offers for stock options for employees, the offers accepted are posted against other liabilities at fair value, reducing the capital reserves.

Virtual stock options issued are recognized at fair value using the Monte Carlo simulation model. The liabilities are recognized in other financial liabilities until the end of the holding period.

Estimates

Proper and complete preparation of the consolidated financial statements requires management to make estimates and assumptions affecting the assets, liabilities and disclosures in the notes, as well as the income and expenses for the period.

The most important estimates relate to the determination of the useful lives of intangible assets and property, plant and equipment; the impairment testing of goodwill and non-current assets, in particular the underlying cash flow forecasts and discount rates; the recoverability of amounts receivable and other assets as well as income taxes receivable; the financial modeling parameters for stock option plans; the recognition and measurement of liabilities and provisions, especially the actuarial parameters for pensions and other post-employment obligations; and the probabilities of claims and amounts of settlements for warranty, litigation or environmental risks.

The assumptions and estimates are based on the information currently available at the date of preparation of the consolidated financial statements. The underlying information is regularly reviewed and updated to reflect actual developments as necessary.

Consolidated cash flow statements

The cash flow statement shows the sources during the period that generated cash and cash equivalents as well as the application of cash and cash equivalents. This includes all cash and cash equivalents and demand deposits. Cash equivalents are short-term, highly liquid financial investments that can be readily converted into known cash amounts and are subject to an insignificant risk of changes in value. Financial investments are considered to be cash equivalents only if they have a remaining term not exceeding three months.

3. New Accounting Pronouncements

In accordance with EU Regulation No. 1606/2002 in conjunction with Section 315a (1) of the German Commercial Code *(Handelsgesetzbuch – HGB)* Continental AG has prepared its consolidated financial statements in compliance with the IFRS as adopted by the European Union under the endorsement procedure. Thus IFRS are only required to be applied following endorsement of a new standard by the European Union.

The following endorsed standards, interpretations issued in relation to published standards and amendments that were applicable to Continental AG became effective in 2011 and have been adopted accordingly:

The amendments to IFRIC 14, *Prepayments of a Minimum Funding Requirement*, clarify the accounting for situations in which prepayments were made and minimum funding requirements exist. The amendments require that the economic benefit of the entity's prepayments which reduce future contributions should be recognized as asset. The amendments are to be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2010. The amendments had no significant effect on the consolidated financial statements of Continental AG.

IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swaps). IFRIC 19 clarifies the accounting for such situations by the debtor (issuer of the equity instruments). According to that, the equity instruments issued for the purpose of extinguishing all or part of a financial liability are part of consideration paid. The equity instruments are to be measured at their fair value. If the fair value of the equity instrument cannot be reliably measured, the equity instrument is to be measured to reflect the fair value of the financial liability fully or partly extinguished. IFRIC 19 states that any difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the initial measurement amount of the equity instruments issued, is to be recognized in profit or loss. The interpretation and the corresponding amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, are to be applied, at the latest, as from the commencement date of the first financial year starting after June 30, 2010. IFRIC 19 had no effect on the consolidated financial statements of Continental AG.

The amendment to IFRS 1, *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*, clarifies that first time adopters may apply the transition provisions of IFRS 7, *Financial Instruments: Disclosures*. The amendment to IFRS 1 and the corresponding amendment to IFRS 7 are to be applied at the latest, as from the commencement date of the first financial year starting after June 30, 2010. The amendment had no effect on the consolidated financial statements of Continental AG.

IAS 24 (revised 2009), *Related Party Disclosures*, provides clarification of the existing IAS 24 rules. One of the main focuses is the revised definition of the term 'related party'. Furthermore, the revised standard includes partial exemptions from the disclosure requirements of IAS 24 for government-related entities (entities that are controlled, jointly controlled or significantly influenced by a government). IAS 24 (revised 2009) and the corresponding amendment to IFRS 8, *Operating Segments*, are to be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2010. The revised IAS 24 had no effect on the consolidated financial statements of Continental AG.

The amendment to IAS 32, *Financial Instruments: Presentation*, addresses the classification of rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency. These rights are to be classified as equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class. The amendment is to be applied, at the latest, as from the commencement date of the first financial year starting after January 31, 2010. The amendment had no effect on the consolidated financial statements of Continental AG.

With the third Annual Improvement Project (*Improvements to IFRSs, May 2010*) of the IASB, the following amendments became effective:

- The amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, clarify for first-time adopters (during the period covered by its first IFRS financial statements) that a change in accounting policies or changes in the use of IFRS 1 exemptions after publishing a set of IAS 34, *Interim Financial Reporting*, interim financial information result in explanations of those changes and adjustments of the reconciliations (equity and total comprehensive income). Furthermore, the amendments to IFRS 1 extend the scope of the exemption to include a "deemed cost". The deemed cost exemption is therefore extended to revaluations triggered by an event such as initial public offering or privatization that occurs after the date of transition to IFRSs, but during the period covered by the first IFRS financial statements. IFRS first-time adopters which hold items of property, plant and equipment or intangible assets for use in operations subject to rate regulation may elect to use the previous GAAP carrying amount of such items at the date of transition to IFRSs as deemed cost. The exemption will be applied on an item-by-item basis. First-time adopters which use the exemption shall test each item for impairment at the date of transition to IFRSs in accordance with IAS 36, *Impairment of Assets*. The amendments are required to be applied for annual periods beginning on or after January 1, 2011. The amendments had no effect on the consolidated financial statements of Continental AG.

- The amendments to IFRS 3, *Business Combination*, clarify the transitional requirements for contingent consideration from a business combination that occurred before the effective date of IFRS 3 (revised 2008). Furthermore, the amendments define that only non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership instruments' proportionate share in the recognized amounts of the acquiree's net identifiable assets. All other components shall be measured at their acquisition-date fair values or other measurement basis required by IFRSs. Furthermore, the amendments clarify that all share-based payment transactions that are part of a business combination are within the scope of the application guidance. For this reason the guidance applies also to share-based payment transactions which are voluntarily replaced or unreplaced. The amendments are required to be applied for annual periods beginning on or after July 1, 2010. The amendments had no effect on the consolidated financial statements of Continental AG.

- The amendments to IFRS 7, *Financial Instruments: Disclosures*, include several clarifications and amendments to required disclosures about nature and extent of risks arising from financial instruments. The amendments are required to be applied for annual periods beginning on or after January 1, 2011. The amendments had no significant effect on the consolidated financial statements of Continental AG.

- The amendments to IFRS 7, *Financial Instruments: Disclosures*, IAS 32, *Financial Instruments: Presentation,* and IAS 39, *Financial Instruments: Recognition and Measurement,* arise as a result of amendments to IFRS 3, *Business Combination*, (Business Combination Phase II). The transition requirements of the individual standards are adjusted. The amendments are required to be applied for annual periods beginning on or after July 1, 2010. The amendments had no effect on the consolidated financial statements of Continental AG.

- The amendments to IAS 1, *Presentation of Financial Statements*, clarify that the analysis of other comprehensive income (OCI) by item (reconciliation between the carrying amount at the beginning and the end of the period for each component of equity) can be presented either in the statement of changes in equity or in the notes. The amendments are required to be applied for annual periods beginning on or after January 1, 2011. The amendments had no effect on the consolidated financial statements of Continental AG.

- The amendments to IAS 21, *The Effects of Changes in Foreign Exchange Rates*, IAS 28, *Investments in Associates*, and IAS 31, *Interests in Joint Ventures*, arise as a result of amendments to IAS 27, *Consolidated and Separate Financial Statements*, (Business Combination Phase II). The transition requirements of the individual standards are adjusted. The amendments are required to be applied for annual periods beginning on or after July 1, 2010. The amendments had no effect on the consolidated financial statements of Continental AG.

- The amendments to IAS 34, *Interim Financial Reporting*, modify the wording of IAS 34 in order to place greater emphasis on the disclosure principles which determine what information should be disclosed in an interim financial report. Furthermore, examples are added to the list (not exhaustive) of events and transactions for which disclosures would be required if they are significant (i.e. fair value measurements). The amendments are required to be applied for annual periods beginning on or after January 1, 2011. The amendments had no effect on the consolidated financial statements of Continental AG.

- The amendment to IFRIC 13, *Customer Loyalty Programmes*, clarifies the term “fair value” for the measurement of award credits. The amendment is required to be applied for annual periods beginning on or after January 1, 2011. The amendment had no effect on the consolidated financial statements of Continental AG.

The following amendments have already been endorsed by the EU but will not take effect until a later date:

The amendments to IFRS 7, *Financial Instruments: Disclosures – Transfers of Financial Assets*, improve the disclosure requirements of IFRS 7 in order to help users to understand transfer transactions of financial assets and to evaluate the related risk exposures and their effect on the financial position of the entity that transferred the assets. The amendment clarifies, inter alia, that disclosures (qualitative and quantitative information) have to be made about contractual rights or obligations which the entity retains or obtains in the transfer transaction also in the case an entity derecognizes financial assets in their entirety. The amendments are required to be applied for annual periods beginning on or after July 1, 2011. It is not expected that the amendments will have any significant effect on the future consolidated financial statements of Continental AG.

The following standards, interpretations issued in relation to published standards, and amendments are not yet endorsed by the EU and will become effective at a later date:

As a result of the amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards (Severe Hyperinflation and Removal of Fixed Dates for First-time Adopter)*, existing references to fixed dates (for example January 1, 2004) are replaced with a reference to the “date of transition to IFRS”. Furthermore, rules have been included for cases in which an entity is not able to satisfy all IFRS regulations due to hyperinflation. The amendment is required to be applied for annual periods beginning on or after July 1, 2011. It is not expected that the amendments will have any effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 7, *Financial Instruments: Disclosures*, introduce additional disclosure requirements in the context of the offsetting of financial assets and financial liabilities. The amendments are required to be applied for annual periods beginning on or after January 1, 2013. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRS 9, *Financial Instruments*, revises the IAS 39, *Financial Instruments: Recognition and Measurement,* requirements for the classification and measurement of financial assets. The standard represents the completion of the first part of the project to replace IAS 39. IFRS 9 divides all financial assets currently in the scope of IAS 39 into two classifications: ‘measured at amortized cost’ and ‘measured at fair value’. A financial asset is measured at amortized cost if the asset is held within a business model with the objective of holding assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets which do not fulfill both conditions are measured at fair value. IFRS 9 states that an entity shall reclassify all affected financial assets only when it changes its business model for managing financial assets. IFRS 9 restricts the option to designate a financial asset at fair value through profit or loss. An entity may designate if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch'). Furthermore, IFRS 9 introduces an option that, at initial recognition, an entity may irrevocably elect to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this IFRS that is not held for trading. If an entity elects to report in this manner, it must recognize in profit or loss dividends from that investment. With regard to embedded derivatives, IFRS 9 adopts the IAS 39 concept only for hosts that are assets outside the scope of IFRS 9. Requirements on classification and measurement of financial liabilities and requirements for derecognition of financial assets and liabilities were added to IFRS 9 in October 2010. The existing requirements of IAS 39, *Financial Instruments: Recognition and Measurement*, for derecognition were adopted thereby. New requirements affect the accounting of financial liabilities when choosing the fair value option: The portion of the change in the fair value due to changes in the entity's own credit risk should be presented in other comprehensive income (OCI). IFRS 9 (including 2010 supplements) is to be applied to annual periods beginning on or after January 1, 2015. The effective date was rescheduled to 2015 by the amendments to IFRS 9, *Financial Instruments* (2009 and 2010) and IFRS 7, *Financial Instruments: Disclosures*, (*Mandatory Effective Date and Transition Disclosures*). Furthermore, the relief from restating comparative periods and associated disclosures in accordance with IFRS 7 were amended. It is expected that IFRS 9 will have an effect on the future consolidated financial statements of Continental AG.

IFRS 10, *Consolidated Financial Statements*, describes principles for presentation and preparation of consolidated financial statements when an entity (parent) controls one or more entities. A reporting entity is required to consolidate an investee when that entity controls the investee. Control exists only if the investor has the power over the investee, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee to affect the amount of the investor's returns. Besides the introduction of a single consolidation model based on the principle of control, IFRS 10 includes accounting requirements regarding, inter alia, potential voting rights, non-controlling interests and loss of control. The standard supersedes the requirement related to consolidated financial statements in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. The standard is required to be applied for annual periods beginning on or after January 1, 2013. The standard is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRS 11, *Joint Arrangements*, describes the principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements). A joint arrangement is either a joint operation or a joint venture. A joint operator shall recognize assets, liabilities, expense and revenue in relation to its interest in the joint operation. A joint venturer shall recognize its interest in a joint venture as investment and shall account for the investment using the equity method in accordance with IAS 28, *Investments in Associates and Joint Ventures*. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. The standard is required to be applied for annual periods beginning on or after January 1, 2013. The standard is not expected to have any effect on the future consolidated financial statements of Continental AG.

IFRS 12, *Disclosure of Interests in Other Entities*, requires the disclosure of information that enables users of financial statements to evaluate the nature of and risk associated with interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities, and the financial effect of those interests. The standard is required to be applied for annual periods beginning on or after January 1, 2013. IFRS 12 is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRS 13, *Fair Value Measurement*, defines the fair value, describes the measurement of fair value, and enhances the corresponding disclosures. IFRS 13 is required to be applied for annual periods beginning on or after January 1, 2013. The standard is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IAS 1, *Presentation of Financial Statements*, deal with the presentation of items of Other Comprehensive Income. The amendments require to group items of the OCI in items that are potentially subsequently reclassifiable to profit and loss, and in items which will not be reclassified. The option of IAS 1 (revised 2007) to present OCI items either before or net of tax will not be changed by the amendments. If presentation before tax is chosen, the tax related to each of the groups (described above) must be shown separately. The amendments are required to be applied for annual periods beginning on or after July 1, 2012. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IAS 12, *Income Taxes (Deferred Tax: Recovery of Underlying Assets)*, contain a clarification regarding the treatment of temporary tax differences when using the fair value model in IAS 40, *Investment Property*. It can be difficult to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40. The amendments provide a practical approach in such cases by introducing a rebuttable presumption that an investment property is recovered entirely through sale. The amendments supersede SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*. The amendments are required to be applied for annual periods beginning on or after January 1, 2012. It is not expected that the amendments will have any effect on the future consolidated financial statements of Continental AG.

IAS 19 (revised 2011), *Employee Benefits*, changes IAS 19 (revised 2008) fundamentally. The recognition of actuarial gains and losses using the corridor method and the recognition of past service cost over the vesting period are eliminated. The revised standard changes the presentation of defined benefit costs and the calculation of net interest. Furthermore, the definition of termination benefits, curtailments, as well as short-term and other long-term benefits are clarified and the disclosures of IAS 19 are enhanced. The revised standard is required to be applied for annual periods beginning on or after January 1, 2013. IAS 19 (revised 2011) is expected to have a significant effect on the future consolidated financial statements of Continental AG.

IAS 27 (revised 2011), *Separate Financial Statements*, deals with the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates in separate financial statements. IAS 27 requires that investments in subsidiaries, joint ventures and associates be accounted for either at cost or in accordance with IFRS 9, *Financial Instruments*. The standard is required to be applied for annual periods beginning on or after January 1, 2013. The standard is not expected to have any effect on the future consolidated financial statements of Continental AG

IAS 28 (revised 2011), *Investments in Associates and Joint Ventures*, deals with the accounting for investments in associates and the application of the equity method when accounting for investments in associates and joint ventures. Furthermore, IAS 28 clarifies cases in which an investment, or a portion of an investment, in an associate or a joint venture is classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations.* The standard implements a measurement option for investments in associates or joint ventures which are held by, or are held indirectly through, an entity that is a venture capital organization, a mutual fund, unit trust or similar entity including investment-linked insurance funds. IAS 28 supersedes IAS 28 (revised 2003), *Investment in Associates*, and incorporates rules of SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers.* IAS 28 is required to be applied for annual periods beginning on or after January 1, 2013. The standard is not expected to have any effect on the future consolidated financial statements of Continental AG.

The amendments to IAS 32, *Financial Instruments: Presentation*, clarify the conditions for the offsetting of financial assets and financial liabilities. The amendments are required to be applied for annual periods beginning on or after January 1, 2014. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, deals with the accounting of waste removal costs that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”). The interpretation clarifies the requirements for recognition of production stripping costs as an asset and the corresponding measurement of the stripping activity asset. The interpretation is required to be applied for annual periods beginning on or after January 1, 2013. IFRIC 20 is not expected to have any effect on the future consolidated financial statements of Continental AG.

4. Companies Consolidated

In addition to the parent company, the consolidated financial statements include 439 (PY: 429) domestic and foreign companies in which Continental Aktiengesellschaft holds a direct or indirect interest of more than 20.0% of the voting rights. 310 (PY: 308) of these are fully consolidated and 129 (PY: 121) are accounted for using the equity method.

As against the previous year, ten companies have been added to the scope of consolidated companies overall. Five companies were acquired, seven companies were formed and three previously unconsolidated units were included in consolidation for the first time. Nine entities carried at equity were also added to the scope of consolidation. Two companies were sold and two were liquidated. In addition, the number of companies consolidated was reduced by ten as a result of mergers.

In particular, the additions to the scope of consolidation in 2011 relate to the acquisition of Modi Tyres Company Limited, Modipuram, India, and the tires and service sales company Alençon Pneus SAS, Alençon, France, and newly formed entities. Companies no longer included in the scope of consolidation essentially relate to two Matador companies in Russia, one of which was liquidated and one sold. Further disposals resulted from mergers within the Automotive Group and the Rubber Group. The effects of this are shown under Note 5.

33 (PY: 40) companies whose assets and liabilities, expenses and income, individually and combined, are not material for the net assets, financial and earnings position of the corporation, are not included in consolidation. 30 (PY: 36) of these are affiliated companies, 11 (PY: 16) of which are currently inactive. A further three (PY: four) companies not included in consolidation are associated companies, one of which is currently inactive (PY: one).

Further information on equity investments and an overview of the German corporations and partnerships that utilized the exemption provisions of Section 264 (3) of the German Commercial Code *(Handelsgesetzbuch – HGB)* and Section 264b *HGB* can be found in Note 40.

5. Acquisition and Sale of Companies and Business Units

In order to strengthen its tire activities on the Indian market, Continental acquired all shares in Modi Tyres Company Limited, Modipuram, India. The main share in the company is held by Continental Global Holding Netherlands B.V., Maastricht, Netherlands. The purchase agreement was concluded on April 17, 2011, and the transaction completed on July 15, 2011. The total purchase price was €31.1 million, including €3.0 million for a non-competition agreement with the seller. This amount was capitalized as an intangible asset. The purchase price also includes €7.2 million for contingent purchase price payments based on the quantity of tires produced and the company's EBITDA in years two to four after the deal. This amount was discounted to present value as of the acquisition date.

The incidental acquisition costs of €0.6 million were recognized as other operating expenses. The company was included in Continental's consolidated financial statements for the first time as of July 31, 2011. The company was renamed Continental India Limited on September 23, 2011.

The assets and liabilities included for the first time in the consolidated balance sheets were recognized in the following amounts (in € millions):

Continental India Limited (formerly known as Modi Tyres Company Limited)	**Carrying amount immediately before acquisition**	**Fair value at date of initial consolidation**
Intangible assets	0.6	3.6
Property, plant and equipment	7.6	65.5
Other long-term assets	0.1	0.1
Inventories	8.9	8.9
Accounts receivable	3.6	3.6
Other current assets	3.4	3.4
Cash and cash equivalents	0.1	0.1
Pension provisions	-1.4	-1.4
Net deferred taxes	-0.6	-20.2
Trade accounts payable	-2.5	-2.5
Other current liabilities	-47.9	-47.9
Purchased net assets	**-28.1**	**13.2**
Purchase price		31.1
Goodwill		**17.9**

In the context of preliminary purchase price allocation, there were significant upward revaluations of property, plant and equipment relating to land and buildings (€33.4 million) and technical equipment and machinery (€24.5 million). Intangible assets were recognized in the amount of €3.0 million for the non-competition agreement described above. No further adjustments were made. The goodwill of €17.9 million includes synergies reflecting the entry on the expanding Indian market. This acquisition marks the Tire division's first location on the Asian subcontinent.

Since August 1, 2011, Continental India Limited has contributed €33.4 million to sales and -€5.1 million to net income attributable to the shareholders of the parent. If the transaction had been completed as of January 1, 2011, the net income attributable to the shareholders of the parent would have been an additional €16.8 million less. Accordingly, sales would have been a further €40.2 million higher. The effects of the first-time inclusion of the acquired business in the consolidated financial statements of Continental including the preliminary purchase price allocation are not significant for the net assets, financial and earnings position as of December 31, 2011.

On February 19, 2011, Continental Holding France SAS, Sarreguemines, France, concluded the purchase agreement for 49.9% of shares in the tire and service sales group Alençon Pneus SAS, Alençon, France, in order to boost its sales position on the French market. The acquisition was completed on June 8, 2011. In addition, put and call rights were agreed between the parties for the remaining shares. The group was included in Continental's consolidated financial statements for the first time as of June 1, 2011. The company employs around 450 people and is assigned to the Tire division. The current, preliminary purchase price allocation resulted in acquired intangible assets of €11.0 million and goodwill of €27.8 million. Since June 2011, the business of Alençon Pneus SAS has contributed €54.5 million to sales and €1.2 million to net income attributable to the shareholders of the parent. The effects of the first-time inclusion of the acquired business in the consolidated financial statements of Continental including the preliminary purchase price allocation are not significant for the net assets, financial and earnings position as of December 31, 2011.

To expand the business area of special-purpose conveyor belts, particularly to broaden the customer base and improve export conditions, acquisitions for €6.9 million were made in the ContiTech division. Intangible assets were capitalized in the amount of €2.4 million. In the context of preliminary purchase price allocation, the individual transactions resulted in positive differences of €0.9 million capitalized as goodwill and other negative differences of €0.2 million recognized as other operating income. Since joining the Continental Corporation, the business acquired by the ContiTech division has contributed €8.6 million to sales and -€1.7 million to net income attributable to the shareholders of the parent. The effects of the first-time inclusion of the acquired business in the consolidated financial statements of Continental including the preliminary purchase price allocation are not significant for the net assets, financial and earnings position as of December 31, 2011.

Other asset deals with a total value of €3.0 million resulted in the capitalization of €1.8 million as intangible assets and the recognition of negative differences of €0.6 million as other operating income. The effects of these transactions, including the corresponding preliminary purchase price allocation, have no significant effect on the net assets, financial and earnings position of Continental as of December 31, 2011.

Acquisitions of non-controlling interests and business units

In the period under review, 9.4% of shares were acquired in GTY Tire Company, Fort Mill, South Carolina, U.S.A., for a purchase price of €3.3 million that, as per the conditions of the agreement, had not been paid in full as of the end of the reporting period. Remaining shares were also acquired in two smaller companies in the Tire division. The effects of these transactions have no significant effect on the net assets, financial and earnings position of Continental as of December 31, 2011. The minimal differences between purchase price and non-controlling interests were recognized in the other comprehensive income.

Disposals of companies and business units

The sale of three smaller operations of the Tire and ContiTech divisions also had no significant effect on the net assets, financial and earnings position of Continental as of December 31, 2011.

