Continental
The Future in Motion

# Your Mobility. Your Freedom. Our Signature.

Annual Report 2013

Continental
The Future in Motion

- With sales of €33.3 billion in 2013, Continental is one of the world's leading automotive suppliers.

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

- Continental currently employs around 178,000 people at 300 locations in 49 countries.

# Your Mobility.
# Your Freedom.
# Our Signature. ❯

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

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

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

# 2013 Highlights

- Continental share price up by 82%
- Net indebtedness down by more than €1 billion
- Return on capital employed (ROCE) up to more than 19%

# Key Figures for the Continental Corporation

Owing to the first-time adoption of IAS 19 (revised 2011), Employee Benefits, as at January 1, 2013, all subsequent figures for the comparative period have been restated in accordance with the requirements of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

| **in € millions** | **2013** | 2012 | Δ in % |
|---|---|---|---|
| Sales | 33,331.0 | 32,736.2 | 1.8 |
| EBITDA | 5,095.0 | 4,967.4 | 2.6 |
| in % of sales | 15.3 | 15.2 | |
| EBIT | 3,263.7 | 3,186.2 | 2.4 |
| in % of sales | 9.8 | 9.7 | |
| Net income attributable to the shareholders of the parent | 1,923.1 | 1,905.2 | 0.9 |
| Earnings per share in € | 9.62 | 9.53 | 0.9 |
| | | | |
| Adjusted sales[1] | 33,164.3 | 32,684.7 | 1.5 |
| Adjusted operating result (adjusted EBIT)[2] | 3,736.5 | 3,611.5 | 3.5 |
| in % of adjusted sales | 11.3 | 11.0 | |
| | | | |
| Free cash flow | 1,818.3 | 1,652.5 | 10.0 |
| | | | |
| Net indebtedness | 4,289.3 | 5,319.9 | -19.4 |
| Gearing ratio in % | 46.0 | 65.2 | |
| | | | |
| Total equity | 9,322.2 | 8,156.4 | 14.3 |
| Equity ratio in % | 34.8 | 29.7 | |
| | | | |
| Number of employees as at December 31[3] | 177,762 | 169,639 | 4.8 |
| | | | |
| Dividend per share in € | 2.50[4] | 2.25 | |
| Share price at year-end[5] in € | 159.40 | 87.59 | |
| Share price[5] (high) in € | 161.90 | 87.95 | |
| Share price[5] (low) in € | 80.66 | 48.10 | |

*1 Before changes in the scope of consolidation.*
*2 Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.*
*3 Excluding trainees.*
*4 Subject to the approval of the Annual Shareholders' Meeting on April 25, 2014.*
*5 Price quotations of the Continental share in the XETRA system of Deutsche Börse AG.*

# Overview of the Corporation

## Continental Corporation

### Automotive Group

Sales: €20.0 billion
Employees: 103,217

### Rubber Group

Sales: €13.4 billion
Employees: 74,233

# Key Figures for Continental's Core Business Areas

**Automotive Group**

| in € millions | 2013 | 2012 | Δ in % |
|---|---|---|---|
| Sales | 20,016.1 | 19,505.1 | 2.6 |
| EBITDA | 2,490.5 | 2,470.3 | 0.8 |
| in % of sales | 12.4 | 12.7 | |
| EBIT | 1,158.9 | 1,134.5 | 2.2 |
| in % of sales | 5.8 | 5.8 | |
| | | | |
| Adjusted sales[1] | 20,010.9 | 19,453.6 | 2.9 |
| Adjusted operating result (adjusted EBIT)[2] | 1,592.9 | 1,601.5 | -0.5 |
| in % of adjusted sales | 8.0 | 8.2 | |

**Rubber Group**

| in € millions | 2013 | 2012 | Δ in % |
|---|---|---|---|
| Sales | 13,355.5 | 13,261.7 | 0.7 |
| EBITDA | 2,714.0 | 2,564.0 | 5.9 |
| in % of sales | 20.3 | 19.3 | |
| EBIT | 2,214.8 | 2,120.1 | 4.5 |
| in % of sales | 16.6 | 16.0 | |
| | | | |
| Adjusted sales[1] | 13,184.3 | 13,261.7 | -0.6 |
| Adjusted operating result (adjusted EBIT)[2] | 2,256.0 | 2,091.6 | 7.9 |
| in % of adjusted sales | 17.1 | 15.8 | |

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

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## › Your Mobility. Your Freedom. Our Signature.






Individual mobility is about having the freedom to get around as required in our private and professional lives. It is a basic human need that exists around the world. Developing technical solutions for the mobility of today and of the future is what drives us. And as a specialist in rubber and plastics technology, we are a preferred partner to many other key industries as well.

We inform shareholders, analysts, shareholders' associations, the media and interested members of the public equally on significant developments in the corporation. We thus provide all market participants with relevant information about Continental at the same time.

# To Our Shareholders ›

# Chairman's Letter ›

*Dr. Elmar Degenhart,*
*Chairman of the Executive Board*

Dear Shareholders,

A good player demonstrates a real passion to win, even when times are tough on the economic front. In the past year, your Continental did just that, growing in spite of weak economies in Southern Europe and some emerging markets and intensified competition around the world. The sales increase and the level of earnings underscore our strong competitiveness. Our financing rests on a solid foundation. This has been confirmed by the three major rating agencies Moody's, Standard & Poor's, and Fitch, all of which re-assigned us the investment grade rating without any restriction. The end of December 2013 saw our share price peaking at a then historic high of €161.90. On the DAX, we were once again the winner last year in terms of the relative rise in share price.

All in all, last year we achieved further significant milestones on our successful path, strengthened the basis for profitable growth, and demonstrated our future potential.

As a result of all our efforts, you – our shareholders – recorded an 82% increase in the share price in the past year. On top of this, a dividend of €2.25 was paid, making for a total return of 86%. Your Continental shares not only significantly outperformed the DAX and the EURO STOXX 50, but also beat the EURO STOXX Automobiles & Parts by 45 percentage points.

Behind this successful track record is the strong commitment of our almost 180,000 Continental employees and their collaboration with our numerous customers and business partners. For this I wish to thank them on behalf of the entire Executive Board.

Our global team once again proved that values create value. The two go together, since if we fail to put values into practice we cannot be competitive or create value. They are what determines how efficiently and effectively we perform our work, how successfully we operate around the world, and how quickly we launch pioneering new technologies on the market. Our four corporate values – Trust, Freedom To Act, For One Another, and Passion To Win – form the inner compass that we use to determine and implement the necessary changes.

This orientation is very important to us, as our industry is facing profound challenges. The increasing digitalization of all areas of life is bringing changes in both mobility and industrial production. It requires us to develop entirely new solutions. The integration of the Internet is opening up new, additional business opportunities for us.

Our advanced driver assistance systems already help millions of people around the world with tasks such as keeping in the lane, monitoring the blind spot, avoiding a crash at the back of a traffic jam, and preventing collisions with pedestrians in cities. In this way, we make significant contributions to increased safety in road traffic.

Our vision: zero accidents. And this is no longer a utopia!

Our assistance systems help to substantially reduce the number of accident victims while also enhancing comfort and quality of life for their users of all ages. And finally, they foster safe communication while driving.

Such systems have already sparked a great deal of interest extending beyond national boundaries, which was also reflected in the findings of a representative international study we recently published. For example, in Germany alone 90% of drivers stated that they consider driver assistance systems to be very helpful. More than half of motorists in the countries surveyed are open to the topic of automated driving. Even their price expectations are at a realistic level: The drivers surveyed in Germany feel that highly automated driving on freeways at up to 130 km/h would be worth around an additional €3,000 on average. The complete findings of the Continental Mobility Study 2013 can be viewed online at www.continental-mobility-study.com.

In 2016, we will already generate sales of roughly one billion euros with advanced driver assistance systems.

We use these systems to process the data collected by our sensors, infrared cameras and stereo cameras installed in the vehicle. Thanks to networking with powerful data centers, vehicles will also be able to "look around the corner" in the coming decade, enabling them for instance to give warning of an accident beyond a bend in the road. It will thus be possible for them to communicate with other vehicles. We anticipate that by around 2025 vehicles will even be able to drive on a fully automated basis, making them even safer, more efficient, more comfortable and more convenient than they are today.

We are already on the lookout for suitable development partners for this future of mobility, as we are very aware that we cannot take on this task alone. To develop the best systems, we need the best technologies. That is why we are seeking collaborations with global market leaders such as Cisco, IBM, and Nokia's HERE mapping software unit. We want to work together to network vehicles with one another seamlessly and securely, and to process the resulting huge volumes of data so that they can be used effectively. In this context, we signed an agreement with the BMW Group in January 2013 for the joint development of an electronic co-pilot for driving on freeways.

As you can see, your Continental is playing a key role in advancing the future of automotive digitalization. However, in light of all our excellent future prospects, we are naturally also taking advantage of the many growth opportunities offered by our current business.

For instance, this is what we are doing in China, where we have geared our organization towards fast, sustainable, and profitable growth, increasing our sales by 23% last year. In August 2013, we entrusted my fellow Board member, Dr. Ralf Cramer, with managing our business there. His successor in charge of the Chassis & Safety division, and thus a new Board member, is Frank Jourdan, who previously headed the Electronic Brake Systems business unit.

I am delighted that the contract of my colleague on the Board, Heinz-Gerhard Wente, has been extended through April 2015. As head of the ContiTech division, he and his team work with great commitment to drive forward the expansion of our industrial business.

We have concluded an agreement with The Carlyle Group, U.S.A., to buy Veyance Technologies, Inc., U.S.A. Veyance operates globally in the field of rubber and plastics technology. With its some 9,000 employees, it posted sales in 2013 of approximately €1.5 billion, 90% of which was generated in the industrial business. As soon as the respective antitrust authorities have given their approval, we shall have moved a step closer to our strategic goal of further increasing the share of our sales derived from industrial clients and the aftermarket.

Each year we invest nearly two billion euros in the further expansion of production throughout the corporation. In Kaluga, Russia, for instance, we began manufacturing passenger tires for the Russian market in the fall of 2013, ahead of schedule. Some 400 employees will initially produce 1.5 million summer and winter tires there. In the long term, capacity can be increased to more than ten million passenger tires per year.

Our new tire plant in Sumter, South Carolina, U.S.A., started operations early in 2014 as planned. After the end of the first expansion stage in 2016, this plant will produce around four million passenger tires each year. By 2021 we intend to increase annual capacity to as much as eight million tires. Around 1,600 new jobs will be created as part of this investment totaling approximately U.S. $500 million.

Our three Automotive divisions are also excellently positioned in their respective areas. An external study identified the 20 fastest-growing automotive products and systems, with which our Automotive divisions achieve roughly 50% of their sales.

At present, solutions that are being marketed with great success include our electronic braking systems, such as ABS (anti-lock brake system) and ESC (electronic stability control), with over 20 million units sold each year.

The 48 Volt Eco Drive system for graduated, cost-effective powertrain hybridization enables more efficient recovery of braking energy. Together with forward-looking energy management, this allows for fuel savings of around 13%.

Our new head-up display is much larger and can superimpose photo-realistic images and 3D animations, thus presenting information for drivers in a more intuitive manner.

From January 1, 2015, the European Commission intends to introduce in all new vehicles the automatic emergency call system eCall, which we are already mass producing. In the event of an accident, this system automatically sends a call to the emergency phone number 112. A pan-European test showed that 90% of calls reached the emergency response centers within 20 seconds.

With these and other solutions, we save lives and improve the quality of life – millions of times over, in three out of four vehicles on all roads around the world.

For this reason, we spend more than €1.8 billion a year on research and development for future mobility. This is equivalent to roughly 5.6% of annual sales – an exceptionally high level. In Germany's DAX 30 blue-chip index alone, your Continental is thus one of the top five future-oriented companies. With about 10,000 software engineers on the team, we are one of Germany's largest employers for this profession.

As you can see, with Continental the future is starting earlier – both for our customers and for you as investors.

In 2014, we are expecting sales to grow to about €35 billion. Please continue to accompany us along our successful path, as it is the trust that you, our shareholders, place in our future potential that inspires us.

Yours,

Elmar Degenhart

Dr. Elmar Degenhart
Chairman of the Executive Board

# Members of the Executive Board ›

**Frank Jourdan**
born in 1960
in Groß-Gerau, Germany
Chassis & Safety Division
appointed until
September 2016

**Heinz-Gerhard Wente**
born in 1951
in Nettelrede, Germany
ContiTech Division,
Corporate Purchasing
appointed until
April 2015

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

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

**Elke Strathmann**
born in 1958
in Mülheim, Germany
Human Resources,
Director of Labor Relations,
Corporate Social
Responsibility
appointed until
December 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 2019

**Dr. Ralf Cramer**
born in 1966
in Ludwigshafen, Germany
Continental China
appointed until
August 2017

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

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


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# Your Mobility. Your Freedom. Our Signature. ›

# › Your Mobility. Your Freedom. Our Signature.

Across all of our corporate divisions, we are working on making mobility safer, more flexible, more effective, and more sustainable. For people, the transportation of their materials, and the transmission of their data, our highly developed and intelligent technologies constitute the key to success.


**Solutions in line with megatrends ›** Under the motto “A Day in a Driver’s Life,” we presented a “future mobile day” to our customers and interested members of the public at the 65th International Motor Show (IAA) in Frankfurt am Main. Presenting our new brand image, we showcased innovations in line with the megatrends of safety, information, environment, and affordable cars on an area covering more than 1,000 square meters – and responded to the needs of individual mobility of the future.

The ability to capture the complete vehicle surroundings by means of Surround View, a graded and cost-efficient hybridization of the powertrain, the latest generation of head-up displays, surface materials with high scratch resistance, and the current range of winter tires are only a few of the innovations presented.

As a special trade fair highlight, we showcased our systems expertise in the area of automated driving.

When the public days got underway at the IAA, we also presented ourselves as an attractive employer in particular for engineers, scientists, and business administrators who want to play a role in shaping individual, sustainable mobility of the future.

**Combination of automotive and industrial business ›** As a technology corporation with a focus on innovation, we are a preferred development partner and original equipment manufacturer for the automotive industry – our expertise in the area of technical elastomer products in particular, however, can also be applied in the commercial vehicle, mining, and printing industries, machine and apparatus engineering, aeronautics, and railway technology.

## Protecting the environment along the way ›

Lowering emissions and consumption.
Continuously reducing environmental impact.

## New mobility means flexibility ›

The best way to our destination.
Smart, customized, and communicative system technologies.

## Accident-free and networked driving ›

Everything in sight at all times.
Capturing and conveying the important information.

## Mobility in future markets ›

Affordable, intelligent vehicle systems.
Solutions for what will soon be around 20% of worldwide vehicle production.

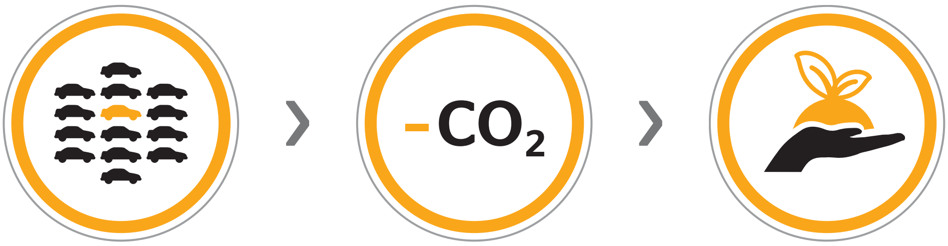
## Open to new perspectives ›

Rubber and plastics expertise.
Solutions for pioneering material combinations.


Continental

# Protecting the environment along the way ›

The need for individual mobility is increasing worldwide. At the same time, it is absolutely essential to protect our environment so that we, and our future generations can live good and healthy lives. We believe that both of these requirements can co-exist, and across our divisions we are working on innovative solutions that provide the means to reconcile them.




**The desire for individual mobility is growing and with it, so is the number of vehicles.** › **Our technologies enable a significant decrease in vehicle emissions ...** › **... while also reducing resource consumption and environmental impact worldwide.**

**Innovations for earth-friendly mobility ›** We are convinced that we can achieve long-term success only if our products and production methods protect the environment in the best possible way. Individual mobility requirements vary widely across the world. We therefore adapt our innovative solutions to the conditions of the various markets, while ensuring that they remain environmentally friendly throughout the mobility life cycle – from the development of a vehicle and drive concept, through its resource efficient operation, and finally its disposal through reuse or recycling.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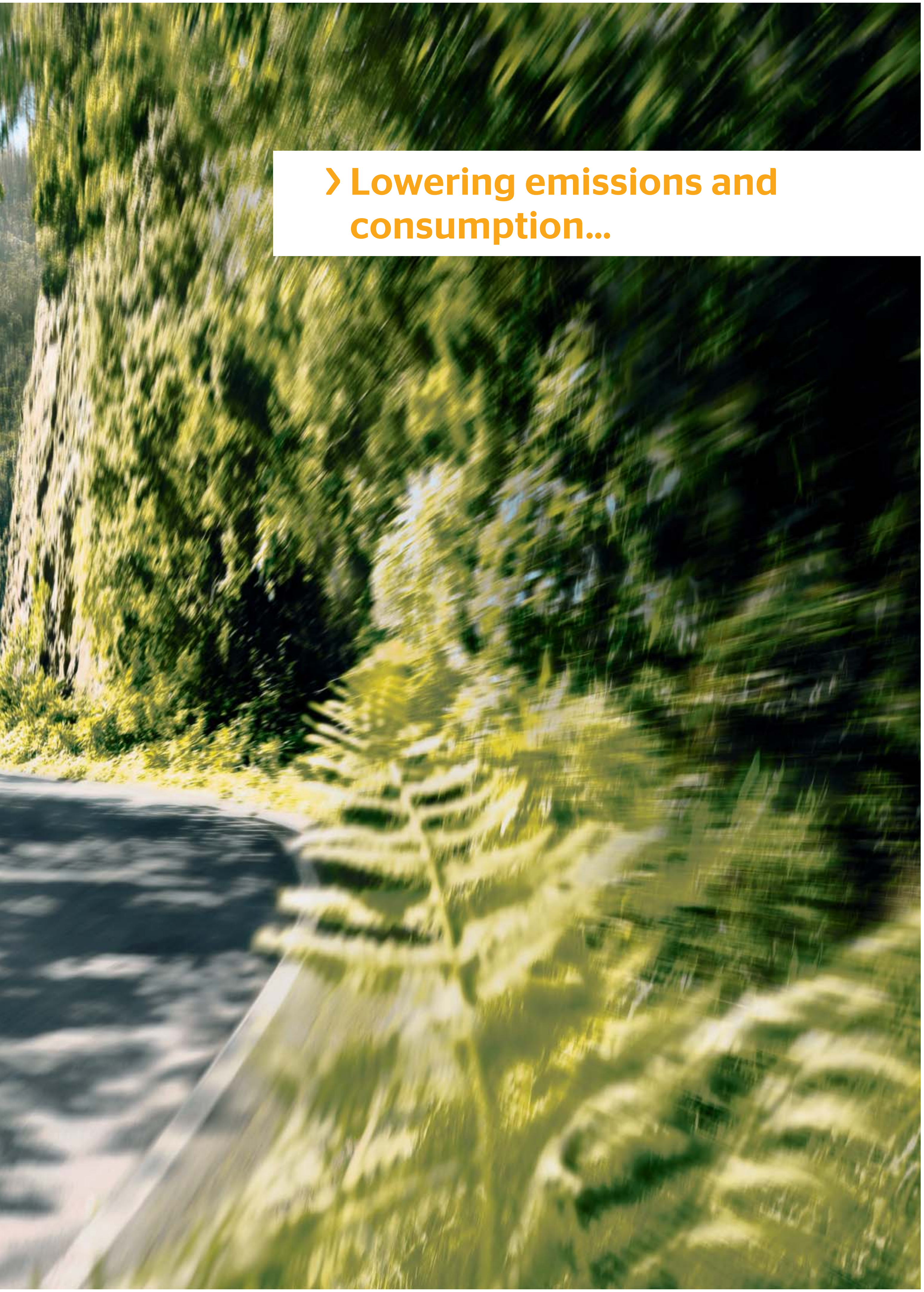
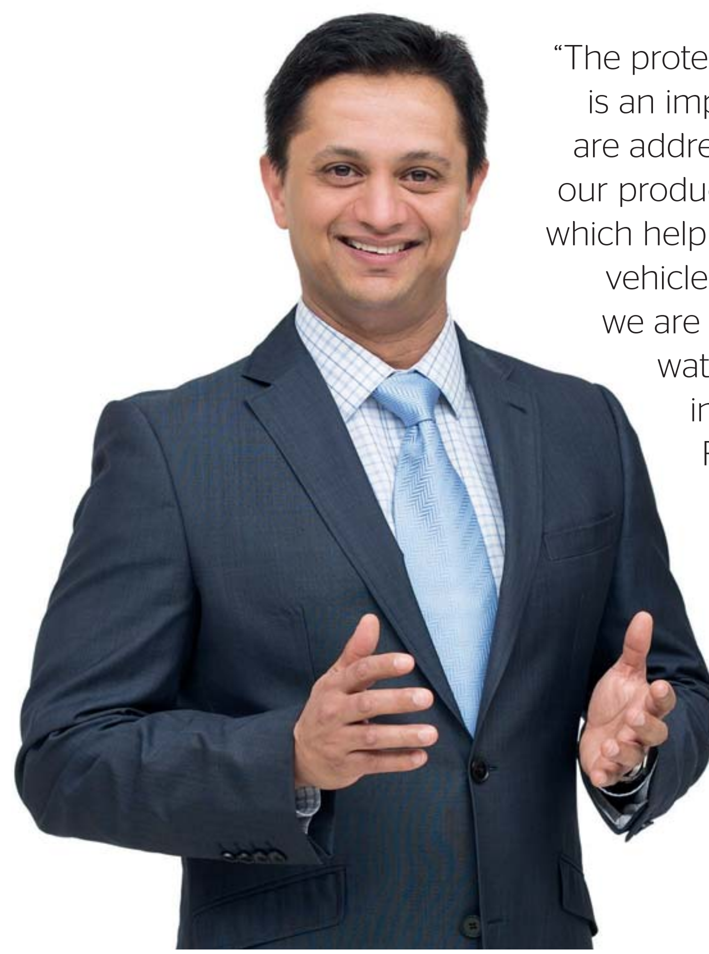


## › Lowering emissions and consumption...

## › Continuously reducing environmental impact.

**The environment is a core topic ›** Over the next ten years, an estimated 95% of new vehicles produced will still be powered by either gasoline or diesel combustion engines. Our products and systems are therefore focused on increasing the efficiency of the conventional powertrain via both clean combustion, as well as via exhaust gas after-treatment. At the same time, we are developing scalable systems for the future mix of energy sources and propulsion concepts. Our tires play a major role in protecting the environment by reducing rolling resistance. This holds true for our lightweight components and our energy-efficient and recyclable products.

**Recycling is key to reducing environmental impact ›** With the opening of the world's first fully integrated tire retreading and recycling plant, the ContiLifeCycle plant in Hanover-Stöcken, we are helping to conserve resources. At full output, the plant can save the annual production of natural rubber from 1.3 million rubber trees.



"The protection of our environment is an important priority, which we are addressing in three ways: With our products and system solutions, which help to reduce $CO_2$ and other vehicle exhaust emissions. Next, we are reducing our energy and water consumption footprint in our production facilities. Finally, we are developing new production methods to use a higher share of recycled material."

**› Nirad Pandya**
Strategy, Marketing & Communication
Engine Systems


00:12:54


# New mobility means flexibility ›

For a long time now, being mobile has meant more than just getting to where you are going. Mobility comprises the freedom to choose the means of transport and drive concept as well as the use of travel and transport time in an effective way or for entertainment purposes. For fleet operators such as freight carriers, time savings achieved by means of effective routing together with shorter downtimes constitute major cost factors. Connecting with the diverse opportunities offered by digital entertainment electronics – including smartphones – offers additional services to both private and business travelers.

**Wireless charging and seamless integration: the smartphone makes its way into the car.**

›

**Mobility is available round-the-clock as required – with smartphones performing information and control functions.**

›

**Travelers can stay connected with their family, friends, colleagues, or business partners at all times.**

**Making valuable use of time ›** The smooth integration of the vehicle into our daily lives – in the real, analog, and digital world – is making ever greater inroads. Whether intelligent tires, anticipatory transmission control systems, smart gas pedals, or digital car keys in your cell phone, we are developing products and systems that, with the help of state-of-the-art information processing, will provide future mobility concepts that are designed to increase efficiency, road safety, and comfort.


00:12:54


# › The best way to our destination...

# › Smart, customized, and communicative system technologies.

**Always at hand ›** Smartphones are becoming increasingly intelligent companions by our side at all times. An important trend in the automotive industry and therefore also for Continental is the desire of drivers to make greater use of the smartphone's options in the car. Our aim is for drivers to be able to access any of the cell phone's functions they want while driving. However, for safety reasons, the cell phone must always be operated using the vehicle's operating elements. Smartphones help to save time outside the car as well by serving as intelligent car keys in which the individual vehicle settings – for the seat, mirrors, lighting, heating, or navigation, for example – are stored together with access authorization. A Bluetooth connection enables the vehicle to automatically adjust to the driver's personal settings. This is an interesting function for rental and carsharing services in particular.

**Intelligent apps as practical assistants ›** Intelligent apps – applications for mobile operating systems such as smartphones – open up a host of opportunities. With our tire pressure app, we offer car and truck drivers greater safety and less wear and tear by means of intelligent sensors installed on the tires. TruckYa! not only points out free parking spaces for truck drivers in real time but also helps them to organize driving time and rest periods in the best possible way. Our apps help fleet managers to plan routes by accessing and monitoring the position and route data of vehicles.

"Why do we travel? To go on vacation. To meet up with friends, colleagues, or customers. To deliver goods. Traveling itself is often simply a means to an end. For this reason, we are working across all divisions on solutions that enable travel and transport time to be used as efficiently, safely, and conveniently as possible. The integration of smartphones into the vehicle also plays an important role here."

**› Patricia Stich**
Sales, Strategy & Portfolio
Commercial Vehicles & Aftermarket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# Accident-free and networked driving ›

Human error is the cause of 75% of all accidents. On the way to our vision of accident-free driving, we assist people with targeted technologies. Here, establishing networks among vehicles as well as networking vehicles with their surroundings are a key factor. Networking makes driving safer, more comfortable, more convenient, and more efficient.

**Camera-based Surround View system, linked with the smartphone.**

**Integrating technology through the fusion of sensors and other sources of information.**

**Greater safety for road users thanks to comprehensive and intelligent systems.**

**Safety through information ›** The car provides information to the Internet and also receives information from it. The networked vehicle will filter the endless wealth of information and reduce it to the essentials, thus making that information usable for us and enabling smooth interaction between human and machine. With our systems such as the 360-degree environment detection tool (Surround View system) or our concept of networked navigation and vehicle data for electric vehicles (eHorizon), we capture safety-relevant information. The intelligent interconnection of sensors and systems both inside and outside the vehicle as well as their multiple use for different applications will set new safety standards.


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# › Everything in sight at all times...


# › Capturing and conveying the important information.

**A dialogue without words ›** With our products and systems, the information needed at any particular time can be captured in an increasingly intuitive manner. After all, a truly safe vehicle must compute in advance what information is required in the respective driving situation. In this connection, networking not only fosters a connection between the vehicle and its surroundings but also establishes interaction between human and machine within the vehicle. Is the driver distracted? Where is the driver looking? The vehicle uses modern camera systems to monitor both the driver and the vehicle surroundings. It presents the important information to the driver on head-up displays – and this will even be integrated into the real-life exterior view in the future.

**On the path toward automated driving ›** Today, vehicle environment sensors as well as camera, infrared, and radar technology in vehicles are already providing for greater road traffic safety and anticipatory driving. With a "digital big picture", cars of the future will be able to alert drivers to dangerous traffic situations in good time – such as the end of a traffic jam beyond a curve. Advanced driver assistance systems guide motorists through construction areas or initiate an emergency braking procedure if drivers are distracted. The more the vehicle makes decisions independently, the more it must inform the driver in the easiest way possible. The interplay of electronics in the vehicle and the communication with the surroundings allows for intelligent vehicles in an intelligent transport network – the prerequisite for automated driving.

"Networking is the key to our vision of accident-free driving. By networking the vehicle with its surroundings and other vehicles, we are achieving important goals: increased road safety, better traffic flows, and lower fuel consumption. Networking is also the key to our successful collaboration across all divisions."

**› Christian Senger**
Automotive Systems & Technology
Cross Divisional


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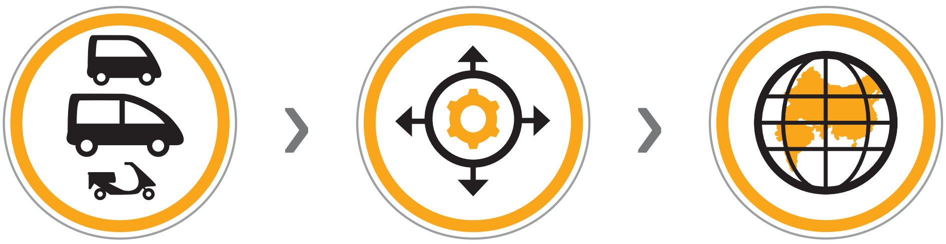
# Mobility in future markets ❯

Each market has its own rules – including the high-growth future markets of Asia, South America, and Eastern Europe. We believe that mobility should be affordable for everyone and not just for the privileged few. This is why we develop the appropriate solution for each market and each vehicle. Our high demands on quality apply to all products, regardless of where they are manufactured. We are always nearby, worldwide, able to respond to different market needs and customer requirements.



**Scalability of systems – cost-effective products to meet different market requirements.**

**Networking of systems – thanks to flexible technologies, various applications can be covered by just one system alone.**

**In the market for the market – for us, this basically means we develop locally, purchase locally, and produce locally.**

**Affordable and safe – in the city and in the countryside ❯** The requirements placed on affordable vehicles for future markets could not be more different. What does an optimal vehicle concept for overcrowded roads in Shanghai or New Delhi look like? What about one for use in northern Russia? Our answers to these questions can be found in the flexible and scalable application possibilities of our products and systems.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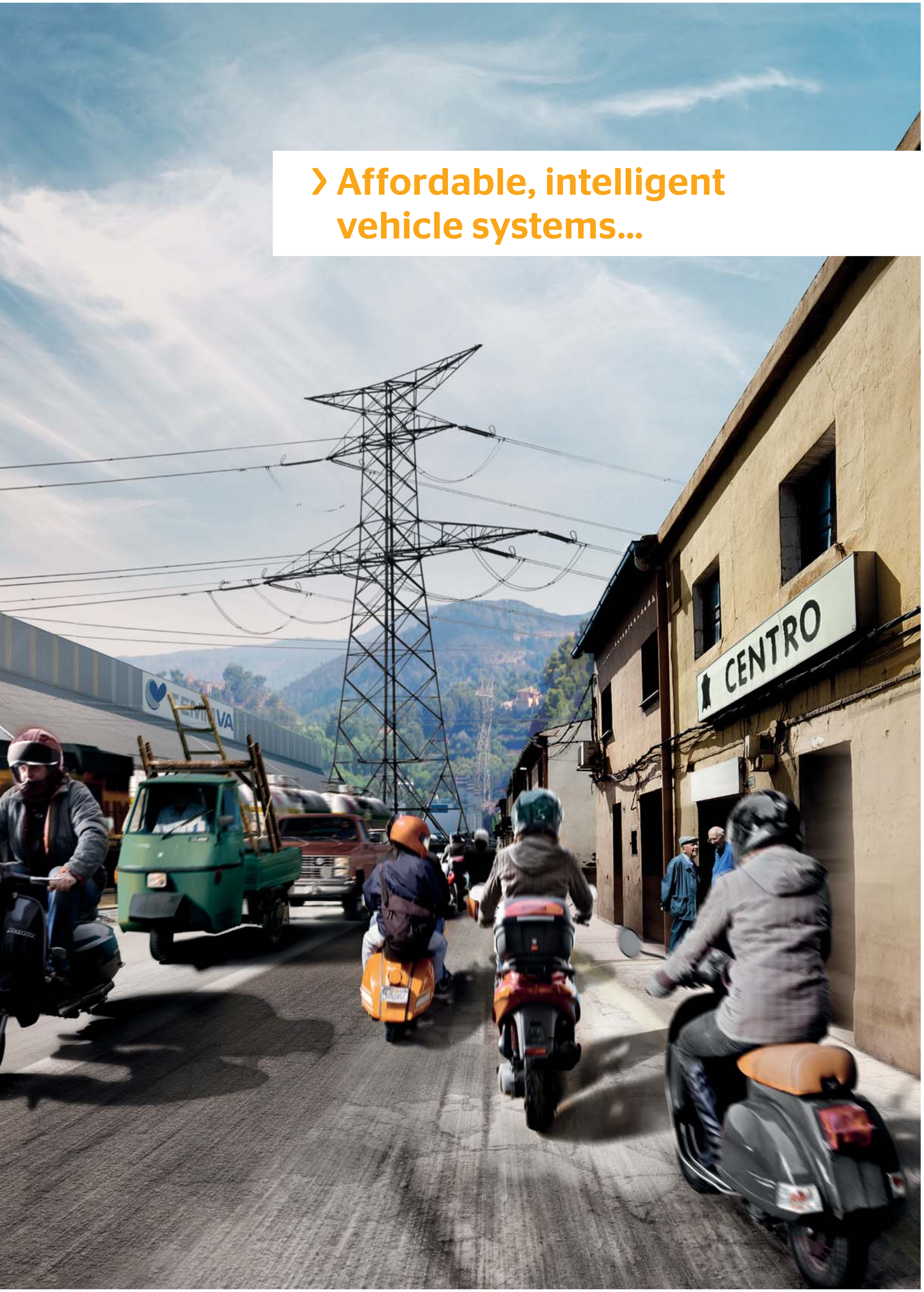
## › Affordable, intelligent vehicle systems...




## › Solutions for what will soon be around 20% of worldwide vehicle production.

**Scalability, networking, and a strong local foothold ›** With this triad, our products and system solutions can optimally satisfy local market demands. One example of this is our electronic brake system, which can be freely scaled according to the automotive manufacturer's requirements for functionality and performance. It enables motorcycle ABS with or without an integral brake function, through to high-end solutions as well as safety and assistance functions. These include rollover protection, hill-start assist, or intelligent adaptive cruise control. This modular concept makes it possible to offer active safety systems at attractive prices in all vehicle classes.

**Local presence ›** Market observers expect that around 20% of the vehicles produced worldwide will belong to the affordable vehicle segment in 2015. We have therefore been present in the fast-growing future markets for a long time already. This is the only way for us to gain accurate knowledge about local requirements and future trends. With our networked development and production teams worldwide, we are present in both leading economic markets and high-growth future markets. This enables us to offer solutions and products for upmarket cars, affordable vehicles, and customized industrial applications.

"China is already the world's largest automotive manufacturer and automotive market. Nowhere else is the need for individual mobility and industrial goods experiencing stronger growth. Access to individual mobility constitutes an improvement in quality of life for everyone. Our business approach is to offer products and solutions that are tailored to local demand, meet the highest standards, and offer optimum benefits for our customers."

› **Jing Wang-Winter**
Marketing
Replacement Tires Asia and Pacific Region

# Open to new perspectives ›

Strategic innovation management and the early adaptation to trends give us a technological edge. Our proven expertise in materials and processes flows into our highly advanced, technical products for the automotive industry, for machine and plant engineering, and virtually all other key industries – also when solving the greatest design challenges.

**Achieving industrial evolution …** › **… with unique products that meet a wide variety of requirements.**

**Smart materials ›** We create functional materials made from rubber and plastic that are becoming ever more intelligent and even possess sensing and memory features. We manufacture versatile, high-performance products and systems in continuously improved material combinations (hybrid materials) featuring fabric, steel, stainless steel, and even silicone, thereby making a significant contribution to a higher standard of living.

# › Rubber and plastics expertise...

# › Solutions for pioneering material combinations.

**Preferred partner to industry ›** It is not by chance that we are a globally recognized rubber and plastics specialist. After all, we get everything out of these two materials of the future to ensure that our products add value in a wide variety of applications. Our technical innovations help us to take the steps forward that are essential for our modern society. From the agricultural and food sectors, rail, road, and sea transport, through to the extraction of energy and raw materials around the globe.

**Achieving innovation with an inventive spirit ›** In our research and development laboratories, we develop pioneering material combinations featuring improved or even unprecedented properties. This sees us achieving first-class results for the current and future demands of our customers and people worldwide.