Notes to the Consolidated Statements of Income

6. Other Expenses and Income

in € millions	2011	2010
Other expenses	-415.8	-645.2
Other income	219.0	127.5
Other expenses and other income	**-196.8**	**-517.7**

Expenses

Other expenses relate primarily to:

in € millions	2011	2010
Special bonuses	103.0	79.1
Expenses for specified warranty risks	98.9	186.4
Restructuring measures without impairment	62.6	55.7
Litigation and environmental risks	52.5	70.7
Expenses for termination benefits	30.8	39.4
Impairments on property, plant and equipment, and intangible assets	25.4	65.6
Valuation allowances for doubtful accounts	15.4	5.3
Losses on the sale of property, plant and equipment, and from scrapping	13.3	18.9
Realized and unrealized foreign currency exchange losses	6.9	6.9
Adjustments of the syndicated loan	—	27.4
Losses on the sale of subsidiaries and business units	—	5.7
Other	7.0	84.1
Other expenses	**415.8**	**645.2**

In particular, the €229.4 million reduction in other operating expenses to €415.8 million (PY: €645.2 million) resulted from the declining additions to specific warranty provisions and lower impairment losses for intangible assets and property, plant and equipment totaling €124.3 million (PY: €252.0 million).

The economic situation of the Fuel Supply business unit in the Powertrain division in Europe is characterized by insufficient and constantly decreasing profitability. For this reason, the location in Dortmund, Germany, is being restructured. Parts of production and assembly are being relocated and the site is being expanded into a competence center for fuel feed units of the Fuel Supply business unit. Restructuring expenses of €35.8 million have been incurred in this connection.

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

Further restructuring in the European and North American regions resulted in expenses of €12.7 million in the period under review.

A still available production cell in Hanover-Stöcken, Germany, was finally closed down. This resulted in further restructuring expenses and impairment losses totaling €34.6 million in 2010.

In the previous year, the closure of the compounding and rubberization activities in Traiskirchen, Austria, led to additional restructuring expenses and impairment losses of €6.0 million.

Owing to the withdrawal of a customer order for the development and production of diesel injection systems at the plant in Blythewood, U.S.A., restructuring measures had to be introduced in 2009. This resulted in further restructuring expenses of €11.9 million in 2010. These primarily relate to impairment losses on production lines, which were partially offset by the provisions for supplier claims no longer required.

Restructuring measures were resolved for the location in Clairoix, France, in 2009 owing to the need to adjust production capacity for passenger and light truck tires in the European region. Further expenses of €16.9 million were incurred in this context in 2010.

Expenses totaling €5.6 million were incurred in 2010 for additional final activities relating to the disposal of certain business operations.

In total, there were impairment losses on property, plant and equipment and intangible assets amounting to €25.4 million in 2011, largely in connection with the Deer Park, U.S.A. property.

The expenses for specific warranty risks amounted to €98.9 million in the reporting period (PY: €186.4 million). Please also see Notes 26 and 34.

The expenses for litigation and environmental risks fell to €52.5 million (PY: €70.7 million). The antitrust proceedings initiated in 2007 against Dunlop Oil & Marine Ltd., Grimsby, U.K., a subsidiary of ContiTech AG in the area of offshore hoses, resulted in further expenses of €10.7 million (PY: €20.8 million) in the year under review. Please also see Notes 26 and 34.

The special bonuses relate primarily to expenses for the virtual shares in the amount of €4.4 million (PY: €1.2 million), expenses from stock option plans in the amount of €7.2 million (PY: €17.3 million), the long-term incentive plan in the amount of €21.9 million (PY: €22.6 million) and a provision for the Conti Value Sharing Bonus in the amount of €69.5 million (PY: €39.2 million from the Conti Special Bonus).

Personnel adjustments not related to restructuring led to expenses for severance payments of €30.8 million. Expenses for severance payments of €39.4 million had been incurred in the previous year for the cost-cutting program initiated in 2008.

In the year under review, expenses of €6.9 million (PY: €6.9 million) were incurred as a result of foreign currency translations from operating receivables and liabilities in foreign currencies not classified as indebtedness.

Losses of €13.3 million (PY: €18.9 million) arose on the sale of property, plant and equipment and scrapping activities in the period under review.

The cost resulting from allowances on receivables was €15.4 million (PY: €5.3 million).

The “Other” item also includes expenses for other taxes and other compensation from customer and supplier claims.

Income

Other income relates primarily to:

in € millions	2011	2010
Reversals of restructuring provisions	39.9	19.8
Adjustments of the syndicated loan	29.1	47.2
Gain from the reimbursement of customer tooling expenses	23.8	20.2
Gain on the sale of property, plant and equipment	15.2	11.1
Gain on the reversal of post-employment benefit obligations	14.5	—
Gain on the sale of subsidiaries and business units	6.5	3.8
Impairment reversals	5.0	7.9
Other	85.0	17.5
Other income	**219.0**	**127.5**

The €91.5 million rise in other operating income to €219.0 million (PY: €127.5 million) resulted in particular from lower health care obligations in connection with restructuring and the reversal of restructuring provisions no longer required, in particular for the locations in Huntsville, U.S.A., and Babenhausen and Karben, both in Germany, amounting of €59.4 million in total.

Owing to the anticipated higher cash outflow for the syndicated loan resulting from rising interest margins, the carrying amount was adjusted in profit or loss in 2009 and 2010. However, a drop in the margins for the syndicated loan was observed as of June 30, 2011. The associated expectation of lower cash outflows for this loan then led to an adjustment of the carrying amount in profit or loss in the amount of €9.1 million. These deferrals will be amortized over the term of the loan, reducing or increasing expenses accordingly. The amortization of the carrying amount adjustments resulted in a positive effect of €15.0 million in 2011. As a result of partial repayments of the syndicated loan, the adjustments attributable to the repayment amount pro rata were reversed in early April and December 2011. These reversals resulted in a gain of €5.0 million. The above effects resulted in a net gain of €29.1 million as of December 31, 2011. Please also see the results of the renegotiation of the syndicated loan under Note 28.

In 2011, reimbursements of €23.8 million (PY: €20.2 million) were received for customer tooling.

Income of €15.2 million (PY: €11.1 million) was generated from the sale of property, plant and equipment in the period under review.

Other income included proceeds from license agreements and provisions for customer and supplier claims no longer required. In addition, government grants amounting to €29.4 million (PY: €23.0 million) that were not intended for investments in non-current assets were recognized in profit or loss in the “Other” item and in function cost items.

7. Personnel Expenses

The following total personnel expenses are included in the income statement:

in € millions	2011	2010
Wages and salaries	5,165.2	4,707.3
Social security contributions	964.8	958.6
Pension and post-employment benefit costs	224.3	225.8
Personnel expenses	**6,354.3**	**5,891.7**

The rise in personnel expenses is due in particular to recruitment activities following the expansion in business activities in the year under review. Please also see the comments in the Management Report. The average number of employees in 2011 was 159,663 (PY: 142,695). As of the end of the year, there were 163,788 (PY: 148,228) employees in the Continental Corporation.

8. Income from Investments

in € millions	2011	2010
Share in earnings of associates	91.9	77.0
Impairments on investments in associates	-5.4	-0.5
At-equity share in earnings of associates	**86.5**	**76.5**
Income from other investments	3.5	4.2
Other income from investments	**3.5**	**4.2**

Please see Note 14 for impairment on investments in associates. Income from investments includes in particular the pro rata share of the profit or loss of companies accounted for using the equity method in the amount of €91.9 million (PY: €77.0 million).

9. Net Interest Expense

in € millions	2011	2010
Interest income	**29.2**	**22.6**
Interest and similar expenses	-649.4	-747.2
Financial lease cost	-5.7	-5.6
Losses/gains from foreign currency translation	-105.4	33.0
Gains from changes in the fair value of derivative instruments	0.3	6.9
Gains from financial assets available for sale	1.9	0.7
Interest cost for long-term provisions and liabilities	-6.7	-9.1
Capitalized interest	0.3	1.5
Interest expenses	**-764.7**	**-719.8**
Net interest expense	**-735.5**	**-697.2**

The net interest expense rose by €38.3 million year-on-year to €735.5 million (PY: €697.2 million). This is essentially due to the negative development in the exchange rate effects that were not fully offset by the lower interest expenses described below.

The negative trend in the exchange rate effects, which were down €138.4 million year-on-year from €33.0 million to -€105.4 million as of December 31, 2011, was due to the performance on the currency markets in the second half of 2011. A key factor in this was the strong devaluation of the Mexican peso as against the U.S. dollar. Devaluation of the Hungarian forint against the euro also squeezed net interest.

Interest expenses, not including the effects of foreign currency translation, changes in the fair value of derivatives and gains from the disposal of financial assets available for sale, which primarily result from the utilization of the syndicated loan and the bonds issued in the third quarter of 2010 by Conti-Gummi Finance B.V., Maastricht, Netherlands, declined by €98.9 million as against the figure for the previous year to €661.5 million (PY: €760.4 million). In particular, in addition to the significant drop in net indebtedness as of the end of 2010, the decrease is due to the lower margins for the syndicated loan than in the previous year. Both effects by far more than compensated for the expenses due to higher average market interest rates in 2011 and the four bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, in the third quarter of 2010. The margin reduction and its link to the Continental Corporation’s leverage ratio (net indebtedness/EBITDA, as defined in the syndicated loan) were agreed as part of the successful renegotiation in late March 2011 of the syndicated loan originally due in August 2012. In the third quarter of 2011, a further margin reduction was already achieved for this loan as a result of the improved leverage ratio as of June 30, 2011. In 2011, interest expenses for the syndicated loan amounted to €342.4 million (PY: €595.9 million). The bonds issued in the third quarter of 2010, with higher nominal interest rates due in particular to the longer terms, resulted in total interest expenses of €227.4 million (PY: €73.6 million).

Interest income amounted to €29.2 million in 2011, €6.6 million higher than the previous year’s level (€22.6 million).

Gains from changes in the fair value of derivative instruments amounting to €0.3 million (PY: €6.9 million) include total expenses of €29.7 million from the termination of cash flow hedge accounting and the resulting fair values changes of the affected derivatives to be recognized in profit or loss. Please see the comments in Note 29.

10. Income Tax Expense

The domestic and foreign income tax expense of the corporation is as follows:

in € millions	**2011**	**2010**
Current taxes (domestic)	-2.5	-101.5
Current taxes (foreign)	-427.0	-404.0
Deferred taxes (domestic)	-95.1	-93.6
Deferred taxes (foreign)	-11.6	7.0
Income tax expense	**-536.2**	**-592.1**

The average domestic tax rate for 2011, as in 2010, was 30.0%. This takes into account a corporate tax rate of 15.0% (PY: 15.0%), a solidarity surcharge of 5.5% (PY: 5.5%) and a trade tax rate of 14.2% (PY: 14.2%).

The following table shows the reconciliation of the expected to the reported tax expense:

in € millions	2011	2010
Net income before tax	**1,861.4**	**1,238.0**
Expected tax expense at the domestic tax rate	-558.4	-371.4
Foreign tax rate differences	80.1	101.1
Non-recognition of deferred tax assets unlikely to be realized	-88.5	-273.6
Realization of previously non-recognized deferred taxes	33.9	—
Non-deductible expenses and non-imputable withholding taxes	-92.2	-94.3
Incentives and tax holidays	50.3	47.5
Taxes for previous years	47.7	-39.2
Tax effect of companies consolidated at equity	22.6	19.2
Local income tax with different tax base	-13.8	—
Effects from changes in enacted tax rate	-11.6	3.7
First-time recognition of deferred tax assets likely to be realized	—	14.0
Effects from disposals and impairment of business units and investments	-1.6	-0.1
Other	-4.7	1.0
Reported tax expense	**-536.2**	**-592.1**
Effective tax rate in %	**28.8**	**47.8**

The reduction in the expected tax expense from the difference in foreign tax rates primarily reflects the volume of activities in Eastern Europe and Asia.

The effect of not recognizing deferred tax assets due to insufficient probability of recoverability is much lower than in the previous year. In the year under review, there was the effect of impairment losses recognized in international units in particular on deferred tax assets of a total amount of €52.5 million (PY: €234.3 million), €29.3 million (PY: €11.8 million) of which for previous years. A valuation allowance of €36.0 million (PY: €51.2 million) was recognized on the increases in the year under review for the tax interest carryforward in Germany. In the same period of the previous year, this amount was also influenced by €68.9 million relating to 2009 as the utilization of the interest carryforward in Germany was considered sufficiently unlikely for the first time. For further information please see Note 16.

Thanks to the positive business development in the year under review in the U.S.A. and Mexico in particular, deferred tax assets of €33.9 million which had not been recognized in the past could be realized – mainly through the utilization of loss carryforwards.

As in the previous year, the item non-deductible expenses and non-imputable withholding taxes relates in part to Germany owing to an insufficient volume of non-imputable foreign withholding taxes.

The taxes for previous years item essentially includes tax income of €68.2 million from the successful out-of-court settlement of a pending tax position from previous years which was recognized in profit or loss in full in the year under review.

The tax effects from government incentives and tax holidays rose slightly against the previous year. A reduction due to some expiring subsidies in Eastern Europe was partially offset in particular by increased benefits in Asia due to the first-time qualification for incentives.

The results of investments accounted for using the equity method included in net income resulted in tax income of €22.6 million in the year under review (PY: €19.2 million).

In the year under review, local income taxes of €13.8 million were incurred with an alternative assessment basis, mainly in Hungary, the U.S.A. and Italy.

The effects of changes in enacted tax rate relate to the remeasurement of deferred tax assets and liabilities that was required predominantly in Thailand and the U.K. in the year under review (PY: Mexico) due to changes in the law already taking effect with regard to future applicable tax rates.

The previous year’s figures are presented comparably.

Notes to the Consolidated Balance Sheets

11. 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, 2010					
Cost	**7,949.4**	99.7	3,468.7	11.5	**3,579.9**
Accumulated amortization	**-2,412.8**	-40.6	-1,470.6	—	**-1,511.2**
Book value	**5,536.6**	**59.1**	**1,998.1**	**11.5**	**2,068.7**
Net change in 2010					
Book value	**5,536.6**	59.1	1,998.1	11.5	**2,068.7**
Foreign currency translation	**100.2**	-0.3	47.1	0.1	**46.9**
Additions[1]	**1.1**	74.5	41.1	8.0	**123.6**
Additions from initial consolidation of subsidiaries	**5.7**	—	4.6	—	**4.6**
Transfers	**—**	—	6.3	-6.3	**0.0**
Disposals	**—**	0.0	-0.8	-0.1	**-0.9**
Amortization	**—**	-13.6	-504.8	—	**-518.4**
Impairments[2]	**—**	—	-1.2	—	**-1.2**
Book value	**5,643.6**	**119.7**	**1,590.4**	**13.2**	**1,723.3**
At December 31, 2010					
Cost	**8,059.4**	167.3	3,587.4	13.2	**3,767.9**
Accumulated amortization	**-2,415.8**	-47.6	-1,997.0	—	**-2,044.6**
Book value	**5,643.6**	**119.7**	**1,590.4**	**13.2**	**1,723.3**
Net change in 2011					
Book value	**5,643.6**	119.7	1,590.4	13.2	**1,723.3**
Foreign currency translation	**2.2**	-0.7	5.4	0.1	**4.8**
Additions	**—**	84.3	35.1	8.2	**127.6**
Additions from initial consolidation of subsidiaries	**46.6**	—	18.9	—	**18.9**
Transfers	**—**	0.0	4.5	-4.5	**0.0**
Disposals	**—**	0.0	-0.9	0.0	**-0.9**
Amortization	**—**	-31.1	-476.7	—	**-507.8**
Impairments[2]	**—**	—	—	—	**—**
Book value	**5,692.4**	**172.2**	**1,176.7**	**17.0**	**1,365.9**
At December 31, 2011					
Cost	**8,109.7**	250.6	3,658.1	17.0	**3,925.7**
Accumulated amortization	**-2,417.3**	-78.4	-2,481.4	—	**-2,559.8**
Book value	**5,692.4**	**172.2**	**1,176.7**	**17.0**	**1,365.9**

[1] The disposals of/additions to goodwill include subsequent purchase price adjustments.
[2] Impairments also include necessary reversals of impairment losses.

The acquisition of companies in 2011 resulted in an addition to goodwill totaling €46.6 million.

The remaining carrying amount of goodwill relates principally to the acquisitions of Siemens VDO (2007), Continental Teves (1998), the automotive electronics business from Motorola (2006), Continental Temic (2001), Phoenix AG (2004), AP Italia (2007) and the Thermopol Group (2007).

The goodwill and the other intangible assets are allocated to the individual segments as follows:

	Goodwill		Other intangible assets	
in € millions	**Dec. 31, 2011**	**Dec. 31, 2010**	**Dec. 31, 2011**	**Dec. 31, 2010**
Chassis & Safety	2,333.6	2,330.9	202.6	230.8
Powertrain	1,008.3	1,007.3	420.6	590.3
Interior	2,201.4	2,201.6	667.1	834.7
Passenger and Light Truck Tires	43.7	19.9	39.3	32.1
Commercial Vehicle Tires	29.1	8.6	8.6	5.0
ContiTech	76.3	75.3	24.6	25.3
Other/consolidation	—	—	3.1	5.1
Continental Corporation	**5,692.4**	**5,643.6**	**1,365.9**	**1,723.3**

Additions to purchased intangible assets from the initial consolidation of subsidiaries related mainly to customer relationships and know-how. The remaining additions mainly relate to software in the amount of €27.2 million (PY: €34.2 million).

Amounts reported under internally generated intangible assets represent capitalized development costs. €84.3 million (PY: €74.5 million) of the total development costs incurred in 2011 qualified for recognition as an asset under IAS 38.

Amortization on intangible assets amounted to €507.8 million (PY: €518.4 million), €406.2 million (PY: €414.7 million) of which is included in the consolidated income statement under the cost of sales and €101.6 million (PY: €103.7 million) of which is included in administrative expenses.

The acquired intangible assets include carrying amounts not subject to amortization of €81.1 million (PY: €81.0 million). These relate in particular to the VDO brand name in the amount of €71.4 million, the Phoenix brand name in the amount of €4.2 million, and the Matador brand name in the amount of €3.1 million. The remaining purchased intangible assets mainly comprise the carrying amount of software amounting to €66.7 million (PY: €68.2 million), which is amortized on a straight-line basis.

12. Property, Plant and Equipment

in € millions	Land, land rights and buildings[1]	Technical equipment and machinery	Other equipment, factory and office equipment	Advances to suppliers and assets under construction	Total
At January 1, 2010					
Cost	2,768.3	8,984.5	1,315.6	619.7	**13,688.1**
Accumulated depreciation	-1,013.9	-5,862.1	-1,002.7	-25.1	**-7,903.8**
Book value	**1,754.4**	**3,122.4**	**312.9**	**594.6**	**5,784.3**
thereof finance leases	53.6	35.1	0.2	—	**88.9**
Net change in 2010					
Book value	1,754.4	3,122.4	312.9	594.6	**5,784.3**
Foreign currency translation	67.2	142.8	16.9	28.8	**255.7**
Additions[3]	79.4	449.8	95.3	629.7	**1,254.2**
Additions from initial consolidation of subsidiaries	2.0	2.8	1.3	0.0	**6.1**
Amounts disposed of through disposal of subsidiaries	-0.2	0.0	-0.2	-0.1	**-0.5**
Reclassification to/from assets held for sale[2]	-16.3	-0.3	0.2	-0.6	**-17.0**
Transfers	70.0	246.2	115.2	-433.5	**-2.1**
Disposals	-6.8	-25.7	-2.4	-17.3	**-52.2**
Depreciation	-108.1	-825.3	-142.1	0.0	**-1,075.5**
Impairments[4]	-10.8	-21.1	-1.9	-20.5	**-54.3**
Book value	**1,830.8**	**3,091.6**	**395.2**	**781.1**	**6,098.7**
At December 31, 2010					
Cost	2,962.7	9,654.2	1,557.7	826.7	**15,001.3**
Accumulated depreciation	-1,131.9	-6,562.6	-1,162.5	-45.6	**-8,902.6**
Book value	**1,830.8**	**3,091.6**	**395.2**	**781.1**	**6,098.7**
thereof finance leases	50.9	16.6	0.1	—	**67.6**
Net change in 2011					
Book value	1,830.8	3,091.6	395.2	781.1	**6,098.7**
Foreign currency translation	-14.5	-18.4	0.2	-11.0	**-43.7**
Additions[3]	72.3	629.1	106.7	867.7	**1,675.8**
Additions from initial consolidation of subsidiaries	35.6	36.3	2.5	0.1	**74.5**
Amounts disposed of through disposal of subsidiaries	0.0	0.0	0.0	—	**0.0**
Reclassification to/from assets held for sale[2]	-33.1	0.1	—	—	**-33.0**
Transfers	50.3	432.6	42.1	-525.3	**-0.3**
Disposals	-5.2	-24.0	-4.5	-7.4	**-41.1**
Depreciation	-113.1	-848.0	-140.9	—	**-1,102.0**
Impairments[4]	-22.4	1.6	-0.4	0.8	**-20.4**
Book value	**1,800.7**	**3,300.9**	**400.9**	**1,106.0**	**6,608.5**
At December 31, 2011					
Cost	2,966.9	10,413.7	1,625.4	1,134.7	**16,140.7**
Accumulated depreciation	-1,166.2	-7,112.8	-1,224.5	-28.7	**-9,532.2**
Book value	**1,800.7**	**3,300.9**	**400.9**	**1,106.0**	**6,608.5**
thereof finance leases	90.4	4.3	0.2	—	**94.9**

[1] Investment property is presented separately under Note 13.
[2] Reclassifications to assets held for sale amount to -€33.2 million (PY: -€17.5 million); reclassifications from assets held for sale amount to €0.2 million (PY: €0.5 million).
[3] The additions include €0.3 million (PY: €1.5 million) of capitalized interest.
[4] Impairments also include necessary reversals of impairment losses.

In particular, additions to property, plant and equipment arising from changes in the scope of consolidated companies relate to the acquisition of Modi Tyres Company Limited, Modipuram, India, as part of a share deal and other acquisitions in the fiscal year. Please see Note 5.

Production capacity was systematically established and expanded for new products and production technologies in all business units of the Chassis & Safety segment. Major additions related to the creation of new production facilities for the next generation of electronic braking systems.

In the Engine Systems business unit in the Powertrain segment, production facilities for engine injection systems were increased in response to constant demand. Investments were made for the establishment of a new plant in Amata City, Thailand. The Transmission business unit expanded its production of transmission control units. In particular, production capacity was increased at the Cuautla location in Mexico.

Investments in the Interior segment focused primarily on expanding production capacity for the Body & Security and Instrumentation & Driver HMI business units. These investments relate to new manufacturing capacity at the German plants and in the U.S.A., Mexico, Brazil, Czech Republic, Romania and China.

Investments in the Passenger and Light Truck Tires segment focused on expanding capacity at European best-cost locations and in North and South America. The segment also invested in the construction of a new plant in Kaluga, Russia, and the expansion of the existing site in Hefei, China. Quality assurance and cost-reduction measures were also implemented.

Major additions were made in the Commercial Vehicle Tires segment in order to improve quality and increase production of truck tires. Investments focused on locations in Slovakia, Brazil and the U.S.A.

In addition to cost reduction and expansion investments in Germany, the ContiTech segment expanded production capacity at European locations in Romania and Hungary. The segment also invested in the expansion of production facilities at its locations in Brazil and Mexico. Production capacity was increased for the Asian market in China and South Korea.

Please see Note 6 for information on impairment losses and reversals of the same.

Government investment grants of €6.9 million (PY: €13.9 million) were deducted directly from cost.

In adopting IAS 23, €0.3 million (PY: €1.5 million) was capitalized as borrowing costs. The capitalization rate used for this was 2.2% (PY: 4.4%).

Reclassifications to assets held for sale essentially relate to properties at the Deer Park location owned by Continental Automotive Systems US, Inc., Auburn Hills, U.S.A.

Property, plant and equipment include buildings, technical equipment and other facilities assigned to the corporation as the beneficial owner on the basis of the lease agreement. These relate primarily to administration buildings and manufacturing systems. The leases have an average term of 20 years for buildings and five to ten years for technical equipment and are based on interest rates of between 5.5% and 8.8%.