"We turn inventions into innovations and establish sophisticated applications. For automotive manufacturers and increasingly future-oriented key industries, we often work in proven partnerships with our customers on new and advanced developments. We thus work in interdisciplinary teams to develop forward-looking solutions."

**Hannes Friederichsen ›**
General Management
Air Spring Systems

# Continental Shares and Bonds

Good performance by Continental shares and bonds thanks to positive business development, successful refinancing and rating upgrades.

### Share capital unchanged

The share capital of Continental AG remains unchanged at €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.

### Continental share listings

Continental's shares are officially listed on the German stock exchanges in Frankfurt, Hamburg-Hanover and Stuttgart. The no-par-value shares have a notional value of €2.56 per share. In the U.S.A. they are traded as part of a sponsored ADR (American depositary receipt) program on the OTC (over-the-counter) market. They are not admitted to the U.S. stock market. To increase fungibility, a split of the outstanding ADRs was carried out on December 23, 2013, in a ratio of 1:5, meaning that five ADRs are now equivalent to one share.

**Continental share data**

| | |
|---|---|
| Type of share | No-par-value share |
| Stock exchanges | Frankfurt (Prime Standard), Hamburg-Hanover, Stuttgart |
| German securities code number (WKN) | 543900 |
| ISIN number | DE0005439004 |
| Reuters ticker symbol | CONG |
| Bloomberg ticker symbol | CON |
| Index memberships | DAX<br>Prime All Share<br>Prime Automobile<br>NISAX |
| Number of outstanding shares as at December 31, 2013 | 200,005,983 |
| Free float as at December 31, 2013 | 54.0% |

**American depositary receipt data**

| | |
|---|---|
| Ratio | 1 share : 5 ADRs |
| SEDOL number | 2219677 |
| ISIN number | US2107712000 |
| Reuters ticker symbol | CTTAY.PK |
| Bloomberg ticker symbol | CTTAY |
| ADR level | Level 1 |
| Trading | OTC |
| Sponsor | Deutsche Bank Trust Company Americas |

### Free float up to 54.0%

On September 17, 2013, our major shareholder, the Schaeffler Group, Herzogenaurach, Germany, announced the sale of 7.8 million Continental shares and thus reduced its shareholding in Continental AG from 49.9% to 46.0%. Free float as defined by Deutsche Börse AG rose accordingly from 50.1% to 54.0%.

As at the end of 2013, the market capitalization of Continental AG amounted to €31.9 billion (PY: €17.5 billion). Based on the increased free float, free float market capitalization in accordance with Deutsche Börse AG averaged €16.7 billion over the last 20 trading days of 2013. The trading volume that is also relevant to index selection amounted to €13.0 billion from January to December 2013. Among the 30 DAX stocks in the Deutsche Börse AG index ranking, Continental shares were in 16th place in terms of free float market capitalization and in 20th place in terms of stock exchange turnover as at the end of 2013, after holding 21st place at the end of the previous year in each category.

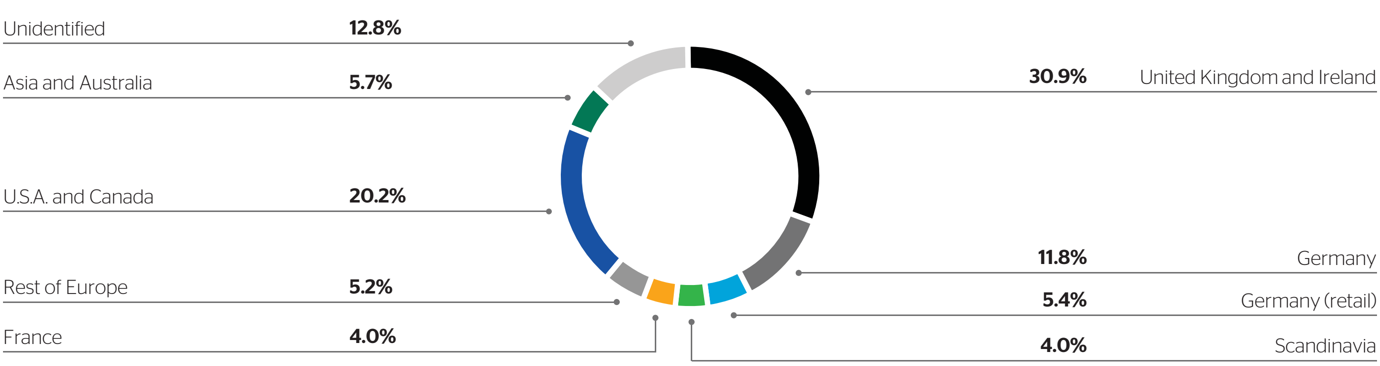
### Higher share of international investors

We once again conducted shareholder identification (SID) as at December 31, 2013. We were able to assign 87.9 million of the shares held in free float – which have risen to 108.0 million in total – to 380 institutional investors in 27 countries. Private European shareholders held 6.3 million shares as at the end of the year. In total, we therefore identified 94.2 million, or 87.2%, of the free float shares. 13.8 million shares (12.8% of free float) remained unidentified. In the previous year we had identified 85.1% of free float (100.2 million shares).

According to the SID, the level of Continental shares held in Europe has risen to 61.3% (PY: 59.7%). Investors from the United Kingdom and Ireland in particular increased their shareholdings from previously 25.3 million shares to currently 33.4 million. The holdings of German institutional investors were barely changed in the reporting year, remaining at a similar level to the previous year at 12.7 million shares (13.0 million). However, given the larger reference base, their share of free float declined to 11.8%. There was an encouraging rise in the shareholdings of private German shareholders of 0.7 million shares in 2013 to 5.8 million. In France, Scandinavia and the rest of Europe, shareholdings decreased by 2.1 million in the period under review to a total of 14.3 million.

Outside Europe, holdings in the U.S.A. and Canada climbed by 4.4 million shares to 21.9 million (PY: 17.5 million shares). By contrast, the shareholdings of investors in Asia and Australia declined by 1.8 million to 6.1 million shares (PY: 7.9 million).

**Shareholder structure of free float**




## Net income per share again at record level

In the year under review, the net income per share attributable to the shareholders of the parent increased approximately 1% to €9.62. In addition to the strong operating performance, this increase was due to a lower tax rate caused by special effects. Special effects in net interest expense resulting from the early redemption of bonds had a negative impact. The comparative figure from the previous year was €9.53.

Earnings per share, i.e. the portion of profits attributable to the shareholders per share, are calculated by dividing the net income attributable to the shareholders of Continental AG in the amount of €1.92 billion by the average number of shares outstanding.

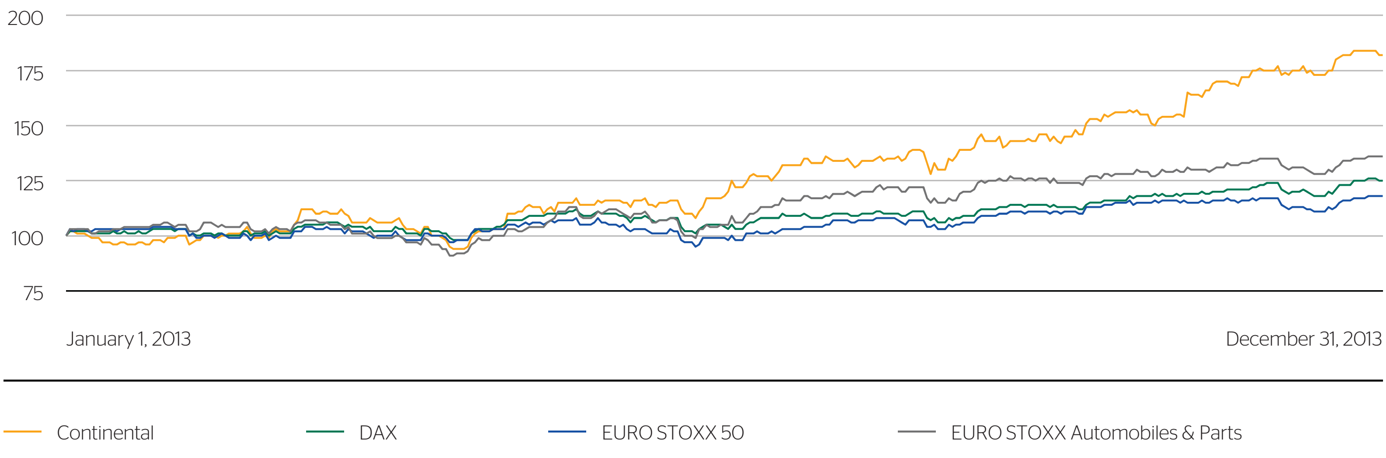
## Proposal for dividend

The Annual Shareholders' Meeting will be held in Hanover on April 25, 2014. The Executive Board and the Supervisory Board have resolved to propose a dividend distribution of €2.50 per share for the past fiscal year to the Annual Shareholders' Meeting. This corresponds to €500.0 million or a dividend payout ratio of 26.0% of net income attributable to the shareholders of the parent. Based on the dividend proposal and the significantly higher annual average Continental share price, this results in a dividend yield of 2.2% for 2013. A dividend of €2.25 per share was paid for fiscal 2012, amounting to a total payout of €450.0 million. The dividend payout ratio was 23.6%, and the dividend yield was 3.1%.

| Key figures per share in €[1] | 2013 | 2012 |
|---|---|---|
| Basic earnings | 9.62 | 9.53 |
| Diluted earnings | 9.62 | 9.53 |
| Free cash flow | 9.09 | 8.26 |
| Dividend | 2.50[2] | 2.25 |
| Dividend payout ratio (%) | 26.0[2] | 23.6 |
| Dividend yield (%) | 2.2[2] | 3.1 |
| Total equity (book value) as at December 31 | 45.05 | 38.89 |
| Share price at year-end | 159.40 | 87.59 |
| Average share price | 111.70 | 72.55 |
| Average price-earnings ratio (P/E ratio) | 11.61 | 7.61 |
| Share price (high) | 161.90 | 87.95 |
| Share price (low) | 80.66 | 48.10 |
| Average XETRA trading volume (in units) | 472,368 | 638,588 |
| Number of shares, average (in millions) | 200.0 | 200.0 |
| Number of shares as at December 31 (in millions) | 200.0 | 200.0 |

*1 All market prices are quotations of the Continental share in the XETRA system of Deutsche Börse AG.*
*2 Subject to the approval of the Annual Shareholders' Meeting on April 25, 2014.*

**Share price performance vs. major stock indexes** (indexed to January 1, 2013)




**Stock markets record new highs after volatile start**
Stock market development in 2013 was boosted by the highly expansive monetary policy of the U.S. Federal Reserve (Fed), the European Central Bank (ECB) and the Bank of Japan, which caused the DAX and the Dow Jones Index to reach new all-time highs already at the end of May 2013. Hints from the Fed as to limiting and possibly ending its monthly bond purchases led to a turnaround in sentiment and price losses on the capital markets. On June 20, 2013, the Fed revealed its monetary policy planning, making statements on a reduction of bond purchases before the end of the current year and a likely cessation by the middle of 2014. This led to further price losses in Europe and the United States.

Reports of liquidity shortages on the Chinese banking market and renewed concerns about the development of European crisis-hit countries intensified the downward trend, leading the ECB to announce at the beginning of the third quarter of 2013 that it would retain its low key interest rates for an "extended period". This initial announcement and reaffirming statements by the central banks of the U.S.A., Japan and China that they would continue their expansive monetary policy calmed the global capital markets and led to a recovery in share prices. At the end of August, markets were unsettled by fears of an imminent military strike by the U.S.A. against Syria. The agreement to destroy Syria's chemical weapons and growing expectations of an only gradual change in the Fed's relaxed monetary policy subsequently caused share prices to rise.

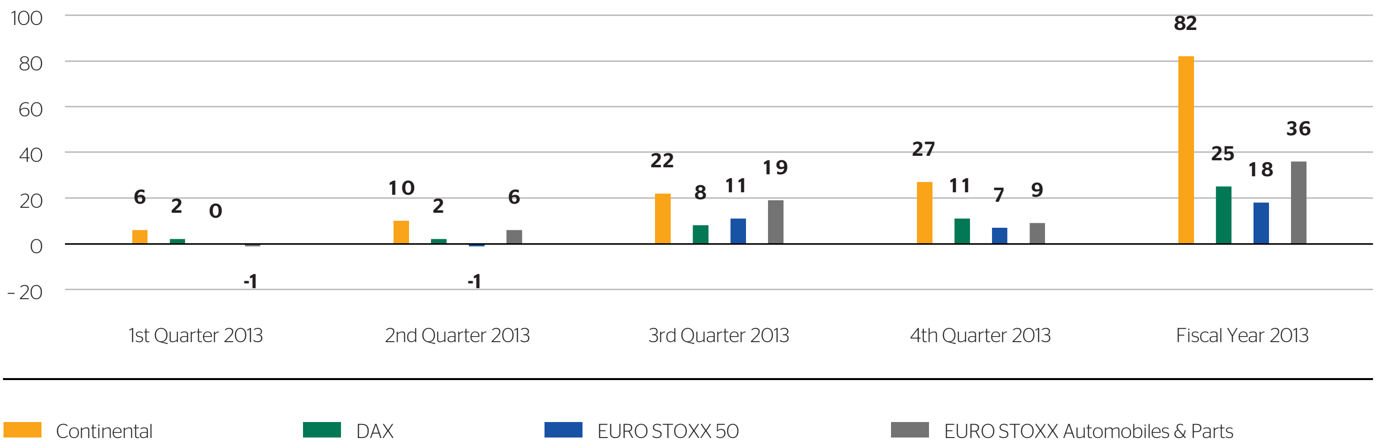
The Fed's unrestricted continuation of monthly bond purchases first came as a positive surprise to investors in September, driving the DAX and the Dow Jones Index to new record highs. Then from mid-September, comments by Fed members on the tapering of bond purchase volumes and the unresolved dispute over the U.S. federal budget and the debt ceiling led to consolidation on the stock markets.

From October 10, 2013, the preliminary agreement to extend the voting of the U.S. budget until January 2014 created optimism among investors and caused share prices to increase again. The DAX rose above the 9,000 points mark for the first time in late October and the Dow Jones Index reached an interim high for the year. This rising trend was supported by positive economic and company data and speculation about unchanged bond purchases by the Fed for the time being. The surprise cut in the ECB's key interest rate from 0.5% to 0.25% in late November caused the price rally on the stock markets to continue until early December.

Strong U.S. economic data at the beginning of December fueled uncertainty again that the Fed might soon begin to limit its bond purchase volume and led to significant profit-taking on the stock markets. As a result of the Fed's announcement that its bond purchases would be reduced only gradually from January 2014, initially to U.S. $75 billion per month, and the assurance that interest rates would remain low over the longer term, the markets reacted with a year-end rally in the second half of December. Benchmark indexes such as the DAX and the Dow Jones Index climbed to new all-time highs or, for example in the case of the EURO STOXX 50 and the NIKKEI 225, their highest levels in recent years.

**Continental share price up by 82%**
After Continental shares gained 6.5% in the first quarter of 2013 following the publication of good financial figures for 2012 and the outlook for 2013, in April the share price recorded declines and reached its low for 2013 on April 23 at €80.66 – significantly

**Quarterly share price performance** (in %)




below the 2012 closing price of €87.59. In addition to weaker overall economic indicators, the entire automotive sector mainly struggled with strong declines in unit sales of cars and tires in Europe in the first four months of 2013. The publication of the results for the first quarter of 2013 and the positive market environment following the ECB's interest cut announcement on May 2, 2013, caused the price of Continental shares to rise. Closing at €102.60, Continental's share price increased by 17.1% in the first half of 2013.

At the start of the third quarter of 2013, better than anticipated car sales figures in the U.S.A. and a stabilization of demand for cars and replacement tires in Europe drove strong share price increases for many automobile manufacturers and suppliers. Against this backdrop, the price of Continental shares also rose noticeably, exceeding the previous all-time high of €108.18 on July 25, 2007. The credit rating upgrade to investment grade by Fitch and the business figures for the first half of 2013, which were better than expected by market participants, led to further share price gains in July and August respectively.

Moreover, our shares also benefited from the successive early termination of the euro bonds issued in 2010 and their successful refinancing with new bonds with significantly lower interest rates. Finally, the rating upgrade by Moody's to investment grade in September also positively influenced the share price. Having closed at €125.30 on September 30, 2013, Continental shares generated a price gain of €37.71 or 43.1% in the first nine months of 2013.

In the fourth quarter of 2013, Continental shares initially benefited from the favorable market environment following the preliminary agreement in the U.S. budget dispute. The publication of the business figures for the first nine months of 2013, which were again better than expected, and the raised earnings forecast for 2013 as a whole resulted in a further significant increase in Continental's share price on November 7, 2013. The shares continued their rising trend until the end of the year, buoyed by positive analyst recommendations and the rating upgrade by Standard & Poor's in early December. At €161.90, the highest price for the year was achieved on December 27, 2013, shortly after the start of trading. The year-end closing price of Continental shares was €159.40.

With a price gain of €71.81, Continental shares marked an increase of 82.0% in 2013, almost identical to the previous year's increase of 82.1%. As such, they not only outstripped the DAX performance index (+25.5%) again, but were also at the top of the index for the second time in a row. They also significantly exceeded the annual performance of the price indexes EURO STOXX 50 (+17.9%) and EURO STOXX Automobiles & Parts (+36.0%).

Assuming the dividend distribution of €2.25 is immediately reinvested, this results in a total yield from Continental shares of 86.2% for the year under review (PY: 85.8%).

**Share yield also very attractive when compared over several years**

Comparing the performance over longer periods (assuming immediate reinvestment of distributed dividends), an investment in Continental shares would also have resulted in a considerably higher yield in comparison to the reference indexes.

**Performance over several years (including reinvested dividends)**

| Investment period for €10,000 | Continental | DAX | EURO STOXX 50 | EURO STOXX Automobiles & Parts |
|---|---|---|---|---|
| 1 year (Jan. 1, 2013 - Dec. 31, 2013) | €18,619 | €12,548 | €12,250 | €14,095 |
| Yield in % p.a. | 86.2 | 25.5 | 22.5 | 40.9 |
| 3 years (Jan. 1, 2011 - Dec. 31, 2013) | €28,141 | €13,815 | €12,677 | €15,257 |
| Yield in % p.a. | 41.2 | 11.4 | 8.2 | 15.1 |
| 5 years (Jan. 1, 2009 - Dec. 31, 2013) | €59,540 | €19,858 | €15,756 | €26,184 |
| Yield in % p.a. | 42.9 | 14.7 | 9.5 | 21.2 |
| 10 years (Jan. 1, 2004 - Dec. 31, 2013) | €62,278 | €24,090 | €16,605 | €31,931 |
| Yield in % p.a. | 20.1 | 9.2 | 5.2 | 12.3 |

Investing €10,000 in Continental shares would have generated an increase in value of 181% to €28,141 over the past three years, equivalent to a yield of 41.2% per year.

The time period of the last five years reflects the slump in prices on the stock markets in 2008. Owing to the very low valuation at the end of 2008, the annual yield here exceeds that of the shorter three-year period: An investment of €10,000 in Continental shares on January 1, 2009, would have generated an increase in value of €49,540 (42.9% p.a.) by December 31, 2013.

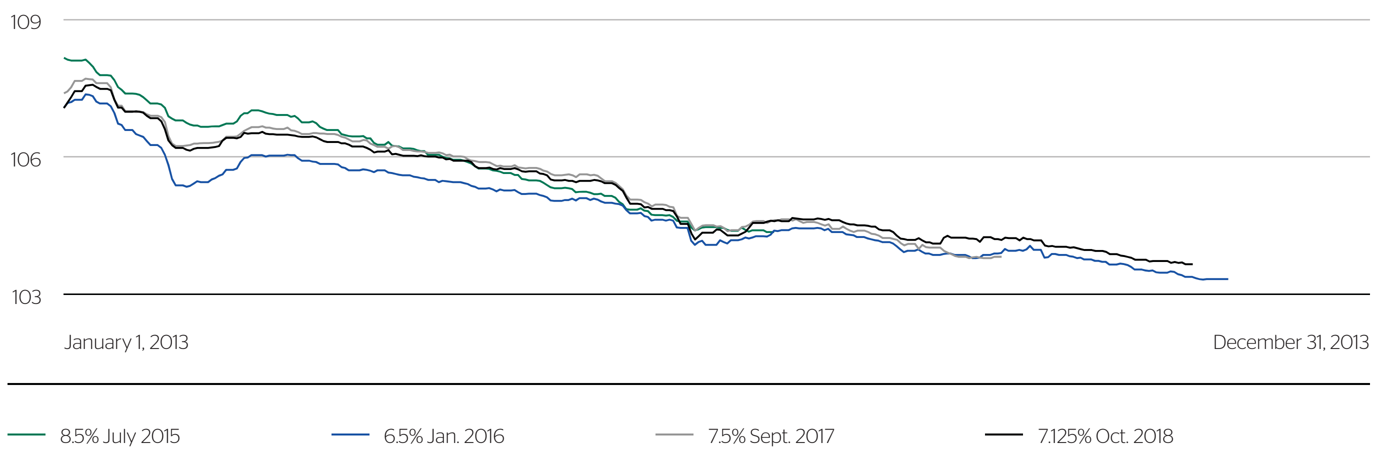
Comparing the performance over the past ten years, an investment in Continental shares would have generated an increase in value of €52,278. With an annual yield of 20.1%, the reference indexes were significantly outperformed over this ten-year period, too.

### Successive termination of the 2010 euro bonds

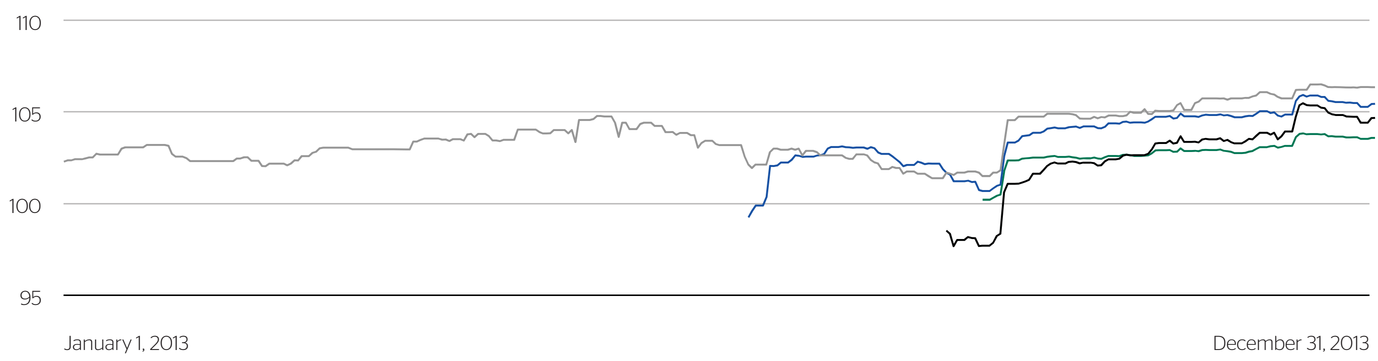
The euro bonds issued in 2010 continued their price decline in the reporting period. In the first half of the year, the prices of the four bonds fell by between 274 and 380 basis points, and were listed at between 104.0% and 104.5% at the end of June 2013. The significant price drop resulted from the growing expectation on the market that all bonds would be terminated on account of the more favorable refinancing options. The 2010 euro bonds were terminated successively and redeemed early over the course of the reporting period:

- in May the termination of the 8.5% bond to be redeemed on July 15, 2013, at 104.25%
- in July the termination of the 7.5% bond to be redeemed on September 16, 2013, at 103.75%
- in September the termination of the 7.125% bond to be redeemed on November 8, 2013, at 103.563%

**Price performance of the 2010 euro bonds**



**Price performance of the new euro bonds and the U.S. dollar bond**




in September the termination of the 6.5% bond to be redeemed on November 18, 2013, at 103.25%.

The listed prices of the four bonds continued to decline in the direction of the respective early redemption prices in the second half of 2013.

### Successful placement of three new euro bonds

To refinance the terminated bonds, three new euro bonds with a nominal volume of €750.0 million each were placed under the Debt Issuance Programme (DIP) set up in May 2013:

- a five-year 3.0% bond by Continental AG at 98.95% on July 9, 2013
- a seven-year 3.125% bond by Continental AG at 99.228% on September 2, 2013
- a three-and-a-half year 2.5% bond by Conti-Gummi Finance B.V., Maastricht, Netherlands, at 99.595% on September 12, 2013.

All the issuances were very much in demand among institutional and private investors in Germany and abroad, and were heavily oversubscribed. In the week following their respective placement, they were admitted to trading on the regulated market of the Luxembourg Stock Exchange. The upgrades of Continental AG's credit rating to investment grade also brought about significant increases in the prices of all of the bonds. At the end of December, the bonds were listed at prices between 103% and 106%, considerably higher than their issue prices.

### U.S. dollar bond profits from rating upgrades

The price of our 4.5% U.S. dollar bond climbed from 102.293% at the start of January 2013 to 104.787% at the end of May, boosted by Continental AG's improved credit ratings and accounting ratios, before the Fed's statements on possibly tapering its bond purchases caused sharp rises in interest rates and falling prices on the global bond markets. Against this backdrop, the price of our U.S. dollar bond also declined to a level of 101.5% by mid-September amidst sometimes highly volatile trading.

**Outstanding bonds as at December 31, 2013**

| WKN/ISIN | Coupon | Maturity | Volume in millions | Issue price | **Price as at Dec. 31, 2013** | Price as at Dec. 31, 2012 |
|---|---|---|---|---|---|---|
| A1VC6B / XS0972719412 | 2.5% | March 20, 2017 | €750 | 99.595% | **103.578%** | - |
| A1X24V / XS0953199634 | 3.0% | July 16, 2018 | €750 | 98.950% | **105.445%** | - |
| A1G9JJ / DE000A1G9JJ0 | 4.5% | Sept. 15, 2019[1] | U.S. $950 | 100.000% | **106.364%** | 102.293% |
| A1X3B7 / XS0969344083 | 3.125% | Sept. 9, 2020 | €750 | 99.228% | **104.678%** | - |

*1 Can be terminated early from September 15, 2015.*

Then, on September 19, 2013, the upgrade of our credit rating by Moody's spurred a surge in the price. In the following weeks, the U.S. dollar bond initially benefited from falling market interest rates, then in November from further improvements in Continental AG's credit ratings and accounting ratios, and then in December from the rating upgrade by Standard & Poor's. At the end of the year it was quoted at 106.364%.

**Continental CDS premium drops to six-year low**

The strong operating performance and the rating upgrades led to a sharp drop in the premium for insuring against credit risks (credit default swap, CDS) for Continental AG over the course of 2013. The five-year CDS for Continental senior bonds fell from 197.538 basis points at the end of 2012 to a new six-year low of 77.434 basis points in the course of December 20, 2013. It thus returned to the pre-crisis level of early 2008. At the end of 2013, the CDS premium was only slightly higher than the annual low at 79.508 basis points. The spread against the ITraxx reference index declined steadily over the period under review and was nine basis points on December 31, 2013.

**Continental's credit rating raised**

Fitch was the first rating agency that no longer saw the need for a parent-subsidiary criterion in its assessment of Continental's credit rating in 2013. Fitch thus raised the rating of Continental AG from "BB, stable outlook" to "BBB, stable outlook", and therefore back to investment grade, on July 15, 2013.

As part of a sector study, Moody's improved its stand-alone rating for Continental to "Baa2" on May 31, 2013. As a result of the increase in free float of Continental shares, Moody's also decided in September to no longer include the parent-subsidiary criterion in its rating considerations: On September 19, 2013, Continental was upgraded to the investment grade category again with a rating of "Baa3, stable outlook".

On May 24, 2013, Standard & Poor's (S&P) raised its credit rating for Continental from "BB-, positive outlook" to "BB, stable outlook" and improved the stand-alone rating from "BBB-" to "BBB". On October 1, 2013, S&P improved its credit rating for Continental to "BB+, stable outlook" while retaining the parent-subsidiary criterion. On December 6, 2013, S&P finally also upgraded Continental to the investment grade category again with a rating of "BBB, stable outlook".

| December 31, 2013 | Rating | Outlook |
|---|---|---|
| Fitch[1] | BBB | stable |
| Moody's[2] | Baa3 | stable |
| Standard & Poor's[3] | BBB | stable |

| December 31, 2012 | Rating | Outlook |
|---|---|---|
| Fitch[1] | BB | stable |
| Moody's[2] | Ba2 | positive |
| Standard & Poor's[3] | BB- | positive |

*1 Solicited rating since November 7, 2013.*
*2 Solicited rating until January 31, 2014.*
*3 Solicited rating since May 19, 2000.*

Further information on Continental shares, the Continental bonds and the rating changes can be found on the Internet at www.continental-ir.com.

**Regular and open dialogue**

The key tasks of the Investor Relations (IR) department at Continental AG include systematic, ongoing dialogue with all capital market participants. Communication focuses on the past and present business development, and especially the anticipated business development. Our activities are geared towards providing all market participants with relevant information at the same time.

In addition to regular mandatory publications, we also communicate directly with interested investors, analysts and other market players: For example, quarterly and annual figures are presented and discussed in telephone conferences and webcasts. We conduct extensive road show activities around the world in line with the analysis of our free float shareholder structure. In addition, we also organize an Analysts' and Bankers' Day each year: In the year under review, all analysts who cover Continental had the opportunity to better get to know our ContiTech division at its location in Hamburg-Harburg, Germany. Further IR activities include participation in video conferences with investors, private shareholder events and virtual web conferences.

A capital-market-oriented basic presentation of Continental AG is provided in the form of our Fact Book, which is updated on an annual basis and is available on our website. To meet the specific information requirements of socially responsible investors (SRI), we have prepared another presentation with key figures and content on the topic of sustainability since 2011.

All of the materials we have made available can be found at www.continental-ir.com. The IR team can be contacted at ir@conti.de.

**Investor relations work wins awards again**
In 2013, the Executive Board and the Investor Relations team once again received various awards from renowned market observers. One particular highlight was that Continental was voted among the top ten in IR Magazine's Global Top 50 IR Awards.

**Investor relations activities expanded**
As a result of the positive business performance, the successful bond refinancing and the rating upgrades, the need for dialogue with capital market participants regarding the Continental Corporation's development remained very high in the year under review. We expanded our IR activities covering the major financial centers in Europe, North America and Asia accordingly in 2013. We were also in South America and Australia for the first time.

We increased the number of roadshows again: The total number of roadshow days went up from 42 in the previous year to 58, including 34 in Europe, ten in North America and eight in Asia, as well as three in Brazil and three in Australia for the first time.

Continental also presented itself at 28 (PY: 25) equity and credit conferences. The regional focus was Europe with 21 conferences. We also took part in five conferences in North America, one in Asia and one in South America.

We held four events at our Automotive Group locations in the year under review.

In addition, we participated in an event for private investors and, for the first time, two virtual conferences for ADR investors.

In our IR work, we spoke to a total of approximately 2,400 investors in 2013 (PY: 2,250). The Executive Board of Continental AG again appeared personally at around a third of these activities, once again reaching over 50% of the investors spoken to.

**Research on Continental AG**
A total of 27 equity analysts and eight credit analysts currently publish regular assessments and recommendations on Continental securities. Research coverage is thus at a high level. Relevant company news is consequently covered, analyzed and commented on promptly on the capital market.

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

## Dear Shareholders,

Continental AG and Continental Corporation can look back at another successful year. Despite the sometimes difficult economic environment in a number of its key markets, we once again increased our sales, operating earnings and consolidated net income. In the year under review, the Supervisory Board and its committees closely monitored, regularly advised, and carefully supervised the Executive Board in the management of the company and comprehensively fulfilled all the tasks incumbent upon them under applicable law, the Articles of Incorporation and the By-Laws. The Supervisory Board has satisfied itself of the legality and expediency of management. As explained in further detail below, the Supervisory Board was directly involved in a timely manner on all decisions of fundamental importance to the company.

The Executive Board provided the Supervisory Board with regular, timely and comprehensive updates in writing and verbally on all issues of relevance to the company, namely planning, business strategy, significant business transactions in the company and the corporation and the related risks and opportunities, and compliance issues. The Supervisory Board was continuously informed in detail of the sales, results and employment development in the corporation and individual divisions as well as the financial situation of the company. Where the actual course of business deviated from the defined plans and targets, the Executive Board gave a detailed explanation with reasons to the Supervisory Board and the measures introduced were discussed with the Supervisory Board and its committees. In addition, the Supervisory Board, the Chairman's Committee and the Audit Committee dealt 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 ordinary meetings in 2013 as well as the strategy meeting. It also adopted resolutions by means of a written procedure on one occasion. There were only two meetings that were not attended by all members of the Supervisory Board. No member was absent from more than one meeting. The Chairman's Committee held four meetings and likewise adopted a resolution by written procedure. The Audit Committee met four times in 2013. In one telephone conference at the beginning of 2014, the Nomination Committee prepared nominations for the election of the shareholder representatives on the Supervisory Board by the 2014 Annual Shareholders' Meeting. The Mediation Committee in accordance with Section 27 (3) of the German Co-determination Act *(Mitbestimmungsgesetz)* did not need to meet. There are no other committees. All committees report to the plenary session on a regular basis. Their duties are described in more detail and their members listed in the Corporate Governance Report starting on page 35.

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

The Supervisory Board repeatedly dealt extensively with the company's strategic development and orientation. At the strategy meeting in particular, the Executive Board and the Supervisory Board discussed the strategic objectives and strategic planning of the corporation and the divisions at length. In the Executive Board's regular reporting on the current business development, frequent topics of the discussions also included the situation on the sales markets, the prices for natural and synthetic rubber, rare earths and other raw materials, the very positive share price performance, and the credit rating.

At its meeting in March 2013, the Supervisory Board discussed various corporate governance issues. Among other matters, it revised the list of management matters requiring approval and adopted a corresponding proposal for an amendment of the Articles of Incorporation by the 2013 Annual Shareholders' Meeting. Following preparation by the Chairman's Committee, the plenary session of the Supervisory Board also made decisions regarding Executive Board remuneration.

The Supervisory Board addressed the issue of Executive Board remuneration again at its meeting in May 2013 and drew some initial conclusions from the preliminary results of its review by an independent consultant, which had been initiated by the Chairman's Committee. At the autumn meeting, following intensive discussion, the plenary session of the Supervisory Board then resolved various material changes to the remuneration system for the Executive Board. These are described in detail in the remuneration report starting on page 40, and will be submitted to the Annual Shareholders' Meeting on April 25, 2014, for approval.

Management measures by the Executive Board that require the approval of the Supervisory Board or its Chairman's Committee in accordance with the company's Articles of Incorporation and the Supervisory Board By-Laws were also discussed: After careful examination, the acquisition of the business activities of Taizhou Fuju Rubber Belt Manufacture Co., Ltd., Taizhou, China, and of the conveyor belt manufacturer Legg Company, Inc., Halstead, Kansas, U.S.A., for the ContiTech division was approved, as was the acquisition of the minority shareholder's interest in Continental Tyre South Africa (Pty.) Ltd., Port Elizabeth, South Africa, and the construction of a ContiTech production facility for conveyor belts in Morocco. In addition, the Chairman's Committee discussed the Debt Issuance Programme (DIP) and the associated provision of collateral by companies of the Corporation and approved this transaction. The Supervisory Board dealt in-depth with the acquisition of Veyance Technologies, Inc., Fairlawn, Ohio, U.S.A., at its winter meeting. It delegated the approval of the final conditions to the Chairman's Committee. Approval was granted at the beginning of February. At its meeting on December 11, 2013, the Supervisory Board also discussed the annual planning for 2014 and long-term planning and also approved the planning and investment plans for fiscal 2014.

The Audit Committee was also informed by the Executive Board in detail and on an ongoing basis of the sales, results and employment development in the corporation and individual divisions as well as the financial situation of the company. Before the publication of the half-year and quarterly financial reports, the Audit Committee discussed and reviewed them, paying particular attention to the results for the relevant reporting period as well as the outlook for the year as a whole. The interim financial statements as at June 30, 2013, 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 2013 annual and consolidated financial statements to KPMG, pursuant to the resolution adopted by the Annual Shareholders' Meeting, and stipulated the focus of the audit.

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

**Conflicts of interest and corporate governance**

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

On March 31, 2013, the Supervisory Board and Executive Board agreed an updated declaration in accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz – AktG)* on the recommendations of the German Corporate Governance Code. In particular, the Supervisory Board once again reviewed and reformulated the targets for its future composition that were set in 2011. In December 2013, the Supervisory Board and the Executive Board already dealt with the amendments to the German Corporate Governance Code made in June that year and adjusted the declaration of compliance. The Supervisory

Board also performed another efficiency review in 2013 with the support of an external consultant. The results were presented at the meeting in December. They showed that the Supervisory Board had improved considerably in virtually all relevant areas in comparison to the last efficiency review in 2010, with most deficits having been rectified. The Supervisory Board intends to discuss proposals for its work resulting from the review in the current year. Further details on corporate governance are included in the Corporate Governance Report starting on page 35.