With the exception of the lease agreement for the passenger and light truck tire factory in Hefei, China, which includes a purchase option that can be exercised in 2013, most of the other agreements do not include prolongation or purchase options.

There are amounts of €5.5 million (PY: €7.9 million) secured by property, plant and equipment for land charges, mortgages and similar securities.

13. Investment Property

in € millions	2011	2010
Cost at January 1	33.2	33.0
Accumulated depreciation at January 1	-13.3	-13.7
Net change		
Book value at January 1	**19.9**	**19.3**
Foreign currency translation	-0.1	0.1
Additions	0.1	—
Disposals	-0.3	0.0
Reclassifications	0.3	3.6
Depreciation	-0.9	-0.9
Impairments	0.0	-2.2
Book value at December 31	**19.0**	**19.9**
Cost at December 31	32.7	33.2
Accumulated depreciation at December 31	-13.7	-13.3

The fair value – determined using the gross rental method – of land and buildings accounted for as investment property as of December 31, 2011, amounted to €24.0 million (PY: €24.2 million). Rental income in 2011 amounted to €4.2 million (PY: €4.2 million), while the associated maintenance costs amounted to €1.8 million (PY: €1.8 million).

The disposals relate to sales of land and buildings to third parties. The reclassifications include properties that are now used by the corporation again and individual properties no longer used by the corporation but held for the purpose of generating rental income.

14. Investments in Associates

in € millions	2011	2010
At January 1	**440.4**	**398.0**
Additions	0.3	12.6
Disposals	-3.9	-2.1
Changes in the consolidation method, and transfers	-1.5	-2.3
Share of earnings	91.9	77.0
Impairments	-5.4	-0.5
Dividends received	-42.3	-43.3
Foreign exchange effects	0.7	1.0
At December 31	**480.2**	**440.4**

The additions of €0.3 million result from capital increases. Disposals essentially relate to the sale of shares in Matador Omskshina a.s.z.t., Omsk, Russia.

Reclassifications refer to the shares in DUAP AG, Herzogenbuchsee, Switzerland. The shares were reclassified to assets held for sale.

An impairment test on the carrying amount of an associate resulted in impairment of €5.4 million.

The principal investments in associates for the Automotive Group relate to S-Y-Systems Technologies Europe GmbH, Regensburg, Germany; Emitec GmbH, Lohmar, Germany; Shanghai Automotive Brake Systems Co. Ltd., Shanghai, China; SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany; and IAV GmbH Ingenieurgesellschaft Auto und Verkehr, Berlin, Germany; and for the Rubber Group to MC Projects B.V., Amsterdam, Netherlands, together with the respective subsidiaries of these companies.

The unaudited key figures taken from the last two available annual financial statements for the principal associates specified are summarized as follows (amounts are stated at 100%):

- Sales €4,897.3 million (PY: €4,036.4 million),
- Annual profit €137.4 million (PY: €83.9 million),
- Total assets €1,710.0 million (PY: €1,407.6 million),
- Liabilities €1,164.5 million (PY: €887.3 million).

15. Other Investments

in € millions	Shares in affiliated companies	Other investments	Total
At January 1, 2010	**1.0**	**7.0**	8.0
Foreign currency translation	0.0	0.0	**0.0**
Additions	0.1	0.0	**0.1**
Disposals	0.0	-1.0	**-1.0**
Changes in the consolidation method	-0.1	0.0	**-0.1**
At December 31, 2010	**1.0**	**6.0**	7.0
Foreign currency translation	—	0.0	**0.0**
Additions	—	0.0	**0.0**
Disposals	-0.1	—	**-0.1**
Changes in the consolidation method	0.0	—	**0.0**
At December 31, 2011	**0.9**	**6.0**	6.9

Other investments are carried at cost as their fair value cannot be determined reliably, particularly because there are no listings for these shares on the capital markets. There is no intention to sell these at the current time. Changes were only insignificant in the year under review. The disposals in the previous year related to the sale of the shares in Gemeinschaftskraftwerk Hannover GmbH, Hanover, Germany, in the amount of €1.0 million.

16. Deferred Taxes

Deferred tax assets and liabilities are composed of the following items:

in € millions	Dec. 31, 2011	Dec. 31, 2010
Intangible assets	-74.0	-27.4
Property, plant and equipment	-52.2	-36.8
Inventories	76.3	42.1
Other assets	-54.6	19.0
Pension obligations less deferred pension charges	40.5	69.9
Other provisions	86.6	102.5
Indebtedness	80.9	44.6
Other differences	60.0	86.1
Allowable tax credits	12.6	29.0
Tax losses carried forward and limitation of interest deduction	120.4	144.0
Net deferred taxes	**296.5**	**473.0**
Deferred tax assets	565.8	680.7
Deferred tax liabilities	269.3	207.7

Deferred taxes are measured in accordance with IAS 12 at the tax rate applicable for the periods in which they are expected to be realized. Since 2008, there has been a limit on the deductible interest that can be carried forward in Germany; the amount deductible under tax law is limited to 30% of taxable income before depreciation, amortization and interest.

The decline in deferred tax assets on loss carryforwards in the year under review is due to their utilization or expiry in the amount of €316.1 million (PY: €119.3 million). This was offset by the recognition of new loss carryforwards.

In 2011, individual corporation companies and tax groups that reported a loss recognized total deferred tax assets of €263.5 million (PY: €375.6 million), which arose from current losses, loss carryforwards and a surplus of deferred tax assets. Taking into account realizable tax strategies and assuming that future taxable income is expected, it is sufficiently probable that these deferred tax assets can be realized.

As of December 31, 2011, the corporate tax loss carryforwards amounted to €2,536.9 million (PY: €2,463.4 million). The majority of the corporation's tax loss carryforwards relate to foreign subsidiaries and are mostly limited in the period they can be carried forward.

In total, €1,074.6 million (PY: €1,009.5 million) in deferred tax assets were written down as it is currently not deemed sufficiently likely that they will be utilized. €819.0 million (PY: €777.3 million) of this relates to allowances on losses and interest carried forward. In particular, this relates to the U.S.A. (€356.7 million; PY: €395.1 million), Mexico (€44.1 million; PY: €47.6 million) and Italy (€17.4 million; PY: €19.9 million). A further €274.0 million (PY: €256.3 million) relates to the German tax group. €156.1 million (PY: €120.1 million) of this relates to interest carried forward that is currently deemed unlikely to be used in the future, and a further €108.5 million (PY: €108.5 million) in losses and interest carried forward from 2008 that, in the opinion of the German financial authorities, which is not shared by Continental, can no longer be used under Section 8c *KStG* on account of the change in ownership in 2008 and 2009.

No deferred tax assets were reported for loss carryforwards abroad in the amount of €31.7 million (PY: €31.7 million).

As of December 31, 2011, the interest carried forward in Germany amounted to €589.4 million (PY: €453.4 million).

In addition, allowances of €47.9 million (PY: €37.2 million) were recognized on imputable tax credit in

Malaysia as it is currently not deemed sufficiently likely that the credit will be utilized.

The cumulative amount of deferred taxes for items taken directly to equity decreased from €44.2 million in the previous year to €9.2 million.

The deferred tax liabilities from retained earnings of foreign companies amount to a total of €61.2 million (PY: €58.2 million). As it is not expected that amounts will be remitted to the parent company in the short or medium term, the corresponding deferred tax liabilities were not taken into account.

The measurement differences from assets or liabilities held for sale are included in the "Other assets" and "Other differences" items.

17. Other Financial Assets

	Dec. 31, 2011		Dec. 31, 2010	
	Maturity		Maturity	
in € millions	**up to 1 year**	**over 1 year**	**up to 1 year**	**over 1 year**
Amounts receivable from related parties	41.4	2.8	35.8	—
Loans to third parties	—	23.9	—	29.5
Amounts receivable from employees	19.0	—	27.4	—
Amounts receivable from suppliers	7.3	—	2.1	—
Amounts receivable for customer tooling	141.9	—	111.5	—
Other amounts receivable	53.9	—	36.5	—
Other financial assets	**263.5**	**26.7**	**213.3**	**29.5**

The receivables from related parties are mainly attributable to receivables from operating service business with associates and shareholders.

Loans to third parties mainly comprise tenants' loans for individual properties and include loans to customers with various maturities. Some of the loans have been granted free of interest, some at variable interest rates.

Amounts receivable from employees relate mainly to preliminary payments for hourly wages and for other advances.

The receivables from the sale of customer tooling relate to costs that have not yet been invoiced. The rise of €30.4 million as against the previous year essentially results from the Automotive Group.

Other financial receivables include deposits for guarantees in particular.

The carrying amounts of the other financial assets are essentially their fair values. Valuation allowances amounting to a total of €3.6 million (PY: €4.3 million) were recognized for the probable default risk on other assets. Income of €0.7 million (PY: expenses of €0.9 million) were incurred in the period under review.

18. Other Assets

	Dec. 31, 2011		Dec. 31, 2010	
	Maturity		Maturity	
in € millions	up to 1 year	over 1 year	up to 1 year	over 1 year
Tax refund claims (incl. VAT and other taxes)	351.4	—	310.1	—
Prepaid expenses	100.6	—	55.6	—
Others	172.0	14.0	170.8	13.1
Other assets	**624.0**	**14.0**	**536.5**	**13.1**

The tax refund claims result primarily from sales tax receivables from the purchase of production materials.

In particular, prepaid expenses include rent and maintenance services paid for in advance and license fees. Among other things, the "Others" item includes other deferred or advanced costs.

Valuation allowances amounting to €5.1 million (PY: €1.3 million) were recognized for the probable default risk on other assets. Expenses of €3.8 million (PY: —) were incurred in the period under review.

19. Inventories

in € millions	Dec. 31, 2011	Dec. 31, 2010
Raw materials and supplies	1,137.8	1,036.4
Work in progress	354.0	324.4
Finished goods and merchandise	1,499.5	1,305.7
Advances to suppliers	6.5	4.6
Advances from customers	-8.1	-33.3
Inventories	**2,989.7**	**2,637.8**

Valuation allowances recognized for inventories amounted to €66.3 million in the year under review (PY: €15.2 million). Inventories include amounts written down (gross inventories) of €327.0 million (PY: €260.7 million).

20. Trade Accounts Receivable

in € millions	Dec. 31, 2011	Dec. 31, 2010
Trade accounts receivable	5,445.0	4,570.9
Allowances for doubtful accounts	-103.5	-116.9
Trade accounts receivable	**5,341.5**	**4,454.0**

The carrying amounts of trade accounts receivable, net of allowances for doubtful accounts, are their fair values.

The risk provision is calculated on the basis of corporation-wide standards. Customer relationships are analyzed at regular intervals. Individual valuation allowances are distinguished from general portfolio allowances for trade accounts receivable measured at amortized cost. Trade accounts receivable for which individual valuation allowances must be recognized are not taken into account in calculating the general portfolio allowance.

The allowance for doubtful accounts essentially includes estimates and assessments of individual receivables based on the creditworthiness of the respective customer, current economic developments and the analysis of historical losses on receivables. The creditworthiness of a customer is assessed on the basis of its payment history and its ability to make repayments.

Individual allowances are recognized if the customer displays significant financial difficulties or there is a high probability of insolvency. Corresponding expenses are recognized in the allowances for doubtful accounts. The same applies to derecognitions and impairment reversals.

Accordingly, the individual valuation allowances and general portfolio allowances for trade accounts receivable developed as follows in the year under review:

in € millions	2011	2010
At January 1	**116.9**	**141.3**
Additions	37.5	36.4
Utilizations	-28.1	-33.6
Reversals	-22.1	-31.1
Amounts disposed of through disposal of subsidiaries	—	-0.1
Foreign currency translation	-0.7	4.0
At December 31	**103.5**	**116.9**

Several factoring programs are used in the Continental Corporation. When the risks and rewards of receivables – in particular credit and default risk – have not been completely transferred, the receivables are still recognized in the assets of the balance sheet. The trade receivables have a remaining term of less than one year.

Coface Finanz GmbH, Mainz, Germany, left the factoring agreement concluded in November 2010 between Continental AG, Norddeutsche Landesbank Luxembourg S.A., Luxembourg, and Coface Finanz GmbH which matured in September 2011. As a result, Norddeutsche Landesbank Luxembourg S.A. is now the sole partner in this contract. The term of the prolonged program ends on September 28, 2012. The net financing volume of €230.0 million and the gross volume of €287.5 million remained unchanged. An additional volume of €57.5 million was transferred in the amount of the difference. As of December 31, 2011, receivables of €287.5 million (PY: €280.0 million) were sold under this program which were offset by liabilities of €230.0 million (PY: €224.0 million). €122.1 million (PY: €115.1 million) of the receivables sold were already settled by way of payment by the end of the year. The cash deposited to cover any claims on the part of the lending banks not covered amounted to €17.3 million (PY: €16.8 million).

In December 2010, Continental AG concluded a factoring agreement with Landesbank Hessen-Thüringen Girozentrale, Frankfurt/Main, Germany, with a financing volume of €150.0 million. Receivables can be sold by the corporation companies Continental Benelux BVBA, Herstal, Belgium; Continental Automotive Benelux BVBA, Mechelen, Belgium; Continental France SNC, Sarreguemines, France; Continental Automotive France SAS, Toulouse, France; and Continental Automotive Rambouillet France SAS, Rambouillet, France. As of December 31, 2011, the volume of the receivables sold was €256.3 million (PY: €144.9 million). The liabilities associated with the receivables sold amounted to €150.0 million (PY: €82.8 million). €97.7 million (PY: €39.8 million) of the receivables sold were already settled by way of payment by the end of the year.

In September 2011, the factoring program in the United States with Wells Fargo Bank N.A., Atlanta, U.S.A., and The Bank of Nova Scotia, Houston, U.S.A., was extended to include Partner Bank of America N.A., Charlotte, U.S.A., and, in this context, its financing volume was increased from $150.0 million to $400.0 million. The agreement runs until September 30, 2012, with the option of prolongation by a further year. The program can be utilized by Continental Tire The Americas LLC, Charlotte, U.S.A, Continental Automotive Systems, Inc., Auburn Hills, U.S.A., and, since September 2011, by Continental Automotive Systems US, Inc., Auburn Hills, U.S.A., as well. As of December 31, 2011, the volume of the receivables sold was €169.5 million (PY: €74.7 million). The liabilities associated with the receivables sold amounted to €169.5 million (PY: €74.7 million). Further receivables in the amount of €656.9 million (PY: €294.9 million) were also deposited as collateral.

The trade accounts receivable for which specific valuation allowances have not been recognized are broken down into the following maturity periods:

			thereof overdue in the following maturity periods					
in € millions Dec. 31, 2011	**Carrying amount**	**thereof not overdue**	**less than 15 days**	**15 – 29 days**	**30 – 59 days**	**60 – 89 days**	**90 – 119 days**	**more than 120 days**
Trade accounts receivable[1]	4,612.8	4,240.4	207.6	57.8	38.7	20.4	13.2	34.7
Dec. 31, 2010								
Trade accounts receivable[1]	3,698.1	3,342.4	177.8	53.1	49.7	17.9	12.6	44.6

[1] The difference of €832.2 million (PY: €872.8 million) versus the first table in this Note results from receivables amounting to €832.2 million (PY: €879.5 million) for which individual valuation allowances are recognized, as well as from notes payable amounting to €6.7 million in the previous year.

Based on the customers' payment history and analysis of their creditworthiness, the Continental Corporation expects that the overdue receivables not written down will be settled in full and no valuation allowance will be required.

As of December 31, 2011, four companies of the Continental Corporation assigned trade receivables with a total amount of €312.4 million (PY: €397.7 million) as collateral for a loan for Continental AG from the European Investment Bank. The need to collateralize the loan arose from the deterioration of the Continental Corporation's rating in 2009. Furthermore, a corporation company in the U.S.A. transferred receivables of €4.8 million as collateral for a line of credit.

As of December 31, 2011, the receivables do not include any amounts (PY: €0.1 million) from the percentage-of-completion method. Advance payments from customers are included in the amount of €0.5 million (PY: —). In 2011, the cumulative costs and profits on construction contracts in progress at the end of the reporting period amounted to €0.0 million (PY: €3.5 million). Sales from construction contracts were recognized in the amount of €0.4 million (PY: €3.5 million) in the period under review.

21. Cash and Cash Equivalents

Cash and cash equivalents include all liquid funds and demand deposits. Cash equivalents are short-term, highly liquid financial investments that can be readily converted into known cash amounts and are subject to an insignificant risk of changes in value.

For information on the interest rate risk and the sensitivity analysis for financial assets and liabilities, please see Note 29.

22. Assets Held for Sale

in € millions	Dec. 31, 2011	Dec. 31, 2010
Assets of business units held for sale	—	—
Property, plant and equipment held for sale	45.4	22.0
Assets held for sale	**45.4**	**22.0**

€34.6 million of assets available for sale relate to the land and property at our Automotive location in Deer Park, U.S.A., reclassified in the year under review. The aim is to sell this location due to the sustained underutilization of its buildings. There were impairment requirements of €21.7 million in connection with its forthcoming disposal. Furthermore, an area of land with property was acquired in Switzerland for €6.7 million in the fiscal year and is intended for immediate resale.

Other assets relate to the shares held by Continental Automotive GmbH, Hanover, in DUAP AG, Herzogenbuchsee, Switzerland, in the amount of €1.5 million and smaller properties held for sale.

The property at our Costa Rica location held as available for sale in the previous year was disposed of in the year under review. An insignificant investment holding of the Passenger and Light Truck Tires segment was sold in March 2011.

Assets held for sale are measured at the lower of their carrying amount prior to classification of the group of assets as held for sale and the fair value less costs to sell.

23. Total Equity

Number of shares outstanding	2011	2010
At January 1	**200,005,983**	**169,005,983**
Capital increase against cash contributions	—	31,000,000
At December 31	**200,005,983**	**200,005,983**

The subscribed capital of Continental AG was unchanged year-on-year. At the end of the reporting period it amounted to €512,015,316.48 and was composed of 200,005,983 no-par-value shares with a notional value of €2.56 per share.

By way of resolution of the Annual Shareholders' Meeting of April 24, 2007, the Executive Board is authorized, with the approval of the Supervisory Board, to increase the share capital of the company by up to €187.5 million through the issuance of new shares against cash and/or contributions in kind up to April 23, 2012. Following the capital increases in the fiscal years 2007 and 2010, the company still has authorized capital of €70.6 million on the basis of this authorization (Article 4 (3) of the Articles of Incorporation).

On the basis of the resolution of the Annual Shareholders' Meeting on April 23, 2009 (Article 4 (2) of the Articles of Incorporation), the company has additional authorized capital of €66.0 million for the issuance of new shares against cash and/or contributions in kind up to April 22, 2014.

The share capital has been conditionally increased by up to €3.8 million in accordance with Article 4 (5) of the Articles of Incorporation. The conditional capital increase is intended to be able to grant the bearers of rights under the 2004 stock option plan new shares when their rights are exercised. The Annual Shareholders' Meeting on May 14, 2004, approved the 2004 stock option plan for members of the Executive Board and senior executives. The 2004 stock option plan authorized the Executive Board to grant, in line with the plan's more detailed specifications, a total of 3,936,000 subscription rights until May 13, 2009, each of which entitles the option holder to subscribe for one share. As in the previous year, no subscription rights were exercised in 2011. 31,400 (PY: 34,700) subscription rights expired in 2011, as a result of which 36,400 subscription rights were still outstanding as of the end of the reporting period.

The share capital has been conditionally increased by up to €20.0 million in accordance with Article 4 (7) of the Articles of Incorporation. The conditional capital increase is intended to be able to grant the bearers of rights under the 2008 stock option plan new shares when their rights are exercised. The 2008 stock option plan adopted at the Annual Shareholders' Meeting on April 25, 2008, authorizes the issuance of up to 7,800,000 subscription rights to the Executive Board and senior executives until April 24, 2013. As in the previous year, no subscription rights were issued in 2011, while 8,300 expired (PY: 9,900). Thus, 47,900 subscription rights are still outstanding as of the end of the reporting period.

The share capital has been conditionally increased by up to €111.5 million in accordance with Article 4 (4) of the Articles of Incorporation. By way of resolution by the Annual Shareholders' Meeting on May 5, 2006 and the resolution amending this by the Annual Shareholders' Meeting on April 25, 2008, the Executive Board is authorized, with the approval of the Supervisory Board, to issue warrant-linked bonds and/or convertible bonds up to May 4, 2011. The term of this authorization expired without being utilized as of the end of the reporting period.

The share capital has been conditionally increased by up to €37.5 million in accordance with Article 4 (6) of the Articles of Incorporation (Conditional Capital II). Conditional Capital II is intended to grant new shares to the bearers of convertible bonds and/or warrant-linked bonds, participation rights and/or income bonds, if they are issued up to May 4, 2011, on the basis of the authorization granted by the Annual Shareholders' Meeting on April 25, 2008. The term of this authorization expired without being utilized as of the end of the reporting period.

Conditional Capital III of €43.5 million as resolved by the Annual Shareholders' Meeting on April 23, 2009 in accordance with Article 4 (8) of the Articles of Incorporation serves to grant new shares to the holders of convertible bonds and/or warrant-linked bonds, participation rights and/or income bonds, if they are issued up to April 22, 2014, on the basis of the authorization granted by the Annual Shareholders' Meeting on April 23, 2009. This authorization has not yet been utilized.

The change in conditional capital is shown in the table below:

in € thousands	2011	2010
Conditional capital at January 1	**209,280**	**209,394**
Expiration of subscription rights granted	-101	-114
Conditional capital at December 31	**209,179**	**209,280**

Under the German Stock Corporation Act *(Aktiengesetz)*, the dividends distributable to the shareholders are based solely on Continental AG's retained earnings as of December 31, 2011, of €508.5 million (PY: €61.1 million), as reported in the annual financial statements prepared in accordance with the German Commercial Code. The Supervisory Board and the Executive Board will propose to the Annual Shareholders' Meeting the distribution of a dividend of €1.50 per share. With 200,005,983 shares entitled to dividends, the total distribution will therefore amount to €300,008,974.50. The remaining amount is to be carried forward to new account.

24. Share-Based Payment

The equity instruments made available for share-based payment programs are disclosed in Note 23 on Total Equity.

The expenses from stock options plans are recognized in other operating expenses. These amounted to €7.2 million in the year under review (PY: €17.3 million).

2004 variable stock option plan
Continental AG introduced a variable stock option plan (2004 stock option plan) with the approval of the Annual Shareholders' Meeting on May 14, 2004. This plan replaced the 1999 stock option plan and enabled the issue of up to 3.9 million subscription rights. Each option granted under this plan carries the right to subscribe for one share. These stock options can be exercised after a vesting period of three years, starting from the date on which the Executive Board (or the Supervisory Board) granted the options. Once vested, the options can be exercised, i.e. the corresponding number of Continental AG shares can be acquired, within certain exercise windows during the following two years.

Continental AG's variable stock option plans include a performance target as a prerequisite for the exercise of stock options. Subscription rights may be exercised only if the average market price of Continental shares in the XETRA closing auction on the Frankfurt Stock Exchange during the ten trading days prior to an exercise window is at least 15% (= exercise hurdle) above the average closing price during the ten trading days prior to the issue date.

The exercise price varies in accordance with an outperformance and performance discount. The outperformance discount is calculated on the basis of the performance of Continental's shares as against the MDAX. The performance discount is calculated as a function of the relative change in the corporation's EBIT margin.

The value of the issued stock options is determined using the Monte Carlo simulation model. This model ensures realistic allowances for the effects of the performance target as well as the performance and outperformance discount. Specifically, the model simulates the change in the price of Continental shares and the MDAX to reflect the outperformance of Continental shares as against the benchmark index and the increase in the average closing price of Continental shares as against the reference price. The measurement model also takes into account assumptions regarding fluctuation. The adjustment of the exercise price by the outperformance of Continental shares against the MDAX is a market condition under IFRS and is included only in measurement as of the issue date. The adjustment of the exercise price in line with the change in the return on sales (EBIT in % of sales) of the Continental Corporation is a performance condition under IFRS.

The model used also takes into account the possibility of an early exercise of the options in all cases where the adjusted exercise price falls below 50% of the reference price and the performance target is achieved during the exercise window. Further, the model assumes that, as experience has shown, option holders who have left the corporation exercise the option immediately after the vesting period.

The expected dividends recognized in the model for each year of the options' duration are based on estimates published by analysts.

The volatilities and correlation reflect historical trends, based on the closing prices for the Continental share and the MDAX as of the end of each reporting period corresponding to a period equivalent to the remaining duration of the option rights.

When calculating the exercise price, an allowance is possible if Continental's stock underperforms against the reference price, and that performance against the stock market index to which the Continental share belongs at the beginning of an exercise window is used as a basis to determine the outperformance. In addition, the plan features a cap on possible capital gain.

	2011		2010	
	Number of subscription rights	Average exercise price[1]	Number of subscription rights	Average exercise price[1]
Stock option plan 2004	**1,000 units**	**€/unit**	**1,000 units**	**€/unit**
Outstanding at January 1	**1,283.2**	**105.73**	**1,767.6**	**95.72**
Forfeited	—	—	3.3	118.65
Expired	602.3	91.13	481.1	68.87
Outstanding at December 31	**680.9**	**118.65**	**1,283.2**	**105.73**
Exercisable on December 31[2]	**680.9**	**118.65**	**1,283.2**	**105.73**

[1] The average exercise hurdle is given since no subscription rights were exercised in the period under review or in the previous year.

[2] Of the subscription rights exercisable on December 31, 36,400 can still be exercised. The other subscription rights are assignable to the redemption offer for the previous periods.

No more stock options will be issued from the 2004 stock option plan when the 2008 stock option plan comes into effect.

A fair value of €36.18 was calculated for the options of the 2004 tranche for the last time at the end of the vesting period on July 3, 2010. The remaining term is equal to the exercise window still available. The weighted average remaining term is six months (PY: one year) and corresponds to the maximum remaining term of the entire 2004 stock option plan.

No stock options were issued in either the reporting period or the previous year's reporting period. The range of exercise prices for the 2007 tranche was from €51.59 to €118.65.

2008 variable stock option plan

With the approval of the Annual Shareholders' Meeting on April 25, 2008, Continental AG adopted another variable stock option plan (2008 stock option plan) for senior executives and the Executive Board to take account of the new management structure after the acquisition of Siemens VDO. Its main features are the same as those of the 2004 stock option plan. Each stock option granted as part of the stock option plan carries the right to subscribe for one share. In total, up to 7.8 million stock options can be issued as part of the 2008 stock option plan. The issue of the stock options of a tranche takes place on the eleventh working day following the publication of the interim report for the first quarter of the relevant year (issue date). The stock options can be exercised only after a three-year period has elapsed since the issue date (vesting period) and then within a further period of two years commencing immediately upon expiration of the vesting period (exercise period). The stock options can be exercised only within certain time periods (exercise windows) during an exercise period.

The exercise is also linked to the attainment of a "performance target". Accordingly, 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% (= exercise hurdle) above the average closing price during the last ten days of trading before the issue date. The issue amount for shares subscribed on the basis of an exercise of subscription rights derived from the 2008 stock option plan ("exercise price") corresponds to the average closing price during the last ten trading days prior to the issue date (issue price), plus a premium, minus a performance-oriented reduction and adjusted by an outperformance-oriented reduction or surcharge. The performance discount is calculated as a function of the relative change in the corporation's EBIT margin. The outperformance discounts and premiums are determined on the basis of the development of Continental's shares in comparison with the development of the DAX or the stock market index to which the Continental shares belong at the beginning of the exercise window.

The value of the issued stock options is determined using the Monte Carlo simulation model, which is explained in detail in the description of the 2004 stock option plan. In accordance with the 2004 stock option plan, a ceiling has been imposed on the achievable capital gain.

A fair value of €32.43 was calculated for the options of the 2008 tranche for the last time at the end of the vesting period on May 16, 2011. The remaining term is equal to the exercise window still available. The weighted average remaining term is one year and four months (PY: two years and four months) and corresponds to the maximum remaining term of the entire 2008 stock option plan.

	2011		2010	
Stock option plan 2008	Number of subscription rights 1,000 units	Average exercise price[1] €/unit	Number of subscription rights 1,000 units	Average exercise price[1] €/unit
Outstanding at January 1	**1,173.8**	**89.95**	**1,183.7**	**89.95**
Forfeited	—	—	9.9	89.95
Expired	8.3	89.95	—	—
Outstanding at December 31	**1,165.5**	**89.95**	**1,173.8**	**89.95**
Exercisable on December 31[2]	**1,165.5**	**89.95**	**—**	**—**

[1] The average exercise hurdle is given since no subscription rights were exercised in the period under review or in the previous year.
[2] Of the subscription rights exercisable on December 31, 47,900 can still be exercised. The other subscription rights are assignable to the redemption offer for the previous periods.

In December 2008, a compensation offer for granted and not yet exercised stock options was made to the senior executive management of the corporation to whom stock options were granted from the stock option plans of 2004 and 2008. The reason for the compensation offer was the limited free float of Continental AG's shares, which meant that the share price performance could be subject to coincidental fluctuations which do not reflect Continental's economic development. The stock option plan thus lost its effectiveness as a long-term remuneration instrument geared towards the company's performance.

The compensation offer was based on the fair value of the stock options as of October 31, 2008. The average weighted fair value of the 2005 to 2008 tranches was €3.13 per stock option. Based on this evaluation, a provision was made for the payments in the years 2010 and 2011 for the first time in fiscal 2008. The acceptance period ran until mid-January 2009. The majority of the stock option plan beneficiaries accepted the offer.

2009 and 2010 remuneration plans

As a component of Executive Board remuneration, a decision was made at the end of 2010 as in 2009 to convert part of the variable element into virtual shares. The total bonus amount of €5.6 million (PY: €1.2 million) was recognized as a provision as of the end of the reporting period. Information on Executive Board remuneration can be found in the Remuneration Report.

25. Provisions for Pension Liabilities and Other Post-Employment Benefits

Provisions for pension liabilities and other post-employment benefits are shown in the following items of the statement of financial position:

in € millions	Dec. 31, 2011	Dec. 31, 2010
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	1,239.9	1,196.4
Provisions for other post-employment benefits	165.7	180.3
Provisions for similar obligations	26.6	27.8
Pension obligations	**1,432.2**	**1,404.5**
Deferred pension charges (difference between pension obligations and related funds)	**102.9**	**73.8**

Pension plans

The Continental Corporation offers its employees pension plans in the form of defined benefits and defined contributions, either as general or individual plans. The provisions cover the obligations from defined benefit plans, in particular in Germany, the U.S.A., Canada, the U.K., Austria, France, Mexico, Italy and Ireland.

Separate pension funds exist to fully or partially finance the company's pension obligations for many of the plans. These pension fund assets can only be used to settle pension obligations. The principal funds are in the U.S.A and the U.K., and Germany in the form of contractual trust arrangements (CTAs). These pension fund assets are netted against the related pension provisions, provided they qualify as plan assets as defined by IAS 19.

The plan assets also include, in 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 due to certain warranty risks.

in € millions	Dec. 31, 2011	Dec. 31, 2010
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	1,239.9	1,196.4
Deferred pension charges (difference between pension obligations and related funds)	102.9	73.8
Net amount recognized	**1,137.0**	**1,122.6**

The pension provisions increased by €43.5 million as against the previous year. The increase is essentially due to current pension expenses, which were not offset by the pension payments made or contributions to pension plans. Deferred pension charges representing the net assets from pension obligations and related funds increased by €29.1 million, largely as a result of contributions to pension funds in the U.S.A. and the U.K.

The pension obligations for Germany, the U.S.A. and Canada, the U.K. and other countries, as well as the amounts for the Continental Corporation as a whole, are shown in the following tables. The U.S.A. and Canada are abbreviated to USA/C.

The reconciliation of the changes in the defined benefit obligation from the beginning to the end of the year is as follows:

	2011					2010				
in € millions	**Germany**	**USA/C**	**UK**	**Other**	**Total**	**Germany**	**USA/C**	**UK**	**Other**	**Total**
Defined benefit obligation at January 1	**1,875.9**	**1,035.2**	**230.6**	**201.1**	**3,342.8**	**1,760.2**	**935.4**	**194.9**	**165.9**	**3,056.4**
Foreign currency differences	—	32.7	6.3	2.3	**41.3**	—	80.2	6.1	7.9	**94.2**
Current service cost	60.0	0.6	2.7	13.3	**76.6**	51.0	6.0	2.6	12.0	**71.6**
Interest cost on defined benefit obligation	91.8	51.9	11.4	10.0	**165.1**	87.2	55.2	11.0	10.0	**163.4**
Plan amendments	-14.8	—	—	—	**-14.8**	—	-2.1	—	3.4	**1.3**
Actuarial losses/gains from changes in assumptions	-37.6	67.1	-10.6	-7.4	**11.5**	44.6	24.3	20.9	13.9	**103.7**
Actuarial losses/gains from experience adjustments	-11.6	1.4	0.6	0.4	**-9.2**	18.6	1.0	1.6	-0.2	**21.0**
Curtailments/settlements	—	-70.7	—	-14.0	**-84.7**	—	-4.4	—	-0.9	**-5.3**
Net changes in the scope of consolidation	—	—	—	1.3	**1.3**	-3.2	—	—	0.3	**-2.9**
Employee contributions	—	—	0.9	0.3	**1.2**	—	0.1	0.9	0.3	**1.3**
Other changes	—	—	-0.6	-0.1	**-0.7**	—	—	-0.5	0.8	**0.3**
Benefit payments	-85.8	-57.9	-6.5	-14.9	**-165.1**	-82.5	-60.5	-6.9	-12.3	**-162.2**
Defined benefit obligation at December 31	**1,877.9**	**1,060.3**	**234.8**	**192.3**	**3,365.3**	**1,875.9**	**1,035.2**	**230.6**	**201.1**	**3,342.8**

The reconciliation of the changes in the plan assets from the beginning to the end of the year is as follows:

	2011					2010				
in € millions	Germany	USA/C	UK	Other	Total	Germany	USA/C	UK	Other	Total
Fair value of plan assets at January 1	**686.4**	**774.2**	**222.8**	**96.4**	**1,779.8**	**689.3**	**675.6**	**175.9**	**79.1**	**1,619.9**
Foreign currency differences	—	20.6	8.2	-2.3	**26.5**	—	59.1	5.6	5.0	**69.7**
Expected return on plan assets	31.0	53.8	13.2	5.0	**103.0**	28.8	52.5	11.7	5.1	**98.1**
Actuarial gains/losses from plan assets	-6.7	-31.4	-10.3	-2.5	**-50.9**	-6.8	25.2	12.3	-0.2	**30.5**
Employer contributions	0.7	51.0	14.0	9.3	**75.0**	0.3	21.7	23.8	11.8	**57.6**
Employee contributions	—	—	0.9	0.3	**1.2**	—	0.1	0.9	0.3	**1.3**
Curtailments/settlements	—	-70.7	—	-5.3	**-76.0**	0.0	—	—	—	**0.0**
Other changes	—	—	-0.7	-6.6	**-7.3**	—	—	-0.5	0.5	**0.0**
Benefit payments	-27.3	-57.6	-6.5	-7.8	**-99.2**	-25.2	-60.0	-6.9	-5.2	**-97.3**
Fair value of plan assets at December 31	**684.1**	**739.9**	**241.6**	**86.5**	**1,752.1**	**686.4**	**774.2**	**222.8**	**96.4**	**1,779.8**
Actual return on plan assets	24.3	22.4	2.9	2.5	**52.1**	22.0	77.7	24.0	4.9	**128.6**

€3,295.2 million (PY: €3,271.3 million) of the defined benefit obligation as of December 31, 2011, relates to plans that are fully or partially funded and €70.1 million (PY: €71.5 million) relates to plans that are unfunded.

Settlements in the year under review result from the restructuring of the Chatham location in Canada. The decrease in defined benefit obligation and the plan assets relates to the concluding payments to be made in 2012.

In the year under review, the changes due to changes in the consolidated companies relate to the acquisition of Modi Tyres Company Limited, Modipuram, India. In the previous year, the changes due to changes in the consolidated companies related to disposals of holdings in Benoac Fertigteile GmbH, Peine, Germany; ContiTech Formpolster GmbH, Hanover, Germany; and Continental Automotive Corporation Korea Ltd., Seoul, South Korea.

Plan assets in Germany include the CTA assets amounting to €274.9 million (PY: €273.3 million), pension contribution fund assets of €320.0 million (PY: €325.2 million) and insurance annuity contracts amounting to €89.2 million (PY: €87.8 million). €5.5 million (PY: €1.1 million) of the actuarial gains and losses on plan assets in Germany resulted from official retirement funds and -€12.2 million (PY: -€7.8 million) from the CTAs.

In the Continental Corporation there are pension funds for previously defined contributions in Germany that have been closed to new entrants since July 1, 1983, and March 1, 1984, respectively. As of December 31, 2011, 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 €320.0 million (PY: €325.2 million) as of December 31, 2011. The pension funds have tariffs with an interest rate of 3.50%, for which Continental AG is ultimately liable under the German Company Pensions Law *(Betriebsrentengesetz)*. Under this law, the pension obligations constitute a defined benefit pension plan; this plan must be reported in line with the development of pension provisions. However, given that only the plan members are entitled to the assets and all income, the benefit obligations are recognized in the same amount as the existing assets at fair value.

The following table shows the reconciliation of the funded status to the amounts contained in the statement of financial position:

	Dec. 31, 2011					Dec. 31, 2010				
in € millions	Germany	USA/C	UK	Other	Total	Germany	USA/C	UK	Other	Total
Funded status[1]	**-1,193.8**	**-320.4**	**6.8**	**-105.8**	**-1,613.2**	**-1,189.5**	**-261.0**	**-7.8**	**-104.7**	**-1,563.0**
Unrecognized actuarial losses	77.4	356.2	36.7	21.1	**491.4**	121.3	267.0	35.7	23.5	**447.5**
Unrecognized past service cost from plan amendments	—	—	—	3.9	**3.9**	—	0.0	—	4.3	**4.3**
Asset ceiling	—	-1.0	-14.9	-3.2	**-19.1**	—	-2.5	-8.9	—	**-11.4**
Net amount recognized	**-1,116.4**	**34.8**	**28.6**	**-84.0**	**-1,137.0**	**-1,068.2**	**3.5**	**19.0**	**-76.9**	**-1,122.6**

[1] Difference between plan assets and defined benefit obligation.

The net amount recognized in the balance sheet comprises the following balance sheet items:

	Dec. 31, 2011					Dec. 31, 2010				
in € millions	Germany	USA/C	UK	Other	Total	Germany	USA/C	UK	Other	Total
Deferred pension charges	—	66.2	28.6	8.1	**102.9**	—	48.6	19.0	6.2	**73.8**
Pension and post-employment provisions	-1,116.4	-31.4	—	-92.1	**-1,239.9**	-1,068.2	-45.1	—	-83.1	**-1,196.4**
Net amount recognized	**-1,116.4**	**34.8**	**28.6**	**-84.0**	**-1,137.0**	**-1,068.2**	**3.5**	**19.0**	**-76.9**	**-1,122.6**

The pension plan of Continental Automotive Trading UK Ltd., Birmingham, U.K., reports plan assets as of the end of the fiscal year that exceed the defined benefit obligation. The recognition of such an asset is limited to the present value of the benefits to the corporation (asset ceiling). As of December 31, 2011, this present value is €0.0 million (PY: €0.0 million).

The pension plan of Continental Automotive Canada, Inc., Mississauga, Canada, also reports plan assets that the Continental Corporation cannot fully utilize. As of December 31, 2011, this present value is €1.4 million (PY: €0.0 million).

The assumptions used in measuring the pension obligations, in particular the discount factors, long-term salary growth rates and the long-term rates of return on plan assets, are established separately for each country.

In the principal pension plans, the following weighted-average valuation factors as of December 31 of the year have been used:

	2011				2010			
in %	**Germany[1]**	**USA/C**	**UK**	**Other**	**Germany[1]**	**USA/C**	**UK**	**Other**
Discount rate	5.50	4.87	5.10	5.65	5.30	5.37	5.00	5.51
Expected long-term return on plan assets	4.75	6.66	5.84	5.47	4.76	7.40	5.84	6.91
Long-term salary growth rate	3.00	3.25	3.85	4.10	3.00	3.05	3.90	3.97

[1] Excluding the pension contribution funds.

Net pension cost can be summarized as follows:

	2011					2010				
in € millions	**Germany**	**USA/C**	**UK**	**Other**	**Total**	**Germany**	**USA/C**	**UK**	**Other**	**Total**
Current service cost	60.0	0.6	2.7	13.3	**76.6**	51.0	6.0	2.6	12.0	**71.6**
Interest on defined benefit obligation	91.8	51.9	11.4	10.0	**165.1**	87.2	55.2	11.0	10.0	**163.4**
Expected return on plan assets	-31.0	-53.8	-13.2	-5.0	**-103.0**	-28.8	-52.5	-11.7	-5.1	**-98.1**
Amortization of actuarial gains/losses	1.4	21.1	-1.3	1.8	**23.0**	0.0	19.9	5.2	1.2	**26.3**
Amortization of past service cost, as well as other pension income/cost	-14.8	—	—	0.4	**-14.4**	—	-2.0	—	0.1	**-1.9**
Curtailments/settlements	—	4.1	—	-1.6	**2.5**	—	-4.4	—	-0.9	**-5.3**
Effect of change of asset ceiling	—	-1.4	5.5	0.9	**5.0**	—	-0.3	0.6	—	**0.3**
Net pension cost	**107.4**	**22.5**	**5.1**	**19.8**	**154.8**	**109.4**	**21.9**	**7.7**	**17.3**	**156.3**

Curtailments and settlements in 2010 and 2011 result in particular from the restructuring of the Chatham site in Canada, and the effects of closing the locations in Clairoix, France, and Huntsville, U.S.A.

A one percentage point increase or decrease in the discount rate used to discount pension obligations would have had the following impact on the pension obligations as of the end of the reporting period:

	Dec. 31, 2011				Dec. 31, 2010			
in € millions	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other
1% increase								
Effects on service and interest costs	-1.4	3.3	-0.1	1.9	-1.7	3.3	-0.3	1.3
Effects on benefit obligation	-189.0	-106.0	-36.1	-20.0	-155.1	-101.3	-37.1	-22.3
1% decrease								
Effects on service and interest costs	1.2	-4.4	0.1	5.5	1.3	-4.4	0.8	5.3
Effects on benefit obligation	233.6	128.6	46.3	23.9	189.7	121.5	48.1	25.4

[1] Excluding the pension contribution funds.

Changes in the discount rate as well as the salary and pension trends do not have a linear effect on the defined benefit obligations (DBO) owing to the financial models used (particularly due to the compounding of interest rates). For this reason, the net periodic pension cost derived from the pension obligations does not change as a result of an increase or decrease in the actuarial 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 forecast pension obligations and the corresponding plan assets. Investment committees regularly review the investment decisions taken, the underlying expected returns of the individual asset classes reflecting empirical values, as well as the selection of the external fund managers.

The portfolio structures of the pension plan assets at the measurement date for fiscal years 2011 and 2010, as well as the planned portfolio structure for fiscal year 2012, are as follows:

in %	Planned structure 2012				2011				2010			
Type of asset	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other
Equity instruments	23	55	23	13	14	55	22	12	9	50	33	11
Debt securities	77	38	48	70	65	38	50	71	63	43	61	74
Real estate	—	3	23	4	2	3	21	3	2	4	2	3
Cash, cash equivalents and other	—	4	6	13	19	4	7	14	26	3	4	12
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 2011 and 2010 is as follows:

in %	2011				2010			
Type of asset	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other
Equity instruments	7.10	7.70	7.59	6.44	7.10	8.79	7.89	6.26
Debt securities	4.06	5.41	4.73	5.60	4.18	5.32	4.80	7.48
Real estate	—	6.37	7.03	4.44	—	5.30	8.00	4.42
Cash, cash equivalents and other	—	2.82	4.83	5.01	—	3.77	3.89	4.50
Long-term return	**4.75**	**6.66**	**5.84**	**5.47**	**4.76**	**7.40**	**5.84**	**6.91**

[1] The expected long-term return on plan assets of the individual asset types in Germany excludes the expected returns of the pension contribution funds, whose returns range from 4.00% and 4.50% for long-term debt securities.

The reference date for plan asset measurement is December 31.

Employer contributions to pension funds

The following table shows the cash contributions made by the company to the pension funds for 2011 and 2010 as well as the expected contributions for 2012:

in € millions	2012 (expected)	2011	2010
Germany	0.3	0.7	0.3
USA/C	46.0	51.0	21.7
UK	7.6	14.0	23.8
Other	8.0	9.3	11.8
Total	**61.9**	**75.0**	**57.6**

The following overview contains the pension benefit payments made in the reporting year and the previous year, as well as the undiscounted, expected pension benefit payments for the next ten years:

in € millions	Germany	USA/C	UK	Other	Total
Benefits paid					
2010	82.5	60.5	6.9	12.3	**162.2**
2011	85.8	57.9	6.5	14.9	**165.1**
Benefit payments as expected					
2012	100.3	119.4	6.2	13.7	**239.6**
2013	112.2	65.0	7.0	14.5	**198.7**
2014	114.1	60.5	7.3	16.7	**198.6**
2015	119.6	61.7	7.9	18.7	**207.9**
2016	126.6	62.5	8.7	21.9	**219.7**
Total of years 2017 to 2021	639.5	319.6	55.2	154.5	**1,168.8**

The expected pension payments from 2012 onwards relate to lump-sum amounts in connection with fixed service cost benefit plans, as well as annual pension benefits. For the purposes of estimating the future payments, in those cases where employees have an option to immediately receive their benefits in cash on retirement or to opt for monthly pension payments, it has been assumed that in all cases the lump-sum will be chosen. Furthermore, the earliest eligible date for retirement has been assumed when determining future pension payments. The actual retirement date could occur later. Therefore the actual payments in future years for present plan members could be lower than the amounts assumed. The final payments for the location Chatham, Canada, will be made in 2012.

For the current and four preceding reporting periods, the amounts of the defined benefit obligation, plan assets, deficit, as well as the experience adjustments to plan liabilities and to plan assets are as follows:

in € millions	2011	2010	2009	2008	2007
Defined benefit obligation	3,365.3	3,342.8	3,056.4	2,800.9	2,889.0
Plan assets	1,752.1	1,779.8	1,619.9	2,171.9	2,551.6
Deficit	-1,613.2	-1,563.0	-1,436.5	-629.0	-337.4
Experience adjustments to plan liabilities	2.3	124.7	163.3	-87.6	-216.1
Experience adjustments to plan assets	-50.9	30.5	68.7	-347.6	-28.9

The increase in the deficit as against the previous year results particularly from the slight decrease in the return on plan assets and the increase in current pension expenses.

Other post-employment benefits

Certain subsidiaries – primarily in the U.S.A. and Canada – grant eligible employees healthcare and life insurance on retirement if they have fulfilled certain conditions relating to age and years of service. The amount and entitlement can be altered. Certain retirement benefits, in particular for pensions and healthcare costs, are provided in the U.S.A. for hourly-paid workers at unionized tire plants under the terms of collective pay agreements.

No separate plan assets have been set up for these obligations.