**Annual and consolidated financial statements**

The annual financial statements as at December 31, 2013, prepared by the Executive Board in line with the requirements of the German Commercial Code *(Handelsgesetzbuch – HGB)*, the 2013 consolidated financial statements and the management reports for the company and the corporation were reviewed by KPMG, including the accounting, the accounting-related internal control system and the system for early risk recognition. KPMG also reviewed the Executive Board's Dependent Company Report in accordance with Section 312 *AktG*. The 2013 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,

› with respect to the transactions listed in the report, payments by the company were not unduly high or that detrimental effects had been compensated for, and

› there are no circumstances in favor of a significantly different assessment than that made by the Executive Board in regard to the measures listed in the report."

The documents relating to the annual financial statements, including the Dependent Company Report, and the audit reports were discussed with the Executive Board and the auditor in the Audit Committee meeting on February 26, 2014. They were also discussed at length at the Supervisory Board's meeting to approve the annual financial statements on March 12, 2014. 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. In addition, the Supervisory Board together with the Executive Board will propose a dividend distribution of €2.50 per share for the past fiscal year at the Annual Shareholders' Meeting on April 25, 2014.

**Personnel changes in the Supervisory Board and Executive Board**

There were the following changes in the Supervisory Board in 2013: At the end of the Annual Shareholders' Meeting on May 15, 2013, Werner Bischoff, until then Vice Chairman of the Supervisory Board, resigned from his position in order to go into retirement. The Supervisory Board would like to thank Mr. Bischoff for his many years of work and the important contribution that he made to the company's positive development. Peter Hausmann, a member of the General Executive Board of the IG BCE trade union, was appointed as his successor by the Hanover District Court on July 1, 2013. The Supervisory Board elected Hartmut Meine as its Vice Chairman from August 1, 2013. With effect from the end of December 1, 2013, Dr. Jürgen Geißinger resigned from his position as a Supervisory Board member. The Supervisory Board would also like to thank Dr. Geißinger for his contribution to the interests of Continental. On December 4, 2013, the Hanover District Court appointed Prof. Dr. Peter Gutzmer, a member of the Executive Board of Schaeffler AG, as his successor. 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 242 and 243.

With the approval of the Supervisory Board, a new Executive Board position for China was created, so as to better address this market's importance to the company. Dr. Ralf Cramer took on responsibility for this area effective August 1, 2013, based in Shanghai, China. The Supervisory Board appointed Frank Jourdan as his successor in charge of the Chassis & Safety division on September 25, 2013.

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

Hanover, March 12, 2014

For the Supervisory Board
Sincerely,

Prof. Dr.-Ing. Wolfgang Reitzle
Chairman

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

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

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

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

**Corporate bodies**

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

**The Executive Board and its practices**

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

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

**The Supervisory Board and its practices**

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

**Composition of the Supervisory Board**

In accordance with the German Co-determination Act *(Mitbestimmungsgesetz – MitbestG)* and the company's Articles of Incorporation, the Supervisory Board comprises 20 members. Half the members of the Supervisory Board are elected by the shareholders in the Shareholders' Meeting, while the other half are elected by the employees of Continental AG and its German subsidiaries. The current term of office of all members of the Supervisory Board ends with the conclusion of the 2014 Annual Shareholders' Meeting.

In accordance with Section 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. At present, it is 5%.
- The share of members of the Supervisory Board with international business experience or other international connections should at least remain the same. At least seven members currently fulfill this criterion.
- The Supervisory Board should include an appropriate number of independent members. Assuming that employee representatives are generally to be considered independent in terms of the German Corporate Governance Code, the Supervisory Board should include at least 15 independent members. How-

ever, in any case at least five shareholder representatives should be independent as defined in the Code.

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

The Supervisory Board has not stipulated an age limit as recommended in Section 5.4.1 of the Code. It does not consider such a general criterion to be suitable for evaluating a candidate's qualification for election as a member of the Supervisory Board.

The Supervisory Board took account of the specified targets in its nominations for election to the Supervisory Board by the Annual Shareholders' Meeting on April 25, 2014. It will continue to report on the status of their implementation.

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

The Audit Committee's tasks relate to the company's accounting, the audit of the financial statements, risk management and compliance. In particular, the committee monitors the accounting process and the effectiveness of the internal control 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. It is also responsible for ensuring the necessary independence of auditors and deals with additional services performed by the auditors. The committee engages the auditors, determines the focus of the audit as necessary and negotiates the fee. It also gives its recommendation for the Supervisory Board's proposal to the Annual Shareholders' Meeting for the election of the auditor. The chairman of the Audit Committee, Dr. Bernd W. Voss, is independent and, as former CFO of Dresdner Bank, has special knowledge and experience in the application of accounting principles and internal control procedures. The other members are Hans Fischl, Peter Hausmann, Michael Iglhaut, Klaus Rosenfeld, and Georg F. W. Schaeffler. Neither a former Executive Board member nor the chairman of the Supervisory Board may act as chairman of the Audit Committee.

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

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

**Shares held by Supervisory Board and Executive Board members**

On September 17, 2013, our major shareholder, the Schaeffler Group, announced the sale of 7.8 million Continental shares and thus reduced its shareholding from 49.9% to 46.0%. This shareholding is attributable to two members of the Supervisory Board, Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler. As at February 11, 2014, the remaining members of the Supervisory Board held shares representing a total interest of less than 1% in the common stock of the company. The members of the Executive Board held shares also representing a total interest of less than 1% in the common stock of the company as at February 11, 2014.

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

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

**Declaration pursuant to Section 161 *AktG* and deviations from the German Corporate Governance Code**
In December 2013, 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 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 13, 2013; and published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette *(Bundesanzeiger)* on June 10, 2013), subject to the qualifications set forth below. Reference is made to the declaration of the Executive Board and the Supervisory Board of March 31, 2013, as well as to the previous declarations pursuant to Section 161 *AktG* and the qualifications regarding the recommendations of the German Corporate Governance Code explained therein.

› Section 2.3.2 of the Code in effect until June 10, 2013, recommended to send the convening notice to the annual general meeting and the documents relating thereto electronically to all financial services providers, shareholders and shareholder associations. The company could not 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. This recommendation was removed in the version of the Code applicable since June 10, 2013, meaning that the previous deviation no longer applies.

› Pursuant to Section 5.4.1 para. 2 of the Code, the Supervisory Board shall specify concrete objectives regarding its composition which take into account, inter alia, an age limit to be established for members of the Supervisory Board. The Supervisory Board has specified such objectives. However, the Supervisory Board did not establish an age limit, because it is of the opinion that such a general criterion is not appropriate for evaluating the qualifications of an individual candidate for membership on the Supervisory Board.

Hanover, December 2013

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* can also be found there. 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:

› Section 2.3.3 of the Code suggests giving shareholders the opportunity to watch the entire Annual Shareholders' Meeting using modern communication media such as the Internet. In line with widespread practice, Continental AG only broadcasts parts of the Annual Shareholders' Meeting – particularly the report by the Supervisory Board and the speech by the Chairman of the Executive Board – on the Internet in the framework regulated by the Articles of Incorporation.

› The new version of Section 3.7 para. 3 of the Code suggests that the Executive Board should convene an extraordinary Shareholders' Meeting in all cases of takeover bids. As before, the Executive Board and the Supervisory Board consider it more expedient to decide in each specific situation whether it is advisable to convene a Shareholders' Meeting.

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

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

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

› The Corporate Social Responsibility Principles.

› Compliance with the binding Code of Conduct for all Continental employees (see details on this and the following page).

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

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

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

**Transparent and prompt reporting**
The company regularly reports to shareholders, analysts, shareholders' associations, the media and interested members of the public equally on significant developments in the corporation and its situation. All shareholders therefore have immediate access to all information in German and English, which is also available to financial analysts and similar parties. In particular, the website of Continental AG is utilized to guarantee the timely distribution of information. The company's financial reports, presentations made at analyst and investor conferences, press releases and ad hoc disclosures are also available on the website. The dates of key periodic publications and events (annual reports, interim reports, Annual Shareholders' Meetings and press and analyst conferences) are announced in a timely manner in the company's financial calendar. The dates already set for 2014 and 2015 can be found at www.continental-ir.com.

## Compliance

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

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

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

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

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

- The second pillar of CMS – detection – comprises regular and ad hoc audits. In addition, compliance is always a subject of audits carried out by Corporate Audit. 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 hotline is available worldwide in many different languages.

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

In 2011, Continental AG had the concept of its CMS for the areas of anti-corruption, competition/antitrust law, fraud and other property offenses audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (EY) in accordance with Audit Standard 980 of the Institut der Wirtschaftsprüfer e. V. (IDW). EY issued an unqualified review opinion. In 2012, EY audited the implementation of the CMS in accordance with IDW Audit Standard 980 and came to the same conclusion in early 2013. We also intend to set about the audit of the effectiveness of the CMS in accordance with IDW Audit Standard 980 in 2014.

Compliance-related matters and risks are described in more detail in the Report on Risks and Opportunities starting on page 126, and in the Notes to the Consolidated Financial Statements (Note 34).

# Remuneration Report

This Remuneration Report is a part of the Management Report.

**Basic elements of the Executive Board remuneration system**

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. Remuneration for Executive Board members consists of fixed remuneration, variable remuneration elements, additional benefits, and retirement benefits.

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

The Executive Board members also receive variable remuneration in the form of a performance bonus. Based on the target bonus that the Supervisory Board determines for each Executive Board member for 100% target achievement, the performance bonus is calculated in line with 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). For Executive Board members who are responsible for a particular division, these key figures relate to the relevant division; for other Executive Board members, they relate to the corporation. In addition to the CVC and ROCE targets, the Supervisory Board can determine a strategic target at the beginning of each fiscal year. For 2013, the Supervisory Board had set the target of attaining a specific free cash flow for the corporation. If certain minimum values are not achieved, the performance bonus can also decrease to zero. In order to take into account extraordinary factors that have influenced the degree to which targets are achieved, the Supervisory Board has the right – at its due discretion – to retroactively adjust the established attainment of goals on which the calculation of the performance bonus is based by up to 20% upward or downward. In any event, the performance bonus is capped at 150% of the target bonus. This applies irrespective of whether an additional strategic target is resolved. In addition to the performance bonus, a special bonus can be agreed upon for special projects in individual cases or a recognition bonus can be granted.

Under the agreements applicable until December 31, 2013, 40% of the performance bonus is paid out in the form of a lump sum as an annual bonus (immediate payment). The remaining 60% (deferral) 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 together with the value of the dividends which were distributed for the fiscal years of the holding period. The conversion of the deferral 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 of a deferral relating to a fiscal year up to and including 2013 that is paid after the holding period may not fall below 50% of the value at the time of conversion or exceed three times this same value. In addition, the Supervisory Board may retroactively revise the amount paid out for such deferrals by up to 20% upward or downward to balance out extraordinary developments.

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, 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*. For longer periods working abroad, benefits are granted in line with the foreign assignment guidelines for senior executives. 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. Under the agreements applicable until December 31, 2013, the maximum post-employment benefit amounted to 50% of the most recent fixed remuneration payment and 12% of the average variable remuneration achieved in the last five fiscal years. There was a basic rate for the post-employment benefits that was determined individually. For each year of service, a member of the Executive Board received 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 had been achieved after ten years. Post-employment benefits are adjusted after commencement of such benefit payments in accordance with Section 16 of the German Company Pensions Law *(Betriebsrentengesetz – BetrAVG)*. Any other income is counted towards post-employment benefit.

In the employment contracts it has been agreed that, in the event of premature termination of Executive Board work, payments to the Executive Board 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. There are no compensation agreements with the members of the Executive Board for the event of a takeover bid or a change of control at the company.

**Changes in the Executive Board remuneration system**

At the end of 2012, the Supervisory Board tasked an independent consultant with reviewing the Executive Board remuneration and its structure. The expert report by the consultant came to three basic conclusions: The target remuneration of the Executive Board members, i.e. fixed and variable remuneration not including retirement benefits, was considerably lower than the usual market remuneration. The share of variable remuneration is comparatively low, and there is no independent, share-based long-term incentive (LTI). It is no longer customary in the market to base retirement benefits on the last fixed and variable remuneration paid. Following an in-depth review of its own and intensive discussion of the findings of the consultant's review and its recommendations, in September 2013 the Supervisory Board resolved the following changes to the Executive Board remuneration system, which take effect from January 1, 2014. In this process, the Supervisory Board also took account of the remuneration structure that applies in the rest of the corporation and the ratio of the Executive Board remuneration to the remuneration of senior executives and the workforce in Germany as a whole, including its development over time. The modified Executive Board remuneration system already applies to Frank Jourdan, who was appointed to the Executive Board on September 25, 2013, starting from this date. For José A. Avila, Wolfgang Schäfer and Elke Strathmann, the modifications go into effect retroactively from January 1, 2014, should they be reappointed as a member of the Executive Board beyond December 31, 2014.

The fixed remuneration has been increased to usual market levels. A further adjustment will be made no earlier than 2017.

The variable remuneration has been restructured: The portion of the performance bonus that is paid out immediately as an annual bonus has been increased to 60%. The possible increase in the value of the deferral, which now represents 40% of the performance bonus, is capped at 250% (rather than the previous level of 300%). The guarantee that at least 50% of the initial value of the deferral will be paid out after the holding period ceases to apply, as does the possibility for the Supervisory Board to change the amount paid out retroactively. Even if a recognition or special bonus is granted, this and the performance bonus together must not exceed 150% of the target bonus, and these bonuses are also included in the division into immediate payment and deferral.

The variable remuneration is supplemented by granting an LTI bonus that increases the share of long-term components to 60% or more of variable remuneration again on the basis of the target values and thus further strengthens its focus on sustainable development of the company. The LTI plan is resolved by the Supervisory Board on an annual basis with a term of four years in each case. It determines the target bonus to be paid for 100% target achievement for each Executive Board member, taking into account the corporation's earnings and the member's individual performance. The first criterion for target achievement is the average CVC that the corporation actually generates in the four fiscal years during the term, starting with the fiscal year in which the tranche is issued, in comparison to the planning. The degree to which this target is achieved can vary between 0% and a maximum of 200%. The other target criterion is the total shareholder return on Continental shares (share price performance plus dividends) during the term of the tranche. The degree to which this target is achieved is multiplied by the degree to which the CVC target is achieved to determine the degree of target achievement on which the LTI bonus that will actually be paid after the end of the term is based. It can range between 0% (no payment) and 200% (maximum payment).

In anticipation of the plan to be implemented from 2014, the Supervisory Board already granted an LTI bonus to the Executive Board members, with the exception of Frank Jourdan, in 2013. Its conditions correspond to those that apply to the 2013 LTI plan of the senior executives. In addition to a CVC target, this plan does not have a share-based target but does have a target relating to free cash flow in the last year of the term. The 2013 LTI plan is described in detail in the Notes to the Consolidated Financial Statements in the section on other financial liabilities. Frank Jourdan remains entitled to LTI bonuses that were granted to him as a senior executive between 2010 and 2013.

From January 1, 2014, the company pension for the members of the Executive Board was changed from a purely defined benefit to a defined contribution commitment. A "capital component" is credited to the Executive Board member's pension account each year. To determine this, an amount equivalent to 20% of the sum of the fixed remuneration and the target value of the performance bonus is multiplied by an age factor representing an appropriate return. The pension commitment applicable until December 31, 2013, has been replaced by a "starting component" in the capital account. When the insured event occurs, the benefits are paid out as a lump sum, in installments or – as is normally the case due to the expected amount of the benefits – as a pension. Overall, the level of the benefits has fallen to around 80% of the previous commitments. The retirement benefits for Heinz-Gerhard Wente have not been changed over to the new system owing to the short remaining term of his employment contract. However, the increase in remuneration as at January 1, 2014, will not be taken into account in calculating his post-employment benefit.

## Individual remuneration

In the tables below, the benefits, inflows and service costs granted to each individual member of the Executive Board are shown separately in accordance with the recommendations of Section 4.2.5 para. 3 of the German Corporate Governance Code.

| | Remuneration granted | | | | Inflows | |
|---|---|---|---|---|---|---|
| **in € thousands** | 2012 | **2013** | 2013 (min.) | 2013 (max.) | 2012 | **2013** |
| **Dr. E. Degenhart (Board chairman; Board member since August 12, 2009)** | | | | | | |
| Fixed remuneration | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 |
| Additional benefits | 24 | 16 | 16 | 16 | 24 | 16 |
| **Total** | **1,224** | **1,216** | **1,216** | **1,216** | **1,224** | **1,216** |
| Performance bonus (immediate payment) | 520 | 520 | 0 | 780 | 684 | 690 |
| Multiannual variable remuneration | 1,026 | 2,135 | 414 | 7,026 | – | 782 |
| Performance bonus (deferral) [3 years] | 1,026 | 1,035 | 414 | 3,726 | – | 782 |
| Long term incentive [4 years] | – | 1,100 | 0 | 3,300 | – | – |
| **Total** | **2,770** | **3,871** | **1,630** | **9,022** | **1,908** | **2,688** |
| Service costs[1] | 935 | 110 | 110 | 110 | 935 | 110 |
| **Total remuneration** | **3,705** | **3,981** | **1,740** | **9,132** | **2,843** | **2,798** |
| **J. A. Avila (Board member for Powertrain; Board member since January 1, 2010)** | | | | | | |
| Fixed remuneration | 600 | 600 | 600 | 600 | 600 | 600 |
| Additional benefits | 27 | 19 | 19 | 19 | 27 | 19 |
| **Total** | **627** | **619** | **619** | **619** | **627** | **619** |
| Performance bonus (immediate payment) | 360 | 360 | 0 | 540 | 294 | 540 |
| Multiannual variable remuneration | 441 | 1,310 | 324 | 4,416 | – | – |
| Performance bonus (deferral) [3 years][2] | 441 | 810 | 324 | 2,916 | – | – |
| Long term incentive [4 years] | – | 500 | 0 | 1,500 | – | – |
| **Total** | **1,428** | **2,289** | **943** | **5,575** | **921** | **1,159** |
| Service costs[1] | 617 | 816 | 816 | 816 | 617 | 816 |
| **Total remuneration** | **2,045** | **3,105** | **1,759** | **6,391** | **1,538** | **1,975** |
| **Dr. R. Cramer (Board member for Chassis & Safety until July 31, 2013; Board member for China from August 1, 2013; Board member since August 12, 2009)** | | | | | | |
| Fixed remuneration | 600 | 600 | 600 | 600 | 600 | 600 |
| Additional benefits | 30 | 144 | 144 | 144 | 30 | 144 |
| **Total** | **630** | **744** | **744** | **744** | **630** | **744** |
| Performance bonus (immediate payment) | 360 | 360 | 0 | 540 | 259 | 327 |
| Multiannual variable remuneration | 388 | 991 | 196 | 3,268 | – | 541 |
| Performance bonus (deferral) [3 years] | 388 | 491 | 196 | 1,768 | – | 541 |
| Long term incentive [4 years] | – | 500 | 0 | 1,500 | – | – |
| **Total** | **1,378** | **2,095** | **940** | **4,552** | **889** | **1,612** |
| Service costs[1] | 286 | 432 | 432 | 432 | 286 | 432 |
| **Total remuneration** | **1,664** | **2,527** | **1,372** | **4,984** | **1,175** | **2,044** |

*1 For Dr. E. Degenhart, Dr. R. Cramer, H. Matschi, and N. Setzer, calculation of the service costs take into account the modified retirement benefit system including the resulting past service costs. For J. A. Avila, W. Schäfer, and E. Strathmann, calculation continued to be carried out based upon the previous retirement benefit system due to the condition precedent of their reappointment. The modified retirement benefit system would lead to service costs of €0.5 million for J. A. Avila, -€0.1 million for W. Schäfer, and €0.1 million for E. Strathmann.*

*2 Performance bonus for the previous year includes special and recognition bonuses.*

| | Remuneration granted | | | | Inflows | |
|---|---|---|---|---|---|---|
| **in € thousands** | 2012 | **2013** | 2013 (min.) | 2013 (max.) | 2012 | **2013** |
| **F. Jourdan (Board member for Chassis & Safety; Board member since September 25, 2013)** | | | | | | |
| Fixed remuneration | – | 213 | 213 | 213 | – | 213 |
| Additional benefits | – | 6 | 6 | 6 | – | 6 |
| **Total** | **–** | **219** | **219** | **219** | **–** | **219** |
| Performance bonus (immediate payment) | – | 177 | 0 | 266 | – | 108 |
| Multiannual variable remuneration | – | 461 | 0 | 1,347 | – | – |
| Performance bonus (deferral) [3 years] | – | 72 | 0 | 180 | – | – |
| Long term incentive [4 years] | – | 389 | 0 | 1,167 | – | – |
| **Total** | **–** | **857** | **219** | **1,832** | **–** | **327** |
| Service costs | – | 264 | 264 | 264 | – | 264 |
| **Total remuneration** | **–** | **1,121** | **483** | **2,096** | **–** | **591** |
| **H. Matschi (Board member for Interior; Board member since August 12, 2009)** | | | | | | |
| Fixed remuneration | 600 | 600 | 600 | 600 | 600 | 600 |
| Additional benefits | 24 | 17 | 17 | 17 | 24 | 17 |
| **Total** | **624** | **617** | **617** | **617** | **624** | **617** |
| Performance bonus (immediate payment) | 360 | 360 | 0 | 540 | 259 | 540 |
| Multiannual variable remuneration | 389 | 1,310 | 324 | 4,416 | – | 541 |
| Performance bonus (deferral) [3 years] | 389 | 810 | 324 | 2,916 | – | 541 |
| Long term incentive [4 years] | – | 500 | 0 | 1,500 | – | – |
| **Total** | **1,373** | **2,287** | **941** | **5,573** | **883** | **1,698** |
| Service costs[1] | 308 | 540 | 540 | 540 | 308 | 540 |
| **Total remuneration** | **1,681** | **2,827** | **1,481** | **6,113** | **1,191** | **2,238** |
| **W. Schäfer (Board member for Finance; Board member since January 1, 2010)** | | | | | | |
| Fixed remuneration | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Additional benefits | 24 | 11 | 11 | 11 | 24 | 11 |
| **Total** | **1,024** | **1,011** | **1,011** | **1,011** | **1,024** | **1,011** |
| Performance bonus (immediate payment) | 400 | 400 | 0 | 600 | 526 | 531 |
| Multiannual variable remuneration | 789 | 1,396 | 318 | 4,666 | – | – |
| Performance bonus (deferral) [3 years] | 789 | 796 | 318 | 2,866 | – | – |
| Long term incentive [4 years] | – | 600 | 0 | 1,800 | – | – |
| **Total** | **2,213** | **2,807** | **1,329** | **6,277** | **1,550** | **1,542** |
| Service costs[1] | 804 | 1,151 | 1,151 | 1,151 | 804 | 1,151 |
| **Total remuneration** | **3,017** | **3,958** | **2,480** | **7,428** | **2,354** | **2,693** |

*1 For Dr. E. Degenhart, Dr. R. Cramer, H. Matschi, and N. Setzer, calculation of the service costs take into account the modified retirement benefit system including the resulting past service costs. For J. A. Avila, W. Schäfer, and E. Strathmann, calculation continued to be carried out based upon the previous retirement benefit system due to the condition precedent of their reappointment. The modified retirement benefit system would lead to service costs of €0.5 million for J. A. Avila, -€0.1 million for W. Schäfer, and €0.1 million for E. Strathmann.*

| | Remuneration granted | | | | Inflows | |
|---|---|---|---|---|---|---|
| **in € thousands** | 2012 | **2013** | 2013 (min.) | 2013 (max.) | 2012 | **2013** |
| **N. Setzer (Board member for Tires; Board member since August 12, 2009)** | | | | | | |
| Fixed remuneration | 600 | 600 | 600 | 600 | 600 | 600 |
| Additional benefits | 31 | 25 | 25 | 25 | 31 | 25 |
| **Total** | **631** | **625** | **625** | **625** | **631** | **625** |
| Performance bonus (immediate payment) | 360 | 360 | 0 | 540 | 486 | 474 |
| Multiannual variable remuneration | 729 | 1,211 | 284 | 4,060 | – | 541 |
| Performance bonus (deferral) [3 years] | 729 | 711 | 284 | 2,560 | – | 541 |
| Long term incentive [4 years] | – | 500 | 0 | 1,500 | – | – |
| **Total** | **1,720** | **2,196** | **909** | **5,225** | **1,117** | **1,640** |
| Service costs[1] | 247 | 844 | 844 | 844 | 247 | 844 |
| **Total remuneration** | **1,967** | **3,040** | **1,753** | **6,069** | **1,364** | **2,484** |
| **E. Strathmann (Board member for Human Resources; Board member since January 1, 2012)** | | | | | | |
| Fixed remuneration | 760 | 600 | 600 | 600 | 760 | 600 |
| Additional benefits | 29 | 40 | 40 | 40 | 29 | 40 |
| **Total** | **789** | **640** | **640** | **640** | **789** | **640** |
| Performance bonus (immediate payment) | 360 | 360 | 0 | 540 | 474 | 477 |
| Multiannual variable remuneration | 710 | 1,216 | 286 | 4,078 | – | – |
| Performance bonus (deferral) [3 years] | 710 | 716 | 286 | 2,578 | – | – |
| Long term incentive [4 years] | – | 500 | 0 | 1,500 | – | – |
| **Total** | **1,859** | **2,216** | **926** | **5,258** | **1,263** | **1,117** |
| Service costs[1] | 645 | 646 | 646 | 646 | 645 | 646 |
| **Total remuneration** | **2,504** | **2,862** | **1,572** | **5,904** | **1,908** | **1,763** |
| **H.-G. Wente (Board member for ContiTech; Board member since May 3, 2007)** | | | | | | |
| Fixed remuneration | 600 | 600 | 600 | 600 | 600 | 600 |
| Additional benefits | 31 | 23 | 23 | 23 | 31 | 23 |
| **Total** | **631** | **623** | **623** | **623** | **631** | **623** |
| Performance bonus (immediate payment) | 360 | 360 | 0 | 540 | 421 | 448 |
| Multiannual variable remuneration | 631 | 1,173 | 269 | 3,923 | – | – |
| Performance bonus (deferral) [3 years] | 631 | 673 | 269 | 2,423 | – | – |
| Long term incentive [4 years] | – | 500 | 0 | 1,500 | – | – |
| **Total** | **1,622** | **2,156** | **892** | **5,086** | **1,052** | **1,071** |
| Service costs | 122 | 162 | 162 | 162 | 122 | 162 |
| **Total remuneration** | **1,744** | **2,318** | **1,054** | **5,248** | **1,174** | **1,233** |

*1 For Dr. E. Degenhart, Dr. R. Cramer, H. Matschi, and N. Setzer, calculation of the service costs take into account the modified retirement benefit system including the resulting past service costs. For J. A. Avila, W. Schäfer, and E. Strathmann, calculation continued to be carried out based upon the previous retirement benefit system due to the condition precedent of their reappointment. The modified retirement benefit system would lead to service costs of €0.5 million for J. A. Avila, -€0.1 million for W. Schäfer, and €0.1 million for E. Strathmann.*

The disclosures on benefits granted and inflows are broken down into fixed and variable remuneration components and supplemented by disclosures on the service costs. These service costs also include the past service costs resulting from the change in the plan. The fixed remuneration components include the non-performance-related fixed remuneration and additional benefits. The variable performance-related remuneration components consist of the performance bonus (immediate payment) as a short-term remuneration component and the two multiannual components: the performance bonus (deferral) and the long-term incentive.

The immediate payment and the long-term incentive are each recognized as benefits granted at the value of the commitment at the time it is granted (equivalent to 100% target achievement). The deferral is reported at the amount of the deferral to be converted into virtual shares in the following year that had been determined at the time the remuneration report was prepared. The remuneration elements are supplemented by disclosures on individually attainable maximum and minimum remuneration.

The inflow recognized in the year under review comprises the fixed remuneration components actually received plus the amounts of the immediate payment to be received in the following year that had been determined at the time the remuneration report was prepared. Disclosures on the two long-term components – the deferral and the long-term incentive – relate to actual payments in the year under review. In line with the recommendations of Section 4.2.5 para. 3 of the German Corporate Governance Code, service costs in the disclosures on inflows correspond to the amounts granted, although they do not represent actual inflows in a stricter sense.

In fiscal 2013, the members of the Executive Board neither received nor were promised payments by a third party with respect to their activities on the Executive Board.

**Remuneration of the Executive Board in 2013**

| | Remuneration components | | | | |
|---|---|---|---|---|---|
| **in € thousands** | Fixed[1] | Variable, short-term | Variable, long-term[2] | **Total** | Share-based payment[3] |
| Dr. E. Degenhart | 1,216 | 690 | 2,135 | **4,041** | 3,953 |
| J. A. Avila | 619 | 540 | 1,310 | **2,469** | 2,529 |
| Dr. R. Cramer | 744 | 327 | 991 | **2,062** | 2,429 |
| F. Jourdan (from September 25, 2013) | 219 | 108 | 461 | **788** | 72 |
| H. Matschi | 617 | 540 | 1,310 | **2,467** | 2,006 |
| W. Schäfer | 1,011 | 531 | 1,396 | **2,938** | 2,999 |
| N. Setzer | 625 | 474 | 1,211 | **2,310** | 2,943 |
| E. Strathmann | 640 | 477 | 1,216 | **2,333** | 1,184 |
| H.-G. Wente | 623 | 448 | 1,173 | **2,244** | 2,802 |
| **Total** | **6,314** | **4,135** | **11,203** | **21,652** | **20,917** |

*1 In addition to cash components, the fixed remuneration includes non-cash elements, such as benefits relating to the international assignment for Dr. R. Cramer, company cars, insurance, and moving costs.*
*2 Long-term component of the variable remuneration which is converted into virtual shares of Continental AG to ensure a focus on sustainable development of the company and benefits granted under the long-term incentive.*
*3 Long-term component of the variable remuneration which is converted into virtual shares of Continental AG to ensure a focus on sustainable development of the company, including special and recognition bonuses, and changes in the value of the virtual shares granted in previous years.*

**Remuneration of the Executive Board in 2012**

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

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

## Long-term component of share-based payment

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

| in units | Number of shares as at Dec. 31, 2011 | Commitments | Number of shares as at Dec. 31, 2012 | Payment | Commitments | **Number of shares as at Dec. 31, 2013** |
|---|---|---|---|---|---|---|
| Dr. E. Degenhart | 22,710 | 15,660 | 38,370 | -8,178 | 11,169 | 41,361 |
| J. A. Avila | 8,978 | 10,757 | 19,735 | – | 4,801 | 24,536 |
| Dr. R. Cramer | 17,413 | 10,917 | 28,330 | -5,663 | 4,226 | 26,893 |
| F. Jourdan | – | – | – | – | – | – |
| H. Matschi | 12,267 | 5,828 | 18,095 | -5,663 | 4,231 | 16,663 |
| W. Schäfer | 11,177 | 12,047 | 23,224 | – | 8,592 | 31,816 |
| N. Setzer | 18,868 | 10,376 | 29,244 | -5,663 | 7,937 | 31,518 |
| E. Strathmann | – | – | – | – | 7,732 | 7,732 |
| H.-G. Wente | 12,419 | 11,175 | 23,594 | – | 6,875 | 30,469 |
| **Total** | **103,832** | **76,760** | **180,592** | **-25,167** | **55,563** | **210,988** |

| in € thousands | Fair value as at Dec. 31, 2011 | Change in fair value | Fair value of commitments | Fair value as at Dec. 31, 2012 | Fair value of distribution | Change in fair value | Fair value of commitments | **Fair value as at Dec. 31, 2013** |
|---|---|---|---|---|---|---|---|---|
| Dr. E. Degenhart | 1,134 | 869 | 1,365 | 3,368 | -782 | 2,241 | 1,703 | 6,530 |
| J. A. Avila | 460 | 328 | 938 | 1,726 | – | 1,428 | 732 | 3,886 |
| Dr. R. Cramer | 872 | 663 | 952 | 2,487 | -541 | 1,681 | 644 | 4,271 |
| F. Jourdan | – | – | – | – | – | – | – | – |
| H. Matschi | 608 | 475 | 508 | 1,591 | -541 | 939 | 646 | 2,635 |
| W. Schäfer | 573 | 408 | 1,049 | 2,030 | – | 1,682 | 1,310 | 5,022 |
| N. Setzer | 946 | 716 | 905 | 2,567 | -541 | 1,751 | 1,210 | 4,987 |
| E. Strathmann | – | – | – | – | – | – | 1,179 | 1,179 |
| H.-G. Wente | 636 | 454 | 974 | 2,064 | – | 1,714 | 1,047 | 4,825 |
| **Total** | **5,229** | **3,913** | **6,691** | **15,833** | **-2,405** | **11,436** | **8,471** | **33,335** |

As at December 31, 2013, commitments with a fair value of €2.3 million (equivalent to 14,655 units) are attributable to Executive Board members who had left the company.

**Basis of fair value calculation**

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

A Monte Carlo simulation is used in the measurement of stock options. This means that log-normal distributed processes are simulated for the price of Continental shares. The measurement model also takes into account the average value accumulation of share prices in the respective reference period and the floor and cap for the distribution amount. The following parameters were used as of the measurement date of December 31, 2013:

- Constant zero rates as of the measurement date of December 31, 2013, of 0.10% for the 2010 tranche, 0.15% for the 2011 tranche, and 0.27% for the 2012 tranche.
- Interest rate based on the yield curve for government bonds.
- Dividend payments as the arithmetic mean based on publicly available estimates for 2014 and 2015; the dividend amounted to €2.25 per share in 2013, and Continental AG distributed a dividend of €1.50 per share in 2012.
- 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 2010 tranche is 24.82%, for the 2011 tranche 24.90%, and for the 2012 tranche 36.48%.

## Expenses for retirement benefits

The defined benefit obligations (DBO) for all pension commitments for the active members of the Executive Board are presented below:

| | Defined benefit obligations | |
|---|---|---|
| in € thousands | **Dec. 31, 2013** | Dec. 31, 2012 |
| Dr. E. Degenhart | 4,972 | 4,561 |
| J. A. Avila | 3,216 | 2,443 |
| Dr. R. Cramer | 1,038 | 1,491 |
| F. Jourdan (from September 25, 2013) | 134 | – |
| H. Matschi | 1,425 | 1,553 |
| W. Schäfer | 4,228 | 3,412 |
| N. Setzer | 1,007 | 1,337 |
| E. Strathmann | 1,626 | 650 |
| H.-G. Wente | 6,481 | 6,187 |
| **Total** | **24,127** | **21,634** |

We refer to Note 39 of the Notes to the Consolidated Financial Statements for details of pension obligations for former members of the Executive Board.

## Remuneration of the Supervisory Board

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

In 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 2013 as provided for under these arrangements is shown in the following table.

**Remuneration of the Supervisory Board**

| | Remuneration components | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| **in € thousands** | **Fixed[1]** | **Variable** | Fixed[1] | Variable |
| Prof. Dr.-Ing. Wolfgang Reitzle | 231 | 173 | 231 | 113 |
| Hartmut Meine[2] | 121 | 87 | 118 | 56 |
| Werner Bischoff (until May 15, 2013)[2] | 45 | 31 | 116 | 56 |
| Michael Deister[2] | 119 | 87 | 118 | 56 |
| Dr. Gunter Dunkel | 80 | 58 | 79 | 38 |
| Hans Fischl[2] | 119 | 87 | 118 | 56 |
| Dr. Jürgen Geißinger (until December 1, 2013) | 73 | 52 | 79 | 38 |
| Prof. Dr. Peter Gutzmer (from December 4, 2013) | 7 | 4 | – | – |
| Peter Hausmann (from July 1, 2013)[2] | 58 | 35 | – | – |
| Prof. Dr.-Ing. E.h. Hans-Olaf Henkel | 80 | 58 | 79 | 38 |
| Michael Iglhaut[2] | 121 | 87 | 118 | 56 |
| Jörg Köhlinger[2] | 79 | 58 | 79 | 38 |
| Prof. Dr. Klaus Mangold | 79 | 58 | 79 | 38 |
| Dirk Nordmann[2] | 80 | 58 | 79 | 38 |
| Artur Otto[2] | 80 | 58 | 79 | 38 |
| Klaus Rosenfeld | 121 | 87 | 119 | 56 |
| Georg F. W. Schaeffler | 123 | 87 | 119 | 56 |
| Maria-Elisabeth Schaeffler | 80 | 58 | 79 | 38 |
| Jörg Schönfelder[2] | 80 | 58 | 79 | 38 |
| Dr. Bernd W. Voss | 195 | 144 | 194 | 94 |
| Prof. KR Ing. Siegfried Wolf | 79 | 58 | 78 | 38 |
| Erwin Wörle[2] | 80 | 58 | 79 | 38 |
| **Total** | **2,130** | **1,541** | **2,119** | **1,017** |

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

The following management report is a combined management report as defined in Section 315 (3) of the German Commercial Code (*Handelsgesetzbuch – HGB*), as the future opportunities and risks of the Continental Corporation and of the parent company, Continental AG, are inextricably linked.