The reconciliation of the changes in the defined benefit obligation and the financing status from the beginning to the end of the year is as follows:

in € millions	2011	2010
Defined benefit obligation at January 1	**210.9**	**191.1**
Foreign currency differences	5.4	15.9
Current service cost	1.3	1.3
Interest cost on defined benefit obligation	10.2	11.6
Actuarial losses from changes in assumptions	8.8	6.9
Actuarial losses/gains from experience adjustments	-2.6	0.4
Curtailments/settlements	-17.7	-1.4
Benefit payments	-14.1	-14.9
Defined benefit obligation at December 31	**202.2**	**210.9**
Unrecognized actuarial losses	42.6	39.8
Unrecognized income from plan amendments	-6.1	-9.2
Amount recognized at December 31	**165.7**	**180.3**

In particular, the decline in the defined benefit obligation results from settlements in connection with the restructuring of the site in Huntsville, U.S.A.

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 had to make a one-time payment totaling €43.5 million as compensation. Most of the payment was made in 2008, with payment of the remainder spread over the following seven years. The remaining provision of €7.7 million as of December 31, 2011 (PY: €9.7 million) is recognized under the provisions for obligations similar to pensions.

The assumptions used for the discount rate and cost increases to calculate the healthcare and life insurance benefits vary according to conditions in the U.S.A. and Canada.

The following weighted average valuation factors at December 31 were used:

in %	2011	2010
Discount rate	4.95	5.48
Rate of increase in healthcare and life insurance benefits in the following year	7.50	7.27
Long-term rate of increase in healthcare and life insurance benefits	4.99	4.99

The net cost of healthcare and life insurance benefit obligations can be broken down as follows:

in € millions	2011	2010
Current service cost	1.3	1.3
Interest cost on defined benefit obligation	10.2	11.6
Amortization of actuarial gains/losses	3.8	5.6
Amortization of vested prior plan amendments	-2.8	-3.1
Curtailments/settlements	-15.7	-1.4
Net loss	**-3.2**	**14.0**

In the year under review, income from settlements related to the restructuring of the site in Huntsville, U.S.A., and led to a net gain from the healthcare and life insurance obligations in 2011.

In the previous year, the income from curtailments and settlements resulted from a tire location 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	2011	2010
1% increase		
Effects on net cost	0.2	0.3
Effects on benefit obligation	4.0	6.0
1% decrease		
Effects on net cost	-0.2	-0.3
Effects on benefit obligation	-3.4	-5.1

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	2011	2010
1% increase		
Effects on service and interest costs	0.6	0.7
Effects on benefit obligation	-17.4	-18.4
1% decrease		
Effects on service and interest costs	-0.7	-0.8
Effects on benefit obligation	21.0	22.3

The following table shows the payments made for other post-employment benefits in the reporting year and the previous year, as well as the undiscounted, expected benefit payments for the next ten years:

in € millions	
Benefits paid	
2010	14.9
2011	14.1
Benefit payments as expected	
2012	15.2
2013	15.1
2014	14.9
2015	14.7
2016	14.5
Total of years 2017 to 2021	70.4

The amounts for the defined benefit obligation, deficit and experience adjustments to plan liabilities for the current and four preceding reporting periods are as follows:

in € millions	2011	2010	2009	2008	2007
Defined benefit obligation	202.2	210.9	191.1	180.0	208.8
Deficit	-202.2	-210.9	-191.1	-180.0	-208.8
Experience adjustments to plan liabilities	6.2	7.3	23.5	23.3	-7.6

Provisions for obligations similar to pensions
Some companies of the corporation have made commitments to employees for a fixed percentage of the employees' compensation. These entitlements are paid out when the employment relationship is terminated. In the fiscal year, the expenses for these obligations were €1.6 million (PY: €0.9 million).

The provision for obligations similar to pensions fell by €1.2 million in fiscal 2011. This essentially results from payments under a plan similar to a pension recognized in the U.S.A. for executive staff. The remainder from the agreement reached with the U.S. union in 2008 on a compensatory payment of €7.7 million (PY: €9.7 million) will be paid over the next four years.

Defined contribution pension plans
Not including social security contributions, the expenses for the defined contribution pension plans to which Continental Corporation contributes amounted to €31.1 million in the fiscal year (PY: €37.9 million). The decline as against the previous year mainly results from the lower contributions to defined contribution pension plans in the U.S.A.

26. Provisions for Other Risks and Obligations

	Dec. 31, 2011		Dec. 31, 2010	
in € millions	**Current**	**Non-current**	**Current**	**Non-current**
Restructuring provisions	117.8	47.8	311.7	—
Litigation and environmental risks	77.2	110.2	—	153.6
Flexible early retirement contracts	—	61.2	—	68.2
Anniversary and other long-service benefits	—	56.6	—	61.9
Warranties	557.8	9.9	658.4	—
Other provisions	152.3	36.1	193.9	41.7
Provisions for other risks	**905.1**	**321.8**	**1,164.0**	**325.4**

The provisions changed during the year as follows:

in € millions	Restructuring provisions	Litigation and environmental risks	Flexible early retirement contracts	Anniversary and other long-service benefits	Warranties	Other provisions
At January 1, 2011	**311.7**	**153.6**	**68.2**	**61.9**	**658.4**	**235.6**
Additions	62.6	85.5	41.4	3.8	303.9	104.1
Utilizations	-169.1	-58.5	-40.5	-1.7	-264.5	-80.3
Reclassification	—	16.9	—	—	—	-16.9
Net changes in the scope of consolidation	0.0	0.0	—	—	1.2	0.1
Reversals	-39.9	-15.8	-7.9	-7.3	-132.8	-55.8
Interest	0.7	3.6	—	0.0	—	0.4
Foreign currency translation	-0.4	2.1	0.0	-0.1	1.5	1.2
At December 31, 2011	**165.6**	**187.4**	**61.2**	**56.6**	**567.7**	**188.4**

The additions to the restructuring provisions mainly relate to further restructuring expenses for the closures of the locations in Dortmund, Germany, and Coslada, Spain. Please see Note 6.

Utilizations primarily relate to the implementation of restructuring measures decided in previous years – in particular at the locations in Clairoix, France, and Huntsville, U.S.A.

As in the previous year, the additions to the provisions for litigation and environmental risks relate in particular to product liability risks from the tire activities in the U.S.A. The further additions and the reclassification relate primarily to the antitrust proceedings against Dunlop Oil & Marine Ltd., Grimsby, U.K.

In particular, utilizations relate to the product liability risks from tire activities mentioned above and payments in connection with the rulings by the antitrust authorities against Dunlop Oil & Marine Ltd., Grimsby, U.K. The reversals mainly relate to expired patent risks in the Automotive Group.

Provisions for the flexible early retirement contracts are measured using a discount rate of 2.5% (PY: 2.5%). 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.

Provisions for anniversary and other long-service benefits were measured using a discount rate of 5.5% (PY: 4.7%). 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 0.8 percentage points.

The changes in provisions for warranties include utilizations amounting to €264.5 million (PY: €301.4 million), as well as reversals amounting to €132.8 million (PY: €123.0 million), partially offset by additions of €303.9 million (PY: €387.4 million), in particular for specific provisions in the Automotive Group.

Please see Note 5 for information on changes in the scope of consolidation.

The other provisions also comprise provisions for risks from operations, partially in connection with fixed supply and acceptance agreements.

27. Income Tax Liabilities

in € millions	2011	2010
At January 1	**697.9**	**644.7**
Additions	411.0	583.9
Utilizations and advance payments for the current fiscal year	-450.6	-476.3
Reversals	-9.2	-71.1
Additions from the initial consolidation of subsidiaries	0.4	0.2
Foreign currency translation	-1.3	16.5
At December 31	**648.2**	**697.9**

When reconciling the income tax liabilities with the income taxes paid in the cash flow statement, the cash changes in income tax receivables must be included in addition to the utilizations and current advance payments shown here.

28. Indebtedness

	Dec. 31, 2011			Dec. 31, 2010		
		Maturity			Maturity	
in € millions	Total	up to 1 year	over 1 year	Total	up to 1 year	over 1 year
Bonds	**2,996.2**	—	2,996.2	**2,988.5**	—	2,988.5
Bank loans and overdrafts[1]	**4,492.6**	1,551.2	2,941.4	**5,144.9**	729.6	4,415.3
Derivative financial instruments	**163.0**	161.2	1.8	**234.0**	19.4	214.6
Financial lease liabilities	**122.9**	15.7	107.2	**149.0**	18.8	130.2
Liabilities from factoring/asset-backed securitization programs	**549.5**	549.5	—	**381.5**	381.5	—
Other indebtedness[2]	**238.2**	236.8	1.4	**92.6**	88.8	3.8
Indebtedness	**8,562.4**	**2,514.4**	**6,048.0**	**8,990.5**	**1,238.1**	**7,752.4**

[1] Thereof €5.5 million (PY: €7.9 million) secured by land charges, mortgages and similar securities.
[2] In 2011, other indebtedness includes €216.6 million (PY: €86.5 million) drawn down from the commercial paper program and €1.4 million (PY: €0.9 million) in liabilities on bills drawn and issued.

Continental bond issues

Issuer/type	CGF euro bond	CGF euro bond	CGF euro bond	CGF euro bond	Continental Tire Andina S.A. US dollar bond	Continental Tire Andina S.A. US dollar bond	Total
Amount of issue in € millions	750.0	625.0	1,000.0	625.0	1.2	5.6	**3,006.8**
Carrying amount Dec. 31, 2011	**735.5**	**620.9**	**1,003.6**	**629.4**	**1.2**	**5.6**	**2,996.2**
Stock market value Dec. 31, 2011	**806.9**	**635.8**	**1,016.7**	**628.5**	**1.2**	**5.6**	**3,094.7**
Carrying amount Dec. 31, 2010	732.3	619.7	1,003.9	629.7	2.9	—	**2,988.5**
Stock market value Dec. 31, 2010	814.4	636.8	1,040.2	638.6	2.8	—	**3,132.8**
Coupon p.a.	8.500%	6.500%	7.500%	7.125%	Floating	7.750%	
Issue/maturity and fixed interest until	2010/ 07.2015	2010/ 01.2016	2010/ 09.2017	2010/ 10.2018	2008/ 09.2012	2011/ 11.2016 [1]	
Issue price	99.005%	98.861%	99.330%	99.246%	97.299%[2]	100.000%	

[1] Semi-annual redemption payments.
[2] Quarterly redemption payments of the outstanding U.S. dollar bond. In the previous year, the average issue price of the two outstanding U.S. dollar bonds amounted to 97.61%.

The carrying amount of bonds rose slightly from €2,988.5 million at the end of 2010 to €2,996.2 million as of the end of fiscal 2011. The increase is essentially due to the marketing of a bond with a nominal volume of $8.0 million and an interest rate of 7.75% p.a. launched by the company Continental Tire Andina S.A., Cuenca, Ecuador, in the fourth quarter of 2011. By the end of 2011, a nominal amount of $7.2 million of this bond was placed with investors. The remaining $0.8 million were issued in January 2012. Semi-annual redemption payments have been agreed for this bond.

The euro bonds issued in the third quarter of the previous year by Conti-Gummi Finance B.V., Maastricht, Netherlands, with a total volume of €3.0 billion continue to participate as before in the extensive collateral package granted to the lending banks in line with the renegotiations of the syndicated loan in 2009. The option of early repayment of the bonds granted to the issuer under the issue conditions of all four bonds was measured, as in the previous year, as an embedded derivative in line with IAS 39 (please also see Note 29).

Breakdown of credit lines and available financing from banks

in € millions		Dec. 31, 2011			Dec. 31, 2010				
Company	Type[1]	Amount of issue	Carrying amount	Fair value	Amount of issue	Carrying amount	Fair value	Interest	Maturity
CAG, Conti Automotive, CRoA, CGF, Conti Benelux, Conti Autom. Benelux, Conti Autom. Holding Netherlands[3]	SL		1,003.2	1,027.6		296.8	303.3	Euribor / USD-Libor + margin	2012[2]
	SL	5,375.0	2,856.8	2,823.1	6,484.9	4,000.2	4,158.3		2014[4]
Conti Automotive	LBL		—	—		40.0	40.2	3.90%	2011
	LBL	—	—	—	55.0	15.0	15.2	3.76%	2011
CGF	PL		—	—		60.0	61.4	6.21%	2011
	PL	—	—	—	110.0	50.0	50.0	Euribor + margin	2011
Conti Temic Electronics (Phils.)	LBL	11.6	11.6	11.7		11.2	11.4	USD-Libor + margin	2012
	LBL	—	—	—	33.6	22.4	22.7	4.54%[11]	2011
Conti Mabor	LBL	—	—	—	5.7	5.7	5.6	Euribor + margin	2011[5]
	LBL	8.2	7.4	6.2	9.7	8.7	8.7	0%[6]	2016[7]
CRoA	LBL	—	—	—	37.4	37.4	38.6	5.53%	2011
Conti Automotive	LBL	20.0	20.0	20.1	20.0	20.0	20.4	4.38%	2012
Conti Autom. Hungary Kft.	LBL	10.8	10.8	11.0	20.9	20.9	21.9	5.34%	2012[7]
Conti Tire do Brasil	LBL	3.4	3.4	3.3	14.4	14.4	13.6	8.22%[8]	2012[9]
CAG	LBL	300.0	299.9	305.9	300.0	299.7	319.0	6.39%[10]	2012
Conti Tire do Brasil	LBL		7.6	7.5		11.4	11.3	3.51%[8]	2013[7]
	LBL	15.3	7.7	7.8	22.6	11.2	11.6	4.78%	2013[7]
CT Fluid Autom. Hungária Kft.	LBL	13.9	13.9	14.1	22.4	22.4	23.1	4.35%	2013[7]
Conti Tire China Production	LBL	11.8	11.8	11.0	12.1	12.1	12.2	EUR-Libor + margin	2015
CAS Changshu	LBL	12.3	12.3	11.7	11.3	11.3	10.1	5.18%	2014
Conti Matador Rubber Prod.	LBL	20.0	20.0	18.7		—	—	Euribor + margin	2014
Various bank lines		935.1	206.2	206.2	765.6	174.1	174.1	mainly variable	mainly < 1 year
Credit lines and available financing from banks		**6,737.4**			**7,925.6**				
Liabilities to banks			**4,492.6**	**4,485.9**		**5,144.9**	**5,332.7**		

1 SL: syndicated loan; LBL: long-term bank loan; PL: promissory loan.
2 The credit line permits an extension of any drawdown until April 2014 (PY: August 2012).
3 Following completion of the renegotiations at the end of March 2011, Conti Autom. Benelux and Conti Autom. Holding Netherlands are also entitled to draw upon the syndicated loan.
4 Prolongation of term until 2014 (PY: 2012).
5 Annual redemption payments.
6 Interest-free development loan.
7 Semi-annual redemption payments.
8 Average interest rate (matures in 2012 PY: 8.24%; matures in 2013 PY: 3.44%).
9 Monthly redemption payments.
10 Interest rate at December 31, 2010: 6.64%.
11 Average interest rate.

The amounts for the prior year are presented comparably.

Abbreviations

- CAG, Continental Aktiengesellschaft, Hanover, Germany
- CAS Changshu, Continental Automotive Systems Changshu, Co. Ltd., Changshu, China
- CGF, Conti-Gummi Finance B.V., Maastricht, Netherlands
- Conti Autom. Holding Netherlands, Continental Automotive Holding Netherlands B.V., Maastricht, Netherlands
- Conti Automotive, Continental Automotive GmbH, Hanover, Germany
- Conti Benelux, Continental Benelux BVBA, Herstal, Belgium
- Conti Autom. Benelux, Continental Automotive Benelux BVBA, Mechelen, Belgium
- Conti Tire do Brasil, Continental do Brasil Produtos Automotivos Lda., Camaçari, Brazil
- Conti Mabor, Continental Mabor Indústria de Pneus S.A., Lousado, Portugal
- Conti Matador Rubber Prod., Continental Matador Rubber s.r.o., Púchov, Slovakia
- Conti Temic Electronics (Phils.), Continental Temic Electronics (Phils.), Inc., Calamba-City, Philippines
- Conti Tire China Production, Continental Tires (Hefei) Co. Ltd., Hefei, China
- CRoA, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.
- Conti Autom. Hungary Kft., Continental Automotive Hungary Kft., Veszprém, Hungary
- CT Fluid Autom. Hungária Kft., ContiTech Fluid Automotive Hungária Kft., Mako, Hungary

On December 31, 2011, credit lines and available financing from banks amounted to €6,737.4 million (PY: €7,925.6 million). Of these, a nominal amount of €2,189.5 million was not drawn down as of the reporting date (PY: €2,774.2 million). The share of long-term credit lines in this amount was €1,473.6 million (PY: €2,196.7 million). In the year under review, the Continental Corporation utilized its commercial paper program, its factoring programs, and its various bank lines to meet short-term credit requirements.

The reduction in credit line and available financing from banks is due primarily to partial repayments of the syndicated loan. Furthermore, the promissory loans of Conti-Gummi Finance B.V., Maastricht, Netherlands, with a total value of €110.0 million maturing in August 2011, were repaid.

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

The repayment of the first tranche of the syndicated loan of €625.0 million originally agreed for August 2012 was implemented early at the end of December 2011 thanks to the positive business performance. The other two tranches, one of which is a revolving credit line of €2.5 billion, mature in April 2014. Following an early partial repayment of €484.9 million in April 2011, the committed volume of this loan was reduced to initially €6.0 billion and, after the further repayment described above in December 2011, to €5,375.0 million (PY: €6,484.9 million) as of December 31, 2011. As of the end of 2011, the syndicated loan had been utilized by Continental AG and Continental Rubber of America, Corp. (CRoA), Wilmington, U.S.A., and had a total value as of the end of the reporting period of €3,860.0 million (PY: €4,297.0 million).

As a further outcome of the renegotiation, the credit margins for the syndicated loan were lowered and have since been based on the Continental Corporation's leverage ratio (net debt/EBITDA, as defined by the syndicated loan agreement) rather than its rating. The leverage ratio had already improved as of June 30, 2011, which meant that Continental benefited from a further margin reduction for the syndicated loan in the third quarter of 2011. The associated expectation of a lower cash outflow for this loan led to an adjustment in profit or loss of its carrying amount of €9.1 million as of June 30, 2011. Together with the adjustments of the carrying amount in profit or loss that were required in 2009 and 2010 due to rising margins and the associated anticipated higher cash outflow for the syndicated loan, the negative value of the carrying amount adjustments totaled €15.7 million as of the end of December 2011. These deferrals will be amortized over the term of the loan and increase or reduce expenses accordingly.

As of the end of December 2011, there were still interest rate hedges of €3,125.0 million for the syndicated loan (PY: €3,125.0 million). The average fixed interest rate to be paid resulting from the hedges maturing in August 2012 is still 4.19% p.a. plus margin.

As of the end of July 2011, the cash flow hedge accounting for the partial amount of €2.5 billion of the tranche of the syndicated loan due in April 2014 was voluntarily terminated prematurely. In addition, hedge accounting for the partial amount of €625.0 million was terminated at the end of December 2011 on account of the early repayment of the tranche of the syndicated loan originally due in August 2012. There is still an economically effective hedge, also in the latter case, as the tranche repaid early at the end of December 2011 was refinanced in full by utilizing the revolving tranche of the syndicated loan, and the parameters of this utilization are still consistent with those of the interest hedge.

As in the previous year, the agreed financial covenants were complied with in 2011 as of the respective quarterly balance sheet date. Please see Note 29 about the structure of maturities of indebtedness.

Financial lease liabilities

The future payment obligations resulting from financial leases are shown in the following table:

December 31, 2011 in € millions	**2012**	**2013**	**2014**	**2015**	**2016**	**from 2017**	**Total**
Minimum lease payments	23.0	53.4	9.9	9.7	9.5	50.0	**155.5**
Interest component	7.3	5.5	3.5	3.0	2.5	10.8	**32.6**
Financial lease liabilities	**15.7**	**47.9**	**6.4**	**6.7**	**7.0**	**39.2**	**122.9**

December 31, 2010 in € millions	**2011**	**2012**	**2013**	**2014**	**2015**	**from 2016**	**Total**
Minimum lease payments	25.4	26.6	62.1	9.8	9.8	58.1	**191.8**
Interest component	6.6	5.9	8.5	4.1	3.8	13.9	**42.8**
Financial lease liabilities	**18.8**	**20.7**	**53.6**	**5.7**	**6.0**	**44.2**	**149.0**

The fair value of the financial lease liabilities is €151.1 million (PY: €166.3 million). The effective interest rate of the main leasing contracts lies between 5.5% and 8.8% (PY: between 5.1% and 8.8%).

Minimum lease payments in 2013 result mainly from a purchase option for the passenger and light truck tire factory in Hefei, China.

29. 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 at Dec. 31, 2011	Fair value at Dec. 31, 2011	Carrying amount at Dec. 31, 2010	Fair value at Dec. 31, 2010
Other investments	AfS	6.9	6.9	7.0	7.0
Derivative instruments and interest-bearing investments					
Derivative instruments not accounted for as hedging instruments	HfT	111.6	111.6	78.0	78.0
Financial assets available for sale	AfS	85.0	85.0	85.2	85.2
Other receivables with a financing character	LaR	52.5	52.5	39.0	39.0
Trade accounts receivable	LaR	5,341.5	5,341.5	4,454.0	4,454.0
Other financial assets	LaR	290.2	290.2	242.8	242.8
Cash and cash equivalents					
Cash and cash equivalents	LaR	1,541.2	1,541.2	1,431.6	1,431.6
Financial assets available for sale	AfS	—	—	39.7	39.7
Financial assets		**7,428.9**	**7,428.9**	**6,377.3**	**6,377.3**
Indebtedness					
Derivative instruments accounted for as hedging instruments	n/a	—	—	214.4	214.4
Derivative instruments not accounted for as hedging instruments	HfT	163.0	163.0	19.6	19.6
Liabilities from financial leases	n/a	122.9	151.1	149.0	166.3
Other indebtedness	FLAC	8,276.5	8,368.3	8,607.5	8,939.6
Trade accounts payable	FLAC	4,111.4	4,111.4	3,510.5	3,510.5
Other financial liabilities	FLAC	1,423.2	1,423.2	1,204.2	1,204.2
Financial liabilities		**14,097.0**	**14,217.0**	**13,705.2**	**14,054.6**
Aggregated according to categories as defined in IAS 39:					
Financial assets held for trading (HfT)		111.6		78.0	
Loans and receivables (LaR)		7,225.4		6,167.4	
Available for sale (AfS)		91.9		131.9	
Financial liabilities held for trading (HfT)		163.0		19.6	
Financial liabilities measured at amortized cost (FLAC)		13,811.1		13,322.2	

Abbreviations

- AfS, available for sale
- FLAC, financial liability at amortized cost
- HfT, held for trading
- LaR, loans and receivables

Financial instruments belonging to the held for trading category are measured at their fair value. Financial instruments belonging to the available for sale category are also measured at their fair value, unless this cannot be reliably measured, in which 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 correspond approximately to the fair value.

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 for which hedge accounting is not applied are classified as financial assets and liabilities held for trading.

The fair values of other indebtedness and of liabilities from finance leases 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 sum of the positive carrying amounts is equivalent to the maximum default risk of the Continental Corporation from financial assets. To secure trade accounts receivable, trade credit insurance has been agreed, among other things.

The financial instruments measured at fair value are shown in the table below in accordance with their measurement method. The levels of the fair value hierarchy are defined as follows:

- Level 1: quoted prices on the active market for identical instruments
- Level 2: quoted prices on the active market for a similar instrument or a measurement method for which all major input factors are based on observable market data
- Level 3: measurement method for which the major input factors are not based on observable market data

in € millions		Dec. 31, 2011	Level 1	Level 2	Cost
Other investments	AfS	6.9	—	—	6.9
Financial assets available for sale	AfS	85.0	75.4	9.5	0.1
Derivative instruments not accounted for as hedging instruments	HfT	111.6	—	111.6	—
Financial assets valued at fair value		**203.5**	**75.4**	**121.1**	**7.0**
Derivative instruments not accounted for as hedging instruments	HfT	163.0	—	163.0	—
Financial liabilities valued at fair value		**163.0**	**—**	**163.0**	**—**

in € millions		Dec. 31, 2010	Level 1	Level 2	Cost
Other investments	AfS	7.0	—	—	7.0
Financial assets available for sale	AfS	124.9	115.1	9.8	0.0
Derivative instruments not accounted for as hedging instruments	HfT	78.0	—	78.0	—
Financial assets valued at fair value		**209.9**	**115.1**	**87.8**	**7.0**
Derivative instruments accounted for as hedging instruments	n/a	214.4	—	214.4	—
Derivative instruments not accounted for as hedging instruments	HfT	19.6	—	19.6	—
Financial liabilities valued at fair value		**234.0**	**—**	**234.0**	**—**

There are currently no financial assets in the Continental Corporation which are measured according to Level 3 of the fair value hierarchy. No transfers were made between different levels of the fair value hierarchy.

The net gains and losses by measurement category were as follows:

		From remeasurement			Net gains and losses	
in € millions	**From interest**	**At fair value**	**Currency translation**	**Impairment losses**	**2011**	**2010**
Loans and receivables	24.8	—	41.0	-15.4	50.4	34.7
Financial assets available for sale	4.4	1.9	—	—	6.3	2.5
Financial assets and financial liabilities held for trading	—	-0.2	—	—	-0.2	6.2
Financial liabilities at amortized cost	-649.1	—	-66.3	—	-715.4	-762.6
Net gains and losses	**-619.9**	**1.7**	**-25.3**	**-15.4**	**-658.9**	**-719.2**

Interest income from financial instruments is reported in net interest expense (Note 9). No interest income was generated from impaired financial assets.

The valuation allowance for loans and receivables results from trade accounts receivable. Gains and losses on financial assets and liabilities held for trading that were determined during subsequent measurement include both interest rate and exchange rate effects.

The changes in value of the financial assets designated as available for sale that were recognized directly in equity amounted to -€2.2 million in 2011 (PY: -€0.6 million); no amount (PY: €0.0 million) was taken from equity and recognized in income during the fiscal year.

Collateral

As of December 31, 2011, a total of €2,077.1 million (PY: €1,725.7 million) of financial assets had been pledged as collateral. As in the previous year, collateral mainly consists of trade accounts receivable; the remainder relates to pledged cash or other financial assets in the year under review. Trade receivables sold under factoring programs as well as the aforementioned collateral in the form of trade receivables are shown in Note 20.

As agreed in 2009 in the renegotiation of the syndicated loan, Continental AG and selected subsidiaries granted the lending banks a collateral package. This consists of guarantees by certain subsidiaries, the pledging of shares in the guaranteeing subsidiaries, certain account balances and the transfer of internal claims. No further collateral was provided in this context. The bonds issued in the previous year with a total volume of €3.0 billion and a defined portion of the bilateral lines of credit with banks in the corporation also participate in this collateral package.

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 risks are not fully compensated by offsetting delivery and payment flows, exchange rate forecasts are constantly updated to ensure that risks can be hedged as necessary in individual cases using appropriate financial instruments. In addition, long- and short-term interest rate movements are continuously monitored and are controlled by using derivative financial instruments. Thus, interest rate and currency derivatives allow debt to be accessed with any required interest and currency structure, regardless of the location at which the financing is required.

The use of hedging instruments is covered by corporate-wide guidelines, adherence to which is regularly reviewed by internal audit. Internal settlement risks are minimized through the clear segregation of functional areas.

1. Currency management

The international nature of the corporation's business activities results in deliveries and payments in various currencies. Currency exchange fluctuations involve the risk of losses because assets denominated in currencies with a falling exchange rate lose value, while liabilities denominated in currencies with a rising exchange rate become more expensive. At Continental the net exposure, calculated primarily by offsetting exports against imports in the individual currencies, is regularly recorded and measured. For many years now, the corporation has been using natural hedges to reduce currency risks so that the difference between receipts and payments in any one currency is kept as low as possible. Expected exchange rate developments are also monitored and analyzed accordingly. Exchange rate risks are hedged as necessary using appropriate financial instruments. Currency management sets tight limits for open positions and thus considerably reduces the hedging risk. For hedging, it is allowed to use only those derivative financial instruments that can be reported and measured in the risk management system. Financial instruments that do not meet these criteria may not be used at all. The corporation's net foreign investments are generally not hedged against exchange rate fluctuations.

Operational foreign currency risk

Continental compiles its subsidiaries' actual and expected foreign currency payments at a global level for currency management purposes. These amounts represent the corporation's transaction exposure and are measured as the net cash flow per currency on a rolling 12-month forward basis. The foreign exchange and interest rate committee convenes weekly to review and initiate hedging measures. These may not exceed 30% of the 12-month exposure per currency without the express permission of the Executive Board.

Financial foreign currency risks

In addition, currency risks also result from external and internal loan agreements that are denominated in a currency different from the functional currency of the respective subsidiary. These currency risks are generally hedged against through the use of derivative financial instruments, particularly currency forwards, currency swaps and cross-currency interest rate swaps.

Sensitivity analysis

IFRS 7 requires a presentation of the effects of hypothetical changes of currency prices on earnings and equity using sensitivity analyses. The changes to the currency prices are related to all financial instruments outstanding on the reporting date. Expected transactions are not included in the sensitivity analysis. To determine the transaction-related net foreign currency risk, the financial instruments are categorized according to foreign currency for this portfolio and a 10% appreciation or depreciation of the respective functional currency of the subsidiaries is assumed in relation to the foreign currency. The table below shows – before income taxes – the overall effect as measured using this approach, as well as the individual effects resulting from the euro and the U.S. dollar as major transaction currencies, on the difference from currency translation from financial instruments in equity and on net income.

	2011		2010	
in € millions	Total equity[1]	Net income[1]	Total equity[1]	Net income[1]
Local currency +10%				
Total	**51.4**	**25.4**	**52.3**	**25.8**
thereof EUR	51.4	13.4	52.3	0.5
thereof USD	—	34.1	—	29.5
Local currency -10%				
Total	**-51.4**	**-25.4**	**-52.3**	**-25.8**
thereof EUR	-51.4	-13.4	-52.3	-0.5
thereof USD	—	-34.1	—	-29.5

[1] Excludes tax effects.

Effects of translation-related currency risk

A large number of the subsidiaries are located outside the euro currency zone. 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.

2. Interest rate management

Variable interest agreements pose the risk of rising interest rates for liabilities and falling interest rates for interest-bearing financial investments. These risks are monitored and evaluated as part of our interest rate management activities and managed by means of derivative interest rate hedging instruments. The corporation's interest-bearing net indebtedness is the subject of these activities. All interest rate hedges serve exclusively to manage identified interest rate risks. One of the goals is to keep around 50% to 75% of gross interest-bearing debt at a fixed interest rate.

The corporation is not exposed to a risk of fluctuation in the fair value of long-term financial liabilities due to market changes in fixed interest rates, as the lenders do not have the right to demand early repayment in the event of changing rates. If the corporation has the right to redeem instruments before maturity, such redemption is considered only if this is advantageous from the Continental Corporation's perspective.

Interest rate risk

The profile of interest-bearing financial instruments allocated to net indebtedness, taking into account the effect of the Continental Corporation's derivative financial instruments, is as follows:

in € millions	2011	2010
Fixed-interest instruments		
Financial assets	24.2	44.9
Financial liabilities	-6,632.4	-6,917.3
Floating-rate instruments		
Financial assets	1,654.5	1,550.6
Financial liabilities	-1,767.0	-1,839.2
Fair value of derivative instruments		
Financial assets	111.6	78.0
Financial liabilities	-163.0	-234.0
Net indebtedness	**-6,772.1**	**-7,317.0**

The Continental Corporation has entered into interest rate derivatives which were classified as effective cash flow hedges as of December 31, 2010. Hedge accounting was no longer applied as of December 31, 2011. As a result, a change in interest rates at the end of fiscal 2011 would only have affected the income statement (net interest expense) as of December 31, 2011, whereas, in the previous year it would also have had an effect on equity.

In line with IFRS 7, effects of financial instruments 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 2011 would have led to a €4.3 million (PY: €20.3 million) deterioration in net interest expense. In the previous year, there would also have been a €50.1 million increase in the difference from financial instruments in equity.

A decline in interest rates of 100 basis points would have improved net interest expense by €16.5 million (PY: €32.0 million). The decrease in the difference from financial instruments in equity would have amounted to €49.2 million in the previous year. This analysis assumes that interest rates cannot be lower than or equal to 0%. Tax effects have not been taken into account.

The effects described are almost entirely due to changes in interest rates for the euro.

Cash flow sensitivity analysis

An increase in interest rates of 100 basis points in 2011 would have led to a €1.1 million (PY: €2.9 million) deterioration in net interest expense, while a decline in interest rates of 100 basis points would have led to an improvement in net interest expense of €1.1 million (PY: €2.9 million). The effects result essentially from floating-rate financial instruments in the currencies euro, U.S. dollar, Chinese renminbi and Korean won.

This analysis is based on the assumption that all other variables, and in particular exchange rates, remain unchanged. The same assumption applied to 2010.

in € millions	2011	2010
Interest rate increase +100 basis points		
Total	**-1.1**	**-2.9**
thereof EUR	-6.1	-8.8
thereof CNY	3.3	2.4
thereof KRW	1.7	1.1
thereof USD	-3.4	0.3
Interest rate decline -100 basis points		
Total	**1.1**	**2.9**
thereof EUR	6.1	8.8
thereof CNY	-3.3	-2.4
thereof KRW	-1.7	-1.1
thereof USD	3.4	-0.3

3. 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 entered into with selected banks only. The development of contractual partners' creditworthiness is continuously monitored, particularly by monitoring the rating classifications and the market assessment of default risk using the respective credit default swap rates.

4. Liquidity risks

A liquidity forecast is prepared by central cash management on a regular basis.

Cost-effective, adequate financing is necessary for the subsidiaries' operating business. Various marketable financial instruments are employed for this purpose. These comprise overnight money, term deposits, commercial paper, factoring programs as well as the syndicated loan with the nominal amount of €5,375.0 million (PY: €6,484.9 million) and other bilateral loans. Furthermore, around a third of gross indebtedness is financed on the capital market in the form of bonds. Capital expenditure by subsidiaries is primarily financed through equity and loans from banks or subsidiaries. There are also cash-pooling arrangements with subsidiaries to the extent they are possible and justifiable in the relevant legal and tax situation. Should events lead to unexpected financing requirements, Continental AG can draw upon existing liquidity and fixed credit lines from banks. For detailed information on the existing used and unused loan commitments, please refer to Note 28.

The following undiscounted cash outflows result in the next five years and after from the financial liabilities of €14,097.0 million (PY: €13,705.2 million):

December 31, 2011 in € millions	2012	2013	2014	2015	2016	thereafter	Total
Other indebtedness incl. interest payments[1]	-2,698.8	-345.8	-3,156.8	-958.7	-753.3	-1,759.5	**-9,672.9**
Derivative instruments[2]	-158.8	0.0	—	—	—	—	**-158.8**
Financial lease liabilities	-23.0	-53.4	-9.9	-9.7	-9.5	-50.0	**-155.5**
Trade accounts payable	-4,111.4	—	—	—	—	—	**-4,111.4**
Other financial liabilities	-1,415.2	-8.0	—	—	—	—	**-1,423.2**

[1] Includes a drawdown payable in 2012 from a credit line valid until 2014 with an amount of €1,026.4 million.
[2] Excludes embedded derivative instruments as they do not give rise to cash outflows.

December 31, 2010 in € millions	2011	2012	2013	2014	2015	thereafter	Total
Other indebtedness incl. interest payments[1]	-1,692.0	-4,760.1	-247.2	-239.3	-989.3	-2,556.7	**-10,484.6**
Derivative instruments[2]	-28.2	-203.9	-0.0	—	—	—	**-232.1**
Financial lease liabilities	-25.4	-26.6	-62.1	-9.8	-9.8	-58.1	**-191.8**
Trade accounts payable	-3,510.5	—	—	—	—	—	**-3,510.5**
Other financial liabilities	-1,203.4	-0.8	—	—	—	—	**-1,204.2**

[1] Includes a drawdown payable in 2011 from a credit line valid until 2012 with an amount of €303.3 million.
[2] Excludes embedded derivative instruments as they do not give rise to cash outflows.

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 contractually fixed interest rates. Forward interest rates were used to determine the floating rate payments for derivative financial instruments. The analysis only includes payment outflows from financial liabilities. For derivative financial instruments showing a negative fair value on the balance sheet date, the net payments are reported. Payment inflows from financial assets were not accounted for.

The payment outflows in the maturity analysis are not expected to occur at significantly different reference dates or in significantly different amounts.

5. Default risk

Credit risk from trade accounts receivable and financial 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 the central credit management function also include pooled accounts receivable risk management. Contractual partners' creditworthiness and payment history are analyzed on a regular basis. However, default risk cannot be excluded with absolute certainty, and any remaining risk is addressed by establishing portfolio valuation allowances on the basis of experience or charging impairment losses for specific individual risks. Default risk for non-derivative financial amounts receivable is also limited by ensuring that agreements are entered into with partners with proven creditworthiness only or that collateral is provided or trade credit insurance is agreed. Please see Note 20 for information on determining creditworthiness. Financial assets that are neither past due nor impaired accordingly have a prime credit rating.

Further information about risks and risk management can be found in the "Risk Report" section of the Management Report.

Measurement of derivative financial instruments

Derivative financial instruments are recognized at fair value, which is generally determined by discounting the expected cash flows on the basis of yield curves. For example, the fair value of currency forwards is calculated as the difference from the nominal amounts discounted with the risk-free interest rates of the respective currencies and translated at the current spot exchange rate. To calculate the fair value of interest rate swaps and cross-currency interest rate swaps, the future cash flows are discounted with the interest rates for the respective maturities, with deposit rates used as short-term interest rates whilst long-term interest rates are based on the swap rates in the respective currency.

As of December 31, 2011, positive fair values of €105.6 million (PY: €67.6 million) and negative fair values of €1.8 million (PY: -€0.8 million) were recognized for embedded derivatives. These essentially relate to the reporting of call options for the bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, in 2010. The options were measured using the Black model. A risk-free interest curve, adjusted for Continental AG's credit risk, was used in the calculation. The volatility of the Continental AG refinancing rate was determined approximately using swaption volatilities. The recognized amortized cost of the bonds take into account the value determined on emission for the embedded options. The following overview shows the fair values and nominal values of the free-standing derivatives as of the balance sheet date.

in € millions	Dec. 31, 2011			Dec. 31, 2010		
Fair value	**Assets**		**Liabilities**	**Assets**		**Liabilities**
Cash flow hedges (effective)						
Cross-currency interest rate swaps	—		—	—		-99.5
Interest rate swaps	—		—	—		-114.9
Other derivatives						
Cross-currency interest rate swaps	3.1		-101.5	4.7		—
Interest rate swaps	—		-36.7	—		-0.1
Currency forwards	2.9		-23.0	5.7		-18.7
Currency options	0.0		—	—		—
Total fair value	**6.0**		**-161.2**	**10.4**		**-233.2**
– thereof long-term	2.2		0.0	4.7		-213.8
– thereof short-term	3.8		-161.2	5.7		-19.4
Nominal values						
Cash flow hedges		—			3,175.0	
Cross-currency interest rate swaps		650.3			45.0	
Interest rate swaps		2,501.4			2.5	
Currency forwards		661.8			809.8	
Currency options		2.5			—	
Total of nominal values		**3,816.0**			**4,032.3**	

In the case of highly effective and longer term hedges, Continental usually 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.

As of the end of July 2011, the cash flow hedge accounting for the partial amount of €2.5 billion of the tranche of the syndicated loan due in April 2014 was voluntarily terminated prematurely. Changes in the fair value of these hedges are now recognized directly in profit or loss. Income of €16.9 million has arisen since the de-designation of the cash flow hedges. Changes in value recognized in equity as a difference arising from financial instruments for the hedges by the end of July 2011 are reversed over the remaining term of the hedges. As of December 31, 2011, an expense of €25.1 million was recognized in the net interest expense.

At the end of December 2011, hedge accounting for the partial amount of €625.0 million was terminated on account of the early repayment of the tranche of the syndicated loan originally due in August 2012. Changes in the fair value of these hedges are now recognized directly in profit or loss. An expense of €7.3 million has been incurred since the reversal of the cash flow hedges. Changes in value recognized in equity as a difference arising from financial instruments for the hedges by the end of December 2011 were recognized in full in profit or loss. This resulted in an increase of €14.2 million in net interest expense. There is still an economically effective hedge as the tranche repaid early at the end of December 2011 was refinanced in full by utilizing the revolving tranche of the syndicated loan, and the parameters of this utilization are still consistent with those of the interest hedge.

Changes in the difference from cash flow hedges are as follows:

Difference from cash flow hedges in € millions	Jan. 1, 2010	Fair value adjustments	Reclassification adjustments to profit and loss[1]	Dec. 31, 2010/ Jan. 1, 2011	Fair value adjustments	Reclassification adjustments to profit and loss[1]	Dec. 31, 2011
Before taxes	-182.6	31.8	—	-150.8	83.1	39.3	-28.4
Deferred taxes	56.5	-9.7	—	46.8	-25.8	-12.5	8.5
After taxes	**-126.1**	**22.1**	**—**	**-104.0**	**57.3**	**26.8**	**-19.9**

[1] Reclassified to net interest expense.

The prospective and retrospective effectiveness of hedges was demonstrated through regular effectiveness testing up to the termination of hedge accounting. The dollar offset method was used to determine retrospective effectiveness. This calculated 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 could be considered highly effective. As in the previous year, no ineffectiveness arose from the cash flow hedges during the year under review.

30. Other Financial Liabilities

	Dec. 31, 2011			Dec. 31, 2010		
in € millions	**Total**	**Current**	**Non-current**	**Total**	**Current**	**Non-current**
Liabilities to related parties	**88.8**	88.0	0.8	**10.7**	9.9	0.8
Interest payable	**180.7**	180.7	—	**196.9**	196.9	—
Liabilities for payroll and personnel related costs	**600.6**	600.6	—	**519.7**	519.7	—
Liabilities for selling expenses	**479.2**	479.2	—	**436.4**	436.4	—
Termination benefits	**24.3**	24.3	—	**37.9**	37.9	—
Purchase prices payable on company acquisitions	**30.5**	23.3	7.2	**0.0**	0.0	—
Other liabilities	**19.1**	19.1	0.0	**2.6**	2.6	—
Other financial liabilities	**1,423.2**	**1,415.2**	**8.0**	**1,204.2**	**1,203.4**	**0.8**

The liabilities to related parties relate in particular to payables to associates from services provided. The significant increase is attributable to a corporation company founded in the previous year which buys substantial shares of its goods from an associated company.

Interest payable is mainly the result of interest ceilings in connection with Continental AG's interest hedging transactions and the interest ceilings for the bonds issued.

Liabilities for selling expenses relate in particular to obligations from bonus agreements with customers, as well as granted, deferred price reductions.

Liabilities from company acquisitions consist mainly of a liability amounting to €19.9 million from a purchase option for non-controlling interests in a corporation company, as well as the conditional purchase price paid in the amount of €7.2 million for the takeover of Modi Tyres Company Limited, Modipuram, India.

The Executive Board has introduced a new regulation that applies worldwide and allows all employees of Continental to share in the profits of the corporation. This replaces the fixed Conti special bonus agreed in the previous year. The amount of profits shared is calculated on the basis of key internal figures. A provision of €69.5 million (PY: €39.2 million) was recognized for the period under review.

The liabilities for payroll and personnel related costs also include the long-term incentive plans:

- Long Term Incentive Plan 2009
- Long Term Incentive Plan 2010
- Long Term Incentive Plan 2011

2009 long-term incentive plan
In 2009, senior executives of the Continental Corporation were granted a long-term incentive (LTI) bonus which depends on their job grade and their degree of target achievement. This bonus is intended to allow for participation in the long-term, sustainable increase in the corporation's value and profitability.

The LTI is issued in annual tranches (LTI tranches). In addition to the issue of the 2009/13 tranche with a term of four years, a further tranche (2009/12) was also issued in 2009 with a term of three years, due to the transition from a three-year term for the previous stock option plan to a four-year term for the LTI. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2009/12 tranche was resolved on August 17, 2009; the 2009/13 tranche on July 20, 2009.

For each beneficiary of an LTI tranche, the Executive Board of Continental AG specifies the amount of a target bonus in euros to be paid out upon 100% target achievement. The actual LTI bonus paid out on expiry of the LTI tranche depends on the degree of target achievement which can lie between 0% (no payment) and 300% (maximum payment). The degree of achievement of two target criteria is decisive for the payment and amount of the LTI bonus. The first target criterion consists of the weighted average of the Conti Value Contribution (CVC) of the Continental Corporation over a period of four fiscal years and three fiscal years for the additional tranche, starting from the fiscal year in which the LTI tranche is issued. The weighted average in terms of the LTI is calculated by adding together 10% of the CVC of the first fiscal year of the LTI tranche, 20% of the CVC of the second fiscal year of the LTI tranche, 30% of the CVC of the third fiscal year of the LTI tranche and 40% of the CVC of the fourth fiscal year of the LTI tranche. The weighted average with regard to the additional 2009/12 tranche in the period under review is calculated by adding together 22.22% of the CVC of the first fiscal year of the LTI tranche, 33.33% of the CVC of the second fiscal year of the LTI tranche and 44.45% of the CVC of the third fiscal year of the LTI tranche. The second target criterion comprises the ratio of free cash flow in the Continental Corporation (FCF) to consolidated sales. The key variable for measuring this target criterion is based on the last full fiscal year prior to expiry of the respective LTI tranche. The degree of target achievement for both target criteria can lie between 0% and 300%. The key variables for determining the degree of target achievement are defined for each target criterion upon issue of an LTI tranche. The ultimate degree of target achievement used to calculate the LTI bonus to be paid out is determined through the addition of the two equally weighted target criteria. The basis for calculating the LTI bonus comprises the individual bonus amount in the event of 100% target achievement promised upon issue of an LTI tranche. The LTI bonus is paid as a gross one-off payment normally at the end of the second full calendar month following expiry of the LTI tranche at the latest but not before the end of July.

2010 long-term incentive plan
Tranche 2010/14, with a term of four years, was issued in 2010. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2010/14 tranche was resolved on September 6, 2010.

The basic features of the 2010/14 tranche are the same as those of the 2009 LTI plan. The first target criterion consists of the weighted average of the CVC of the Continental Corporation over a period of four fiscal years. The weighted average in terms of the 2010 LTI is calculated by adding together 10% of the CVC of the first fiscal year of the LTI tranche, 20% of the CVC of the second fiscal year of the LTI tranche, 30% of the CVC of the third fiscal year of the LTI tranche and 40% of the CVC of the fourth fiscal year of the LTI tranche. The second target criterion comprises the ratio of free cash flow in the Continental Corporation (FCF) to consolidated sales. The key variable for measuring this target criterion is based on the last full fiscal year prior to expiry of the respective LTI tranche. The degree of target achievement for both target criteria can lie between 0% and 300%.

2011 long-term incentive plan

Tranche 2011/15, with a term of four years, was issued in 2011. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2011/15 tranche was resolved on August 22, 2011.