# Management Report ›

# Structure of the Corporation

Our organizational structure ensures that the overall success of the company is based on sustainable value creation.

In addition to its parent company Continental AG, a stock corporation under German law, the Continental Corporation comprises 443 companies, including minority holdings. The Continental team is made up of approximately 178,000 employees at 300 locations in 49 countries.

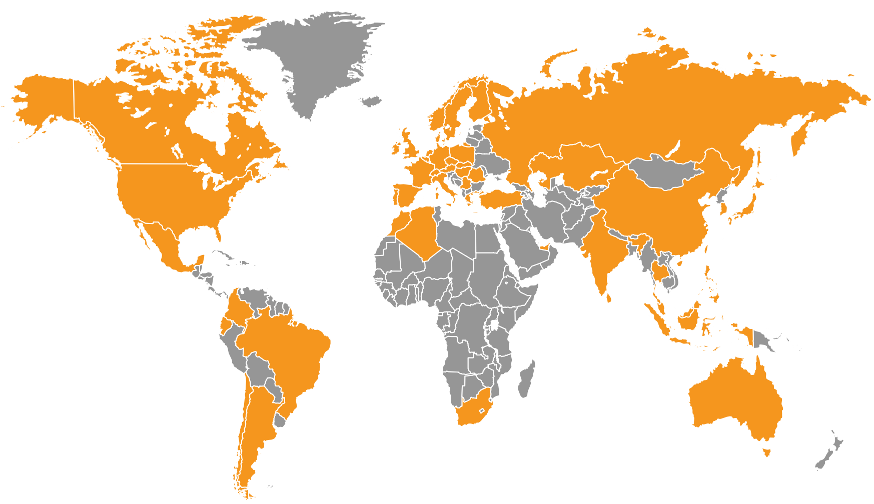
The Continental Corporation is divided into the Automotive Group and the Rubber Group, which contribute 60% and 40% of total sales respectively. They comprise five divisions with 27 business units. The divisions and business units are classified according to products, product groups and certain regions. The divisions and business units bear full responsibility for their business, including their results.

Continental AG's Executive Board has overall responsibility for corporate management. The divisions are each represented by a member of the Executive Board. The central units, except for Corporate Purchasing, are represented by the Chief Executive Officer (Chairman of the Executive Board), the Chief Financial Officer and the Chief Human Resources Officer. The central units assume the cross-divisional functions necessary for corporate management, including Finance and Controlling, Law and Compliance, Corporate Social Responsibility, Environment and Quality Management in particular. To strengthen the organization in China and set the course for fast, profitable and sustainable growth, since August 2013 there has been an Executive Board member responsible for all of Continental's business in China.

In the year under review, we defined our overarching cooperation as a "balance of cooperation". The aim is to establish and promote a uniform common understanding of our cooperation across organizational and geographical boundaries.

Our organization ensures that central management areas are coordinated with operating activities. It enables us to react flexibly and quickly to market conditions and the requirements of our customers and ensures that the overall success of the Continental Corporation corresponds to sustainable value creation.

**Worldwide presence: 300 locations in 49 countries**



**Structure of the Continental Corporation**

**Continental Corporation**

**Automotive Group**
Sales: €20.0 billion
Employees: 103,217

**Chassis & Safety**
Sales:
€7.3 billion
Employees:
36,496

**Powertrain**
Sales:
€6.3 billion
Employees:
32,353

**Interior**
Sales:
€6.6 billion
Employees:
34,368

**Rubber Group**
Sales: €13.4 billion
Employees: 74,233

**Tires**
Sales:
€9.6 billion
Employees:
44,508

**ContiTech**
Sales:
€3.9 billion
Employees:
29,725

## Automotive Group:

› The Chassis & Safety division develops and produces intelligent systems that provide more safety and improved vehicle dynamics. With "Vision Zero", the vision of accident-free driving, it works towards an automotive future in which life is protected even better and injuries are avoided.

› Under the guiding concept of "Clean Power", the Powertrain division develops innovative solutions for gasoline and diesel engines, as well as hybrid and electrical drive systems. These not only make driving more environmentally friendly and affordable, they also enhance comfort and the pleasure of driving.

› The Interior division deals with information management within vehicles. Under the motto "Always On", it works to network drivers and passengers with their own and other vehicles, the environment and mobile devices.

## Rubber Group:

› Short braking distances and high grip for maximum safety, low rolling resistance to reduce fuel consumption – this is what the Tire division works on. It has the right tires for every application in its product range – from passenger cars through trucks, buses and construction site vehicles to industrial vehicles, bicycles and motorcycles.

› In line with the principle of "Engineering Green Value", the ContiTech division develops products made from rubber and plastic – products that are individually customized for a wide range of industries.

# Corporate Strategy

Our strategy helps us to react flexibly and efficiently to the requirements of the various markets and to create sustainable value for all our stakeholders.

The market environment in which Continental operates as a global automotive supplier, tire manufacturer and partner to other key industries is characterized by high pressure in terms of competition, innovation and costs. Responding quickly to the changing demands and requirements of our customers is crucial to our success.

Key factors for our strategy and consequently for our business activities are the global megatrends:

› "Safety" – For safe mobility

› "Information" – For intelligent driving

› "Environment" – For clean power

› "Affordable Cars" – For global mobility

These megatrends are derived from trends in society: The rapid growth in the world's population combined with demographic change, the globalization of social, economic and political ties, the pursuit of a higher standard of living, rising urbanization, and last but not least the need for mobility.

**Seven strategic dimensions**
Our strategy comprises seven dimensions that complement one another and gear Continental towards sustainable value creation in order to keep the company fit for the future.

**1. Value creation – enhancing the value of the corporation on a long-term basis**
To enhance the value of the corporation on a long-term basis, three areas of activity are key to us: Innovation, improvement of efficiency and productivity, and strong, profitable growth on the emerging markets.

We achieve greater efficiency with the Continental Business System (CBS). The system aims to make workflows more flexible, smoother and easier for everybody involved in order to create fresh scope for value creation, innovation, business opportunities and additional growth. In keeping with lean management, we gear our processes towards this at all levels of our organization and along the entire value chain. With our Quality First program, we define a uniform understanding of quality, thereby laying the foundation for the global standardization of central quality processes. To us, quality is the basis for our customers' satisfaction.

The interplay of our activities focusing on global growth, innovation, efficiency and productivity allows us to grow with the rising requirements of our customers. Furthermore, this lets us compensate for any cost increases as well as negative inflation factors.

By 2015, we want to raise our return on capital employed (ROCE) to 20%. In the year under review, we took a major step forward in this regard, increasing the ROCE from 18.8% to 19.4%.

**2. Regional sales balance – globally balanced sales distribution**
We aim for a globally balanced sales portfolio so as to make us less dependent on individual markets. In order to balance out our business model, we therefore intend, for example, to reduce dependence on the European markets by more actively leveraging the growth prospects in the emerging markets of Asia and South America, in Russia and on the North American continent. As a result, we will also be less prone to economic fluctuations in individual regions of the world.

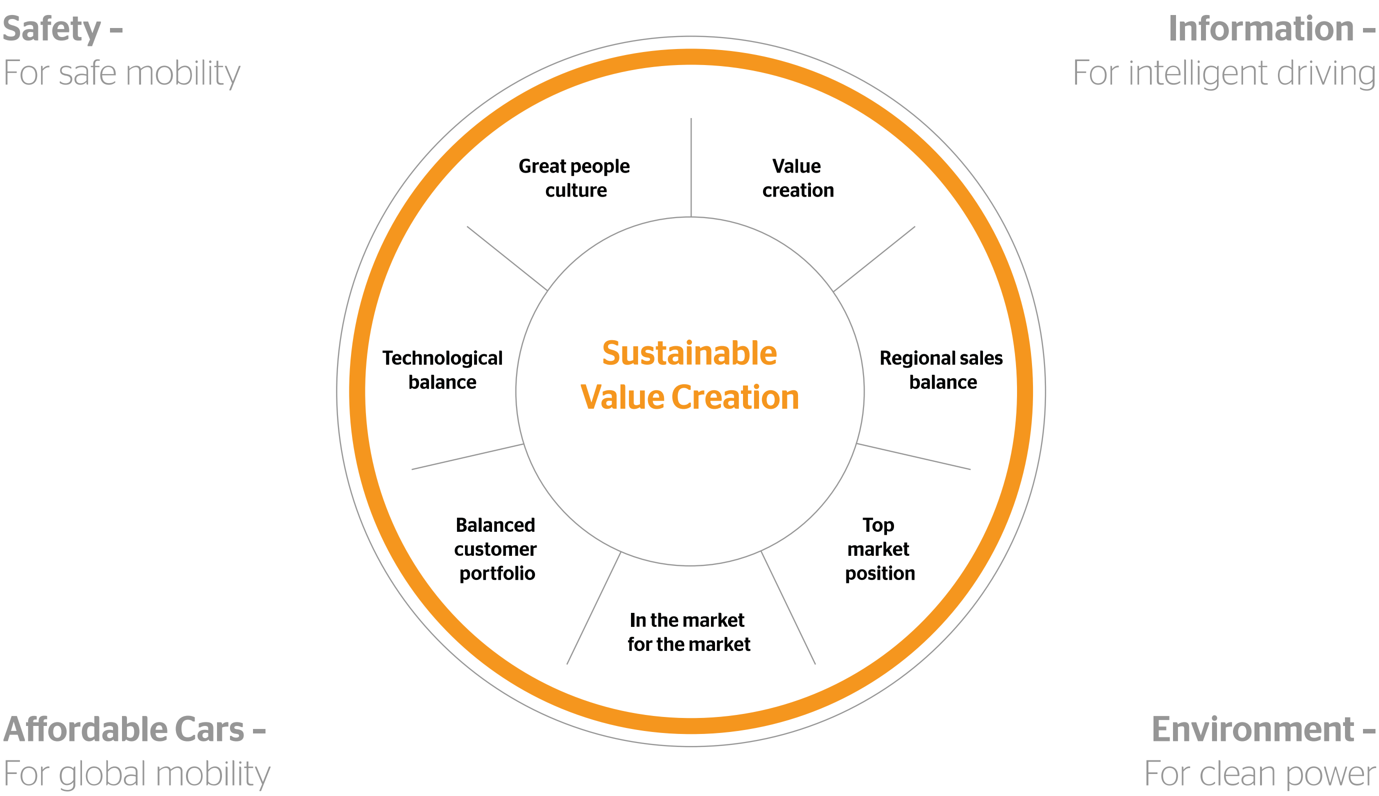
In 2008 we had set ourselves the goal of increasing the share of our consolidated sales in the Asian markets to 30% over time. Over the past five years, we have increased this figure to 19%. We aim to keep the share of our sales in the North and South American markets at 25% or more.

China is a particularly important sales market for us and is already the world's largest automotive manufacturer and market. The need for individual mobility and industrial goods is increasing faster there than anywhere else. To take account of this development and achieve our goals in Asia, we established an Executive Board position for a market for the first time. Dr. Ralf Cramer (previously in charge of the Chassis & Safety division) has been responsible for all of Continental's business in China since August 2013. We have thus strengthened the organization locally and set the course for fast, profitable and sustainable growth.

**3. Top market position – among the three leading suppliers in all relevant markets**
Building on our leading position, we want to shape a future where we are permanently among the world's top suppliers in terms of customer focus, quality and market share.

Our product range enables peak performance in energy and fuel savings, in safety, and in the networking of vehicles. We also

**Continental Corporation's strategy**




deliver pioneering solutions for the tire markets and for products made from rubber and plastics. Our broadly diversified and scalable range of services offers components, modules and complete systems for customers in established and emerging markets.

The Automotive Group divisions and ContiTech are among the leading providers of most of their products in terms of sales in the relevant markets. Around half of our portfolio is dedicated to the 20 fastest growing product segments. In the tire business, we currently hold fourth position worldwide. Our production capacity is being expanded significantly at present.

**4. In the market for the market – high degree of localization**
Develop locally, purchase locally (where possible and logical from a global sourcing perspective), manufacture and market locally – this is our approach to business.

Thanks to our globally networked development and production facilities, Continental has a presence both on the economically leading markets and on the high-growth future markets. This enables us to offer solutions and products for high-quality cars and affordable vehicles, as well as customized industrial applications.

To increase tire production capacity in several markets, a special investment program totaling approximately €1 billion was initiated in 2011. In North America, a new plant was constructed and production capacity at an existing plant was increased. In Brazil, the production capacity of an existing plant was likewise increased, while new manufacturing sites in Russia and China have already started production. There are plans to expand truck tire production and also to establish our own passenger tire production in India following the acquisition of a local tire manufacturer. The new production sites are primarily to cater to demand in their respective local markets. By the end of 2013, we had expanded our capacity in the BRIC markets by 8 million tires.

**5. Balanced customer portfolio – balance between automotive and other industries**
We want to reduce our dependence on the automotive industry. We are therefore striving for a balanced distribution of sales between automotive manufacturers on the one hand and the aftermarket and industrial clients from other sectors on the other. Today, about 72% of our sales are still made with vehicle manufacturers. Our goal is to increase the share of our sales derived from industrial clients and the aftermarket to somewhere around 40% by 2020.

We are pursuing three approaches to achieve this goal:

› We are investing selectively in additional production capacity for the Tire division, the sales of which depend primarily on replacement business and far less on vehicle production.

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

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

To boost business with conveyor belts for industrial applications, the ContiTech division acquired the industrial conveyor belt operations of Metso Minerals, Inc., Finland, and Legg Company, Inc., U.S.A. In Cerkezköy, Turkey, we invested in the expansion of production capacity for hoses for the mining industry and dredging and docking hoses. We want to continue to use acquisitions to further strengthen the industrial business.

**6. Technological balance – combination of established solutions and pioneering technologies**
We aim for a profitable and sustainable combination of established and pioneering technologies. It is particularly important to us to maintain a balanced distribution of our products over the entire product life cycle. Innovations enhance our expertise in established business activities on the one hand, while also offering the opportunity to tap new sources of sales. We invest selectively in the development of new products, systems and technologies.

We set new trends and standards in high-growth markets and market segments. On the established core markets we ensure that our position as one of the leading product and system suppliers keeps on developing. We actively control and structure our product portfolio so that we are represented and competitive in all phases of the respective product life cycles.

Automated Driving: In the year under review, we announced our intention to work together with Cisco Systems GmbH and IBM Deutschland GmbH to advance secure and seamless vehicle networking, to develop a scalable cloud platform, and to receive functions for vehicle electronics over the Internet.

**7. Great people culture**
Sustainable success and future potential are based on the professional and social expertise and the values culture of our employees. They may not have the same traditions or backgrounds, but they all share our four fundamental values: Trust, Passion To Win, Freedom To Act, and For One Another. These four values define our interactions. The way we cooperate on a day-to-day basis plays a critical role in all areas.

Our initiatives to develop our corporate culture therefore specifically and comprehensively promote a working climate based on values and characterized by trust and mutual respect. By working in networks without organizational or hierarchical boundaries, we want to come up with better solutions more efficiently, and to pick up on trends and market changes more quickly. Mutual trust is a prerequisite for an extensive exchange of knowledge and for value-adding cooperation.

In the year under review, we defined our overarching cooperation as a “balance of cooperation”. It leads to more efficient cooperation across organizational and hierarchical interfaces and regional borders, and helps us to identify and take advantage of local and regional opportunities at an earlier stage. This balance of cooperation describes our system for better incorporating local and cultural aspects in our decision-making processes. The aim is to create a shared understanding of the way we cooperate.

# Research and Development

Our products and solutions allow for innovation and progress in individual mobility and customized industrial applications.

More than 20,000 research and development employees, including about 10,000 software engineers, work to ensure our long-term competitiveness and innovative strength as one of the leading automotive suppliers and industrial partners.

**Research and development costs continuously increased**
Our goal is to make individual mobility safer, more environmentally friendly, more networked, and affordable worldwide. Continuous innovation is not an end in itself, but rather an economic necessity in a highly competitive market environment. We currently have 115 research and development sites in 26 countries.

In the year under review, research and development expenses rose by 7.7% to €1,878.4 million, corresponding to a research and development ratio of around 5.6%. In relation to automotive business, in which we generated sales of more than €20 billion in the year under review, the ratio is 7.9%.

**More safety with advanced driver assistance systems**
According to the World Health Organization (WHO), there are approximately 1.24 million traffic fatalities worldwide each year, and this figure is on the rise. While in some regions fatalities have been increasing for years, they are showing an encouraging decline in Europe thanks to the widespread use of active safety systems. Advanced driver assistance systems are crucial in avoiding accidents or minimizing their severity. They take over certain driving functions, such as braking in emergencies if the braking process is not initiated in time by the driver. We already sold more than 4 million advanced driver assistance systems in 2013.

In the year under review, we presented a system for 360-degree vehicle surroundings detection (surround view system). This consists of four cameras and is able not only to detect objects and pedestrians, but also to warn the driver or brake the vehicle in critical situations. An electronic control unit combines the individual images from the camera to create an overall image, giving the driver a bird's eye view of the entire vehicle surroundings, for example on a screen in the vehicle. Future systems will be able to offer 3D views. The first 3D surround view system ready for series production is planned for 2016.

In information management, we presented a next-generation head-up display (HUD). HUDs are among the displays that are becoming increasingly important due to the flood of information in the vehicle. They are currently used primarily as a display unit for vehicle- and traffic-related content. Information is displayed directly in the driver's field of vision, allowing drivers to focus all of their attention on the traffic and the task of driving. The new HUD with a larger display surface allows graphic symbols to be used better and navigation arrows to be shown in rich colors, and provides additional areas for displaying convenience features.

| **Research and development expenses** | **2013** | | 2012 | |
|---|---|---|---|---|
| | in € millions | in % of sales | in € millions | in % of sales |
| Chassis & Safety | 535.3 | 7.4 | 500.2 | 7.1 |
| Powertrain | 561.8 | 9.0 | 529.0 | 8.6 |
| Interior | 492.0 | 7.4 | 446.1 | 6.9 |
| Tires | 204.7 | 2.1 | 195.1 | 2.0 |
| ContiTech | 84.6 | 2.2 | 74.4 | 2.0 |
| **Continental Corporation** | **1,878.4** | **5.6** | **1,744.8** | **5.3** |
| | | | | |
| **Capitalization of research and development expenses** | **40.2** | | **60.7** | |
| in % of research and development expenses | 2.1 | | 3.4 | |
| **Depreciation on research and development expenses** | **63.1** | | **66.2** | |

The development of surround view systems and new types of HUDs also represents an important step towards automated driving: With surround view systems, we now also have the entire vehicle surroundings covered by cameras. Next-generation head-up displays form the basis for future "augmented reality" HUDs that can mark objects directly in the driver's field of vision. This could be used in automated driving to show the driver everything that the car detects and what it will do next. For example, the car ahead could be marked (it has been detected by the system) and an arrow on the road could be used to indicate that the vehicle is initiating an overtaking maneuver.

**Continental Mobility Study: Motorists open to automated driving**

In our research and development work, we focus on the wishes of our customers and road users. To this end, we conduct international surveys on a regular basis. The results give us valuable insights into the needs and wishes of the people who drive with our products in their cars.

The Continental Mobility Study 2013 looked into the acceptance of advanced driver assistance systems and automated driving. It also investigated how much drivers would be willing to spend on safety systems. Car drivers in Germany, Japan, China, and the U.S.A. were surveyed for the representative study. In addition, a qualitative survey of drivers in France, India, and Brazil was conducted. Scientific and automotive industry experts were also interviewed. This makes it one of the most comprehensive studies of its kind to look into the acceptance of advanced driver assistance systems and automated driving.

The study shows that a clear majority of the respondents consider automated driving to be useful (79% in China, 61% in Japan, 53% in Germany, and 41% in the U.S.A.). 76% of the drivers surveyed in Germany state that they are in favor of using automated driving for long trips on the freeway, and 70% are in favor of its use in traffic jams on the freeway, for example to write text messages, make phone calls, check e-mails or let their thoughts wander while the vehicle drives safely towards the destination.

The networking of advanced driver assistance, information, and drive systems not only allows for more safety, but also greater efficiency and convenience. For example, the entire task of driving at certain stages of a trip, such as when the vehicle must navigate freeway construction sites, can be completed on an entirely automated basis.

We are convinced that automated driving will be a key element of future mobility, as human error is the cause of 75% of all accidents. Using advanced driver assistance systems and gradually implementing automated driving could considerably reduce the number of accidents in road traffic. We view the automation of vehicles from partial automation through high automation to full automation as being technically feasible in stages from 2016 to 2025:

- Partial automation from 2016: Partially automated systems could assist drivers in stop-and-go situations at low speeds of up to 30 km/h on freeways and guide vehicles safely through construction sites. But drivers will not be relieved of their responsibility to constantly pay attention to what is happening on the road.

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

- Full automation from 2025: A fully automated vehicle can manage all driving operations independently at up to 130 km/h. But when the vehicle reaches the desired exit, for example, the driver will have to take control, even with this high level of automation. Possible uses also include automated parking at airports or train stations.

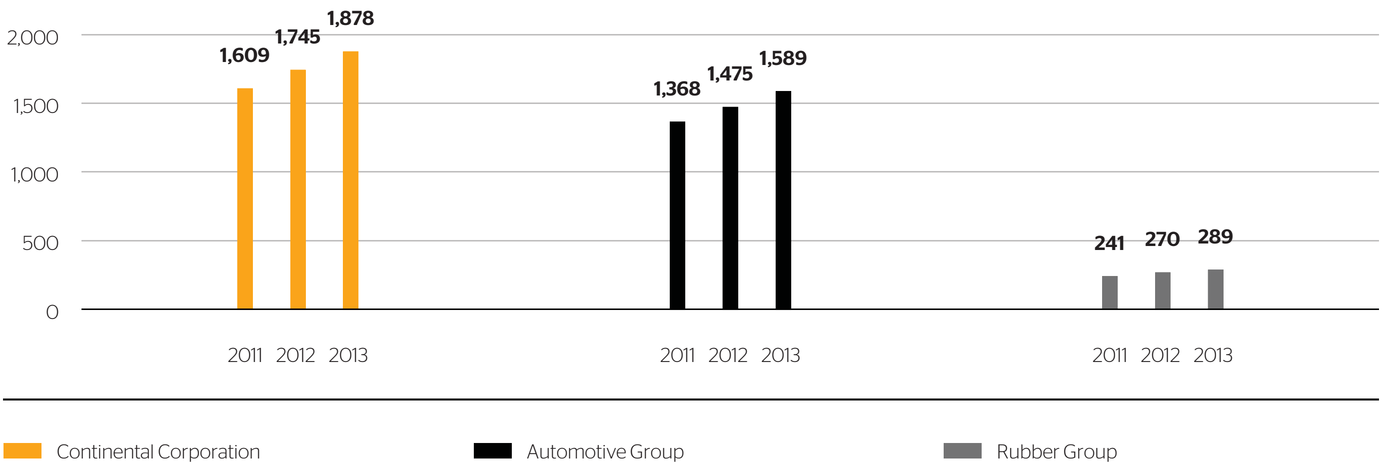
**Innovations for electromobility**

As a result of legal requirements as well as customers' wishes, the issue of electrification will become a competitive factor in the medium term, as in our opinion the emission limits already set cannot be achieved by further optimizing combustion technology. Our knowledge of the relevant core technologies will be crucial when e-mobility reaches large unit numbers.

With the Conti.eContact, we are offering a tire designed specifically for hybrids and electric vehicles. The tire's rolling resistance has been reduced significantly in order to increase the range of electric cars and to allow longer operation with the electric motor in hybrid vehicles. The requirements for electric vehicle tires differ significantly from those for conventional vehicles. They need to have a much lower rolling resistance and generate lower noise levels, while high-speed performance is less of a priority. The significantly reduced rolling resistance was achieved partly by means of a larger tire diameter that reduces deformation of the tire when entering the contact patch, a new type of sidewall which lessens energy loss as the tire compresses and rebounds, and the reduced tire weight.

Drivers today are used to entering their destination into a navigation device. Whether there is enough fuel in the tank to reach that destination without stopping to refuel is often immaterial. But for drivers of electric vehicles, the question of the remaining driving range is very important. We have therefore constructed a concept vehicle that demonstrates how easy operation and intelligent networking of navigation data and vehicle electronics can successfully counter "range anxiety". The anticipatory range calculation incorporates topographical data from the navigation in the eHorizon (electronic horizon) and the additional energy consumers on board. Continental electronics therefore know whether the route will take the vehicle onto the freeway, through the city, or along a country road, whether the route is more uphill or downhill, and whether the driver is using the heating

**R&D expenditure** (in € millions)




or the air-conditioning system. If the battery level is not high enough to reach the destination, eHorizon suggests solutions such as switching off additional energy-consuming devices or stopping at a charging station on the planned route.

**Innovations for protecting the environment**

Electrification of the powertrain will play an important role in making future vehicles more efficient and eco-friendly and enhancing their performance. This requires attractive prices and solutions that are tailored to the needs of end customers.

One of Continental's major focal points is therefore the new 48 Volt Eco Drive system, which supplements the conventional 12-volt on-board power supply with a voltage of 48 volts together with the associated electrical components. This electrification of the powertrain bridges the gap between low-end hybridization, based on present-day 12-volt stop-start systems, and the more sophisticated high-voltage hybrid solutions. The 48 Volt Eco Drive system is easy to install, while also offering many of the functions and fuel economy benefits that were previously confined to mild hybrids with their higher voltage level. To demonstrate the benefits, we installed the 48 Volt Eco Drive in a vehicle that generated fuel savings of around 13% in the NEDC (New European Driving Cycle) in the last stage of development. The concept is attracting a great deal of attention in our industry.

Lighter materials and energy-efficient components play an important role in protecting the environment. To save weight, even highly resilient engine mounts and structural components are increasingly being manufactured from polyamide at ContiTech. These components save up to 50% in terms of weight in comparison to conventional aluminum engine mounts. Because plastic can also be shaped better at lower temperatures than aluminum, for example, the production process requires considerably less energy. There is also a wide range of possibilities in recycling. Vehicle interior trim materials for door and instrument panels made of TPO (olefin-based thermoplastic elastomers) are not only recyclable and halogen-free, they also generate weight savings of 25% to 50% depending on their design.

The Continental EcoPlus HT3 trailer tire has been launched as the first representative of a completely new truck tire family. The new premium tire for trailers and semitrailers is designed to deliver improved fuel economy and maximum cost-efficiency, as well as a long service life. With trailer and semitrailer tires accounting for around 60% of a truck/trailer combination's rolling resistance, choosing optimal tires for the trailer axles is crucial to the fuel efficiency of the vehicle as a whole.

# Divisions and Business Units

Five divisions with 27 business units work to enhance the value of the corporation on a long-term basis.

## Chassis & Safety Division

- The Chassis & Safety division focuses on modern technologies for active and passive safety and for vehicle dynamics.
- The division's sales increased by 3.1% in 2013 to €7.3 billion.

Well positioned around the world – when it comes to driving safety, nothing can be left to chance. In keeping with this principle, the Chassis & Safety division focuses on modern technologies for active and passive driving safety and for vehicle dynamics. Some 7,200 R&D staff worldwide drive forward technical progress in components and systems.

We bring together high-quality vehicle components and profound systems expertise in the fields of driving safety and vehicle dynamics in the comprehensive safety concept ContiGuard®. This innovative and integrated concept combines life-saving elements of active and passive driving safety. To us, "Vision Zero" means smarter and safer driving for everyone and on all roads around the world.

Chassis & Safety has 84 locations in 20 countries. Its roughly 36,500 employees generated sales of €7.3 billion in 2013.

In the year under review, the business units were strategically realigned. With the integration of the Suspension Systems and Chassis Electronics segments into the Electronic Brake Systems business unit, the range of products in the area of driving dynamics was broadened and the name of the business unit changed to Vehicle Dynamics.

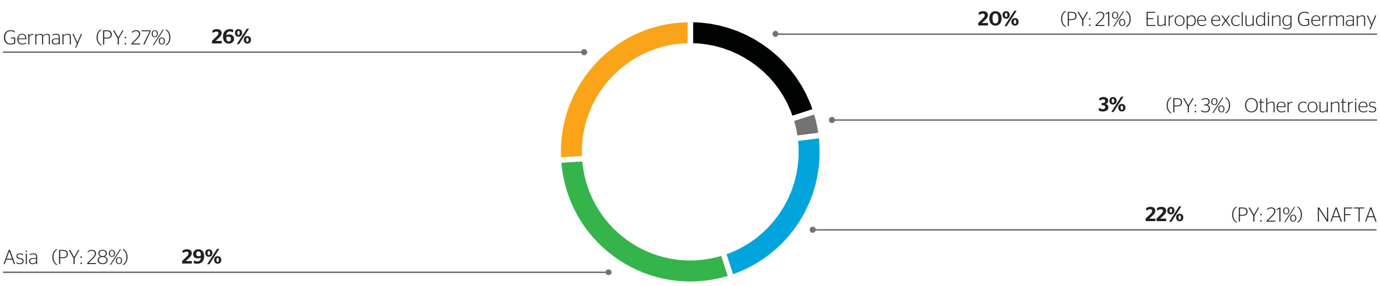
The division now consists of four business units:

- Vehicle Dynamics: The Vehicle Dynamics business unit combines products and systems for lateral, longitudinal and vertical dynamics. These include scalable electronic braking systems and software solutions to ensure vehicle stability and increase driving comfort for cars and motorcycles, as well as chassis electronics and air suspension systems.
- Hydraulic Brake Systems: The expertise in the Hydraulic Brake Systems business unit lies in the development and production of new solutions for traditional braking technology. Products range from disk brakes, hand brakes, parking brakes and drum brakes to electric vacuum pumps, brake boosters and brake hoses.
- Passive Safety & Sensorics: This business unit combines expertise from the fields of passive safety and sensor technology. One of its strengths is the integral networking of passive safety systems with crash, vehicle dynamics and environment sensors. The portfolio includes products such as innovative protection systems for vehicle occupants, pedestrians and cyclists, and an active gas pedal. To further enhance integral safety, the business unit also works on innovative Car2X systems (vehicle-to-vehicle and vehicle-to-infrastructure communication). Sensors for a variety of applications, such as chassis control, brake systems and battery monitoring, as well as rotational speed sensors for wheels, engines and transmission round off the product portfolio.
- Advanced Driver Assistance Systems: The innovative advanced driver assistance systems developed by this business unit operate using environment sensors – cameras, infrared, or radar – to fulfill various safety and comfort functions. These systems help drivers to stay on top of things so that they arrive at their destination safe and relaxed, thus making a key contribution to avoiding or mitigating the effect of accidents.

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

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

**Chassis & Safety Division: Sales by market**




The Chassis & Safety division is excellently prepared for the future in existing markets with innovative products and new developments. This is due to better market penetration, growing installation rates for ABS, ESC, sensors and passive safety, and increasing use of driver assistance systems and electronic parking brakes in most vehicle categories. We are benefiting in particular from the favorable environment: The growth market of Asia and international legislation with regard to the use of ABS, ESC, and airbags are paving the way for further growth.

Forward-looking driver assistance systems are increasingly being included in the test and assessment reports that are central to receiving five stars in the Euro NCAP rating.

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

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

## Powertrain Division

- In the Powertrain division, we integrate innovative and efficient system solutions for the powertrain of today and of the future for vehicles of all categories.

- The division's sales increased by 2.0% in 2013 to €6.3 billion.

There are two decisive stimuli for the advancement of drive technologies: Firstly, active climate protection, in particular the reduction of $CO_2$ emissions and exhaust gases. And secondly, the increasing need for individual mobility, which results in various requirements for vehicles and drive systems.

Starting with the concept of clean power, our products make driving not only more affordable and environmentally friendly, but also more comfortable and enjoyable. 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.

The Powertrain division operates at 74 locations in 21 countries. In the year under review, its roughly 32,400 employees generated sales of €6.3 billion. The division is divided into five business units:

- Engine Systems: More power – lower fuel consumption! The Engine Systems business unit deals with the development and production of innovative system solutions for environmentally friendly and sustainable combustion engines.

- Transmission: The Transmission business unit stands for pioneering electronic and electromechanical control systems for all relevant transmission types and powertrain applications. Its portfolio ranges from high-end systems to cost-optimized solutions for growth markets.

- 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 vehicles.

- Hybrid Electric Vehicle: This business unit has an extensive portfolio of powertrain electrification products. This makes it possible to implement hybrid and electric vehicles for reducing fuel consumption and thus also pollutants in various performance classes.

- Fuel Supply: All relevant technologies for fuel management are developed and produced in this business unit. The modular design of the components means that they can be adapted flexibly to our customers' individual requirements and also allows for fast and cost-efficient development of complete tailor-made systems with excellent functionality.

**Our growth prospects**
We anticipate further growth as a result of:

- the increasing global demand for vehicles with reduced fuel consumption and emissions

- a wide range of requirements for vehicles and drive systems due to drivers' increasing need for individual mobility

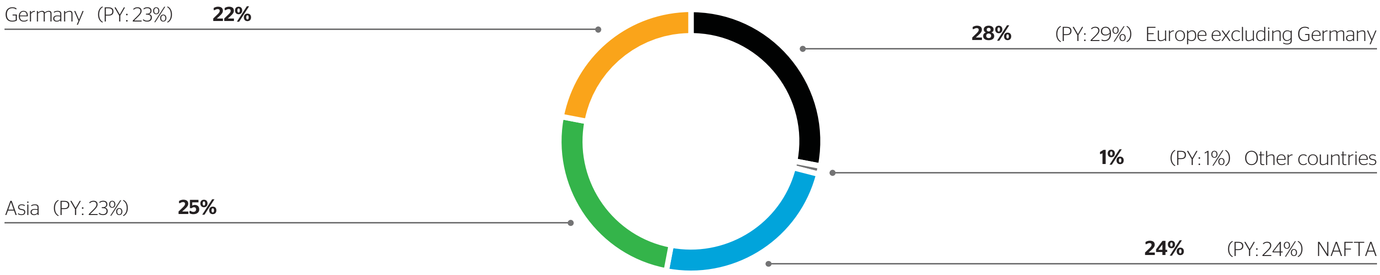
- end-customer-oriented and cost-optimized drive solutions for the future of electromobility

- the rapidly growing BRIC markets (Brazil, Russia, India, China).

As a result of global $CO_2$ and emissions reduction legislation, together with drivers' desire for individual mobility, the importance of vehicle drive systems is growing enormously. Our goal is to increase the efficiency of conventional combustion engines and to develop cost-efficient solutions for the electrification of the powertrain that are tailored to the needs of end customers. Energy and thermal management in vehicles will also play an important role here.

Electromobility growth market: In the long term, electrification will make an indispensable contribution to more efficient vehicles with lower emissions. Continental sees the solutions for the mass market in graduated hybridization or "tailor-made electrification" and therefore offers a technology portfolio that manufacturers can use to hybridize existing vehicles at between 12 and 400 volts with a transparent cost-benefit ratio. One of our major focal points here is the new 48 Volt Eco Drive system.

**Powertrain Division: Sales by market**




The focus is always on the affordability and practical effectiveness of our core components: electric motors, power electronics and energy storage systems.

Direct injection and turbocharging growth market: Smaller, charged engines reduce $CO_2$ emissions. With its pioneering, innovative turbocharger and injector technology, Continental ensures that modern combustion engines remain competitive with alternative drive systems over the long term with respect to efficiency, environmental friendliness and performance.

Electronics growth market: As a result of the diverse options presented by tailor-made electrification and alternative fuels, the potential scope of functions in the engine control unit and networking beyond domain borders are increasing dramatically. Rather than a single energy flow, in future it will be a case of regulating the balance and direction of various energy flows. In order to implement this diversity, modular concepts like those found in Continental's EMS 3 engine management architecture are indispensable. This concept, based on AUTOSAR 4.0 (standard for electronic components in the automotive industry), provides crucial support in fulfilling the growing future requirements in terms of complexity, reliability, short development times, a growing variety of models and increasing scopes of functions.