The basic features of the 2011/15 tranche are the same as those of the 2009 LTI plan. The first target criterion consists of the weighted average of the CVC of the Continental Corporation over a period of four fiscal years. The weighted average in terms of the 2011 LTI is calculated by adding together 10% of the CVC of the first fiscal year of the LTI tranche, 20% of the CVC of the second fiscal year of the LTI tranche, 30% of the CVC of the third fiscal year of the LTI tranche and 40% of the CVC of the fourth fiscal year of the LTI tranche. The second target criterion comprises the ratio of free cash flow in the Continental Corporation (FCF) to consolidated sales. The key variable for measuring this target criterion is based on the last full fiscal year prior to expiry of the respective LTI tranche. The degree of target achievement for both target criteria can lie between 0% and 300%.

All LTI plans granted so far are classified and assessed as “other long-term employee benefits” in line with IAS 19.

The expenses from the long-term incentive plans are recognized in other expenses. These amounted to €21.9 million in the year under review (PY: €22.6 million) for the incentive plans described above.

31. Trade Accounts Payable

Trade payables amounted to €4,111.4 million (PY: €3,510.5 million) at the end of the fiscal year. The liabilities are measured at amortized cost. The total amount is due within one year.

The liabilities do not include any amounts from the percentage of completion method. For information on the liquidity risk, currency risk and the sensitivity analysis for trade accounts payable, please see Note 29.

32. Other Liabilities

	Dec. 31, 2011			Dec. 31, 2010		
in € millions	**Total**	**Current**	**Non-current**	**Total**	**Current**	**Non-current**
Liabilities for workers' compensation	**71.9**	39.7	32.2	**64.7**	38.1	26.6
Liabilities for social security	**124.2**	124.2	—	**107.8**	107.8	—
Liabilities for vacation	**122.8**	122.8	—	**113.1**	113.1	—
Liabilities for VAT and other taxes	**180.1**	180.1	—	**168.8**	168.8	—
Deferred income	**83.2**	59.9	23.3	**54.1**	44.0	10.1
Others	**239.3**	237.7	1.6	**174.4**	171.7	2.7
Other liabilities	**821.5**	**764.4**	**57.1**	**682.9**	**643.5**	**39.4**

The increase in the deferred income entry is due primarily to an advance payment received in the year under review.

33. Liabilities Held for Sale

As in the previous year, there were no liabilities held for sale as of the reporting date.

Note 22 includes an overview of the assets held for sale, as well as other information.

Other Disclosures

34. Litigation and Compensation Claims

Continental AG and its subsidiaries are involved in several lawsuits and regulatory investigations and proceedings worldwide. Such lawsuits, investigations and proceedings may also be initiated or claims asserted in other ways in the future.

Product liability
In particular, Continental is constantly subject to product liability lawsuits and other proceedings in which the company may be accused of the alleged infringement of its duty of care, violations against warranty obligations or defects of material or workmanship, as well as to claims from alleged breaches of contract or product recalls and government fines. The pending claims include lawsuits in the U.S.A. for property damage, personal injury, and death caused by alleged defects in our products. Claims for material and immaterial damages, and in some cases punitive damages, are being asserted. The outcome of individual proceedings, which are generally decided by a jury in a court of first instance, cannot be predicted with certainty. No assurance can be given that Continental will not incur substantial expenses as a result of the final judgments or settlements in some of these cases, or that these amounts will not exceed any provisions set up for these claims. Some subsidiaries in the U.S.A. are exposed to relatively limited claims for damages from purported health injuries allegedly caused by products containing asbestos. The total costs for dealing with all such claims and proceedings have amounted to less than €50 million per year since 2006.

Proceedings relating to ContiTech AG
The proceedings regarding rescission and nullification by Phoenix AG shareholders brought against the resolutions adopted at the Shareholders' Meeting of the company held on December 28, 2004, for approval of a management and profit and loss pooling agreement and the merger agreement with ContiTech AG and for confirmatory resolutions by the Annual Shareholders' Meeting of Phoenix AG on May 19, 2005, have been substantively concluded since 2009. On September 16, 2011, the Hamburg Regional Court *(Landgericht)* ruled on the judicial review proceedings on the appropriateness of compensation and settlement under the management and profit and loss pooling agreement and the conversion ratio established in the merger agreement, ordering ContiTech AG to make additional payments. Continental is still of the opinion that the 2004 valuation of Phoenix AG and ContiTech AG was appropriate and that the compensation and settlement under the management and profit and loss pooling agreement as well as the conversion ratio in the merger agreement were established correctly. Appeals have therefore been filed. However, an increase in the amounts paid to the minority shareholders after the end of these proceedings cannot be ruled out.

The actions of rescission and nullification by shareholders of ContiTech AG against resolutions adopted at the Annual Shareholders' Meeting of the company on August 22, 2007, regarding the approval of the conclusion of a management and profit transfer agreement between this company as the controlled company and ContiTech-Universe Verwaltungs-GmbH as the controlling company and regarding the squeeze-out of minority shareholders were concluded in 2009 by a dismissal which is final. Proceedings regarding the appropriateness of the settlement and compensation payment under the management and profit and loss pooling agreement and the settlement for the squeeze-out are pending at the Hanover Regional Court *(Landgericht).*

Claims against resolutions adopted at the Annual Shareholders' Meeting of Continental AG
Several shareholders had brought actions for rescission and nullification against the resolutions adopted at the Annual Shareholders' Meeting of Continental AG on April 23, 2009, under agenda item 5 (election of the Supervisory Board) regarding the election of certain Supervisory Board members. In its ruling on March 17, 2010, the Hanover Regional Court had declared the resolution by which Rolf Koerfer was elected as a member of the Supervisory Board void and dismissed the other claims. The company had filed an appeal against this ruling.

One shareholder had also brought an action for rescission and nullification against the resolution adopted on April 28, 2010, under agenda item 8 of the Annual Shareholders' Meeting of Continental AG regarding the approval of the resolution of the Annual Shareholders' Meeting on April 23, 2009, to elect Rolf Koerfer as a member of the Supervisory Board. In March 2011, both these proceedings and those concerning the resolutions of the Annual Shareholders' Meeting on April 23, 2009 were concluded by way of concurrent declarations of settlement issued by way of all parties declaring the matters moot – while maintaining their respective legal positions. The conclusion of the agreements relating to this in accordance with Sections 248a, 149 (2) of the German Stock Corporation Act *(Aktiengesetz – AktG)* was announced on March 16, 2011.

Regulatory proceedings

In 2007, the European Commission and the U.S. Department of Justice ("DoJ") initiated their investigations into antitrust behavior in the marine hose market. The European Commission found Continental AG, ContiTech AG and Dunlop Oil & Marine Limited ("DOM") liable – among other companies – for infringements of antitrust law. The proceedings of the European Commission and the DoJ against the company were concluded in 2009. Following the initiation of the European Commission and DoJ investigations, additional investigations against the company for the infringement of national antitrust law were opened in other jurisdictions (Brazil, Japan, Australia, South Korea and Canada). After DOM reached a settlement with the Brazilian antitrust authorities in December 2011, all regulatory proceedings against DOM have now been concluded or, as was the case in Canada, are not being pursued further. DOM is still facing claims for damages from third parties due to the infringement of antitrust law as a result of the marine hose cartel. Class actions in the U.S.A. were settled. A claim brought before the British High Court was also settled. However, further claims are still threatened in the United Kingdom and other countries (e.g. Japan, South Korea, Australia and Brazil).

In May 2005, the Brazilian antitrust authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Indústria Automotiva ("CBIA"), Brazil, following a complaint by a third party of alleged anticompetitive behavior in the area of commercialization of tachographs. On August 18, 2010, the Brazilian competition authorities determined an "invitation to cartel" and imposed a fine of BRL 12 million (about €5.0 million) on CBIA. CBIA denies the accusations and has filed an appeal with the competent court. However, third parties may also claim damages from CBIA resulting from the infringement of Brazilian antitrust law.

On October 2, 2006, the South African antitrust authorities received a complaint from a third party accusing several South African tire manufacturers of alleged antitrust behavior, including Continental Tyre South Africa (Pty.) Limited ("CTSA"), a company that is 74% owned by Continental. On August 31, 2010, the South African antitrust authorities came to the conclusion that CTSA and other companies had violated South African antitrust law and referred the matter to the competent Competition Tribunal for a decision. CTSA denies all allegations of infringements of South African antitrust law. However, the tribunal could impose a fine of up to 10% of CTSA's sales. In addition, third parties may also claim damages from CTSA resulting from the infringement of South African competition law.

On October 5, 2007, the antitrust authorities for the Basque Country, Spain, received a complaint from a third party against Continental Automotive Spain, S. A. ("CAS") due to alleged anticompetitive behavior in tachograph business. After investigation by the antitrust authorities, the Basque antitrust court sentenced CAS to a fine of €700,000 on January 20, 2010. On appeal by CAS, the Basque High Court reduced the fine to €150,000 on December 20, 2011. Claims for damages by third parties cannot be ruled out.

On February 24, 2010, the European Commission conducted searches at several companies that manufacture wiring harnesses for automotive purposes, including S-Y Systems Technologies Europe GmbH ("S-Y"), Regensburg, Germany. S-Y is a company in which Continental and Japanese company Yazaki, a wiring harness manufacturer, each own 50%. The European Commission announced that it has indications that the companies in question have violated EU antitrust law. However, it is not clear whether the European Commission will impose fines against S-Y or Continental. Searches are a preliminary step in investigations into antitrust behavior and are not indicative of the outcome.

Proceedings against the end of tire production at the plant in Clairoix, France

A large number of employees at Continental France SNC, Sarreguemines, France, have filed claims at industrial tribunals in Compiègne and Soissons, France, against this group company and, in some cases, against Continental AG as well. The plaintiffs seek damages in connection with the cessation of passenger tire production at the plant in Clairoix, France. Continental considers these actions unfounded but cannot rule out that a court will award the plaintiffs damages.

35. Contingent Liabilities and Other Financial Obligations

in € millions	Dec. 31, 2011	Dec. 31, 2010
Liabilities on bills of exchange	—	6.7
Liabilities on guarantees	131.6	107.9
Liabilities on warranties	9.0	11.4
Other financial obligations	122.3	60.4
Other contingent liabilities	7.6	6.4
Contingent liabilities and other financial obligations	**270.5**	**192.8**

The contingent liabilities primarily relate to guarantees for the liabilities of affiliated companies and third parties not included in consolidation and to contractual warranties relating to associated companies. In particular, they include a guarantee for a major project by a business segment disposed of in the previous years in the amount of €57.2 million (PY: €62.8 million). To the best of our knowledge, the underlying obligations will be fulfilled in all cases. Utilization is not anticipated.

Other financial obligations also relate to possible claims for damages from pending proceedings in France.

The Continental Corporation 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 made or initiated against it. Estimates of future expenses in this area are naturally subject to many uncertainties, such as the enactment of new laws and regulations, the development and application of new technologies and the identification of contaminated land or buildings for which the Continental Corporation is legally liable.

Open purchase commitments for property, plant and equipment amounted to €286.5 million (PY: €254.1 million).

In 2011, expenses for operating leases and rental agreements amounted to €145.6 million (PY: €152.1 million).

Future liabilities relating to operating leases and rental agreements with an original or remaining term of more than one year as of December 31, 2011, for which the corporation is not the beneficial owner, and for which the related assets are therefore not recognized as property, plant and equipment, are shown in the following table for 2012 and cumulatively for the years 2013 through 2016, and likewise cumulatively from 2017.

December 31, 2011/in € millions	2012	2013-2016	from 2017
Operating leases and rental agreements	143.2	277.9	92.2

December 31, 2010/in € millions	2011	2012-2015	from 2016
Operating leases and rental agreements	145.6	308.1	95.2

36. Earnings per Share

Basic earnings per share rose to €6.21 in 2011 (PY: €2.88), the same amount as diluted earnings per share. In both the period under review and the previous year, there were no dilutive effects such as interest savings on convertible bonds or warrant-linked bonds (after taxes). There were also no dilutive effects from stock option plans or the assumed exercise of convertible bonds.

in € millions/millions of shares	2011	2010
Net income attributable to the shareholders of the parent	1,242.2	576.0
Weighted average number of shares issued	200.0	200.0
Earnings per share in €	**6.21**	**2.88**

37. Events after the Balance Sheet Date

Continental and SK Innovation planning global cooperation for electric vehicle drives

On January 10, 2012, Continental and SK Innovation Co., Ltd., Seoul, South Korea, announced plans for a worldwide cooperation on drive systems for electric vehicles. The two companies signed an agreement in principle to this effect at the North American International Auto Show in Detroit, U.S.A., in which they envisage the formation of a company for the joint development, production and marketing of lithium-ion battery modules for automotive applications.

The agreements for the new company have not yet been concluded, though this is scheduled for mid-2012. According to planning, SK Innovation and Continental will hold 51% and 49% of shares in the company respectively. Automotive manufacturers are to be supplied internationally. The first operating facilities of the planned enterprise will be located in Germany and South Korea. The management team will consist of managers from both companies.

38. Auditor's Fees

For fiscal 2011, a global fee of €8.7 million (PY: €8.3 million) was agreed for the audit of the consolidated financial statements and related statutory financial statements of the subsidiaries.

The following fees were recognized as an expense specifically for the auditor of Continental AG elected by the Annual Shareholders' Meeting:

in € millions	2011	2010
Audit of financial statements	2.9	2.9
Other assurance services	0.9	6.4
thereof assurance services in connection with the capital increase and bond issues[1]	—	2.6
thereof insurance fees in connection with the capital increase and bond issues[1]	—	3.8
Tax advisory services	0.1	0.0
Other services provided to the parent company or its subsidiaries	—	0.0
Total	**3.9**	**9.3**

[1] These amounts essentially relate to the directly attributable costs in connection with the capital increase and the issue of bonds in line with IAS 32.37. These have been deducted from equity or, respectively, added to the cost of the bonds and will be recognized in profit and loss over their term.

The above fees relate only to services directly connected with Continental AG and its German subsidiaries. KPMG AG Wirtschaftsprüfungsgesellschaft and its registered branches are deemed the auditor. The information calculation for 2011 includes only the legally independent unit of the appointed auditor, while in 2010 other companies of the European KPMG association were still included. Accordingly, the prior-year figures have been presented comparably.

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	2011	2010
Short-term benefits	9,758	9,811
Service cost relating to post-employment benefits	2,939	2,738
Payments on termination of employment contract	3,000	—
Share-based payment	5,110	6,206
Total	**20,807**	**18,755**

The basic elements of the Executive Board remuneration system and the amounts granted to the Executive Board and the Supervisory Board in the year under review are explained in the Remuneration Report in the Corporate Governance Report, to which the Management Report refers.

The total remuneration granted to the Executive Board of Continental AG in 2011 amounted to €15.5 million (PY: €15.1 million). That total remuneration also includes the long-term components of variable remuneration totaling €5.7 million (PY: €5.3 million), which are converted into virtual shares of the company. In 2011, this resulted in the long-term components for 2010 being converted into 86,484 (PY: 25,167) virtual shares.

In 2011, as in 2010, 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 dependents received payments totaling €8.2 million in the year under review (PY: €5.4 million). Provisions for pension obligations for former members of the Executive Board and their surviving dependents amounted to €86.6 million (PY: €86.1 million).

In the previous year, a former member of the Executive Board who left in 2008 received compensation for the duration of a non-competition period of €0.5 million.

Remuneration paid to the members of Continental AG's Supervisory Board, including meeting fees, totaled €2.4 million (PY: €1.4 million) and relate to short-term benefits.

No remuneration was paid to Supervisory Board members for any personally rendered services, except for the remuneration of the employee representatives arising from their employment contract.

Moreover, none of the members of the Executive Board or Supervisory Board entered into any reportable transactions with other management personnel holding key positions, or with companies in whose management or supervisory bodies these individuals are represented. This also applies to close relatives of such individuals.

Transactions with related parties other than subsidiaries:

in € millions	2011	2010
Income	110.0	81.7
Expenses	90.6	117.3

Income, mainly from sales, and expenses, mainly from product and material procurement, resulting from transactions between subsidiaries and related parties are attributable solely to the ordinary business activities of the respective company and were conducted on an arm's length basis. The corresponding receivables from and liabilities to these companies are reported in the balance sheet.

Please refer to Note 25 regarding transactions with Continental Pension Trust e.V. in the year under review.

The transactions with the Schaeffler Group in the reporting year are attributable to ordinary business activities and were concluded on an arm's length basis. The income in the reporting year amounted to €23.9 million and expenses to €74.6 million, both of which are included in the transactions with related parties.

Investment agreement

On August 20, 2008, Continental AG entered into a far-reaching investment agreement with Schaeffler KG, Mrs. Maria-Elisabeth Schaeffler and Mr. Georg F. W. Schaeffler. 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, employ ees and customers. Former German Chancellor Dr. Gerhard Schröder is the guarantor for the Schaeffler Group's compliance with its obligations in the interest of all Continental AG stakeholders. The legal successor of Schaeffler KG (now "Schaeffler Holding GmbH & Co. KG") is Schaeffler AG, which was Schaeffler GmbH until October 13, 2011. Economically effective retroactively to January 1, 2010, Schaeffler Holding transferred its holding in Continental AG to what is now Schaeffler AG through Schaeffler Verwaltungs GmbH by way of spin-off in accordance with Section 123 (3) No. 1 of the German Transformation Act *(Umwandlungsgesetz – UmwG)*.

Notices in Accordance with the German Securities Trading Act *(Wertpapierhandelsgesetz – WpHG)*

By way of letter dated April 1, 2011, we received notification that:

- the share of voting rights in Continental AG held by M.M.Warburg & CO KGaA, Hamburg, Germany, fell below the thresholds of 15% and 10% of voting rights on March 30, 2011, and amounted to 5.19% (10,389,543 voting rights) on this date.

- the share of voting rights in Continental AG held by M.M.Warburg & CO Gruppe (GmbH & Co.) KGaA, Hamburg, Germany, fell below the thresholds of 15% and 10% of voting rights on March 30, 2011, and amounted to 5.19% (10,389,543 voting rights) on this date. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

On April 1, 2011, B. Metzler seel. Sohn & Co. KGaA, Frankfurt/Main, Germany, notified us that its share of voting rights in Continental AG fell below the thresholds of 15% and 10% on March 30, 2011, and amounted to 5.19% (10,389,543 voting rights) on this date.

On April 4, 2011, B. Metzler seel. Sohn & Co. Holding AG, Frankfurt/Main, Germany, notified us that its share of voting rights in Continental AG fell below the thresholds of 15% and 10% on March 30, 2011, and amounted to 5.19% (10,389,543 voting rights) on this date. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG* through B. Metzler seel. Sohn & Co. KGaA, Frankfurt/Main, Germany.

On July 27, 2011, we received notification that:

- the share of voting rights in Continental AG held by BlackRock, Inc., New York, U.S.A., exceeded the thresholds of 3% and 5% of voting rights on July 15, 2011, and amounted to 5.02% (10,046,639 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock Holdco 2, Inc., Wilmington, Delaware, U.S.A., exceeded the threshold of 3% of voting rights on July 15, 2011, and amounted to 4.93% (9,852,902 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock Financial Management, Inc., New York, U.S.A., exceeded the threshold of 3% of voting rights on July 15, 2011, and amounted to 4.93% (9,852,902 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock Advisors Holdings, Inc., New York, U.S.A., exceeded the threshold of 3% of voting rights on July 15, 2011, and amounted to 3.72% (7,436,493 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock International Holdings Inc., New York, U.S.A., exceeded the threshold of 3% of voting rights on July 15, 2011, and amounted to 3.51% (7,029,897 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BR Jersey International Holdings L.P., St. Helier, Jersey, U.K., exceeded the threshold of 3% of voting rights on July 15, 2011, and amounted to 3.51% (7,029,897 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock Group Limited, London, U.K., exceeded the threshold of 3% of voting rights on July 15, 2011, and amounted to 3.33% (6,660,928 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

On August 9, 2011, we received notification that:

- the share of voting rights in Continental AG held by BlackRock, Inc., New York, U.S.A., fell below the threshold of 5% of voting rights on August 3, 2011, and amounted to 4.996% (9,992,301 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

On September 15, 2011, we received notification that:

- the share of voting rights in Continental AG held by BlackRock, Inc., New York, U.S.A., fell below the threshold of 3% of voting rights on September 9, 2011, and amounted to 2.82% (5,639,055 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock Holdco 2, Inc., Wilmington, Delaware, U.S.A., fell below the threshold of 3% of voting rights on September 9, 2011, and amounted to 2.75% (5,505,114 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock Financial Management, Inc., New York, U.S.A., fell below the threshold of 3% of voting rights on September 9, 2011, and amounted to 2.75% (5,505,114 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock Advisors Holdings, Inc., New York, U.S.A., fell below the threshold of 3% of voting rights on September 9, 2011, and amounted to 1.94% (3,873,092 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock International Holdings Inc., New York, U.S.A., fell below the threshold of 3% of voting rights on September 9, 2011, and amounted to 1.78% (3,564,867 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BR Jersey International Holdings L.P., St. Helier, Jersey, U.K., fell below the threshold of 3% of voting rights on September 9, 2011, and amounted to 1.78% (3,564,867 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock Group Limited, London, U.K., fell below the threshold of 3% of voting rights on September 9, 2011, and amounted to 1.62% (3,235,322 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

On October 6, 2011, we received notification that:

- the share of voting rights in Continental AG held by Schaeffler Beteiligungsholding GmbH & Co. KG, Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time.

- the share of voting rights in Continental AG held by Schaeffler Familienholding Drei GmbH & Co. KG, Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Familienholding Zwei GmbH, Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Familienholding Eins GmbH, Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler GmbH, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Verwaltungs GmbH, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. 36.14% of these shares (72,290,458 voting rights) are attributed to Schaeffler Verwaltungs GmbH in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Holding GmbH & Co. KG, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Management GmbH, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Holding LP, Dallas, Texas, U.S.A., remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Mrs. Maria-Elisabeth Schaeffler, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Mr. Georg F. W. Schaeffler, U.S.A., remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

By way of letter dated October 18, 2011, we received notification that:

- the share of voting rights in Continental AG held by Government of Singapore Investment Corporation Pte Ltd, Singapore, Singapore, exceeded the threshold of 3% on October 12, 2011, and amounted to 3.05% (6,095,163 voting rights) at this time.

- the share of voting rights in Continental AG held by the Government of Singapore, acting by and through the Singapore Ministry of Finance, Singapore, exceeded the threshold of 3% on October 12, 2011, and amounted to 3.05% (6,095,163 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG* through Government of Singapore Investment Corporation Pte Ltd, Singapore, Singapore.

- We also received notification that, of the aforesaid 3.05% (6,095,163 voting rights) of the voting rights in Continental AG, 2.22% (4,447,561 voting rights) are also attributed to the Government of Singapore pursuant to Section 22 (1) Sentence 1 No. 2 *WpHG*.

In 2011 and until February 6, 2012 inclusively, the members of the Executive Board held shares representing a total interest of less than 1% of the capital stock of the company. Shares representing 49.90% of the share capital of the company were attributable to two members of the Supervisory Board – Mrs. Maria-Elisabeth Schaeffler and Mr. Georg F. W. Schaeffler – held as specified in the notification of voting rights on October 6, 2011. In 2011 and until February 6, 2012 inclusively, the other members of the Supervisory Board held shares representing a total interest of less than 1% of the capital stock of the company. In accordance with Section 15a of the German Securities Trading Act *(Wertpapierhandelsgesetz – WpHG)*, members of the Executive Board and Supervisory Board of Continental AG and their related parties must disclose the acquisition and disposal of shares in the company and financial instruments based on them. In fiscal year 2011, one member of the Supervisory Board acquired a total of 216 shares and one member of the Executive Board 1,000 shares.