As with engine management systems, the latest developments – particularly in the field of hybrid vehicles – will also stand to benefit from the development work on transmission control units.

Exhaust gas aftertreatment (selective catalytic reduction, SCR) growth market: The SCR market is another growth market we cater to with a broad product portfolio. The introduction of the Euro 6 legislation cuts nitrogen limits by more than half in comparison to Euro 5. With downstream SCR exhaust gas aftertreatment, combustion can be optimized further towards lower $CO_2$ emissions and reduced fuel consumption.

Thanks to our comprehensive systems expertise and our global networking with the markets, we feel that the Powertrain division has good growth prospects in all of these areas.

## Interior Division

- The Interior division offers solutions for information management within vehicles and networking between vehicles, making them safer, more environmentally friendly and more comfortable.
- The division's sales increased by 2.7% in 2013 to €6.6 billion.


At any given moment, drivers receive an abundance of information via various channels. Traffic signs and the course of the road are examples of external sources outside the vehicle, while internal sources include instrumentation, the navigation system and driver assistance systems.

The Interior division develops innovative solutions that allow the driver to maintain a clear overview at all times and to utilize the information from external and internal sources optimally for the current driving task. The products and systems make it possible to collect, filter, prioritize and display information on the current driving situation. In addition, we network drivers, vehicles and the outside world.

Interior has 94 locations in 25 countries. With some 34,400 employees, the division achieved sales of €6.6 billion in fiscal 2013. It comprises four business units:

- Instrumentation & Driver HMI: In this unit, we develop possibilities for optimally processing and conveying information, with a focus on prioritizing information and presenting it on various displays. Furthermore, we develop innovative electronics for intuitive operation. We offer individual components as well as integrated systems and electronics for cockpit modules.
- Infotainment & Connectivity: In this business unit, we develop and produce innovative, pioneering radio, navigation and multimedia systems and software solutions. We help our customers cater to the growing demand for networked vehicles quickly and reliably. This involves firstly the simple and flexible integration of mobile devices, and secondly the secure connecting of the vehicle with the outside world.
- Body & Security: Electronic body and access systems ensure reliable control of a wide variety of comfort and vehicle functions. These include, for example, central body control units, convenient closure systems, seat comfort systems, keyless access control and start systems, and solutions for tire information systems and outside lighting control units.
- Commercial Vehicles & Aftermarket: In this unit we bundle our wide range of activities in the field of commercial vehicles and special vehicles, as well as our retail activities in the replacement parts business. Our global network of sales and service companies ensures proximity to our customers at the local level.

**Our growth prospects**
We are focusing our work on the following topics in order to expand our business:

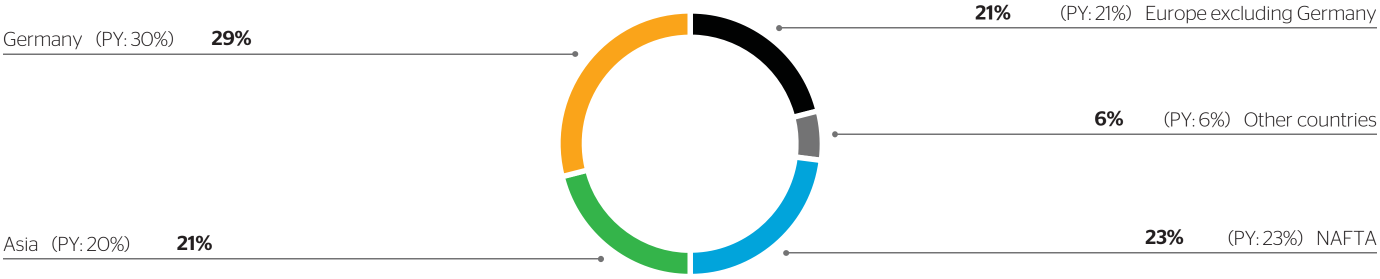
- new communication technologies to connect the vehicle to the outside world (for instance via the cloud) and integrate mobile devices such as smartphones in the vehicle architecture
- inexpensive and flexible solutions for various markets in the field of networking, displays and interaction with the driver
- system solutions for the growing demand for integrated function and control concepts
- evolutionary introduction of automated driving, partly on the basis of solutions that already exist today
- expansion and integration of services that support comfort functions and fulfill legal requirements.

Our broad portfolio of products and expertise enables us to adapt our solutions for new sectors very quickly and on a cross-platform basis. In this way, we can successfully place our products in growth markets, for example in Asia.

This growth is supported by our strong capacity for innovation, cost-effective concepts and our local presence close to our customers.

We see strong growth throughout the whole area of vehicle networking. The car is becoming part of the Internet. We make this possible by means of, for example, fast data connections via LTE (long-term evolution, the fourth generation of mobile phone networks) and intelligent antenna systems. In addition to the communication and telematics systems themselves, new applications must be integrated. For these tasks, we also work with partners outside the automotive industry. The wide variety of infor-

**Interior Division: Sales by market**




mation must be made intuitively comprehensible and easily usable for the driver. For this reason, display and control concepts are becoming increasingly important in the automotive industry, not least to enable us to set ourselves apart on the market. Our 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 display systems.

The use of smartphones has become ubiquitous. Reliable interaction with the components in the vehicle offers added value that is having a positive impact on many segments of the Interior division. Technologies such as NFC (near field communication, mobile communication standard for data transfer) make it possible to implement new functions such as digital keys on the smartphone. The range of applications is highly diverse, comprising telematics/fleet solutions, tire pressure information, seat controls, navigation, voice control and other apps. Interior offers all of the expertise required to connect these functions with the vehicle and use them reliably within the vehicle.

In addition to growth trends from the world of consumer electronics, there are efforts in Europe, the U.S.A. and Brazil to make driving safer by means of regulations. Emergency call (eCall) systems are already included in Interior's portfolio. We carefully monitor planned changes in legislation and discuss appropriate solutions with our customers in advance. This ensures very fast availability for use on the market.

In the long term, collaboration with the Powertrain division and especially with the Chassis & Safety division opens up growth potential that only a few automotive suppliers can offer: automated driving. This involves interaction between all components. Interior is already working on integrated solutions with specific projects to connect vehicles to the backend (intelligent IT infrastructure) in order to establish fast and reliable access to more and better information.

In addition, electromobility offers long-term growth. Using our networking technologies in keeping with our vision of "Always On", the driving range of electric cars can be optimized.

## Tire Division

- The Tire division offers the right tires for nearly every application – from passenger cars through trucks, buses and construction site vehicles to special vehicles, motorcycles and bicycles.

- At €9.6 billion, the Tire division's sales remained nearly constant in 2013.


Braking distance, cornering speed, acceleration, force distribution, gross vehicle weight, efficiency – although the contact area of a tire is only about as big as an ISO-standard A5 to A4 sheet of paper, depending on the tire's size, it plays a vital role as the only connection with the road: It transfers all of the vehicle's forces, making tires a particularly important component.

The biggest challenge in tire development lies in combining the different requirements: maximum safety with short braking distances and high grip, minimum rolling resistance and thus low fuel consumption or long driving range for electric vehicles, and optimal cost effectiveness for commercial vehicles, also with high mileage performance and good retreadability. This is exactly what we are working on in the Tire division day to day.

The division has 73 locations in 42 countries. In 2013 its approximately 44,500 employees generated sales of €9.6 billion. The division is divided into six business units:

- Passenger and Light Truck Tire Original Equipment: This business unit represents global business with automobile manufacturers. About one in three passenger cars in Europe leaves the factory on Continental tires; in the U.S.A. the figure is roughly one in six. Products from the premium Continental brand are marketed worldwide, and in NAFTA products from the high-quality General Tire brand are also marketed. We also supply vehicle manufacturers with our various runflat systems that make it possible to continue driving to the next tire repair shop in the event of a puncture.

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

- EMEA (Europe, Middle East and Africa)

- The Americas (North, Central and South America)

- APAC (Asia and Pacific region).

In addition to the Continental premium brand and the Barum budget brand, which are sold all over the world, the regional high-quality brands Uniroyal, Semperit, General Tire, Viking, Gislaved, Euzkadi and Sime Tyres as well as the regional budget brands Mabor and Matador are marketed. Our retail tire companies with more than 2,800 specialty tire outlets and franchises that are bundled under ContiTrade are also assigned to EMEA Replacement Business.

- The Commercial Vehicle Tires business unit with its range of truck, bus and special-purpose tires focuses on customers with an entrepreneurial mindset. We are constantly re-inventing the tire and the accompanying services for these customers – with the aim of creating comprehensive solutions for professional tire management. For our end customers, this means lower overall costs for the whole fleet and thus optimal cost effectiveness.

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

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

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

- the development of new product lines for special regional or end customer requirements

- improvements in performance characteristics, such as for high-performance tires

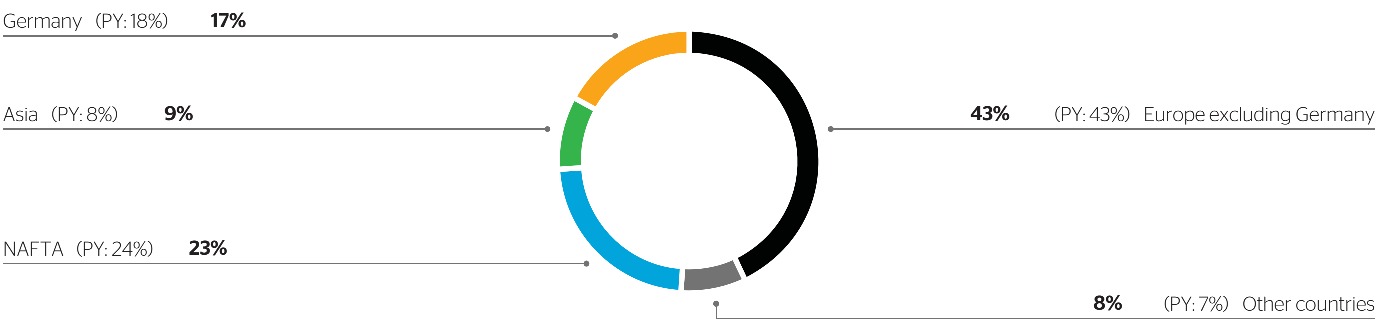
- the significant reduction in rolling resistance

- comprehensive solutions for our commercial customers, also going beyond tire products

- a consistent, high-performance tire range extending from new tires to retreading with ContiLifeCycle

- the expansion of production and sales capacity with a focus on the growth regions (primarily BRIC)

**Tire Division: Sales by market**




› the development of environmentally friendly materials, for example natural rubber made from dandelion roots.

The Tire division pressed ahead with the implementation of its long-term strategy and systematically invested in high-tech. The new passenger tire plant in Sumter, North Carolina, U.S.A., as well as the plant in Kaluga, Russia, celebrated their official start of production. There was a further focus on expanding truck and bus tire capacity in 2013, and this will continue in the following years: In addition to the capacity expansion in Puchov, Slovakia, that was started in 2012 (total volume €100 million), €165 million was invested in the plant in Otrokovice, Czech Republic, and €70 million in truck and bus tire production in Mount Vernon, Illinois, U.S.A. Production of radial tires for passenger cars and trucks at our plant in Modipuram, India, began in winter 2013/2014.

In promoting high-tech, a total of €40 million was invested in establishing a new production line for exceptionally sophisticated passenger tires with sizes between 19 and 23 inches at the location in Korbach, Germany, where about 400,000 tires of these sizes per year are to be produced by 2018. In addition, this high-performance technology center will be used to develop process technologies that will subsequently be introduced at other locations around the world. We intend to achieve growth in the attractive ultra-high-performance segment (UHP) in particular. To this end, we are investing in new technologies that take the performance characteristics of our products to an even higher level. Following its excellent start in 2012, the ContiWinterContact™ TS 850, which is available in sizes from 14 to 17 inches, confirmed our leading technology position again in 2013 with outstanding results in the tire tests by the leading specialist magazines and automobile associations and several approvals by leading vehicle manufacturers. It fully met the sales expectations.

Our special-purpose tires represent another important growth segment. In June 2013, we became the first manufacturer to introduce a complete tire portfolio for all vehicles operating in the area of port logistics. One important element here as well is a unique technology developed by Continental: V.ply combines the advantages of radial tire technology with those of crossply tires. Another unique feature is the bus tire portfolio, with which we began the launch of our third-generation commercial vehicle tires in 2013. The new product family for commercial passenger transport covers all applications, from scheduled services in cities through regional transport to the booming long-distance coach segment.

Another milestone in 2013 was the opening of the ContiLifeCycle plant in Hanover-Stöcken, Germany. Once it reaches its annual capacity of 180,000 retreaded tires and 4,000 metric tons of recycled rubber, the first fully integrated retreading and recycling plant in the tire industry will help save 72,000 metric tons of $CO_2$ and 2,400 metric tons of natural rubber. This is equivalent to the annual production of 1.3 million rubber trees. The ContiLifeCycle Academy, which was established at the location at the same time, will serve as an international platform for the transfer of expertise relating to retreading. We were awarded the “European Transport Prize for Sustainability” in the “Tires and Tire Services” category for our new ContiLifeCycle plant. The prize is awarded every other year by HUSS-Verlag, Munich, Germany, for developments and successes relating to sustainable products in the commercial vehicle industry.

Our Contidrom center, located north of Hanover, was selected as test track of the year 2013 by the trade publication “Automotive Testing Technology International”. This was largely attributable to the new, globally unique fully automatic tire testing facility AIBA (Automated Indoor Braking Analyzer). With this system, up to 100,000 passenger and light truck, 4x4 and van tires a year can be tested with impressive precision and reproducibility regardless of the weather. The tires can be tested at variable temperatures on a range of road surfaces that can be hydraulically exchanged. All this is possible without requiring a driver at the wheel.

## ContiTech Division

- The ContiTech division develops products made from rubber and plastic – products that are individually customized for a wide range of industries.
- The division's sales increased by 4.5% in 2013 to €3.9 billion.


As a specialist in high-tech products made from rubber and plastic, we make use of our innovations in various areas. "Engineering Green Value" – for us, this basic idea underlies a strong corporate commitment and technological expertise in the development and use of innovative products.

The ContiTech division is a global development partner and original equipment supplier to the passenger car and commercial vehicle industry, the mining and printing industries, as well as the machinery and plant construction, aviation and aerospace, and railway engineering industries.

The division has 99 locations in 28 countries. In 2013 its approximately 29,700 employees generated sales of €3.9 billion. ContiTech is divided into eight business units:

- Air Spring Systems: This business unit develops and produces components and complete systems for self-adjusting air suspension in commercial vehicles, buses, rail vehicles, stationary machines and foundation bearings. Air actuators and rubber expansion joints are manufactured for plant and machine engineering.
- Benecke-Kaliko Group: The Benecke-Kaliko Group business unit manufactures technical and decorative surface materials and works in a close development partnership with the automotive industry and other industries.
- Compounding Technology: The Compounding Technology business unit develops and supplies rubber compounds and sheets for a wide range of applications for internal and external customers.
- Conveyor Belt Group: The Conveyor Belt Group business unit is a development partner, manufacturer and systems supplier for steel cord and textile conveyor belts, service material and special products. It also offers a global belt installation and maintenance service.
- Elastomer Coatings: This business unit develops and produces innovative printing blankets, diaphragm materials and diaphragms, materials for life rafts and protective clothing, flexible tanks and gas holder diaphragms.
- Fluid Technology: The Fluid Technology business unit develops and produces 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 business unit offers products and systems used in the automotive industry and in machine and plant construction.
- Vibration Control: The Vibration Control business unit is a specialist in noise and vibration control and in sealing technology. It develops and produces a wide variety of elastomer and rubber-metal products such as vibration absorbers, mounting systems, precision molded parts, blow molded parts and plastic components for a broad range of applications.

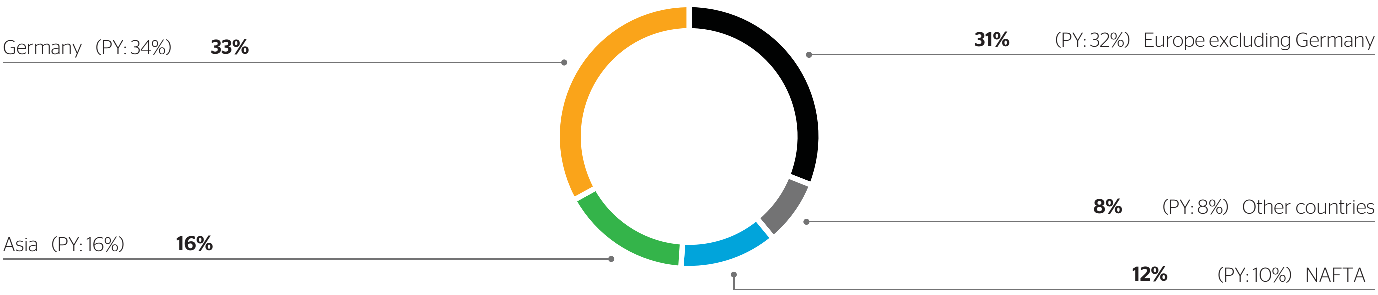
**Distribution of sales**
56% of sales in the ContiTech division relates to business with vehicle manufacturers, and 44% relates to business with other industries and in the replacement market.

**Our growth prospects**
We see opportunities for growth:

- in markets such as China, Russia, Eastern Europe and NAFTA
- in areas other than automotive original equipment manufacturing
- in the growing market of green mobility, extending as far as bicycle drive systems.

China and Russia are among the fastest-growing automotive markets in the world, which is why we are expanding our operations there. At the new research and development center in Changshu, China, we have been developing innovative products

**ContiTech Division: Sales by market**




for mounting and vibration control technology for the Chinese market since 2013. The Benecke-Kaliko Group is also increasingly focusing on business with local manufacturers in China. A new production line has therefore been established at the Zhangjiagang location for the rapidly growing market of compact foils and foam laminates. In the future, ContiTech will be able to supply the Russian automotive market with air-conditioning and power steering lines from an assembly plant in Kaluga, Russia. The sales organization in Russia is also to be expanded further.

Eastern European countries will continue to play an important role as production locations. A number of strategic investments are improving our position in relation to our competitors. The expansion of the fuel line production hall in Vac, Hungary, has created much-needed capacity. The Vibration Control business unit has inaugurated a new research center in Slovakia and is bundling production capacity in Dolne Vestenice.

In industrial business, the Conveyor Belt Group has strengthened its position in NAFTA with the acquisition of the conveyor belt manufacturer Legg Company, Inc., Halstead, Kansas, U.S.A. Industrial business is developing positively, partly due to the takeover of the industrial conveyor belt operations of the Finnish company Metso Minerals, Inc., Helsinki. At the same time, this also strengthens the service network in Scandinavia in the long term. Through its strategic partnership with Max Daetwyler Corporation, Huntersville, North Carolina, U.S.A., the Elastomer Coatings business unit has improved its service for flexo printing plates (packaging printing) and will expand this to the important Mexican flexo market. As a result of improved sales activities in Asia, printing blanket business in China is also recording much better growth than the market. The establishment of production in China will further strengthen our competitive capacity.

Industrial business has been strengthened by a new factory in Brazil producing hoses for use in oil and gas extraction.

ContiTech is catering to the trend for environmentally friendly mobility with a new drive system for e-bikes and pedelecs that is being developed as a complete drive system under ContiTech's leadership. In automotive business, all ContiTech business units are working in line with the basic idea of "Engineering Green Value" to produce components, modules and systems that lessen vehicles' ecological impact without reducing comfort or the pleasure of driving.

# Corporate Management

Our operational and financial objectives center around the sustainable enhancement of enterprise value and balanced financing.

**Value management**

Key financial performance indicators for Continental relate to the development of sales, capital employed, and EBIT/EBIT margin, as well as the amount of capital expenditure, and the free cash flow. To allow us to use the financial performance indicators for management purposes as well, and to map the interdependencies between these indicators, we summarize them as key figures as part of a value driver system. Our operational and financial objectives center around the sustainable enhancement of the value of each individual business unit. This goal is achieved by generating a positive return on the capital employed in each respective business unit. At the same time, this return must always exceed the equity and debt financing costs of acquiring the operating capital. It is also crucial that the absolute contribution to value increases year for year. This can be achieved by increasing the return on capital employed (with the costs of capital remaining constant), lowering the costs of capital (while maintaining the return on capital employed), or decreasing 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.

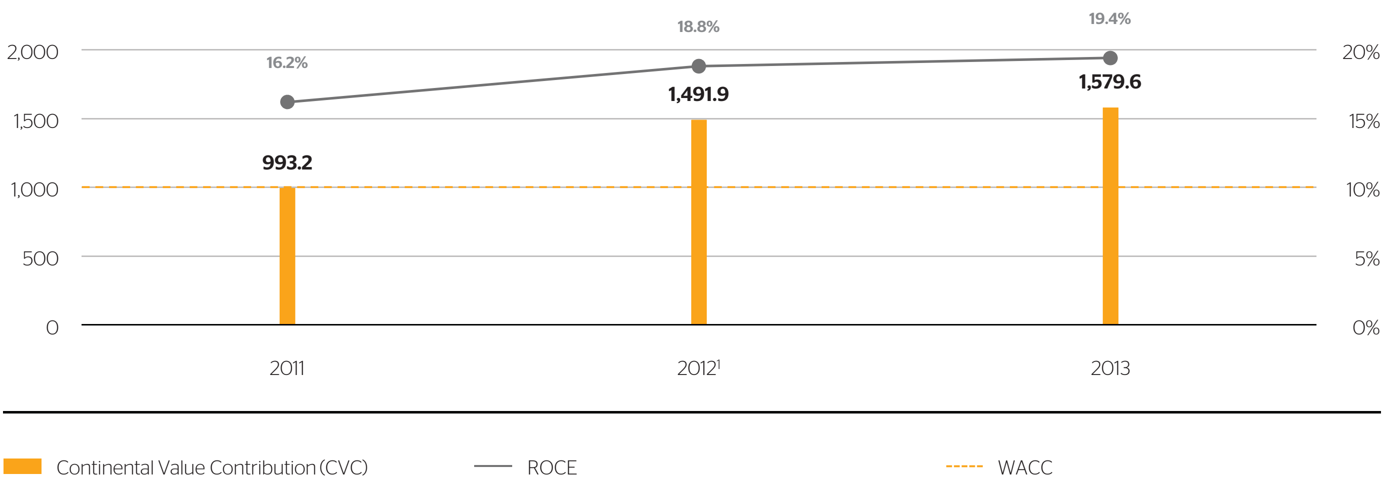
- Operating earnings before interest and income taxes are calculated from the ongoing sales process. The figure is the net total of sales and costs plus income from at-equity accounted investees and from investments but before interest and income taxes. Consolidated EBIT amounted to €3.3 billion in 2013.

- 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 at the end of the quarterly reporting periods. In 2013, average operating assets amounted to €16.8 billion.

- The ratio between these two calculated values constitutes the return on capital employed (ROCE). Comparing a figure from the statement of income (EBIT) with one from the statement of financial position (capital employed) produces a holistic analysis. We deal with 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 19.4% in 2013, thus rising for the fourth year in a row.

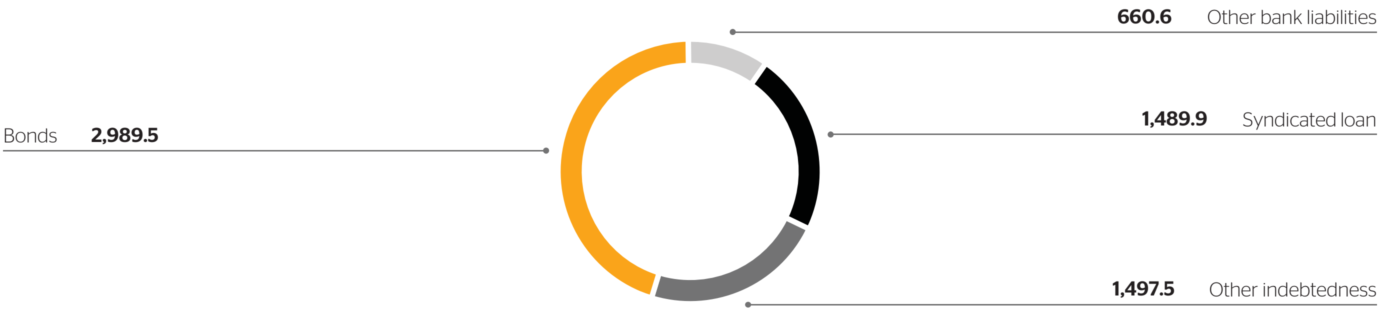
- The weighted average cost of capital (WACC) is calculated to determine the cost of financing the capital employed. Equity costs are based on the return from a risk-free alternative investment plus a market risk premium, taking into account Continental's specific risk. Borrowing costs are calculated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

**Development of key figures** (in € millions)




*1 Taking into account the first-time adoption of IAS 19 (revised 2011).*

**Gross indebtedness** (€6,637.5 million)




- 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 0.6 percentage points, value added was also created in 2013.
- In the long term, enterprise value by our definition will increase only if the CVC shows positive growth from year to year. The CVC rose for the fourth year in a row in 2013.

| **ROCE by division (in %)** | **2013** | 2012 |
|---|---|---|
| Chassis & Safety | 14.9 | 16.4 |
| Powertrain | 6.1 | 1.6 |
| Interior | 9.5 | 9.6 |
| Tires | 37.7 | 37.6 |
| ContiTech | 36.5 | 39.1 |
| **Continental Corporation** | **19.4** | **18.8** |

### Financing strategy
Our financing strategy aims at supporting value-adding growth of the Continental Corporation while at the same time complying with an equity and liabilities structure adequate for the risks and rewards of our business.

The central function Finance & Treasury provides 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 between 5% and 6% of sales. In 2014 the capital expenditure ratio before acquisitions will again amount to around 6% of sales.

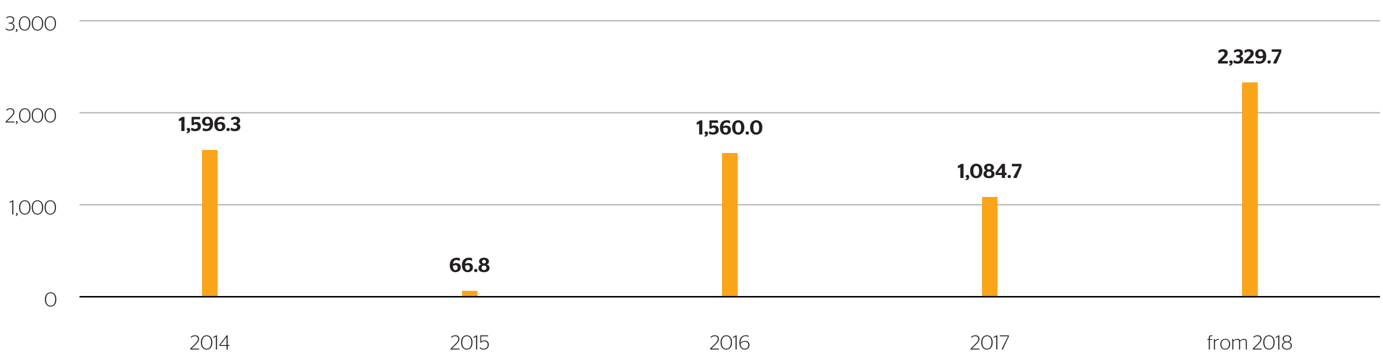
Our goal is to finance ongoing investment requirements from the operating cash flow. Other investment projects, for example acquisitions, should be financed from a balanced mix of equity and debt depending on the gearing ratio and the liquidity situation to achieve a constant improvement in the respective capital market environment. In general, we pursue the goal of keeping the ratio of net indebtedness to equity (the gearing ratio) below 60%. If justified by extraordinary financing grounds or special market circumstances, we can rise above this level under certain conditions. The equity ratio should exceed 30%. As at year-end, the gearing ratio was 46.0% and the equity ratio 34.8%.

Our indebtedness should be a balanced mix of liabilities to banks and other sources of financing on the capital market. For short-term financing in particular, we use a wide range of financing instruments. As at the end of 2013, this mix consisted of bonds (45%), syndicated loan (22%), other bank liabilities (10%) and other indebtedness (23%) based on the gross indebtedness of €6,637.5 million. We do not see any reason to make significant changes in this mix at this time.

The corporation generally strives for liquidity as at the end of reporting periods of between €1.0 billion and €1.5 billion, which is supplemented by committed, unutilized credit lines from banks in order to cover liquidity requirements at all times. These requirements fluctuate during a calendar year owing in particular to the seasonal nature of some business areas. In addition, the amount of liquidity requirements is also influenced by corporate growth. Cash and cash equivalents amounted to €2,044.8 million as at December 31, 2013. There were also committed and unutilized lines of credit of €3,833.3 million.

Gross indebtedness amounted to €6,637.5 million as at December 31, 2013. The largest financing instrument is a syndicated loan with a volume of €4.5 billion. This syndicated loan was renegotiated at the beginning of 2013 and currently consists of a term loan for a nominal amount of €1.5 billion and a revolving

**Maturities of gross indebtedness** (€6,637.5 million)




line of credit for €3.0 billion. The term loan matures in January 2016 and the revolving line of credit in January 2018. The revolving line of credit was not utilized as at December 31, 2013.

Around 44% of gross indebtedness is financed on the capital market in the form of bonds maturing between March 2017 and September 2020. The interest coupons vary between 2.5% and 4.5%. Repayment amounts on maturity are €750 million each in 2017, 2018 and 2020 and U.S. $950 million in 2019. The U.S. dollar bond grants the issuer the right to early redemption under certain conditions. In addition to the forms of financing already mentioned, there were also bilateral lines of credit with various banks in the amount of €1,499.5 million as at December 31, 2013. In addition to finance leases, Continental's other corporate financing instruments currently include sale of receivables programs and a commercial paper program.

### Maturity profile

Continental always strives for a balanced maturity profile of its liabilities in order to be able to repay the amounts due each year from free cash flow as far as possible. Other than short-term maturities (which are usually rolled on to the next year), only a very low amount of additional indebtedness is due in 2014 and 2015.

### Rating goal achieved

Continental was rated by the three rating agencies Moody's, Standard & Poor's, and Fitch in the reporting period. Owing to the very good operating performance described later in this report (see Earnings, Financial and Net Assets Position), the process of improving the corporation's rating – which had been ongoing since 2011 – continued in 2013, resulting in our credit rating being upgraded by all three agencies and returning to investment grade.

### Continental's rating

| | **2013** | 2012 |
|---|---|---|
| **Fitch**[1] | | |
| Long term | BBB | BB |
| Short term | F3 | B |
| Outlook | stable | stable |
| **Moody's**[2] | | |
| Long term | Baa3 | Ba2 |
| Short term | no rating | no prime |
| Outlook | stable | positive |
| **Standard & Poor's**[3] | | |
| Long term | BBB | BB- |
| Short term | A-2 | B+ |
| Outlook | stable | positive |

*1 Solicited rating since November 7, 2013.*
*2 Solicited rating until January 31, 2014.*
*3 Solicited rating since May 19, 2000.*

# Sustainability

Sustainable management and social responsibility are inscribed within the bedrock of Continental's corporate values.

Sustainable management and social responsibility are inscribed within the bedrock of Continental's corporate values. Both reinforce the culture of solidarity while simultaneously contributing to forward-looking and values-based corporate management. As a signatory of the Global Compact of the United Nations, we support its ten principles in the areas of human rights, labor, environment, and anti-corruption.

Responsible action geared towards sustainability opens up our company to change and boosts its future potential. We view sustainable management as a strategic task for the company's development. It is vital that sustainability goals and measures create value. This is the only way to ensure their acceptance within the company and their credibility outside the company.

It is therefore an element of our corporate strategy to combine financial and non-financial performance indicators and to take a holistic approach resulting in a contribution that impacts positively on our employees, the environment, and society. Please see page 78 for information about the non-financial performance indicators related primarily to the sustainable use of environmental resources.

### Responsibility for our employees

Employee development and training enjoy high priority at Continental and form the basis for the long-term success of our company. Responsibility for our employees is a central component of the corporation's commitment as an employer. We afford our employees the best possible advancement and training opportunities.

### Responsibility for the environment

At the beginning of the 1990s, we at Continental clearly established the company's responsibility for protecting the environment in our corporate guidelines, the BASICS, and specified this responsibility as an objective of the corporation. By doing so, we acknowledged early on 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.

### Social responsibility

Our voluntary engagement focuses on three areas where we position ourselves on the basis of our business model, our challenges, or our self-image and where we aim to promote sustainable development: social welfare and traffic safety, education and science, and sport.

## Employees

Our success is based on our employees' commitment and expertise and our values-based corporate culture. Gaining, developing and retaining the best employees is the central task of our HR management.

### Different markets and products mean different requirements for HR management

Continental operates in a global environment with dynamic markets featuring different rates of development. Established markets and growth markets place different requirements on the company, HR management and in particular the employees.

In the growth markets, it is a question of finding suitable candidates and retaining talented young employees. Due to demographic change, it is however necessary to hire new employees in established markets as well, such as our home market Germany or in Western Europe, in order to ensure the availability of suitable successors.

Over the years, purely production locations are developing into research and development locations. At the same time, our product range is becoming broader and deeper. The increasingly far-reaching vehicle networking, for example in the field of automated driving, requires software engineers in particular. In addition, HR management also focuses on helping our employees maintain a high level of performance and creating age-neutral, competitive jobs.

### Dimensions of the HR strategy: People and culture

We pick up on the wide variety of influencing factors, requirements and trends centrally in the HR strategy, using it to derive strategic dimensions, measures and programs that apply throughout the corporation. These are adapted and applied on a decentralized basis in line with the requirements in the individual markets and divisions.

Our HR strategy consistently follows the corporate strategy. "Our People. Our Culture. Our Signature" – this is the guiding principle of our HR management. Two dimensions are derived from this: people and culture.

The people dimension comprises specific initiatives for long-term HR planning, talent management and employee training and further education. The culture dimension focuses on diversity management, developing the corporate culture and values, making working conditions more flexible and individual, and the relationship between employees and employer.

**Continental as an attractive and innovative employer**

In many of our core markets, Continental is among the most attractive employers for engineers. Continental also enjoys an ever better reputation among economists. In the year under review, we improved our position in many employer rankings. For example, in Romania we achieved the top spot for the first time (Trendence Study), while in Germany we moved up from 27th place to 11th place (Universum Top 100 – Germany's Most Attractive Employers).

Strengthening our employer branding is a central element of our HR strategy that we use to gain access to talented employees in our core markets. In 2013 we carried out several international measures to raise Continental's profile even further on the graduate recruitment market. These measures included a job shadowing program in which we gave 30 students each in Germany and China an exclusive insight into the day-to-day work of 15 managers, and the IAA Career Week. At this event, which was held in conjunction with the International Motor Show (IAA) in Frankfurt, three Executive Board members gave presentations on topics such as values and communication, training and team sports, and diversity.

In collaboration with schools and universities, we promote interest in the MINT subjects (mathematics, IT, natural sciences and technology). In Germany alone, we support over 150 local "MINT associations", some of which we initiated ourselves.

We are also investing in the global introduction of a new recruitment system to establish uniform global processes, continuously increase user friendliness and enable us to analyze detailed results. The system was launched as a pilot project in the U.S.A., Canada, and Romania in 2013. It is to be rolled out gradually in other countries as well.

**Developing employees – from trainee to manager**

Employee development is aimed at all levels – starting from career training through to further development of top management. The aim is to contribute to the successful professional and personal development of the employees.

We are currently training 2,025 (PY: 1,987) young people in Germany in around 20 different technical and commercial professions. In this context, we also offer high-school graduates the opportunity to combine theory and practice in 17 work-study programs. Throughout Germany, all trainees and work-study students have been entitled since January 1, 2013, to permanent employment contracts with Continental once they have successfully completed their training and study programs.

In the production areas, there are individual career entry and development opportunities for employees and career changers with different qualification levels.

At some of our locations in Germany, we give persons with a secondary school certificate or without a school-leaving certificate opportunities to start a career with a "career entry qualification year". For employees without specific professional qualifications, we provide the opportunity for career entry by means of modular partial qualifications, for example for machine operation in tire plants. Specialist staff can also undertake further training in different profiles and fields of work, such as purchasing, logistics or production. In addition, there are established paths of development for training as a technician or shop foreman. The measures described above are used to create new opportunities for all employee groups, who are supported and assisted by the company with certified training measures.

To prepare them for their role as manager, new shift supervisors and shop foremen in production areas attend programs such as "Fit for Management", and participate in various other training courses. Alongside this, many plants also offer training programs on different topics – from foreign languages to lean management training.