40. List of Shareholdings of the Corporation

Further information on equity investments can be found in the list of the corporation's shareholdings pursuant to Section 313 Sentence 3 of the German Commercial Code *(Handelsgesetzbuch – HGB)*, which is published as part of the consolidated financial statements in the electronic German Federal Gazette *(elektronischer Bundesanzeiger)*. The consolidated financial statements with the list of the corporation's shareholdings are also made available for inspection by the shareholders in the business premises at the company's headquarters from the date on which the Annual Shareholders' meeting is convened, and from that point in time are available together with the additional documents and information pursuant to Section 124a of the German Stock Corporation Act *(Aktiengesetz – AktG)* online at www.continental-ir.com.

Statutory exemption provisions applying to German companies

The following German companies and partnerships utilized the exemption provisions of Section 264 (3) *HGB* and Section 264b *HGB:*

Company	Registered office
ADC Automotive Distance Control Systems GmbH	Lindau
Alfred Teves Beteiligungsgesellschaft mbH	Frankfurt am Main
Babel Grundstücksverwaltungs GmbH	Schwalbach am Taunus
Benecke-Kaliko AG	Hanover
Beneform GmbH	Peine
CAS München GmbH	Hanover
CAS-One Holdinggesellschaft mbH	Hanover
Conseo GmbH	Hamburg
Conti Temic microelectronic GmbH	Nuremberg
Conti Versicherungsdienst Versicherungsvermittlungsges. mbH	Hanover
Continental Aftermarket GmbH	Eschborn
Continental Automotive GmbH	Hanover
Continental Automotive Grundstücksges. mbH	Frankfurt am Main
Continental Automotive Grundstücksvermietungsges. mbH & Co. KG	Frankfurt am Main
Continental Caoutchouc-Export-GmbH	Hanover
Continental Engineering Services & Products GmbH	Ingolstadt
Continental Engineering Services GmbH	Frankfurt am Main
Continental Mechanical Components Germany GmbH	Roding
Continental Reifen Deutschland GmbH	Hanover
Continental Safety Engineering International GmbH	Alzenau
Continental Teves AG & Co. oHG	Frankfurt am Main
Continental Trading GmbH	Frankfurt am Main
ContiTech AG	Hanover
ContiTech Antriebssysteme GmbH	Hanover
ContiTech Elastomer-Beschichtungen GmbH	Hanover
ContiTech Fluid Automotive GmbH	Hamburg
ContiTech Kühner Beteiligungs-GmbH	Hanover
ContiTech Kühner GmbH & Cie. KG	Oppenweiler
ContiTech Luftfedersysteme GmbH	Hanover
ContiTech MGW GmbH	Hannoversch Münden
ContiTech Schlauch GmbH	Hanover
ContiTech Techno-Chemie GmbH	Karben
ContiTech Transportbandsysteme GmbH	Hanover
ContiTech Verwaltungs-GmbH	Hanover
ContiTech Vibration Control GmbH	Hanover
ContiTech-Universe Verwaltungs-GmbH	Hanover
Correx Handelsgesellschaft für Kautschukprodukte mbH	Hanover
Eddelbüttel & Schneider GmbH	Hamburg
eStop GmbH	Schwalbach am Taunus
Formpolster GmbH	Hanover
Gerap Grundbesitz- und Verwaltungsges. mbH	Frankfurt am Main
Göppinger Kaliko GmbH	Eislingen
IDM GmbH Industriesensoren	Lindau
IPM GmbH	Hamburg
Max Kammerer GmbH	Frankfurt am Main
OTA Grundstücks- und Beteiligungsverw. GmbH	Frankfurt am Main

Company	Registered office
Phoenix Beteiligungsgesellschaft mbH	Hamburg
Phoenix Compounding Technology GmbH	Hamburg
Phoenix Conveyor Belt Systems GmbH	Hamburg
Phoenix Fluid Handling Industry GmbH	Hamburg
Phoenix Industrieanlagen Verwaltungs GmbH	Hamburg
Phoenix Sechste Verwaltungsgesellschaft mbH	Hamburg
Phoenix Service GmbH & Co. KG	Hamburg
Phoenix Siebte Verwaltungsgesellschaft mbH	Hamburg
Phoenix Vermögensverwaltungsgesellschaft mbH	Hamburg
REG Reifen-Entsorgungsgesellschaft mbH	Hanover
Steinebronn Beteiligungs-GmbH	Oppenweiler
Temic Automotive Electric Motors GmbH	Berlin
UMG Beteiligungsgesellschaft mbH	Hanover
Union-Mittelland-Gummi-GmbH & Co. Grundbesitz KG	Hanover
Vergölst GmbH	Bad Nauheim

41. German Corporate Governance Code/Declaration in Accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz)*

The declaration required in accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz)* was issued by the Executive Board and the Supervisory Board on April 28, 2011, and is available to our shareholders on the following website: www.continental-corporation.com in the Investor Relations section under Corporate Governance.

Further Information

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Responsibility Statement by the Company's Legal Representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the corporation, and the management report of the corporation includes a fair review of the development and performance of the business and the position of the corporation, together with a description of the principal opportunities and risks associated with the expected development of the corporation.

Hanover, February 6, 2012

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 German Commercial Code *(Handelsgesetzbuch – HGB)*:

Companies with no country specified are located in Germany.

Dr. Elmar Degenhart
Chairman
Corporate Communications
Corporate Quality and Environment
Continental Business System
Central Automotive Functions
ContiTech AG, Hanover* (Chairman)

José A. Avila
Powertrain Division
Continental Automotive France SAS, Toulouse, France*

Dr. Ralf Cramer
Chassis & Safety Division
Continental Automotive Corporation, Yokohama, Japan*; Continental Automotive, Inc., Fort Mill, South Carolina, U.S.A.*; Continental Automotive Systems, Inc., Auburn Hills, Michigan, U.S.A.*; Continental Automotive Systems US, Inc., Auburn Hills, Michigan, U.S.A.*; Continental Automotive Systems Holding US, Inc., Auburn Hills, Michigan, U.S.A.*

Helmut Matschi
Interior Division
SAS Autosystemtechnik Verwaltungs GmbH, Karlsruhe; S-Y Systems Technologies Europe GmbH, Regensburg; ERTICO - ITS Europe, Brussels, Belgium (until June 2011); Continental Automotive GmbH, Hanover* (since May 5, 2011; Chairman since September 8, 2011)

Dr. Hans-Joachim Nikolin
Commercial Vehicle Tires Division, Purchasing
TÜV Nord AG, Hanover; Continental Reifen Deutschland GmbH, Hanover* (Chairman), TÜV Hannover/Sachsen-Anhalt e.V., Hanover; Drahtcord Saar GmbH & Co. KG, Merzig/Saar; KG Deutsche Gasrußwerke GmbH & Co., Dortmund; Continental Sime Tyre AS Sdn. Bhd., Petaling Jaya, Malaysia*; Continental Sime Tyre PJ Sdn. Bhd., Petaling Jaya, Malaysia*; Continental Sime Tyre Sdn. Bhd., Petaling Jaya, Malaysia*; Continental Tire the Americas LLC, Fort Mill, South Carolina, U.S.A.*; Continental Tire Holding US LLC, Fort Mill, South Carolina, U.S.A.*; Continental Tyre South Africa (Pty.) Ltd., Port Elizabeth, South Africa*; Matador RU Slovshintrade Z.A.O., Omsk, Russia*
Member of the Executive Board until July 31, 2011

Wolfgang Schäfer
Finance, Controlling, Compliance, Law and IT
Continental Reifen Deutschland GmbH, Hanover* (since August 2, 2011); Continental Automotive, Inc., Fort Mill, South Carolina, U.S.A.*; Continental Automotive Systems, Inc., Auburn Hills, Michigan, U.S.A.*; Continental Automotive Systems US, Inc., Auburn Hills, Michigan, U.S.A.*; Continental Rubber of America, Corp., Fort Mill, South Carolina, U.S.A.*

Nikolai Setzer
Tire Division
Continental Reifen Deutschland GmbH, Hanover* (Chairman); Continental India Limited, New Delhi, India* (since September 23, 2011); Continental Sime Tyre AS Sdn. Bhd., Petaling Jaya, Malaysia* (since October 10, 2011); Continental Sime Tyre PJ Sdn. Bhd., Petaling Jaya, Malaysia* (since October 10, 2011); Continental Sime Tyre Sdn. Bhd., Petaling Jaya, Malaysia*; Continental Tire Holding US, LLC, Fort Mill, South Carolina, U.S.A.*; Continental Tire the Americas LLC, Fort Mill, South Carolina, U.S.A.*; Continental Tyre South Africa (Pty.) Ltd., Port Elizabeth, South Africa (since August 1, 2011)

Elke Strathmann
Human Resources, Director of Labor Relations
Member of the Executive Board since January 2, 2012

Heinz-Gerhard Wente
ContiTech Division
Corporate Purchasing
Human Resources, Director of Labor Relations (until December 31, 2011)
Benecke-Kaliko AG, Hanover* (Vice Chairman); ContiTech Antriebssysteme GmbH, Hanover* (Chairman); ContiTech-Elastomer Beschichtungen GmbH, Hanover* (Chairman); ContiTech Fluid Automotive GmbH, Hamburg* (Vice Chairman); ContiTech Luftfedersysteme GmbH, Hanover* (Chairman); ContiTech MGW GmbH, Hann. Münden* (Vice Chairman); ContiTech Schlauch GmbH, Hanover* (Chairman); ContiTech Techno-Chemie GmbH, Karben* (Vice Chairman); ContiTech Transportband-systeme GmbH, Hanover* (Chairman); ContiTech Vibration Control GmbH, Hanover* (Chairman); Phoenix Compounding Technology GmbH, Hamburg* (Chairman); ContiTech Fluid Shanghai Co., Ltd., Shanghai, China*; ContiTech Grand Ocean Fluid (Changchun) Co., Ltd., Changchun, China*; ContiTech North America, Inc., Montvale, New Jersey, U.S.A.*; ContiTech Thermopol LLC, Somersworth, New Jersey, U.S.A.*; ContiTech Beattie Corp., Houston, Texas, U.S.A*

*Consolidated companies pursuant to Section 100 (2) of the German Stock Corporation Act (*Aktiengesetz*).

Other Directorships – The Supervisory Board

Memberships of other statutory supervisory boards and of comparable controlling bodies of companies in Germany and abroad in accordance with Section 285 No. 10 of the German Commercial Code *(Handelsgesetzbuch – HGB)*:

Companies with no country specified are located in Germany.

Prof. Dr.-Ing. Wolfgang Reitzle, Chairman
President and CEO of Linde AG

Werner Bischoff*, Vice Chairman
Trade Union Secretary, IG BCE
(Mining, Chemical and Energy Industrial Union)
Evonik Degussa GmbH, Essen (until October 1, 2011); Evonik Industries AG, Essen; RWE AG, Essen; RWE Dea AG, Hamburg; RWE Power AG, Essen

Michael Deister*
Chairman of the Works Council for the Stöcken Plant

Dr. Gunter Dunkel
Chairman of the Board of Management of Norddeutsche Landesbank Girozentrale
Bremer Landesbank Kreditanstalt Oldenburg Girozentrale, Bremen**; DekaBank Deutsche Girozentrale, Frankfurt/Main (until June 8, 2011); Deutsche Hypothekenbank AG, Hanover** (Chairman); Norddeutsche Landesbank Luxembourg S.A., Luxembourg** (Chairman); Skandifinanz Bank AG, Zurich, Switzerland** (Chairman of the Board of Directors)

Hans Fischl*
Chairman of the Works Council for the Regensburg Location, Chairman of the Corporate Works Council of Continental AG and Member of the Central Works Council of Continental Automotive GmbH
Continental Automotive GmbH, Hanover**
(until December 31, 2011)

Dr. Jürgen Geißinger
President and CEO of Schaeffler AG
MTU Aero Engines Holding AG, Munich; MTU Aero Engines GmbH, Munich; Schaeffler Group USA Inc., Fort Mill, South Carolina, U.S.A.**; Schaeffler Holding (China) Co. Ltd., Changsa, China**

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; Heliad Equity Partners GmbH & Co. KGaA, Frankfurt/Main; SMS GmbH, Düsseldorf (until April 15, 2011); SMS Holding GmbH, Hilchenbach (since April 15, 2011); 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

Jörg Köhlinger*
Trade Union Secretary, IG Metall (Metalworkers' Union) for the District of Frankfurt, and IG Metall Delegate for the Corporate Works Council, the Central Works Council of Continental Teves, as well as the Supervisory Committee of the Central Works Councils of Continental Teves, Temic and Automotive
Rasselstein GmbH, Andernach

Prof. Dr. Klaus Mangold
Chairman of the Supervisory Board of Rothschild GmbH
Alstom Deutschland AG, Mannheim (Chairman); Leipziger Messe GmbH, Leipzig; Metro AG, Düsseldorf; Rothschild GmbH, Frankfurt/Main (Chairman); TUI AG, Hanover (Chairman since February 9, 2011); Universitätsklinikum Freiburg, Freiburg (until May 31, 2011); Alstom S.A., Paris, France

Hartmut Meine*
Bezirksleiter des IG Metall-Bezirks Niedersachsen und Sachsen-Anhalt
KME AG, Osnabrück; Volkswagen AG, Wolfsburg

Dirk Nordmann*
Chairman of the Works Council for the Vahrenwald Plant, ContiTech Antriebssysteme GmbH, Hanover,
ContiTech Luftfedersysteme GmbH, Hanover

Artur Otto*
Sales and Marketing Director of Continental Engineering Services

Klaus Rosenfeld
Member of the Executive Board of Schaeffler AG

Georg F. W. Schaeffler
Partner of the Schaeffler Group
Schaeffler AG, Herzogenaurach** (Chairman)

Maria-Elisabeth Schaeffler
Partner of the Schaeffler Group
Schaeffler AG, Herzogenaurach**; Österreichische Industrieholding AG, Vienna, Austria

Jörg Schönfelder*
Chairman of the Works Council for the Korbach Plant
Continental Reifen Deutschland GmbH, Hanover**

Dr. Bernd W. Voss
Member of various Supervisory Boards
Wacker Chemie AG, Munich; ABB Ltd., Zurich, Switzerland (until April 29, 2011)

Erwin Wörle*
Chairman of the Works Council of Conti Temic microelectronic GmbH, Ingolstadt
Conti Temic microelectronic GmbH, Nuremberg** (Vice Chairman)

Prof. KR Ing. Siegfried Wolf
Chairman of the Board of Directors of Russian Machines OJSC
Banque Baring Brothers Sturdza SA, Geneva, Switzerland; GAZ Group, Nizhny Novgorod, Russia (Chairman); Glavstroy Corporation LLC, Moskow, Russia (Chairman) (since August 25, 2011); Österreichische Industrieholding AG, Vienna, Austria; PSK Transstroy LLC, Moskow, Russia (Chairman) (since April 29, 2011); Russian Machines OJSC, Moskow, Russia (Chairman); Siemens Aktiengesellschaft Austria, Vienna, Austria; STRABAG SE, Vienna, Austria; VERBUND AG, Vienna, Austria

* Employee representative.
**Consolidated companies pursuant to Section 100 (2) of the German Stock Corporation Act *(Aktiengesetz)*.

Members of the Supervisory Board Committees:

1. Chairman's Committee and Mediation Committee required under Section 27 (3) of the German Co-determination Act *(Mitbestimmungsgesetz)*
Prof. Dr. Ing. Wolfgang Reitzle; Werner Bischoff; Hans Fischl; Georg F. W. Schaeffler

2. Audit Committee
Dr. Bernd W. Voss, Chairman; Michael Deister; Michael Iglhaut (since December 14, 2011); Hartmut Meine; Klaus Rosenfeld; Georg F. W. Schaeffler (since December 14, 2011)

3. Nomination Committee
Prof. Dr. Ing. Wolfgang Reitzle; Georg F. W. Schaeffler; Maria-Elisabeth Schaeffler; Dr. Bernd W. Voss

Ten-Year Review – Corporation

		2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Balance sheets											
Non-current assets[1]	in € millions	15,075.5	14,887.9	14,724.6	16,348.4	17,383.9	5,877.9	5,193.8	4,953.9	4,835.0	5,102.2
Current assets[2]	in € millions	10,962.9	9,502.6	8,324.6	8,339.5	10,353.7	4,975.1	5,353.9	4,742.0	3,463.5	3,094.9
Total assets	in € millions	26,038.4	24,390.5	23,049.2	24,687.9	27,737.6	10,853.0	10,547.7	9,695.9	8,298.5	8,197.1
Shareholders' equity (excl. non-controlling interests)	in € millions	7,146.1	5,859.6	3,772.6	5,265.4	6,583.2	4,470.8	3,574.2	2,706.2	1,983.2	1,715.2
Non-controlling interests	in € millions	397.2	343.3	289.1	264.5	272.9	239.1	220.8	231.0	151.4	92.2
Total equity, (incl. non-controlling interests)	in € millions	7,543.3	6,202.9	4,061.7	5,529.9	6,856.1	4,709.9	3,795.0	2,937.2	2,134.6	1,807.4
Equity ratio[3]	in %	29.0	25.4	17.6	22.4	24.7	43.4	36.0	30.3	23.9	20.9
Capital expenditure[4]	in € millions	1,711.3	1,296.4	860.1	1,595.2	896.9	805.0	871.8	703.0	625.8	620.0
Net indebtedness	in € millions	6,772.1	7,317.0	8,895.5	10,483.5	10,856.4	1,181.0	493.2	881.1	1,168.6	1,899.0
Gearing ratio	in %	89.8	118.0	219.0	189.6	158.3	25.1	13.0	30.0	58.9	110.7
Income statements											
Sales	in € millions	30,504.9	26,046.9	20,095.7	24,238.7	16,619.4	14,887.0	13,837.2	12,597.4	11,534.4	11,408.3
Share of foreign sales	in %	73.7	72.8	71.0	68.5	69.2	67.6	65.8	66.8	67.0	68.4
Cost of sales[5]	in %	79.0	77.8	80.0	80.4	75.8	75.3	74.6	75.0	76.5	78.2
Research and development expenses[5]	in %	5.3	5.6	6.7	6.2	5.0	4.5	4.3	4.2	4.3	4.3
Selling expenses[5]	in %	4.7	5.0	5.6	4.9	5.5	5.7	6.1	6.2	6.2	6.4
Administrative expenses[5]	in %	2.1	2.5	3.0	3.2	2.7	3.0	3.1	3.1	3.3	3.4
EBITA	in € millions	2,596.9	1,935.2	-1,040.4	-296.2	1,675.8	1,601.9	1,507.1	1,157.4	855.2	694.3
EBITA[5]	in %	8.5	7.4	-5.2	-1.2	10.1	10.8	10.9	9.2	7.4	6.1
Personnel expenses	in € millions	6,358.2	5,891.7	5,199.8	5,746.3	3,652.7	3,175.2	3,054.3	3,011.7	2,681.8	2,650.2
Depreciation and amortization[6]	in € millions	1,631.1	1,652.4	2,631.6	3,067.6	814.8	699.6	741.8	667.2	603.1	670.3
Net income attributable to the shareholders of the parent	in € millions	1,242.2	576.0	-1,649.2	-1,123.5	1,020.6	981.9	929.6	716.2	314.0	226.0
Dividend and earnings per share											
Dividend for the fiscal year	in € millions	300.0[7]	—	—	—	323.4	293.1	145.9	116.3	70.4	58.6
Number of shares at December 31	in millions	200.0	200.0	169.0	169.0	161.7	146.5	145.9	145.4	135.4	130.2
Net income (per share) attributable to the shareholders of the parent	€	6.21	2.88	-9.76	-6.84	6.79	6.72	6.38	5.19	2.37	1.75
Employees											
Annual average	in thousands	159.7	142.7	133.4	148.4	93.9	81.6	81.1	73.7	66.5	65.1

1 Up to 2003, this item was comprised of all items that were primarily long-term, i.e., fixed assets, investments, and other primarily long-term assets.
2 Up to 2003, this item included all items that were primarily current assets.
3 Since 2004, this item has included the non-controlling interests.
4 Capital expenditure on property, plant and equipment, and software.
5 As a percentage of sales; as of 2001, selling expenses comprise only the functional selling and logistics, plus IT costs.
6 Excluding impairments on financial investments.
7 Based upon the Executive Board's proposal for the appropriation of profits.

The information for fiscal years since 2004 has been reported in accordance with IFRS, for the years 2002 and 2003 in accordance with US GAAP.

Glossary of Financial Terms

Continental Value Contribution (CVC). The CVC represents the absolute amount of additional value created, and the Delta CVC represents the change in absolute value creation over the prior year. This change in the absolute contribution measured by Delta CVC allows us to monitor the extent to which management units generate value-creating growth or resources must be employed more efficiently.

The CVC is measured by subtracting the weighted average cost of capital (WACC) from the ROCE and multiplying this by the average operating assets for the fiscal year. The weighted average cost of capital calculated for the Continental Corporation corresponds to the required minimum return. The cost of capital is calculated as the weighted average ratio of the cost of equity and borrowing costs.

Currency swap. Swap of principal payable or receivable in one currency into similar terms in another currency. Often used when issuing loans denominated in a currency other than that of the lender.

Defined Benefit 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, EBITDA has been equal to EBIT.

EBITA. EBIT before scheduled goodwill amortization.

EBITDA. Earnings before interest, taxes, depreciation and amortization.

Finance lease. Under a finance lease, the lessor transfers the investment risk to the lessee. This means that the lessor bears only the credit risk and any agreed services. The lessee is the beneficial owner of the leased asset. Finance leases are characterized by a fixed basic term during which the lease may not be terminated by the lessee.

Gearing ratio. The gearing ratio represents the net indebtedness divided by total equity, expressed as a percentage.

Hedging. Securing a transaction against risks, such as fluctuations in exchange rates, by entering into an offsetting hedge transaction, typically in the form of a forward contract.

IAS. International Accounting Standards.

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 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 as recognized in the balance sheet, cash and cash equivalents, the positive fair values of the derivative financial instruments as well as other interest-bearing investments.

Operating assets. Operating assets are the assets less liabilities as reported in the balance sheet, without recognizing the net indebtedness, discounted trade bills, deferred tax assets, income tax receivable and payable, as well as other financial assets and debts.

Operating lease. A form of lease that is largely similar to rental. Leased assets are recognized in the lessor's balance sheet and capitalized.

PPA. Purchase Price Allocation. PPA is the process of breaking down the purchase price and assigning the values to the identified assets, liabilities, and contingent liabilities following a business combination. Subsequent adjustments to the opening balance sheet – resulting from differences between the preliminary and final fair values at the date of initial consolidation – are recognized as "PPA adjustments".

Rating. Standardized indicator for the international finance markets that assesses and classifies the creditworthiness of a debtor. The classification is the result of an economic analysis of the debtor by specialist rating companies.

ROCE. Return On Capital Employed. We define ROCE as the ratio of EBIT to average operating assets for the fiscal year.

SIC. Standing Interpretations Committee (predecessor to the IFRIC).

US GAAP. United States Generally Accepted Accounting Principles. These principles are subdivided into binding and guiding principles.

Weighted Average Cost of Capital (WACC). The WACC represents the weighted average cost of the required return on equity and net interest-bearing liabilities.

Financial Calendar

2012	
Annual Financial Press Conference	March 1
Analyst Conference	March 1
Annual Shareholders' Meeting	April 27
Financial Report as of March 31, 2012	May 3
Half-Year Financial Report as of June 30, 2012	August 2
Financial Report as of September 30, 2012	October 31

2013	
Annual Financial Press Conference	March
Analyst Conference	March
Annual Shareholders' Meeting	May, 15
Financial Report as of March 31, 2013	May
Half-Year Financial Report as of June 30, 2013	August
Financial Report as of September 30, 2013	November

Contact

This Annual Report is also published in German. The financial statements of Continental Aktiengesellschaft are also available in English and German.

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