Dialogue and networking are also promoted at an international level. For example, employees in the production areas of new tire plants are trained at established plants in other countries so as to prepare them for the requirements of their job on an individual basis.

| Structure of the workforce | Dec. 31, 2013 | Dec. 31, 2012 |
|---|---|---|
| Total number of employees | 177,762 | 169,639 |
| thereof permanent staff | 166,302 | 158,971 |
| outside Germany | 118,873 | 112,488 |
| in Germany | 47,429 | 46,483 |
| Trainees[1] | 2,025 | 1,987 |
| Female employees in % | 27.6 | 28.7 |
| Average years of service to the company[1] | 14.7 | 14.6 |
| Average age of employees[1] in years | 43.0 | 42.1 |

*1 In Germany.*

In the administrative areas, new employees with a university degree take part in the "Corporate Entry Program", where they are introduced to the company, form networks at an early stage and learn organizational skills. At national or regional level, junior managers undertake successful programs as part of the Leadership Entry Program and the International Management Program that prepare them to solve complex problems and strengthen their management skills. Managers at a global level are equipped with additional leadership skills in the Corporate Executive Development Program. New senior executives are offered a customized development program in the form of the New Senior Executive Workshops.

**Remuneration and provision for retirement**

In addition to basic remuneration, our remuneration system reflects the particular responsibility and performance with which each employee contributes to the company's success. Variable remuneration components are becoming increasingly important in this context:

- Each year the middle and top management throughout the corporation share in the company's profits, which influence the amount of the variable remuneration. The basis for this is the business unit's key financial figures CVC and ROCE. In addition, variable remuneration is also influenced by individual achievement of operational and strategic targets that are defined by mutual agreement in a target agreement process. The variable remuneration share of the total remuneration grows as the degree of management responsibility increases.

- As part of group work, industrial employees receive additional remuneration if they achieve particular targets. Criteria for this may include, for example, reducing waste or downtime or improving quality.

- For employees who do not form part of the top management, there is an annual global value sharing program. Value sharing is linked to the absolute Continental Value Contribution (CVC) for the fiscal year. The amount paid out in the year under review came to approximately €100 million.

We also take account of the demographic structural changes with our pension plans. The focus here is on the shift from defined benefit to defined contribution plans, giving employees and companies long-term transparency and planning reliability. In addition, the company promotes private contributions by employees to their pension plans by means of corporate subsidies and deferred compensation programs. The parties to the collective agreements in the chemical industry and the metal industry have agreed to pay former capital accumulation benefits for a specific purpose as pension benefits only. We therefore anticipate a further rise in participation rates.

**Four values as basis for corporate culture**

Our four values are pivotal for all employees: Trust, Passion To Win, Freedom To Act, and For One Another. Mutual trust, the courage and freedom to act on one's own authority, always giving one's best in a fair manner, and all pulling together are the basis of our corporate culture. This provides the framework for how we work together, interact with each another, put leadership into practice and solve conflicts in our organization. We are convinced that our employees' involvement and participation on the basis of our shared values is crucial to our success.

The corporate values and the behavior derived from them were described in the two series of workshops – "Value Based Leadership" for managers and "Our Basics" for all employees – and put into practice throughout the company. Our values are also integrated in our BIG SIX skills model. The BIG SIX skills form part of our employee development programs and evaluation tools. In the previous year, we already integrated the values into the 360° feedback (BIG SIX Radar), which contributes to the development of our managers. Supervisors, colleagues, internal customers and employees give feedback on the managers' leadership and conduct. In this way, we have created a uniform benchmark for value-based action and leadership at Continental.

**Diversity: Focus on two topics**

The Continental team is made up of people with different backgrounds, cultures, religions, genders and ages. This diversity of different mindsets and points of view, skills and experience makes us strong.

To promote diversity within the company, we focus on two key areas: a balanced mix of men and women, and internationality.

Throughout the corporation, 9% of management positions are currently held by women, and we intend to increase this proportion to 16% by 2020. Around two thirds of the management are currently employees with a German background, while roughly 70% of our employees work outside Germany.

As a global corporation, we want to and we must understand local conditions. The development of diversity issues varies in our different markets. In China, for example, as many as 16% of management positions are held by women, whereas the share of local managers can still be increased. In growth markets in particular, it is important to develop local managers and ensure that talented local employees are given the opportunity to build a career in the corporation. International exchange between managers plays an important role in this context. All in all, we want to expand the international composition of our workforce in line with the requirements and needs of the markets in which we operate.

**Many ideas for many specific improvements**
Our corporate culture also provides a framework for the many ideas that are put forward by our employees each year. Suggestions for improvements are made not only with regard to cost savings, but also for the further development of our corporate culture and our values. They also lead to optimization of processes and quality and bring about improvements with regard to the environment and occupational health and safety.

In the year under review, more than 500,000 ideas were submitted worldwide, of which around 85% were rewarded and successfully put into effect, leading to savings of more than €160 million.

**We promote health and safety**
Promoting the health and safety of our employees is part of our corporate culture. The focus here is on maintaining both physical and mental fitness.

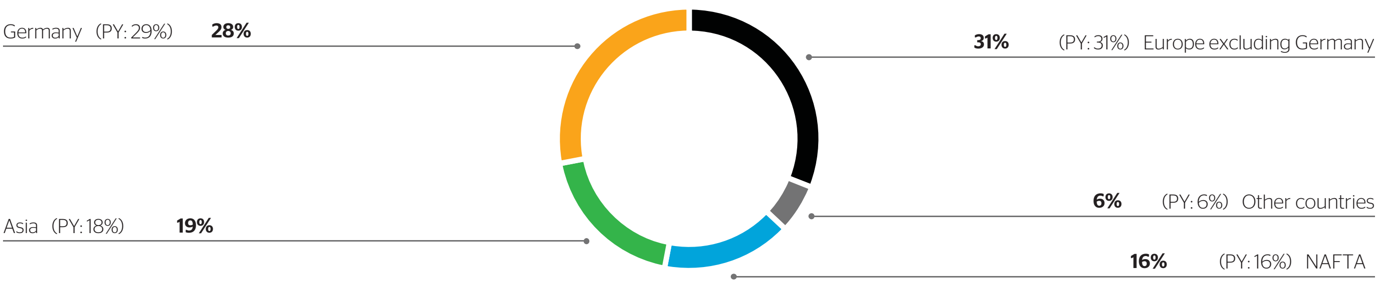
In the year under review, we rolled out programs in other countries, including the "Healthy Leadership" program for spreading health awareness in management and "Stress Control" for strengthening employees' ability to deal with stress. With the "Employee Assistance Program", which is implemented by an external service provider, we offer our employees support in the event of professional or private problems while guaranteeing their anonymity.

We are gradually adapting our jobs in production areas to make them age-neutral. This means, for example, that 15% of working time can be spent sitting down. At present, 32% of jobs already fulfill this criterion. By 2020, half of all jobs at German production locations are to be age-neutral. All new workplaces are designed in line with our internal process optimization system CBS (Continental Business System) and the latest ergonomic standards. The aim is to create healthy workplaces and safety at work. The steady decline in absence from work and in the number of accidents among our employees shows that we are on the right track.

**"HR Excellence" – program for improving HR management**
To better meet the requirements of a global, diverse workforce, we initiated HR Excellence, a project to realign our HR role, in the year under review. The project focuses on harmonization, a stronger global orientation of our HR processes and, based on this, a reallocation of roles and responsibilities in our global network of more than 2,000 HR staff members.

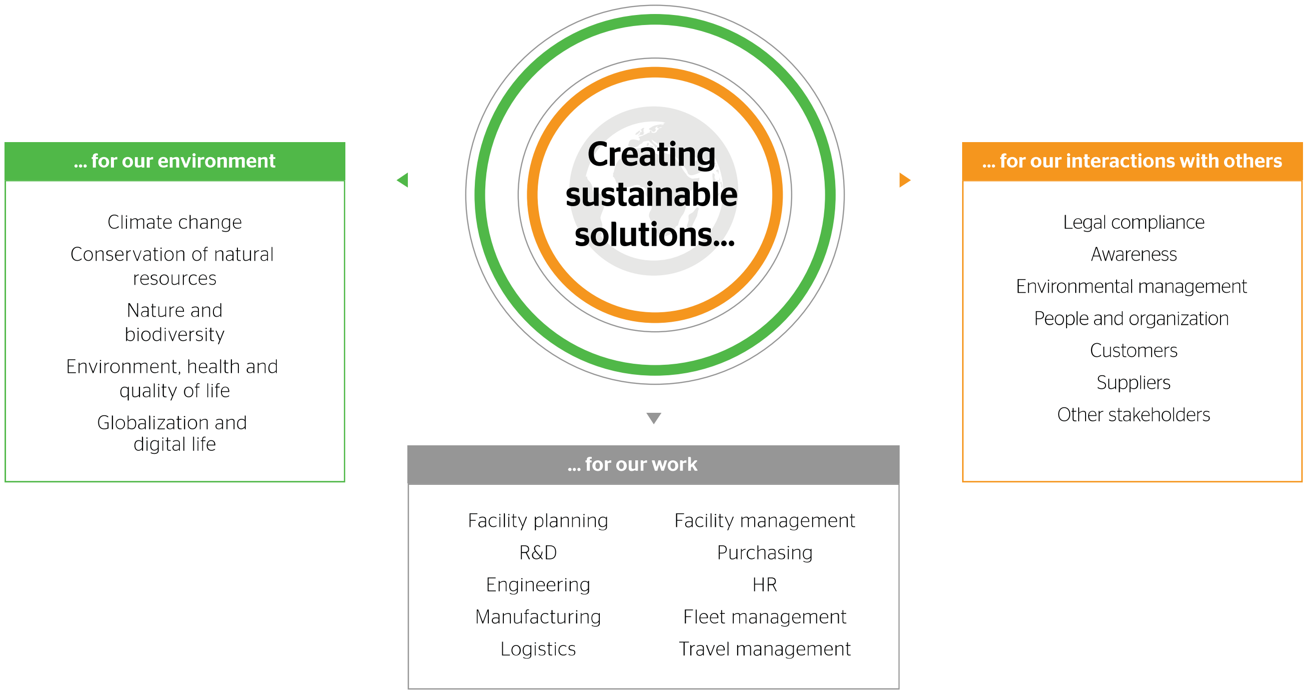
The aim of HR Excellence is to increase the efficiency, effectiveness and quality of HR work. We want to make our processes more efficient so that we can place an even stronger focus on strategic issues and challenges. In line with this, the project consists of four strands: HR processes, HR organization, HR shared services, and HR IT systems. In the year under review, the key aspects for the future alignment of the HR role were defined based upon a comprehensive analysis and detailed plans were approved for implementation in the coming year. To promote future talent in HR, an HR graduate program was also developed. Starting in 2014, this program will be used for the targeted recruitment of university graduates for the HR department and their development within the company.

**Employees by region**



## Environment

**Key elements of our environmental strategy**




Creating Sustainable Solutions – environmental protection at Continental.

**Efficient and effective organization and processes for environmental and energy management**

In the year under review, we further refined our environmental management, resulting in an environmental strategy coordinated with Continental's overall strategy. This was adopted in fall 2013 and its global rollout started at the beginning of 2014.

The environmental strategy is geared towards the global environmental megatrends that are most important to Continental. It serves firstly to mitigate negative influences such as climate change and shortage of resources and secondly to identify opportunities and competitive advantages. We achieve this by means of efficiency improvements based on innovative and sustainable solutions for products and processes.

Each strategic dimension has been allocated packages of measures that are key to the successful implementation of the strategy. Action plans for the different requirements in the Automotive Group and the Rubber Group round off the environmental strategy.

The strategy is being implemented in the organization via short, direct paths, using established processes in our environmental and energy management. The direct reporting line from the chairman of the Executive Board via the central functions Corporate Quality & Environment and Corporate Environmental Protection through to the divisions and locations ensures direct communication. At the same time, this creates the scope to respond to the varying requirements of our business areas.

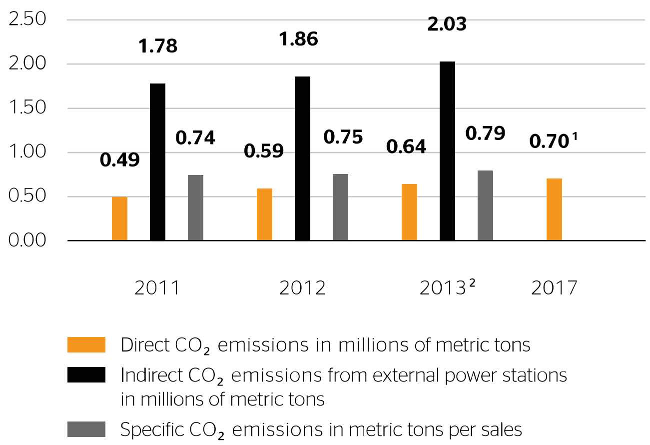
Continental – Creating Sustainable Solutions. With this vision, our company commits itself to sustainable business.

**Key figures on environmental protection**

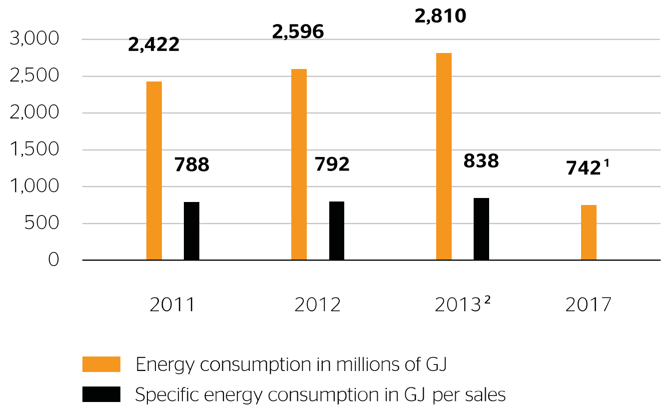
Our goal is to minimize consumption of resources and continuously reduce environmental impact in the areas of energy and water consumption, $CO_2$ emissions, and waste. We also intend to recycle unavoidable waste to a greater extent.

**Environmental key performance indicators**

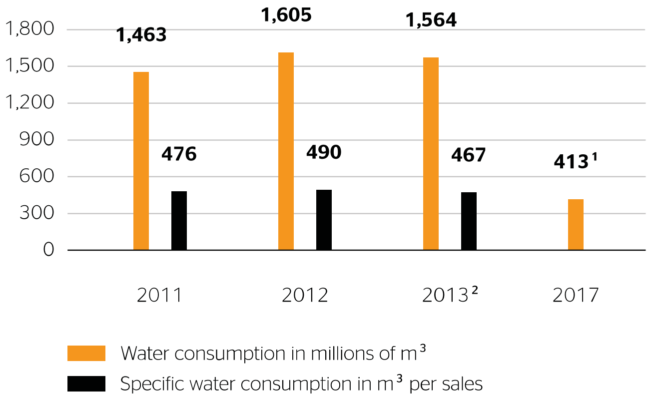
**$CO_2$ emissions**



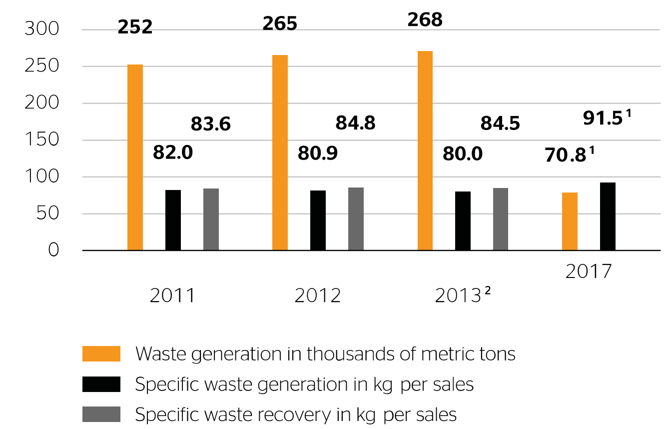

**Energy consumption**




**Water consumption**




**Waste generation and recovery**




*1 Continental's environmental targets.*
*2 Preliminary values.*

We took the experience gained internally over the past years and confirmed by independent audits as an opportunity to modify the data collection method. The current resource consumption and emissions figures and those targeted for 2015 no longer relate to the weight of the finished products, but instead are expressed in relation to sales generated. The new method establishes a better connection between environmental impact and the associated value added. This increases the informative value of the key environmental figures collected and opens up more effective management opportunities for sustainably increasing the enterprise value.

Target achievement is reviewed in our plants by means of regular internal and external audits based on the international standard ISO 14001. The audits are used to identify best practices while also serving as the basis for the transfer of expertise within the corporation. This enables us to reduce the negative impact on the environment step by step in line with our environmental strategy.

In the year under review, we succeeded in further increasing the number of certified locations.

| | |
|---|---|
| **Automotive Group** | |
| Locations[1] | 104 |
| thereof certified to ISO 14001 | 88 (84.6%) |
| **Rubber Group** | |
| Locations[1] | 92 |
| thereof certified to ISO 14001 | 67 (72.8%) |

*1 Main production locations.*

**Managing the environmental impact of our products using life cycle assessments**

We use life cycle assessments (LCA) to determine the environmental impact of products that represent significant vehicle components and contribute to better environmental sustainability of vehicles. These life cycle assessments are an important planning and management tool for us in reducing environmental impact:

- We obtain environmental information on products, develop indicators for assessing environmental characteristics, and identify opportunities for improvement throughout the entire product life cycle. Life cycle assessments thus provide us with valuable impetus for product development, collaboration with suppliers, our manufacturing processes, understanding customers' needs, and optimizing the recycling of used products.
- We obtain information for engaging in dialogue with decision-makers in industry, government authorities, and non-governmental organizations.
- We raise environmental awareness among our employees.

**Product responsibility in the Rubber Group**

Continental is a member of the WBCSD (World Business Council for Sustainable Development), a federation of international companies that deal with the issue of "business and sustainable development". Under the aegis of the WBCSD, the Tire Industry Project (TIP) – an initiative involving eleven tire manufacturers that together account for around 70% of global production capacity – has been in place since 2006. The TIP is financed by the manufacturers and its implementation is supported by consultants and monitored by independent scientists so as to ensure neutral, balanced findings.

The project deals in depth with potential health and environmental risks in connection with the manufacture and use of tires. This includes assessing the health and environmental compatibility of the raw materials, the effects of tire and road wear particles in the utilization phase, and the management of used tires. In addition to important basic research in laboratories around the world, the sub-project on tire and road wear particles that was completed in the year under review also comprises extensive studies in urban centers such as Paris, Osaka and Washington D.C. The key findings of these studies are as follows:

- Tire wear particles always occur in conjunction with road wear particles and road dust.
- The portion of tire wear particles and road wear particles accounts for less than 1 µg/m³ of total $PM_{10}$ particulate matter (i.e. < 10 µm) from transport-related emissions. The corresponding concentration limit for air in the EU, for example, is 50 µg/m³ (low emission zone).
- Laboratory-based inhalation studies of tire wear particles did not identify any effects on health, even at concentrations of more than 100 µg/m³.

Other issues currently addressed as part of the TIP include:

- Extending the tire wear particle study to include ultrafine particles ($PM_{2.5}$), which are increasingly becoming a focus of public attention.
- The use of nanomaterials under the aspects of ecological and social benefits of the product, and safe handling in production.
- Examining the potential impact on human health and the environment of raw materials that are indispensable to the tire industry.

The TIP is being continued as a successful industry initiative and thus takes account of the sustainable business approach.

Recycling of used tires is another focus of attention in connection with the environmental impact of tires. As a founding member of the European Tyre & Rubber Manufacturers' Association (ETRMA), established in 2001, Continental actively participates in the public debate on this topic and has shown commitment to driving forward improvements in this area.

Some 3.4 million metric tons of used tires are discarded by Europeans every year (an estimated 9 million metric tons worldwide, and around 0.6 million metric tons in Germany). Recycling of these tires is subject to various different regulations: in market-based systems (primarily Germany, Austria, Switzerland and the U.K.), in tax-based systems (Denmark, Slovenia), and in systems based on an obligation for manufacturers to take back used tires (other countries).

In 1996 the recycling rate in the European markets was still only around 50%. The expansion of recycling and disposal systems since then has led to a current recycling rate ranging from 96% to, in some cases, 100%.

**ContiLifeCycle sets new benchmarks**

In the year under review, we opened our ContiLifeCycle plant in Hanover-Stöcken. This globally unique plant takes on a pioneering role with its integrated approach for hot and cold retreading of truck and bus tires and a specially developed rubber recycling facility. The technology developed by Continental was promoted by the environmental innovation program of the German Federal Ministry for the Environment.

The ContiLifeCycle plant serves as a nucleus for our LifeCycle activities around the world. Our team from Research & Development, Production Management, Engineering and Quality Management in Hanover-Stöcken develops and improves solutions for the other LifeCycle centers in Petaling Jaya, Malaysia; Cuenca, Ecuador; and Morelia, Mexico.

As part of the ContiLifeCycle plant, a recycling process for the buffing dust produced during retreading has also been developed. This process devulcanizes the vulcanized buffing dust. The ensuing recycled rubber is of such high quality that it can be used for new tire compounds without hesitation. The buffing dust produced in the ContiLifeCycle plant is fully processed in the adjoining recycling facility. This reduces the volume of waste by more than 80%, while also generating significant $CO_2$ savings.

**Contribution to climate protection and conservation of resources by the Automotive Group**

Environmental protection is an integral part of our development processes, so that our products can make an effective contribution to reducing harmful vehicle emissions.

The products listed below represent a small section of the product portfolio and contribute significantly to ensuring that the strictest emission standards are now achieved and less and less $CO_2$ is emitted when driving:

- Piezo and solenoid injection technologies
- Turbochargers
- Hybrid and electric systems
- Drive assemblies for electric vehicles without rare earths
- Exhaust gas aftertreatment solutions
- Engine control systems
- Tire pressure monitoring systems
- Lightweight components.

The systematic development and enhancement of our products are key success factors for our company and for active environmental protection.

**Added value from environmental protection**

More than 20 years ago, Continental introduced a global environmental management system that aims to minimize consumption of resources and reduce environmental impact on an ongoing basis. Whereas environmental issues at that time primarily related to product manufacturing and production sites, our activities now extend much further, in line with the company's development.

We pick up on the global megatrends when optimizing our products and their production from an environmental perspective. Energy efficiency, careful use of resources and avoidance of waste are not just important selling points; they also have a positive impact on our cost structure and improve our competitive position. If we don't take environmental protection seriously today, we will pay the price for this tomorrow. And last but not least, environmental protection forms part of our mission: "With our technologies, systems and service solutions, we make mobility and transport more sustainable, safer, more comfortable, more individual and affordable."

## Social responsibility

Continental has a decentralized organization with strong local responsibility. This applies not only to the business units, but also to the social commitment of the corporation and its branches, as well as that displayed in private initiatives founded and supported by committed company employees. As far as possible, charitable projects, donations, and other activities are therefore initiated and supervised at the discretion of the decentralized units. Exceptions to this include national projects and challenges and our committed response to international disasters, where the corporation as a whole evidences its corporate social responsibility.

In the following, we give a few examples of the social commitment of the company and our employees in the areas of social welfare and traffic safety, education and science, and sports.

**Commitment to social welfare and traffic safety**
A campaign for more safety for children was launched back in 2008: the web-based "SchulwegPlaner" (a planner for choosing the safest way to school). Approximately 1,000 schools have got involved to date. For years, elementary schools in Germany have prepared a school route plan for children starting school. In the past, this often consisted of a copy of the city map with the route drawn on it in felt-tip pen. By contrast, the web-based "SchulwegPlaner" systematically gathers information on sidewalks, pedestrian crossings, traffic lights, and accident black spots – enabling users to plan a safe route to and from school in detail. Before a map can be made available for general use in the public domain of "SchulwegPlaner", the schools must check and approve it. The schools are requested to have all maps verified by the local authorities as well – in particular by the police. Only then can they be accessed and printed out by all Internet users.

The project "My neighborhood, the heart of Cuenca" is one of the initiatives supported by Continental Tire Andina S.A. in Cuenca, Ecuador. The purpose of the project is to improve the quality of life for the inhabitants of Cuenca by, for instance, creating playgrounds, parks and gardens. To date, ten city parks have been opened as part of the initiative.

**Commitment to education and science**
For over ten years, Continental Tyre South Africa, Port Elizabeth, South Africa, has promoted participation of its employees in the national basic education program ABET (Adult Basic Education and Training). This qualification-oriented program aims to teach adults basic learning skills, knowledge, and competence – in reading, writing, mathematics, economics, agriculture, health care, art, and culture.

In Brazil, we support the Uerê education project (Children of Light) for children and young people aged 4 to 18 from the slum district of Baixa do Sapateiro in Rio de Janeiro. We are an official sponsor of the 2014 FIFA World Cup in Brazil. As such, in the run-up to and aftermath of the World Cup, we would like to use the media attention surrounding this most popular global sporting event to raise the international profile of the successful methods used by the remarkable Uerê education project. We not only want to help the Uerê children with our financial support and involvement in the e-learning module, but also make other organizations aware of this exemplary approach because we are convinced that it could also help raise the prospects of many other disadvantaged children in other major cities. The Uerê-Mello concept is tailored quite specifically to the abilities and needs of the children. For example, interactive learning modules with a duration of 20 minutes are offered almost exclusively so that children who suffer from learning blockages as the result of some lasting trauma can also take in the content. Until the end of 2015, Continental is also funding teaching staff and equipment for a football project in which the Uerê children are given the opportunity to play football safely and under supervision in the immediate vicinity of the education project.

**Commitment to sport**
Sport creates new networks that help to transcend hierarchies and overcome barriers. That is why we undertake a wide range of activities in this field that connects people all around the world.

With the final game of the "World Football Championship of Children from Care Homes" in Warsaw, Poland, at the end of June 2013, an exciting international competition for orphaned football fans came to a close. Since as far back as 2011, Continental has been the main sponsor of the football championships for the non-profit organization "Hope for the World Cup", founded in 2010. The goal is to use team sport to nurture the children's self-confidence and to encourage them not to lose sight of their plans and dreams for the future. Sport among kindred spirits from around the world is intended to pave the way to an easier start in adult life.

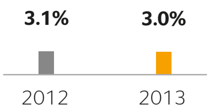
As a performance-oriented company, Continental also deliberately promotes top-class sport, since without professional foundations, clubs and teams cannot become permanently established in the top leagues. We set up the "Pro Sport Hannover" initiative so that even more sportsmen and women in the Hanover region can achieve this in the future. The focus is on the professional exchange between sport, business, and politics, as well as the motto "learning from the best". Each calendar year, support is given to four projects in which the athletes/teams have either already given an outstanding performance or are on their way to doing so. The projects include individual sports, team sports, and sports for disabled people.

# Economic Report

## Economic development in selected regions

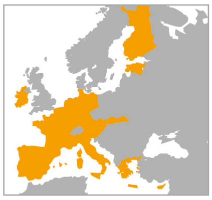
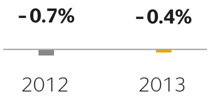
**Year-on-year economic growth (GDP) in 2013** | **Key aspects of the economic development**

### WORLD

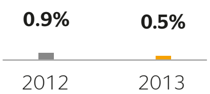

- **Ongoing consolidation processes particularly in public budgets and the banking sector curb growth of advanced economies (+1.3%):** The consolidation process in the eurozone was continued, while in the U.S.A. budget cuts curbed growth. There was a slight recovery in the second half of the year, partly due to the highly expansive monetary policy.
- **Slower growth in emerging and developing economies (+4.7%):** Following weak growth in the first half of the year, mainly due to exports, the national economies mostly grew somewhat faster in the second half. With the exception of China, the development of domestic demand was generally modest.

### EUROZONE

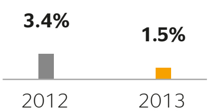

- **Recession in first half of year, growth in second half:** Consolidation processes led to declines in GDP in the first half of the year. Some countries – particularly Germany and France – generated positive growth rates again in the second half.
- **High unemployment:** Unemployment in the eurozone remained at a high level, especially in Southern European countries, and weakened domestic demand.
- **Significant decrease in uncertainty regarding the euro:** The debt problems are slowly diminishing as a result of rising tax revenue; some individual countries were able to leave the bailout funds. Confidence in the euro was strengthened again.
- **Credit supply still problematic in many countries:** The supply of credit to medium-sized companies is considerably restricted in some countries, particularly as a result of consolidation processes in the banking sector.
- **Expansive monetary policy of the European Central Bank (ECB):** To stimulate the economy, the ECB lowered its key interest rate to a historic low of 0.25% and indicated that it would retain low interest rates for an "extended period".

### GERMANY

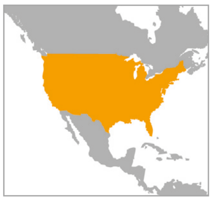

- **Negative external impetus:** The continuing recession in some member states of the eurozone had a negative impact on Germany's economic development. In particular, the weak development of exports curbed growth in 2013.
- **Private consumer spending increases:** Economic growth impetus mainly originated from the domestic economy.
- **Further decrease in inflation rate:** The inflation rate fell to 1.5% in 2013 (PY: 2.0%), primarily due to lower fuel and heating oil costs.
- **Corporate investment increases towards end of year:** The diminishing uncertainty in the eurozone stabilized the level of corporate investment, which also contributed to growth again towards the end of the year.
- **Labor market in good condition:** There was a higher level of employment, with a slight rise in the number of jobless persons. The unemployment rate was 6.7% in December 2013.

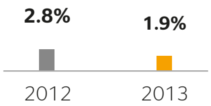
### RUSSIA


- **Considerably lower growth than expected:** The continued high level of dependence on oil and gas exports and the decrease in market prices for both raw materials over the course of the year contributed to the low growth rate of the GDP of 1.5% in 2013 (forecast from January 2013: 3.7%).
- **Decline in current account balance:** As a result of lower exports, the current account surplus fell from 3.7% of GDP in the previous year to 2.9%.
- **Low unemployment:** Despite the low GDP growth, the unemployment rate remained low at 5.7% (PY: 6.0%).
- **Increase in inflation:** The inflation rate rose to 6.7% in 2013 (PY: 5.1%) due to the substantial depreciation of the ruble over the course of 2013.

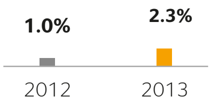
**U.S.A.**





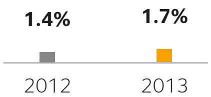

- **Budget cuts due to looming fiscal cliff:** The long-lasting budget dispute led to automatic budget cuts, which had a negative impact on GDP growth.
- **Continued weak growth in consumer spending:** Increases in taxes and duties, partly as a result of the budget dispute, curbed consumer spending.
- **Significant increase in level of investment:** The historically low interest rate level and increased competitiveness, as a result of a moderate wage policy and lower energy prices from domestic energy production, led to a significant increase in corporate investment.
- **Highly expansive monetary policy of the U.S. Federal Reserve (Fed):** To support the economy, the Fed retained its key interest rate corridor of 0% to 0.25% and continued its bond purchases of U.S. $85 billion per month until December 2013.

**BRAZIL**



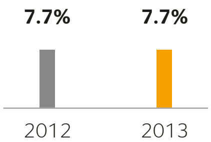

- **Growth remains at low level:** As a result of government intervention, the Brazilian economy again grew faster than in the previous year, but growth fell short of expectations.
- **Inflation still at high level:** The inflation rate was 5.9% in 2013 (PY: 5.8%). The high inflation rates reduced real income and therefore weakened consumer spending.
- **Further increase in interest rate level:** To counter the rising inflation rate, the central bank gradually raised its key interest rate from 7.25% to 10.0% in December 2013.
- **Low unemployment:** The unemployment rate was unchanged at just under 6%.

**JAPAN**



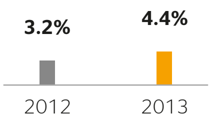

- **"Abenomics" initially led to growth:** In the first half of 2013, central bank measures and the government's economic stimulus programs (Abenomics) initially led to strong growth; however, the momentum declined considerably over the remainder of the year.
- **Depreciation of the yen:** Quantitative and qualitative monetary easing resulted in significant depreciation of the yen in relation to the euro and the U.S. dollar, strengthening the Japanese export economy.

**CHINA**




- **Growth at previous year's level:** Growth in China remained at the previous year's level in 2013. After a weaker first half of the year, it increased again in the second half.
- **Domestic demand and government investments as drivers of growth:** Through targeted promotion of domestic demand and government investments, the targets from the 5-year plan for 2013 (7.5% GDP growth) were fulfilled. However, the debt levels of municipalities, cities and provinces increased further.
- **Consistently low inflation:** As in the previous year, inflation remained at a low rate of 2.6%.
- **Stable key interest rate:** The central bank kept the key interest rate at 6.0% in 2013.

**INDIA**




- **Growth continues to fall short of expectations:** The Indian economy grew faster than in the previous year again in 2013, but still fell short of the IMF's expectations of 5.9% from January 2013.
- **Increased exports and positive weather effects:** Increased growth in exports and a favorable monsoon season facilitated growth in 2013.
- **Risks arise from consistently high inflation:** At 11%, the rise in consumer prices in 2013 was up slightly again compared to the previous year's level (10.4%). The continuing withdrawal of foreign capital gave rise to additional challenges for India.

*Sources: IMF – World Economic Outlook 12/2013 und Update 1/2014, World Bank – Global Economic Prospects 1/2014, Central banks 12/2013 und 1/2014, Federal Statistical Office 1/2014, IMF – Regional Economic Outlook Asia 10/2013, IMF – Economic Health Check Russia 10/2013, Destatis 2014, own estimates.*

## Macroeconomic development

With growth of 3.0% in 2013, the global economy grew at roughly the same rate as in 2012. Global trade also increased to a similar degree in the year under review, growing by 2.7%. The global economic growth rate thus fell substantially short of the 3.5% rate forecast by the International Monetary Fund (IMF) in January 2013. After a weaker first half of the year, global economic growth picked up in the second half of 2013. Advanced economies in particular grew more strongly again in the second half of the year. There was positive impetus from the U.S.A. in particular, where the fiscal tensions resulting from the abating budget dispute eased while the central bank retained its highly expansive monetary policy. In addition, the conditions for investment improved considerably over the course of the year thanks to a moderate wage policy and decreasing energy prices. The eurozone succeeded in emerging from the recession. Growth rates were positive again in the second half of 2013 and the debt problems were reduced thanks to the ECB's much more expansive monetary policy. This had a positive impact on foreign investors' confidence in the eurozone.

Economic activity in emerging and developing economies as well did not increase more strongly again until the second half of the year. This increase was chiefly attributable to an upturn in exports. China also posted increased domestic demand, which generally developed moderately in other countries.

Unemployment remained at a comparatively high level in many major industrialized nations in 2013, resulting in a stable wage policy. Owing to the relatively low cost pressure and intense competition, prices remained low. The average inflation rate in advanced economies was just 1.4%. By comparison, the average inflation rate in emerging and developing economies was almost four times as high at 5.3%, although this was lower than its level in the previous year.

The information on the economic development reflects the current knowledge at the time the consolidated financial statements were prepared and is based on the quoted sources and published economic data.

## Development of key customer sectors

For Continental, global business with the manufacturers of passenger and commercial vehicles is the most important market segment, accounting for roughly 72% of revenues. The second-biggest market is global replacement tire business for passenger and commercial vehicles.

Continental's most important sales region is still Europe, which accounts for 54% of sales, followed by NAFTA with 22%. The share of sales generated by the corporation in Asia increased again in 2013 to reach 19% of total sales.

### Vehicle markets

A key factor for our original equipment sales with automotive manufacturers is global production of passenger cars, station wagons and light commercial vehicles with a total weight of less than 6 tons.

### Development of new car registrations

Growth in global demand for vehicles continued in the year under review. Based on preliminary data from the German Association of the Automotive Industry (Verband der Automobilindustrie – VDA), China posted the greatest increase in demand of 3.1 million units (23%) to 16.3 million units, causing it to rise to the position of the world's largest passenger car market in 2013. Vehicle sales in the U.S.A. climbed by 8% year-on-year to 15.5 million units as a result of the economic recovery. In Japan, vehicle sales remained stable in comparison to the previous year.

The recession in many European countries led to modest demand for passenger cars at the beginning of the year under review, which increasingly stabilized as the year progressed.

**New registrations/sales of passenger cars**

| **in millions of units** | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | **2013 Total** | Δ Prior Year |
|---|---|---|---|---|---|---|
| Europe (EU27+EFTA) | 3.1 | 3.3 | 2.9 | 3.0 | **12.3** | –2% |
| Japan | 1.3 | 1.0 | 1.2 | 1.1 | **4.6** | 0% |
| U.S.A. | 3.7 | 4.1 | 3.9 | 3.8 | **15.5** | 8% |
| Brazil | 0.8 | 0.9 | 0.9 | 1.0 | **3.6** | –1% |
| Russia | 0.6 | 0.7 | 0.7 | 0.8 | **2.8** | –5% |
| India | 0.7 | 0.6 | 0.6 | 0.7 | **2.6** | –7% |
| China | 3.9 | 3.8 | 3.9 | 4.7 | **16.3** | 23% |
| **Worldwide** | **20.2** | **21.0** | **20.5** | **20.7** | **82.4** | **4%** |

*Source: VDA (countries/regions) and Renault (worldwide).*

**Production of light vehicles[1]**

| in millions of units | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Europe[2] | 19.3 | 19.3 | 20.2 | 19.0 | 16.5 |
| NAFTA | 16.2 | 15.4 | 13.1 | 11.9 | 8.6 |
| South America | 4.5 | 4.3 | 4.3 | 4.2 | 3.7 |
| Asia | 42.3 | 40.6 | 36.8 | 36.9 | 28.7 |
| Other markets | 1.7 | 1.9 | 2.5 | 2.4 | 2.0 |
| **Worldwide** | **84.0** | **81.5** | **76.9** | **74.4** | **59.5** |

*Source: IHS, preliminary figures and own estimates.*
*1 Passenger cars, station wagons, and light commercial vehicles (<6t).*
*2 Western, Central and Eastern Europe, including Russia and Turkey.*

After a drop in new registrations of 10% year-on-year in the first quarter of 2013 – partly due to there being fewer working days – the decline slowed to 4% in the second quarter. The third quarter of 2013 achieved an increase of 3% in new registrations compared to the previous year and the fourth quarter a rise of 6%.

In total, new car registrations in Europe (EU27+EFTA) declined by 2% year-on-year to 12.3 million units in 2013. Among the major sales markets, the U.K. and Spain posted increases of 11% and 3% respectively, whereas declines in new registrations were recorded in Germany (-4%), France (-6%) and Italy (-7%).

In contrast to China, demand for vehicles in the other BRIC countries Brazil, Russia and India declined in 2013: While unit sales of passenger cars recorded only a slight decrease of 1% in Brazil, they fell by 5% in Russia and by 7% in India.

Worldwide, the number of new vehicle registrations in 2013 rose above 80 million for the first time, amounting to 82.4 million units on the basis of preliminary figures. However, the pace of growth slowed from 6% in the previous year to 4%. Not including China, the increase would have amounted to only 0.1%.

**Development of light vehicle production**
The global rise in demand for passenger cars, station wagons and light commercial vehicles also brought about an increase in global vehicle production of around 3% to 84 million units in 2013 on the basis of preliminary figures and estimates. A breakdown by country and region shows a similar development as for new registrations.

The highest increase in production of 1.7 million units (4% year-on-year) was recorded by Asia. Declining volumes in Japan, India and South Korea totaling approximately 0.6 million units were more than offset by growth in production of over 2 million units in China. NAFTA, particularly the U.S.A., posted the second-highest growth with a 5% rise in production to 16.2 million units.

By contrast, light vehicle production in Europe presented a mixed picture in the year under review: While many countries reported lower production figures, manufacturers in the U.K. and Spain increased their production volume. Germany benefited from increased exports in 2013, particularly as a result of the strong rise in demand in China and the U.S.A., causing light vehicle production to grow by 1% despite a decline in domestic demand.

**Production of heavy vehicles[1]**

| in thousands of units | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Europe[2] | 580 | 581 | 632 | 494 | 323 |
| NAFTA | 477 | 487 | 452 | 311 | 265 |
| South America | 256 | 183 | 279 | 247 | 165 |
| Asia | 1,928 | 1,832 | 2,004 | 2,171 | 1,483 |
| Other markets | 3 | 3 | 3 | 3 | 2 |
| **Worldwide** | **3,244** | **3,086** | **3,370** | **3,226** | **2,238** |

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

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

| in millions of units | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Europe[1] | 312 | 312 | 343 | 323 | 291 |
| NAFTA | 264 | 254 | 258 | 262 | 247 |
| South America | 63 | 59 | 58 | 55 | 48 |
| Asia | 294 | 277 | 266 | 246 | 216 |
| Other markets | 112 | 107 | 102 | 97 | 90 |
| **Worldwide** | **1,045** | **1,009** | **1,027** | **983** | **892** |

*Source: LMC World Tyre Forecast Service, preliminary figures and own estimates.*
*1 Western, Central and Eastern Europe, including Russia and Turkey.*

Overall, light vehicle production in Europe stagnated in the year under review and was thus at a considerably better level than had been feared at the beginning of 2013.

### Development of heavy vehicle production

In the year under review, global production of heavy vehicles grew by 5% to 3.2 million units on the basis of preliminary figures. The majority of the growth in production was recorded by Asia with a year-on-year increase of 5%. Production in China climbed by around 15% in the year under review as compared to 2012, more than offsetting the downturn in India of more than 20%.

In the year under review, production in NAFTA fell by 2% to 477,000 units on the basis of preliminary figures. Whereas demand for new vehicles was down slightly in the U.S.A., in Canada and Mexico it increased somewhat. In South America, heavy vehicle production normalized after the reduction of inventories in the previous year, growing by 40%. It was thus slightly higher than the level from 2010.

In Europe, heavy vehicle production decreased in the first two quarters of the year under review. It did not pick up until the second half of the year, when many purchases were made early prior to the introduction of the tightened EU emission standard Euro 6 as at January 1, 2014. According to preliminary figures, the production volume for the year as a whole almost reached the previous year's level again.

### Tire replacement markets

Global replacement business with passenger, light truck and commercial vehicle tires is crucial to our sales in the Tire division. Due to the higher volumes, the passenger and light truck tire replacement markets are particularly important to the economic success of the Tire division.

### Development of passenger and light truck tire replacement markets

Global demand for replacement passenger and light truck tires grew by 4% year-on-year in 2013 on the basis of preliminary figures and estimates. Around 1.05 billion passenger and light truck tires were sold worldwide, representing a new sales record. All regions apart from Europe recorded growth. Half of the global increase in demand was attributable to Asia, meaning that this region expanded its position as the world's second largest replacement passenger and light truck tire market. This rise was due to the rapid establishment of the vehicle pool in this region as a result of high demand for passenger cars over the past years.

**Replacement sales of commercial vehicle tires**

| in millions of units | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Europe[1] | 22.6 | 20.9 | 23.8 | 22.0 | 17.8 |
| NAFTA | 20.2 | 20.0 | 20.7 | 19.6 | 16.4 |
| South America | 13.3 | 12.5 | 13.0 | 12.7 | 10.7 |
| Asia | 71.0 | 67.3 | 65.7 | 63.4 | 59.5 |
| Other markets | 18.4 | 17.2 | 16.5 | 16.2 | 14.7 |
| **Worldwide** | **145.5** | **137.9** | **139.7** | **133.9** | **119.1** |

*Source: LMC World Tyre Forecast Service, preliminary figures and own estimates.*
*1 Western, Central and Eastern Europe, including Russia and Turkey.*

The recovery in demand for passenger and light truck replacement tires continued in NAFTA and accelerated over the course of the year. According to preliminary figures, there was an increase of 4% for the reporting period compared to the previous year. However, the additional demand was almost entirely driven by the budget segment. Imports of passenger and light truck tires from Asia increased by more than 25% in the reporting period. In total, around 30% of the global increase in demand was attributable to NAFTA. South America and the other markets also recorded higher demand.

In Europe, Continental's most important replacement tire market, the very weak first quarter of 2013 due to weather conditions was followed by a stabilization of demand over the remainder of the year. According to preliminary data, demand for passenger and light truck replacement tires in Europe reached the previous year's level again despite the mild weather conditions in the fourth quarter.

**Development of commercial vehicle tire replacement markets**

Following a decline in the previous year, replacement commercial vehicle tire business posted a significant upturn in demand of around 8 million tires (6%) in 2013. Asia, the largest market, saw the highest increase in volume of almost 4 million commercial vehicle tires due to sustained economic growth in China. In Europe, demand normalized in the year under review as compared to the weak previous year. Replacement commercial vehicle tire business in South America and in the other markets also picked up. By contrast, demand in NAFTA stagnated – albeit at a high level of 20.2 million units.

## Development of raw material markets

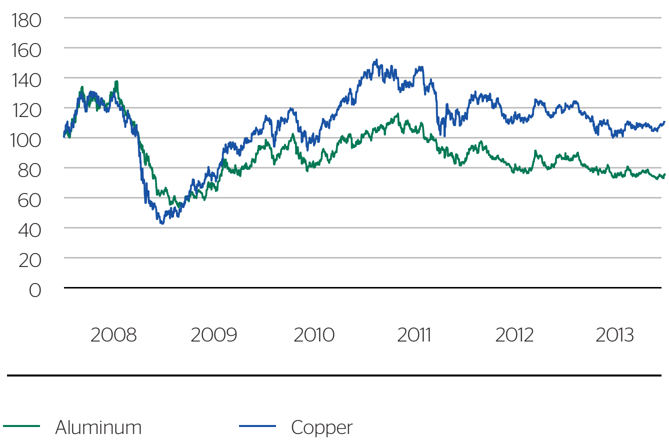
We use a wide range of electronic, electromechanical and mechanical components to manufacture our products for the automotive industry. Key input materials for these components include various raw materials such as steel, aluminum and copper as well as plastics. Developments in the prices of these materials generally influence our costs indirectly via changes in costs at our suppliers, who usually pass them on to us only after a time lag, depending on the contractual arrangement.

In the first half of the year under review, the downward price trend from the previous year continued for most metals, while in the second half of the year the quoted prices stabilized and generally moved sideways at a low level.

Carbon steel and stainless steel are the input materials for many of the stamped, turned and drawn parts and die casting parts used by Continental. High steel capacity combined with modest demand and falling costs for coking coal as a raw material for carbon steel and for nickel as an alloying element for stainless steel led to slight price cuts for stainless steels and carbon steels in the year under review. Aluminum for die casting parts and stamped and bent components, as well as copper for electric motors and mechatronic components, recorded a similar price trend to steel in 2013. Their average prices for the year declined by 7% to 8% on a U.S. dollar basis compared to the average prices for the previous year, and by 10% to 11% on a euro basis.

**Price developments of selected raw materials – Automotive Group** (indexed to January 1, 2008)


*Sources:*
*Hot rolled coil Europe from SteelOrbis (€ per metric ton),*
*Stainless steel strip 2mm 304 CR Europe from Metal Bulletin (€ per metric ton).*




*Source:*
*Rolling three-month contracts from the London Metal Exchange (U.S. $ per metric ton).*

To coat a wide range of components, we and our suppliers use various precious metals such as gold, silver, platinum and palladium. The average price per troy ounce of gold declined by 16% on a U.S. dollar basis in 2013 compared to the average for the previous year, while that of silver fell by 24%. In contrast, the platinum price remained relatively stable with a decline of only 4%, whereas the price of palladium went up 13% in the year under review.

Prices for the rare earths neodymium and dysprosium, which are required by our suppliers primarily for permanent magnets in electric motors, decreased significantly again in the year under review by more than 30%. Despite this decline, the current prices for rare earths are still more than twice as high as the prices from 2008 to 2010.

Various plastic granulates (resins) are required by our suppliers and by us, primarily for manufacturing housing components. After having decreased over the course of the previous year, resin prices stabilized at the level of the fourth quarter of 2012 in the year under review. In terms of average prices for the year, there was still a slight decline.

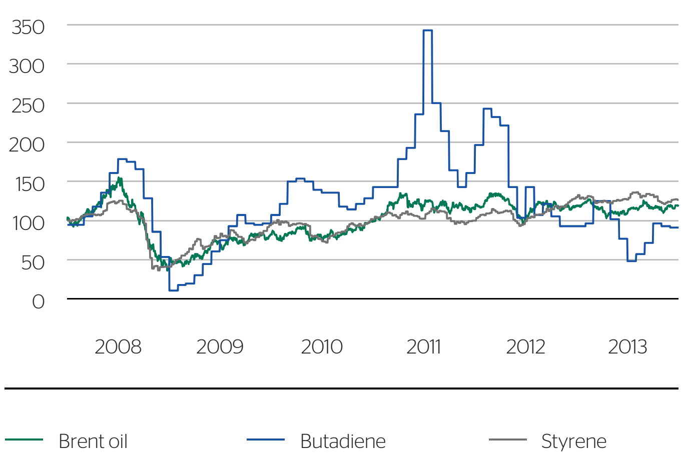
Overall, the development of raw material prices in fiscal 2013 was a key influencing factor – alongside cost-cutting measures – for the divisions of the Automotive Group in keeping their profit margins at the previous year's level despite higher labor and energy costs and weak demand for automobiles in Europe, the most important market for the Automotive Group.

The production of tires and industrial rubber products in the Rubber Group primarily requires natural rubber and synthetic rubber. It also uses relatively large quantities of carbon black from crude oil as the main filler material and of steel cord and nylon cord as the main structural materials. Because we purchase natural rubber directly from the producers, mainly in Asia, and because in general our synthetic rubber suppliers quickly pass on developments in the prices of their raw materials to us, the development of these raw materials has a significant influence on the earnings of the Rubber Group divisions, particularly the Tire division.

Their development in the year under review was similar to that of the metal prices: In the first half of 2013, prices for the main rubber raw materials fell steeply in some cases, whereas over the course of the second half of the year they generally moved sideways or stabilized at a low level.

Due to the high level of supply and modest demand, prices for natural rubber TSR 20 and ribbed smoked sheets (RSS) decreased by about 20% on average in 2013 compared to the average prices from the previous year, and at the end of the year they had returned to their level from the beginning of 2008.

**Price developments of selected raw materials – Rubber Group** (indexed to January 1, 2008)


*Source:*
*Rolling one-month contracts from the Rubber Trade Association (€ cents per kg).*

*Sources:*
*Crude oil: Europe Brent Forties Oseberg Ekofisk price from Bloomberg (U.S. $ per metric ton),*
*Butadiene: Western Europe spot price from IHS (U.S. $ per metric ton),*
*Styrene: South Korea export price (FOB) from Polymerupdate.com (U.S. $ per metric ton).*

The price of butadiene, the main input material for synthetic rubber, dropped by more than one third in 2013 compared to the previous year's average as a result of modest demand together with expanded production capacity. During the third quarter of 2013, the trend on the markets was reversed and by the end of the year the quoted prices had risen from their significantly reduced level to reach roughly the level from the beginning of 2008.

In contrast, the average price of styrene – another input material for synthetic rubber – climbed by a further 16% on a U.S. dollar basis in 2013 as against 2012, after a 5% increase in the previous year. On a euro basis, the price increase was 12% in the year under review after a 13% increase in the previous year.

Crude oil – the most important basic building block for synthetic rubber raw materials and also for carbon black and various other chemicals – mainly moved sideways in the year under review at a little below the previous year's level. The average price for the year declined by 3% year-on-year on a U.S. dollar basis and by 6% on a euro basis.

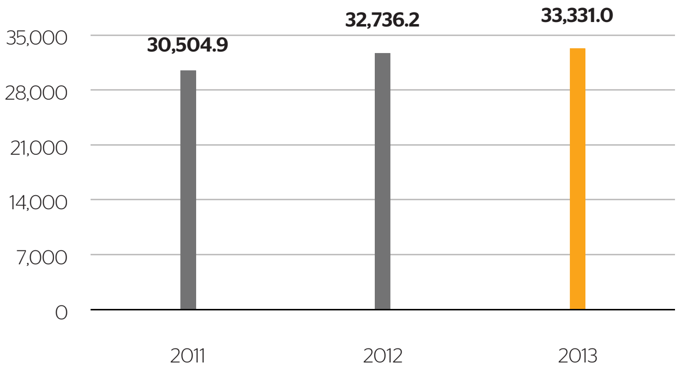
Overall, the declines in prices for natural and synthetic rubber combined with cost-cutting measures resulted in a further improvement in the operating margin of the Rubber Group in the year under review. However, the past years have shown that raw material cost effects can rapidly be reversed as a result of changing demand for replacement tires, which is why rising costs can be expected in the new fiscal year in view of growing replacement tire markets.

# Earnings, Financial and Net Assets Position

What we have achieved:

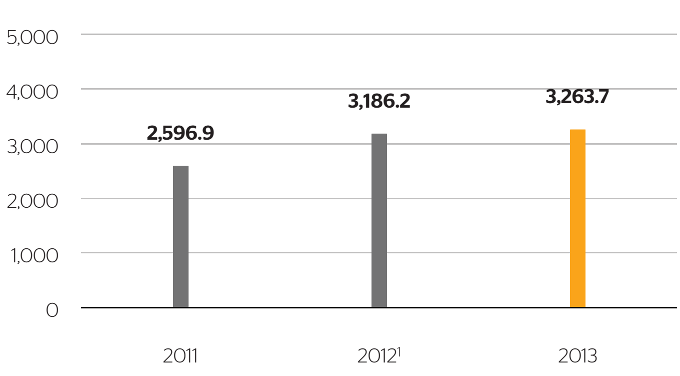
## Sales up 1.8%

**Sales** (in € millions)



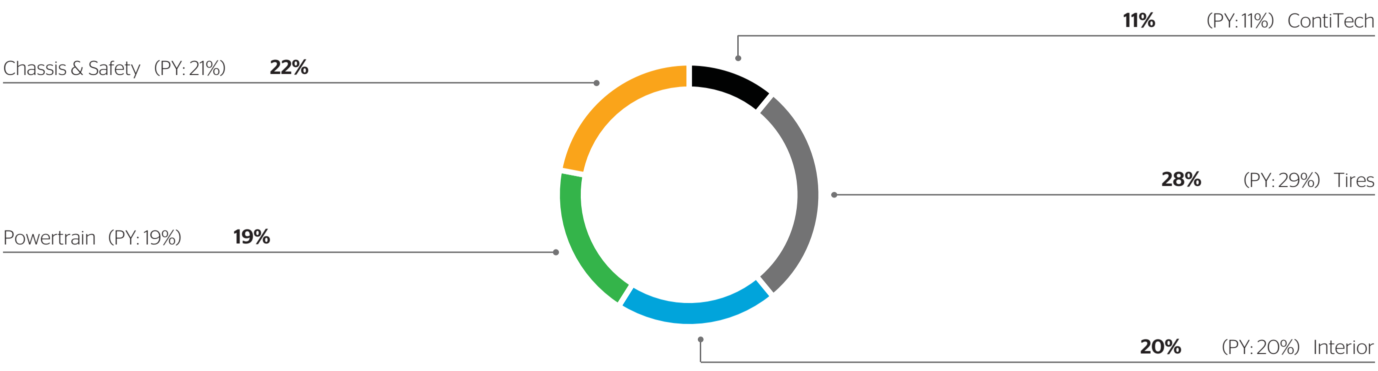

## EBIT up 2.4%

**EBIT** (in € millions)




## Sales breakdown

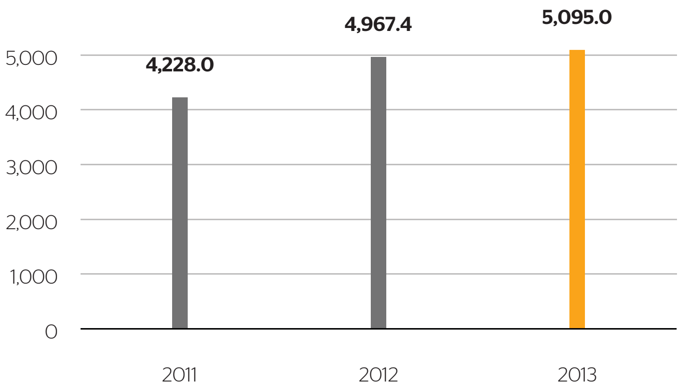
**Sales by division**




*1 Taking into account the first-time adoption of IAS 19 (revised 2011).*

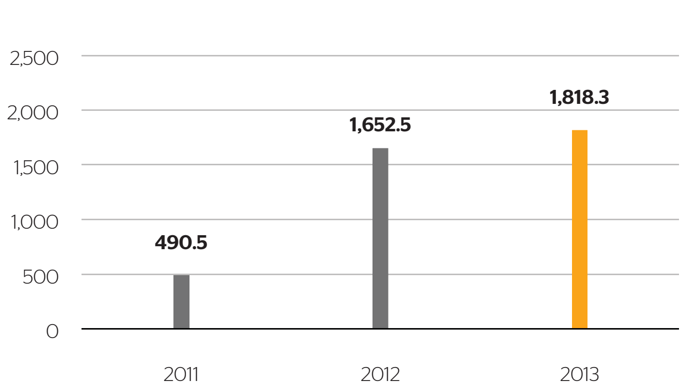
# EBITDA up 2.6%

**EBITDA** (in € millions)



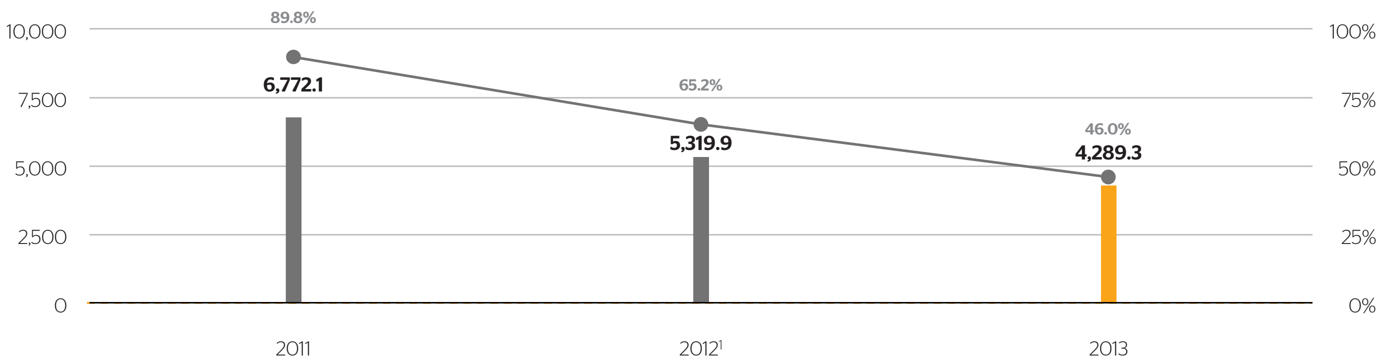

# Free cash flow at €1,818.3 million

**Free cash flow** (in € millions)




# Net indebtedness down by €1,030.6 million; gearing ratio of 46.0%

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



# Earnings Position

- Sales up 1.8%
- Sales up 4.0% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 3.5%

| Continental Corporation in € millions | 2013 | 2012 | Δ in % |
|---|---|---|---|
| Sales | 33,331.0 | 32,736.2 | 1.8 |
| EBITDA | 5,095.0 | 4,967.4 | 2.6 |
| in % of sales | 15.3 | 15.2 | |
| EBIT | 3,263.7 | 3,186.2 | 2.4 |
| in % of sales | 9.8 | 9.7 | |
| Net income attributable to the shareholders of the parent | 1,923.1 | 1,905.2 | 0.9 |
| Earnings per share (in €) | 9.62 | 9.53 | 0.9 |
| Research and development expenses | 1,878.4 | 1,744.8 | 7.7 |
| in % of sales | 5.6 | 5.3 | |
| Depreciation and amortization[1] | 1,831.3 | 1,781.2 | 2.8 |
| – thereof impairment[2] | 126.7 | 49.9 | 153.9 |
| Operating assets as at December 31 | 15,832.3 | 16,277.6 | -2.7 |
| EBIT in % of operating assets as at December 31 | 20.6 | 19.6 | |
| Operating assets (average) | 16,804.0 | 16,953.8 | -0.9 |
| EBIT in % of operating assets (average) | 19.4 | 18.8 | |
| Capital expenditure[3] | 1,981.1 | 2,019.4 | -1.9 |
| in % of sales | 5.9 | 6.2 | |
| Number of employees as at December 31[4] | 177,762 | 169,639 | 4.8 |
| | | | |
| Adjusted sales[5] | 33,164.3 | 32,684.7 | 1.5 |
| Adjusted operating result (adjusted EBIT)[6] | 3,736.5 | 3,611.5 | 3.5 |
| in % of adjusted sales | 11.3 | 11.0 | |

*1 Excluding impairment on financial investments.*
*2 Impairment also includes necessary reversal 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 purchase price allocation (PPA), changes in the scope of consolidation, and special effects.*

**Sales up 1.8%**

Consolidated sales rose by €594.8 million or 1.8% year-on-year in 2013 to €33,331.0 million (PY: €32,736.2 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 4.0%. This further increase was attributable to increased sales growth outside Europe as well as to our Automotive divisions, which are strongly concentrated on the high-growth segments of the automotive supplier industry. The increase in the production of cars, station wagons and light commercial vehicles in 2013 had a positive influence on business performance. The effect from the only slight increase in global demand for replacement passenger and light truck tires could be intensified by market share gains. Changes in the scope of consolidation made a minor contribution to sales growth, although this growth was considerably more than offset by negative exchange rate effects.

The regional distribution of sales changed as follows in 2013 as compared to the previous year:

| Sales by region in % | 2013 | 2012 |
|---|---|---|
| Germany | 24 | 25 |
| Europe excluding Germany | 30 | 30 |
| NAFTA | 22 | 22 |
| Asia | 19 | 18 |
| Other countries | 5 | 5 |

**Adjusted EBIT up 3.5%**

The corporation's adjusted EBIT rose by €125.0 million or 3.5% year-on-year in 2013 to €3,736.5 million (PY: €3,611.5 million), equivalent to 11.3% (PY: 11.0%) of adjusted sales.

In the fourth quarter of 2013, the corporation's adjusted EBIT increased by €40.0 million or 4.4% compared with the same quarter of the previous year to €942.2 million (PY: €902.2 million), equivalent to 11.3% (PY: 11.2%) of adjusted sales. In the third quarter of 2013, adjusted EBIT amounted to €1,017.4 million on a like-for-like basis.

**EBIT up 2.4%**

EBIT was up by €77.5 million year-on-year in 2013 to €3,263.7 million (PY: €3,186.2 million), an increase of 2.4%. The return on sales rose to 9.8% (PY: 9.7%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €370.7 million (PY: €445.5 million) in the year under review.

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 19.4% (PY: 18.8%).

**Special effects in 2013**

The annual impairment test on goodwill resulted in an impairment loss of €27.6 million in the Powertrain division and an impairment loss of €40.0 million in the Interior division.

Impairment losses of €40.5 million were recognized in the Chassis & Safety division as a result of the change in strategic direction in one segment. €40.3 million of this was attributable to property, plant and equipment and €0.2 million to intangible assets.

Further impairment losses and reversal of impairment losses on intangible assets and property, plant and equipment resulted in a total negative effect of €11.1 million (Chassis & Safety -€0.9 million; Powertrain -€11.3 million; Tires €1.3 million; ContiTech -€0.2 million).

On January 1, 2013, the closing took place for SK Continental E-motion Pte. Ltd., Singapore, Singapore, a company jointly managed by SK Innovation Co., Ltd., Seoul, South Korea, and Continental, after the agreement to form the company was signed in July 2012. The transaction resulted in income of €23.6 million in the Powertrain division.

As at January 29, 2013, Continental sold its shares in S-Y Systems Technologies Europe GmbH, Regensburg, Germany, to Yazaki Europe Ltd., Hertfordshire, U.K. The transaction resulted in income of €54.6 million in the Interior division.

On July 10, 2013, the European Commission imposed fines on a number of automotive suppliers for anti-competitive conduct in the field of supplying wire harnesses for automotive applications. These companies included S-Y Systems Technologies Europe GmbH, Regensburg, Germany, and its French subsidiary, which must pay a fine of €11.1 million due to cartel agreements with regard to one automotive manufacturer. Since Continental held a 50% share of S-Y Systems Technologies Europe GmbH, Regensburg, Germany, until January 29, 2013, a provision of €9.0 million was recognized in the Interior division based upon contingent liabilities.

Activities were concluded and restructured in one product segment within the Infotainment & Connectivity business unit in the Interior division. Expenses totaling €39.4 million were incurred in this context, of which €7.4 million was attributable to impairment of property, plant and equipment, and €0.1 million to impairment of intangible assets. This affected the locations in Manaus, Brazil (€13.2 million), Bizerte, Tunisia (€10.0 million), Wetzlar, Germany (€7.0 million), Rambouillet, France (€2.0 million), Nogales, Mexico (€1.9 million), Tianjin, China (€1.6 million), Melbourne, Australia (€1.4 million), Guarulhos, Brazil (€1.4 million), and Deer Park, Illinois, U.S.A. (€0.9 million).

As part of an asset deal effective July 1, 2013, Continental Automotive Trading France SAS, Rambouillet, France, sold its cockpit activities in the Instrumentation & Driver HMI business unit at the location in Hambach, France, to SAS Automotive France SAS, Voisins le Bretonneux, France. This transaction resulted in a positive special effect in the amount of €0.2 million in the Interior division.

In connection with the cessation of passenger tire production at the plant in Clairoix, France, a large number of employees at Continental France SNC, Sarreguemines, France, had filed claims with the industrial tribunals in Compiègne and Soissons, France, against this subsidiary company and, in some cases, against Continental AG as well. On August 30, 2013, the industrial tribunal in Compiègne ordered Continental France SNC and Continental AG to pay damages for the allegedly unlawful dismissal of employees. Continental still considers the plaintiffs' claims to be unfounded and has appealed the tribunal's ruling. Nonetheless, a provision of €40.5 million in total was recognized in the Tire division.

As part of the step acquisition of the SACI Group (Société Alsacienne de Commerce et d'Investissement, Colmar, France), the market value adjustment of the shares previously held resulted in income of €7.9 million in the Tire division.

The reversal of restructuring provisions no longer required resulted in a total positive special effect of €15.0 million (Chassis & Safety €0.3 million; Powertrain €0.9 million; Interior €13.8 million).

In addition, smaller special effects resulted in expense totaling €0.1 million in the ContiTech division.

Owing to the anticipated higher cash outflow for the syndicated loan resulting from rising interest margins, the carrying amount was adjusted as an expense in 2009 and 2010. However, in 2011 the carrying amount was adjusted as income due to signs of decreasing margins and the associated anticipated lower cash outflow for the syndicated loan. These deferrals will be amortized over the term of the loan, reducing or increasing expenses accordingly. The amortization of the carrying amount adjustments led to a positive effect totaling €2.4 million in 2013.

Total consolidated expense from special effects in 2013 amounted to €104.5 million.

**Special effects in 2012**
The annual impairment test on goodwill resulted in an impairment loss of €75.6 million in the Powertrain division.

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

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

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

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

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

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

Owing to the anticipated higher cash outflow for the syndicated loan resulting from rising interest margins, the carrying amount was adjusted in profit or loss in 2009 and 2010. However, at the end of June 2011 the carrying amount was adjusted in profit or loss due to signs of decreasing margins and the associated anticipated lower cash outflow for the syndicated loan. These deferrals will be amortized over the term of the loan, reducing or increasing expenses accordingly. Due to a partial repayment of the syndicated loan, the carrying amount adjustments attributable on a pro-rated basis to the amount repaid were reversed in September 2012. This resulted in a gain of €2.3 million. Together with the effects from amortization of the carrying amount adjustments, there was a positive effect totaling €13.3 million in 2012.

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

**Procurement**
While consolidated sales rose slightly year-on-year in 2013, lower material prices caused the purchasing volume to decrease slightly by 2% to €23.5 billion, of which roughly €16 billion was attributable to production materials.

The establishment of new team structures in Asia and South America, accompanied by continuous process optimization and new project launches in 2013, led to a significant improvement in purchasing results. Efficiency is a key factor for the procurement organization to enable it to deal with growth in business activities. There is therefore a focus on automation of purchasing processes. This allows the organization not only to handle the additional purchasing volume, but also in particular to take advantage of potential savings.

In addition, a number of strategic projects were initiated in 2013 to increase our competitiveness and set the course for the future success of procurement.

**Research and development**
Expenses for research and development (R&D) rose by €133.6 million or 7.7% year-on-year to €1,878.4 million (PY: €1,744.8 million), or 5.6% (PY: 5.3%) of sales.

In the Chassis & Safety, Powertrain and Interior divisions, costs in connection with initial product development projects in the original equipment business are capitalized. Costs are capitalized as at 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. €40.2 million (PY: €60.7 million) of the development costs incurred in the three divisions in 2013 qualified for recognition as an asset.

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

This results in a capitalization ratio of 2.1% (PY: 3.4%) for the corporation.

**Depreciation and amortization**

Depreciation and amortization increased by €50.1 million to €1,831.3 million (PY: €1,781.2 million), equivalent to 5.5% (PY: 5.4%) of sales. Impairment losses of €126.7 million (PY: €49.9 million) were recognized.

**Net interest expense**

Net interest expense increased by €305.5 million year-on-year to €804.3 million (PY: €498.8 million) in 2013. This increase is due in particular to the utilization of the option for the early redemption of the four bonds issued in 2010. Non-cash valuation losses were incurred in this context from changes in the fair value of derivative instruments relating to the valuation of the early redemption options included in the bonds.

Interest expense, which primarily results from the utilization of the syndicated loan and the bonds issued by Continental AG, Conti-Gummi Finance B.V., Maastricht, Netherlands, and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., was €81.4 million lower than in the previous year at €482.6 million (PY: €564.0 million). While the cost of the syndicated loan declined to less than a third compared with the same period of the previous year in 2013 at €76.9 million (PY: €240.7 million), the interest expense for the previously mentioned bonds rose from €235.4 million to €335.4 million. The significant decrease in expenses for the syndicated loan was due firstly to lower utilization and secondly to the lower levels on average of market interest rate and margin as compared to the previous year. The lower utilization of the syndicated loan in 2013 was essentially due to the considerably lower average net indebtedness in 2013 as compared to the previous year. Further margin decreases were achieved in 2013. The improvement in the leverage ratio already achieved as at the end of 2012 resulted in a margin decrease starting from the second quarter of 2013. Following the mandating of the rating agency Fitch on November 7, 2013, there were then two solicited rating agencies that classified Continental as investment grade. The prerequisite for a further margin decrease was thus fulfilled. The increase in interest expenses for the previously mentioned bonds was due in particular to the early termination in the period from May to September 2013 of four bonds issued in 2010 by Conti-Gummi Finance B.V., Maastricht, Netherlands, with a total volume of €3.0 billion. The redemption prices determined in 2010 in the respective terms and conditions of issue ranged between 103.25% and 104.25%. The premiums paid increased net interest expense by a total of €112.0 million in 2013. This relates to the following four bonds:

- the bond originally scheduled to mature in July 2015 with a nominal volume of €750.0 million and an interest rate of 8.5% p.a. was redeemed on July 15, 2013, at 104.25%
- the bond originally scheduled to mature in September 2017 with a nominal volume of €1,000.0 million and an interest rate of 7.5% p.a. was redeemed on September 16, 2013, at 103.75%
- the bond originally scheduled to mature in October 2018 with a nominal volume of €625.0 million and an interest rate of 7.125% p.a. was redeemed on November 8, 2013, at 103.563%
- the bond originally scheduled to mature in January 2016 with a nominal volume of €625.0 million and an interest rate of 6.5% p.a. was redeemed on November 18, 2013, at 103.25%.

To refinance the bonds redeemed early, Continental AG and Conti-Gummi Finance B.V., Maastricht, Netherlands, issued three euro bonds with a volume of €750.0 million each in the third quarter of 2013 under the Debt Issuance Programme (DIP) for the issuance of bonds set up in May 2013 with a volume of €5.0 billion. As the interest level of the new bonds is significantly lower than that of the bonds redeemed early, the interest expenses for bonds will be considerably lower in future. The average interest rate of the new bonds is 2.875% p.a., while for the bonds redeemed early it was 7.464% p.a. The bond issued in September 2012 by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., also resulted in higher interest expenses for bonds than in the previous year.

As a result of implementing the changes in the requirements of IAS 19 (revised 2011), Employee Benefits, that are effective from fiscal 2013, expenses from interest cost on expected pension obligations and the expected return on plan assets are now no longer allocated to personnel expenses in the relevant functional areas, but instead are reported separately under net interest expense. This likewise applies to interest effects from other long-term employee benefits. The figures for 2012 have been restated accordingly. This negatively impacted interest expenses by a total of €86.9 million (PY: €91.9 million) in 2013.

At €29.1 million, interest income in 2013 was €1.3 million higher than the previous year's figure of €27.8 million.

As at the end of December 2013, the valuation losses from changes in the fair value of derivative instruments and from the development of exchange rates amounted to €268.1 million (PY:

gains of €126.8 million) in total. Of this amount, a loss of €217.7 million (PY: gain of €113.0 million) related to the reporting of early redemption options for the bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, in 2010. As described previously, the early redemption options were exercised for all four bonds in 2013. The recognition of the early redemption option for the bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in September 2012 resulted in a valuation loss of €9.8 million (PY: gain of €0.4 million). Gains from available-for-sale financial assets amounted to €4.2 million (PY: €2.5 million) in 2013.

### Tax expense

Income tax expense for fiscal 2013 amounted to €449.6 million (PY: €697.8 million). The tax rate was 18.3% after 26.0% in the previous year. Tax payments in fiscal 2013 amounted to €805.4 million (PY: €683.5 million). This corresponds to a rate of 32.7% (PY: 25.4%).

Deferred tax assets were recognized in the year under review in the amount of €256.2 million due to the ongoing positive business performance in the U.S.A. The future utilization of these deferred tax assets is considered likely. This had a positive effect on the tax rate. Foreign tax rate differences, incentives and tax holidays continued to have positive effects.

The tax rate was negatively impacted by non-cash allowances on deferred tax assets recognized by foreign corporation companies totaling €75.4 million (PY: €41.4 million), of which €33.9 million (PY: €12.1 million) was for previous years. As in the previous year, the tax rate was still negatively affected by non-deductible operating expenses and, in Germany, by non-imputable foreign withholding tax due to insufficient volume.

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

The net income attributable to the shareholders of the parent increased by €17.9 million in 2013 to €1,923.1 million (PY: €1,905.2 million). This corresponds to earnings per share of €9.62 (PY: €9.53).

| **Reconciliation of EBIT to net income in € millions** | **2013** | 2012 | Δ in % |
|---|---|---|---|
| Chassis & Safety | 598.9 | 672.7 | -11.0 |
| Powertrain | 179.5 | 48.3 | 271.6 |
| Interior | 380.6 | 413.5 | -8.0 |
| Tires | 1,752.7 | 1,666.5 | 5.2 |
| ContiTech | 462.1 | 453.6 | 1.9 |
| Other/consolidation | -110.1 | -68.4 | |
| **EBIT** | **3,263.7** | **3,186.2** | **2.4** |
| Net interest expense | -804.3 | -498.8 | -61.2 |
| **Earnings before income taxes** | **2,459.4** | **2,687.4** | **-8.5** |
| Income tax expense | -449.6 | -697.8 | 35.6 |
| **Net income** | **2,009.8** | **1,989.6** | **1.0** |
| Non-controlling interests | -86.7 | -84.4 | -2.7 |
| **Net income attributable to the shareholders of the parent** | **1,923.1** | **1,905.2** | **0.9** |
| Basic earnings per share (in €) | 9.62 | 9.53 | 0.9 |

# Financial Position

### Reconciliation of cash flow

Cash flow from operating activities declined by €62.7 million year-on-year to €3,721.8 million (PY: €3,784.5 million) in 2013, corresponding to 11.2% (PY: 11.6%) of sales.

Free cash flow for fiscal 2013 amounted to €1,818.3 million (PY: €1,652.5 million). This corresponds to an increase of €165.8 million compared with the previous year.

Interest payments resulting in particular from the syndicated loan and the bonds declined by €37.2 million to €565.1 million (PY: €602.3 million).

Income tax payments increased by €121.9 million to €805.4 million (PY: €683.5 million).

The cash-effective increase in operating working capital led to a cash outflow of €3.9 million (PY: cash inflow of €563.9 million). This resulted from an increase in operating receivables in the amount of €451.6 million (PY: decrease of €359.7 million) and an increase in operating liabilities in the amount of €379.8 million (PY: €203.2 million). Inventories declined by €67.9 million in the fiscal year (PY: 1.0 million).

The change in pension provisions resulted in a negative effect of €8.2 million (PY: €65.5 million).

Total cash outflows amounting to €1,903.5 million (PY: €2,132.0 million) resulted from investing activities, primarily due to the €36.9 million decrease in investments in property, plant and equipment, and software to €1,980.7 million (PY: €2,017.6 million). The net amount from acquisitions and sales of companies and business operations resulted in a total cash inflow of €92.9 million (PY: cash outflow of €85.5 million) in 2013.

### Capital expenditure (additions)

Capital expenditure for property, plant and equipment, and software amounted to €1,981.1 million in 2013. Overall, there was a slight decline of €38.3 million compared with the previous year's level of €2,019.4 million, with the Tire and Powertrain divisions in particular contributing to this decline. Capital expenditure amounted to 5.9% (PY: 6.2%) of sales.

### Financing and indebtedness

As at the end of 2013, gross indebtedness amounted to €6,637.5 million (PY: €8,253.3 million), down €1,615.8 million on the previous year's level.

On average, based on quarter-end values, 50.4% (PY: 62.9%) of gross indebtedness after hedging measures had fixed interest rates over the year.

The carrying amount of bonds declined from €3,744.2 million at the end of 2012 to €2,989.5 million as at the end of fiscal 2013. This decrease primarily resulted from the further steps implemented in 2013 to improve the financial and maturity structure while at the same time reducing interest costs. In May 2013, Continental set up a Debt Issuance Programme (DIP) for the issuance of bonds with a maximum volume of €5.0 billion. It is a framework program that makes it possible to flexibly place medium- and long-term bonds on the capital market. Continental AG, Conti-Gummi Finance B.V., Maastricht, Netherlands, and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., can issue bonds under this program. In the third quarter of 2013, Continental took advantage of the positive capital market environment and placed three bonds with an issue volume totaling €2.25 billion with institutional and private investors in Germany and abroad under this program. The issue proceeds were used for the partial refinancing of the four bonds issued in 2010 by Conti-Gummi Finance B.V., Maastricht, Netherlands, with a total volume of €3.0 billion, which were redeemed early in the period from July to November 2013. Cash and cash equivalents were also used to redeem these bonds. In addition to the improvement in the maturity profile of indebtedness, this will also significantly reduce future interest expenses. The average interest rate on the new bonds is 2.875% p.a., while the average interest rate for the 2010 bonds redeemed early was 7.464% p.a.

In the third quarter of 2013, Conti-Gummi Finance B.V., Maastricht, Netherlands, redeemed two bonds issued in 2010 ahead of schedule. These bonds were the bond originally maturing in July 2015 with a nominal volume of €750.0 million and an interest rate of 8.5% p.a., and the bond originally maturing in September 2017 with a nominal volume of €1,000.0 million and an interest rate of 7.5% p.a. These bonds were redeemed early as at July 15, 2013, and September 16, 2013, respectively. To partially refinance the bond redeemed early in September 2013, Continental AG placed a euro bond under the DIP with an issue volume of €750.0 million and an issue price of 98.95% at the same time as the announcement of the redemption. The interest rate for the five-year bond is 3.0% p.a.; interest payments will be made in arrears every six months. In September 2013, the two bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, in October 2010 were terminated early. The bond originally scheduled to mature in October 2018 with a nominal volume of €625.0 million and an interest rate of 7.125% p.a. and the bond originally maturing in January 2016 with a nominal volume of €625.0 million and an interest rate of 6.5% p.a. were redeemed early on November 8, 2013, and November 18, 2013, respectively. For the refinancing, euro bonds with an issue volume of €750.0 million each were also issued under the DIP at the same time as the announcement of the redemption. The seven-year bond issued by Continental AG on September 2, 2013, bears interest at 3.125% p.a. and had an issue price of 99.228%. The bond placed on September 12, 2013, by Conti-Gummi Finance B.V., Maastricht, Netherlands, had an issue price of 99.595%. It has an interest rate of 2.5% p.a. with a term of three and a half years. The interest on both bonds will be paid in arrears annually. The bonds issued by Continental AG in 2013 are guaranteed by selected subsidiaries. The bond placed by Conti-Gummi Finance B.V., Maastricht, Netherlands, is guaranteed by Continental AG and selected subsidiaries. Furthermore, Continental AG issued an additional bond with a volume of €50.0 million at 100.0% with an interest rate of 3.9% p.a. under the DIP in a private placement at the end of August 2013. This bond has a term of 12 years.

Bank loans and overdrafts amounted to €2,150.5 million (PY: €3,030.7 million) as at December 31, 2013, and were therefore down €880.2 million on the previous year's level. This reduction is due in particular to the considerably lower utilization of the syndicated loan as at December 31, 2013.

To further improve its financial and maturity structure, in December 2012 Continental already began the refinancing process for the syndicated loan originally due in April 2014. As part of the agreement concluded on January 22, 2013, the credit volume was reduced from €4,637.1 million as at the end of 2012 to a total of €4.5 billion and split into two tranches with different terms: A term loan of €1.5 billion with a term of three years and the increase in the revolving credit line from €2.5 billion to €3.0 billion with a term of five years. In this context, tranche C of the previous syndicated loan was reduced from €2,137.1 million to €1.5 billion by means of a partial repayment. Under the new loan agreement, Continental is no longer required to furnish security in rem and has obtained further simplifications of the documentation required. Under the new syndicated loan agreement, too, the credit margins are based on the Continental Corporation's leverage ratio (net indebtedness/EBITDA, as defined in the syndicated loan agreement). The improvement in the leverage ratio already achieved as at the end of 2012 resulted in further margin decreases starting from the second quarter of 2013.

The committed volume of the syndicated loan still amounted to €4.5 billion (PY: €4,637.1 million) at the end of 2013. As at the reporting date, it had been utilized only by Continental AG in a nominal amount of €1,500.0 million (PY: utilization by Continental AG and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in a nominal amount of €2,483.0 million).

Other indebtedness increased only slightly by €19.1 million to €1,497.5 million (PY: €1,478.4 million) as at the end of 2013.

The use of sale of receivables programs was reduced by €20.0 million to €916.2 million (PY: €936.2 million). The financing volume of the sale of receivables program concluded with Norddeutsche Landesbank Luxembourg S.A., Luxembourg, was increased from €280.0 million to €300.0 million on September 27, 2013, by way of a new master agreement and extended by an additional year. This program was fully utilized at the end of 2013 in the amount of €300.0 million (PY: €280.0 million).

The indefinite sale of receivables program in place with Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main, Germany, since December 2010 provides for flexible adjustment of the financing volume. At the end of 2013, as in the previous year, the financing volume of €110.0 million (PY: €130.0 million) was almost fully utilized at €109.9 million (PY: €127.6 million).

On September 27, 2013, the sale of receivables program concluded with the U.S. banks Wells Fargo Bank N.A., Atlanta, Georgia, The Bank of Nova Scotia, Houston, Texas, and Bank of America N.A., Charlotte, North Carolina, with an unchanged financing volume of U.S. $400.0 million was extended by an additional year. Only €0.1 million (PY: €278.5 million) of the program had been utilized as at the end of 2013.

Following a contract adjustment in January 2013, the indefinite sale of receivables program set up with the Frankfurt branch of The Royal Bank of Scotland N.V., Frankfurt am Main, Germany, at the end of April 2012, now provides for an increased financing volume of GBP 90.0 million (PY: GBP 75.0 million) and can be utilized in both euros and pounds sterling. Total utilization as at the end of 2013 amounted to €90.5 million (PY: €91.8 million).

On July 26, 2012, a sale of receivables program with a financing volume of €300.0 million (PY: €300.0 million) was agreed with Crédit Agricole Corporate and Investment Bank, Paris, France. The program has a term of up to five years if prolonged by both parties on an annual basis. The first prolongation took place in July 2013. At the end of 2013, the program had been utilized in the amount of €287.7 million (PY: €158.3 million).

On January 30, 2013, a sale of receivables contract was concluded with Landesbank Baden-Württemberg, Stuttgart, Germany. The term of the contract adjusted on July 29, 2013, runs until the end of January 2020 if prolonged by both parties on an annual basis. The agreed financing volume is €175.0 million. At the end of 2013, this program had been utilized in the amount of €128.0 million.

At €497.5 million, the carrying amount of the commercial papers issued was up €37.8 million on the end of the previous year (€459.7 million).

Cash and cash equivalents, derivative instruments and interest-bearing investments were down €585.2 million at €2,348.2 million (PY: €2,933.4 million).

Net indebtedness fell by €1,030.6 million as compared to the end of 2012 to €4,289.3 million (PY: €5,319.9 million). The gearing ratio improved significantly year-on-year to 46.0% (PY: 65.2%).

As at December 31, 2013, Continental had liquidity reserves totaling €5,878.1 million (PY: €5,198.5 million), consisting of cash and cash equivalents of €2,044.8 million (PY: €2,397.2 million) and committed, unutilized credit lines totaling €3,833.3 million (PY: €2,801.3 million).

The restrictions that may impact the availability of capital are also understood as comprising all existing restrictions on cash and cash equivalents. In the Continental Corporation, the cash and cash equivalents mentioned above are restricted with regard to pledged amounts, liquid funds from the contractual trust arrangements (CTAs), and balances in the following countries with foreign exchange restrictions: Argentina, Brazil, Chile, Greece, India, and Serbia. Taxes to be paid on the transfer of cash assets from one country (e.g. China) to another (e.g. Germany) are not considered to represent a restriction on cash and cash equivalents. Unrestricted cash and cash equivalents totaled €1,747.2 million.

| **in € millions** | **Dec. 31, 2013** | Dec. 31, 2012 |
|---|---|---|
| Cash flow arising from operating activities | 3,721.8 | 3,784.5 |
| Cash flow arising from investing activities | –1,903.5 | –2,132.0 |
| **Cash flow before financing activities (free cash flow)** | **1,818.3** | **1,652.5** |
| Dividends paid | –450.0 | –300.0 |
| Dividends paid and repayment of capital to non-controlling interests | –62.7 | –49.5 |
| Non-cash changes | –224.9 | 151.3 |
| Other | –61.7 | –29.5 |
| Foreign exchange effects | 11.6 | 27.4 |
| **Change in net indebtedness** | **1,030.6** | **1,452.2** |

# Net Assets Position

**Total assets**
As at December 31, 2013, total assets amounted to €26,820.8 million and were thus down €629.3 million on the previous year's level of €27,450.1 million. This was chiefly due to the €387.4 million decline in other intangible assets, primarily as a result of amortization from purchase price allocation (PPA) and the €352.4 million decrease in cash and cash equivalents. These factors were partially offset by the €337.0 million rise in property, plant and equipment as a result of increased investment activities and by the €322.5 million rise in trade accounts receivable.

**Non-current assets**
Non-current assets fell by €116.2 million year-on-year to €15,569.5 million (PY: €15,685.7 million). This was primarily due to the €101.3 million decline in goodwill to €5,520.9 million (PY: €5,622.2 million), the €387.4 million reduction in other intangible assets to €557.7 million (PY: €945.1 million) and the €148.8 million decrease in long-term derivative instruments and interest-bearing investments to €285.1 million (PY: €433.9 million). These factors were countered by the €337.0 million increase in property, plant and equipment to €7,728.0 million (PY: €7,391.0 million).

**Current assets**
At €11,251.3 million, current assets were €513.1 million lower than the previous year's figure of €11,764.4 million. Inventories fell by €167.8 million to €2,830.9 million in the year under review (PY: €2,998.7 million). Trade accounts receivable rose by €322.5 million to €5,315.8 million (PY: €4,993.3 million). At €2,044.8 million (PY: €2,397.2 million), cash and cash equivalents were down €352.4 million. Assets held for sale decreased by €177.0 million, essentially as a result of the sale of an asset group and of shares in a joint controlled entity.

**Equity**
At €9,322.2 million, equity was €1,165.8 million higher than in the previous year (€8,156.4 million). This was due primarily to the increase in accumulated retained earnings of €1,473.1 million. Equity was reduced by dividends in the amount of €450.0 million resolved by the Annual Shareholders' Meeting in May 2013. The equity ratio improved from 29.7% to 34.8%.

**Non-current liabilities**
At €7,870.8 million, non-current liabilities were up €463.2 million from €7,407.6 million in the previous year. The €860.2 million increase in long-term indebtedness to €5,041.2 million (PY: €4,181.0 million) resulted in particular from the long-term tranche of the new syndicated loan of €1,500.0 million and from the new, lower-interest bonds totaling €2,250.0 million. This was countered by a reduction of long-term indebtedness from the early redemption of euro bonds issued in the previous years in the amount of €3,000.0 million, which were refinanced only partially by issuing the new bonds. Provisions for pension liabilities and similar obligations declined by €192.0 million to €2,391.1 million (PY: €2,583.1 million) in the reporting period, mainly as a result of actuarial gains.

**Current liabilities**
At €9,627.8 million, current liabilities were down €2,258.3 million from €11,886.1 million in the previous year, mainly as a result of the reduction of short-term indebtedness. This fell by €2,476.0 million to €1,596.3 million (PY: €4,072.3 million), chiefly due to the long-term tranche of the new syndicated loan and the very positive free cash flow as at the end of 2013. This was partially offset by the dividend payment of €450.0 million in May 2013. Trade accounts payable rose by €251.7 million from €4,344.6 million to €4,596.3 million.

**Operating assets**
The corporation's operating assets decreased by €445.3 million year-on-year to €15,832.3 million (PY: €16,277.6 million) as at December 31, 2013.

Total working capital was down €70.0 million to €3,577.4 million (PY: €3,647.4 million). The key factors in this development were the €251.7 million increase in operating liabilities to €4,596.3 million (PY: €4,344.6 million) and the €167.8 million decline in inventories to €2,830.9 million (PY: €2,998.7 million). Operating receivables increased by €349.5 million year-on-year to €5,342.8 million (PY: €4,993.3 million) as at the reporting date.

Non-current operating assets amounted to €14,326.3 million (PY: €14,399.5 million), down €73.2 million year-on-year. Goodwill decreased by €101.3 million to €5,520.9 million (PY: €5,622.2 million), chiefly due to exchange rate effects of €81.5 million and impairment losses of €67.6 million resulting from the annual impairment test. These two effects were partially offset by acquisitions totaling €47.9 million due to additions to goodwill. Property, plant and equipment increased by €337.0 million to €7,728.0 million (PY: €7,391.0 million) due to investing activities. Other intangible assets fell by €387.4 million to €557.7 million (PY: €945.1 million). This decrease was mainly due to the amortization of intangible assets from purchase price allocation (PPA) in the amount of €370.7 million (PY: €445.5 million).

The acquisition of 100% of the shares in Application Solutions (Electronics and Vision) Limited, Lewes, U.K., as part of a share deal increased the Chassis & Safety division's operating assets by €11.2 million. The closing for SK Continental E-motion Pte. Ltd., Singapore, Singapore, a company jointly managed by SK Innovation Co., Ltd., Seoul, South Korea, and Continental, resulted in an increase in the operating assets of €26.5 million in the Powertrain division.

**Consolidated statement of financial position**

| Assets in € millions | Dec. 31, 2013 | Dec. 31, 2012 |
|---|---|---|
| Goodwill | 5,520.9 | 5,622.2 |
| Other intangible assets | 557.7 | 945.1 |
| Property, plant and equipment | 7,728.0 | 7,391.0 |
| Investments in associates | 450.0 | 376.5 |
| Other long-term assets | 1,312.9 | 1,350.9 |
| **Non-current assets** | **15,569.5** | **15,685.7** |
| Inventories | 2,830.9 | 2,998.7 |
| Trade accounts receivable | 5,315.8 | 4,993.3 |
| Other short-term assets | 1,059.8 | 1,375.2 |
| Cash and cash equivalents | 2,044.8 | 2,397.2 |
| **Current assets** | **11,251.3** | **11,764.4** |
| **Total assets** | **26,820.8** | **27,450.1** |

| Total equity and liabilities in € millions | Dec. 31, 2013 | Dec. 31, 2012 |
|---|---|---|
| **Total equity** | **9,322.2** | **8,156.4** |
| **Non-current liabilities** | **7,870.8** | **7,407.6** |
| Trade accounts payable | 4,596.3 | 4,344.6 |
| Other short-term provisions and liabilities | 5,031.5 | 7,541.5 |
| **Current liabilities** | **9,627.8** | **11,886.1** |
| **Total equity and liabilities** | **26,820.8** | **27,450.1** |
| | | |
| **Net indebtedness** | **4,289.3** | **5,319.9** |
| **Gearing ratio in %** | **46.0** | **65.2** |

In the Tire division, the acquisition of the remaining shares in the SACI Group (Société Alsacienne de Commerce et d'Investissement, Colmar, France) by Continental Holding France SAS, Sarreguemines, France, as part of a share deal resulted in a €44.8 million rise in operating assets. The acquisition of 100% of the shares in Legg Company, Inc., Halstead, Kansas, U.S.A., by ContiTech North America, Inc., Wilmington, Delaware, U.S.A., as part of a share deal increased the ContiTech division's operating assets by €29.6 million. In addition, the acquisition of certain operations of Metso Minerals, Inc., Helsinki, Finland, as part of a share deal increased the ContiTech division's operating assets by €7.8 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.

Exchange rate effects reduced the corporation's total operating assets by €551.4 million (PY: €62.4 million) in the fiscal year.

Average operating assets of the corporation fell by €149.8 million to €16,804.0 million as compared to the previous year (€16,953.8 million).

## Employees

The number of employees in the Continental Corporation rose by 8,123 from 169,639 in 2012 to 177,762. As a result of the business performance and the expansion of research and development, the number of employees in the Automotive Group rose by 4,598. In the Rubber Group, increased volumes and further expansion of production capacity led to an increase of 3,499 employees.

| Employees by region in % | 2013 | 2012 |
|---|---|---|
| Germany | 28 | 29 |
| Europe excluding Germany | 31 | 31 |
| NAFTA | 16 | 16 |
| Asia | 19 | 18 |
| Other countries | 6 | 6 |

# Key Figures for the Automotive Group

| Automotive Group in € millions | 2013 | 2012 | Δ in % |
|---|---|---|---|
| Sales | 20,016.1 | 19,505.1 | 2.6 |
| EBITDA | 2,490.5 | 2,470.3 | 0.8 |
| in % of sales | 12.4 | 12.7 | |
| EBIT | 1,158.9 | 1,134.5 | 2.2 |
| in % of sales | 5.8 | 5.8 | |
| Research and development expenses | 1,589.1 | 1,475.3 | 7.7 |
| in % of sales | 7.9 | 7.6 | |
| Depreciation and amortization[1] | 1,331.6 | 1,335.8 | -0.3 |
| – thereof impairment[2] | 127.8 | 75.0 | 70.4 |
| Operating assets as at December 31 | 10,376.7 | 11,012.7 | -5.8 |
| EBIT in % of operating assets as at December 31 | 11.2 | 10.3 | |
| Operating assets (average) | 10,958.9 | 11,438.5 | -4.2 |
| EBIT in % of operating assets (average) | 10.6 | 9.9 | |
| Capital expenditure[3] | 1,015.5 | 1,035.9 | -2.0 |
| in % of sales | 5.1 | 5.3 | |
| Number of employees as at December 31[4] | 103,217 | 98,619 | 4.7 |
| | | | |
| Adjusted sales[5] | 20,010.9 | 19,453.6 | 2.9 |
| Adjusted operating result (adjusted EBIT)[6] | 1,592.9 | 1,601.5 | -0.5 |
| in % of adjusted sales | 8.0 | 8.2 | |

*1 Excluding impairment on financial investments.*
*2 Impairment also includes necessary reversal 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 purchase price allocation (PPA), changes in the scope of consolidation, and special effects.*

# Development of the Divisions: Chassis & Safety

› Sales up 3.1%
› Sales up 6.7% before changes in the scope of consolidation and exchange rate effects
› Adjusted EBIT down 4.3%

**Sales volumes**
In the Vehicle Dynamics business unit, the number of electronic brake systems sold in 2013 increased to 21 million. In the Hydraulic Brake Systems business unit, sales of brake boosters matched the previous year's level in the reporting period. Sales of brake calipers were about 6% higher. In the Passive Safety & Sensorics business unit, sales of air bag control units were up year-on-year by approximately 12%. The number of advanced driver assistance systems sold increased to more than 4 million.

**Sales up 3.1%; sales up 6.7% before changes in the scope of consolidation and exchange rate effects**
Sales in the Chassis & Safety division rose by 3.1% year-on-year to €7,269.2 million (PY: €7,052.5 million) in 2013. Before changes in the scope of consolidation and exchange rate effects, sales rose by 6.7%.

**Adjusted EBIT down 4.3%**
The Chassis & Safety division's adjusted EBIT declined by €31.2 million or 4.3% year-on-year in 2013 to €689.8 million (PY: €721.0 million), equivalent to 9.5% (PY: 10.2%) of adjusted sales.

**EBIT down 11.0%**
In comparison to the previous year, the Chassis & Safety division posted a decrease in EBIT of €73.8 million, or 11.0%, to €598.9 million (PY: €672.7 million) in 2013. The return on sales fell to 8.2% (PY: 9.5%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 14.9% (PY: 16.4%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €50.9 million (PY: €53.1 million).

**Special effects in 2013**
Impairment losses of €40.5 million were recognized in the Chassis & Safety division as a result of the change in strategic direction in one segment. €40.3 million of this was attributable to property, plant and equipment and €0.2 million to intangible assets.

In addition, smaller impairment losses on intangible assets and property, plant and equipment resulted in expense totaling €0.9 million.

The reversal of restructuring provisions no longer required at the former location in Elkhart, Indiana, U.S.A., resulted in a positive special effect of €0.3 million.

Special effects in 2013 had a negative impact totaling €41.1 million in the Chassis & Safety division.

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

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

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

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

**Procurement**
The year 2013 was characterized by stable procurement markets. Production supplies were ensured at all times. The average prices for raw materials were stable or recorded a slight decrease. Purchase prices for rare earths fell in comparison to the previous year, although slight price increases were recorded again in the last few weeks of the year under review.

**Research and development**
Research and development expenses rose by €35.1 million or 7.0% year-on-year to €535.3 million (PY: €500.2 million), corresponding to 7.4% (PY: 7.1%) of sales.

**Depreciation and amortization**
Depreciation and amortization rose by €56.1 million compared to fiscal 2012 to €391.3 million (PY: €335.2 million) and amounted to 5.4% (PY: 4.8%) of sales. This included impairment losses totaling €41.4 million (PY: reversal of impairment losses totaling €2.0 million) in 2013.

| Chassis & Safety in € millions | 2013 | 2012 | Δ in % |
|---|---|---|---|
| Sales | 7,269.2 | 7,052.5 | 3.1 |
| EBITDA | 990.2 | 1,007.9 | -1.8 |
| in % of sales | 13.6 | 14.3 | |
| EBIT | 598.9 | 672.7 | -11.0 |
| in % of sales | 8.2 | 9.5 | |
| Research and development expenses | 535.3 | 500.2 | 7.0 |
| in % of sales | 7.4 | 7.1 | |
| Depreciation and amortization[1] | 391.3 | 335.2 | 16.7 |
| – thereof impairment[2] | 41.4 | -2.0 | 2,170.0 |
| Operating assets as at December 31 | 3,865.3 | 3,970.1 | -2.6 |
| EBIT in % of operating assets as at December 31 | 15.5 | 16.9 | |
| Operating assets (average) | 4,032.6 | 4,097.4 | -1.6 |
| EBIT in % of operating assets (average) | 14.9 | 16.4 | |
| Capital expenditure[3] | 401.7 | 383.8 | 4.7 |
| in % of sales | 5.5 | 5.4 | |
| Number of employees as at December 31[4] | 36,496 | 34,517 | 5.7 |
| | | | |
| Adjusted sales[5] | 7,269.2 | 7,052.5 | 3.1 |
| Adjusted operating result (adjusted EBIT)[6] | 689.8 | 721.0 | -4.3 |
| in % of adjusted sales | 9.5 | 10.2 | |

*1 Excluding impairment on financial investments.*
*2 Impairment also includes necessary reversal 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 purchase price allocation (PPA), changes in the scope of consolidation, and special effects.*

**Operating assets**
Operating assets in the Chassis & Safety division declined by €104.8 million year-on-year to €3,865.3 million (PY: €3,970.1 million) as at December 31, 2013.

Working capital was up €8.0 million at €465.9 million (PY: €457.9 million). Inventories fell by €5.2 million to €332.5 million (PY: €337.7 million). Operating receivables increased by €82.8 million to €1,106.0 million (PY: €1,023.2 million) as at the reporting date. Operating liabilities were up €69.6 million at €972.6 million (PY: €903.0 million).

Non-current operating assets amounted to €3,908.0 million (PY: €3,960.2 million), down €52.2 million year-on-year. Goodwill declined by €8.8 million to €2,331.3 million (PY: €2,340.1 million). This decline resulted from exchange rate effects amounting to €23.9 million, partially offset by the acquisition of Application Solutions (Electronics and Vision) Limited, Lewes, U.K., in the amount of €15.1 million. Property, plant and equipment increased by €29.5 million to €1,401.8 million (PY: €1,372.3 million) due to investing activities. Other intangible assets fell by €67.8 million to €92.1 million (PY: €159.9 million). This decrease was mainly due to the amortization of intangible assets from purchase price allocation (PPA) in the amount of €50.9 million (PY: €53.1 million).

The acquisition of 100% of the shares in Application Solutions (Electronics and Vision) Limited, Lewes, U.K., as part of a share deal increased the Chassis & Safety division's operating assets by €11.2 million. Other changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets.

Exchange rate effects reduced the Chassis & Safety division's total operating assets by €96.8 million (PY: €15.0 million) in the year under review.

Average operating assets in the Chassis & Safety division fell by €64.8 million to €4,032.6 million as compared to fiscal 2012 (€4,097.4 million).

**Capital expenditure (additions)**
Additions to the Chassis & Safety division rose by €17.9 million year-on-year to €401.7 million (PY: €383.8 million). Capital expenditure amounted to 5.5% (PY: 5.4%) of sales.

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

**Employees**

The number of employees in the Chassis & Safety division rose by 1,979 to 36,496 (PY: 34,517). In all business units, the increase was due to an adjustment in line with greater volumes. Capacity was mainly boosted in best-cost countries. In addition, the expansion of research and development activities in the Advanced Driver Assistance Systems and Vehicle Dynamics business units also led to a rise in the number of employees.

# Development of the Divisions: Powertrain

› Sales up 2.0%
› Sales up 3.4% before changes in the scope of consolidation and exchange rate effects
› Adjusted EBIT up 6.9%

**Sales volumes**
Sales in the Powertrain division were up slightly on the previous year's level in fiscal 2013 with an increase of 2.0%. Only the Engine Systems business unit posted a decline in sales. As a supplier for vehicles with diesel engines and smaller gasoline engines, this business unit is particularly heavily impacted by the declining economic development on the European sales market. Growth is continuing in the Transmission and Sensors & Actuators business units. While the rise in sales in transmission actuators was largely driven by increases in NAFTA and Europe, the growth at Sensors & Actuators is primarily due to new start-ups for exhaust sensors in China and generally higher order figures.

**Sales up 2.0%; sales up 3.4% before changes in the scope of consolidation and exchange rate effects**
Sales in the Powertrain division rose by 2.0% year-on-year to €6,260.3 million (PY: €6,134.8 million) in 2013. Before changes in the scope of consolidation and exchange rate effects, sales rose by 3.4%.

**Adjusted EBIT up 6.9%**
The Powertrain division's adjusted EBIT increased by €20.5 million or 6.9% year-on-year in 2013 to €317.9 million (PY: €297.4 million), equivalent to 5.1% (PY: 4.8%) of adjusted sales.

**EBIT up 271.6%**
In comparison to the previous year, the Powertrain division posted an increase in EBIT of €131.2 million or 271.6% to €179.5 million (PY: €48.3 million) in 2013. The return on sales rose to 2.9% (PY: 0.8%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 6.1% (PY: 1.6%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €126.9 million (PY: €175.9 million).

**Special effects in 2013**
On January 1, 2013, the closing took place for SK Continental E-motion Pte. Ltd., Singapore, Singapore, a company jointly managed by SK Innovation Co., Ltd., Seoul, South Korea, and Continental, after the agreement to form the company was signed in July 2012. The transaction resulted in income of €23.6 million.

The annual impairment test on goodwill resulted in an impairment loss of €27.6 million in the Powertrain division.

Impairment losses on property, plant and equipment resulted in expenses totaling €11.2 million for the locations in Kaluga, Russia; Trutnov, Czech Republic; Cuautla, Mexico; Sibiu, Romania; Limbach-Oberfrohna, Germany; Nuremberg, Germany; and Shanghai, China. The division also recognized an impairment loss of €0.1 million on intangible assets.

The reversal of restructuring provisions no longer required resulted in a positive special effect of €0.9 million.

Special effects in 2013 had a negative impact totaling €14.4 million in the Powertrain division.

**Special effects in 2012**
The annual impairment test on goodwill resulted in an impairment loss of €75.6 million in the Powertrain division.

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

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

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

**Procurement**
The procurement market for the Powertrain division was characterized by stable or slightly decreasing raw material prices. Supply shortages due to isolated cases of supplier insolvencies were avoided by means of corresponding activities and switching to alternative solutions. The procurement cooperation with the Schaeffler Group was successfully continued. Local procurement of components close to production was expanded further.

**Research and development**
Research and development expenses rose by €32.8 million or 6.2% year-on-year to €561.8 million (PY: €529.0 million), corresponding to 9.0% (PY: 8.6%) of sales.

| Powertrain in € millions | 2013 | 2012 | Δ in % |
|---|---|---|---|
| Sales | 6,260.3 | 6,134.8 | 2.0 |
| EBITDA | 650.2 | 609.0 | 6.8 |
| in % of sales | 10.4 | 9.9 | |
| EBIT | 179.5 | 48.3 | 271.6 |
| in % of sales | 2.9 | 0.8 | |
| Research and development expenses | 561.8 | 529.0 | 6.2 |
| in % of sales | 9.0 | 8.6 | |
| Depreciation and amortization[1] | 470.7 | 560.7 | -16.1 |
| – thereof impairment[2] | 38.9 | 75.9 | -48.7 |
| Operating assets as at December 31 | 2,759.7 | 2,866.3 | -3.7 |
| EBIT in % of operating assets as at December 31 | 6.5 | 1.7 | |
| Operating assets (average) | 2,936.9 | 3,028.1 | -3.0 |
| EBIT in % of operating assets (average) | 6.1 | 1.6 | |
| Capital expenditure[3] | 360.5 | 395.0 | -8.7 |
| in % of sales | 5.8 | 6.4 | |
| Number of employees as at December 31[4] | 32,353 | 31,028 | 4.3 |
| | | | |
| Adjusted sales[5] | 6,260.3 | 6,134.8 | 2.0 |
| Adjusted operating result (adjusted EBIT)[6] | 317.9 | 297.4 | 6.9 |
| in % of adjusted sales | 5.1 | 4.8 | |

*1 Excluding impairment on financial investments.*
*2 Impairment also includes necessary reversal 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 purchase price allocation (PPA), changes in the scope of consolidation, and special effects.*

**Depreciation and amortization**

Depreciation and amortization declined by €90.0 million compared to fiscal 2012 to €470.7 million (PY: €560.7 million) and amounted to 7.5% (PY: 9.1%) of sales. This included impairment losses totaling €38.9 million (PY: €75.9 million) in 2013.

**Operating assets**

Operating assets in the Powertrain division declined by €106.6 million year-on-year to €2,759.7 million (PY: €2,866.3 million) as at December 31, 2013.

Working capital posted a decrease of €16.4 million to €226.7 million (PY: €243.1 million). Inventories fell by €10.5 million to €261.5 million (PY: €272.0 million). Operating receivables increased by €107.3 million to €1,010.7 million (PY: €903.4 million) as at the reporting date. Total operating liabilities were up €113.2 million at €1,045.5 million (PY: €932.3 million).

Non-current operating assets amounted to €2,801.9 million (PY: €2,906.1 million), down €104.2 million year-on-year. Goodwill decreased by €50.7 million to €848.2 million (PY: €898.9 million) due to an impairment loss of €27.6 million resulting from the annual impairment test and exchange rate effects of €23.1 million. Property, plant and equipment, at €1,634.2 million, was slightly below the previous year's level of €1,637.8 million. Other intangible assets fell by €126.2 million to €104.8 million (PY: €231.0 million). This decrease was mainly due to the amortization of intangible assets from purchase price allocation (PPA) in the amount of €126.9 million (PY: €175.9 million).

The closing for SK Continental E-motion Pte. Ltd., Singapore, Singapore, a company jointly managed by SK Innovation Co., Ltd., Seoul, South Korea, and Continental, resulted in an increase in the operating assets of €26.5 million in the Powertrain division. There were no other changes in the scope of consolidation or asset deals in fiscal 2013.

Exchange rate effects reduced the Powertrain division's total operating assets by €77.6 million in the fiscal year. In the previous year, this effect had increased operating assets by €15.0 million.

Average operating assets in the Powertrain division declined by €91.2 million to €2,936.9 million as compared to fiscal 2012 (€3,028.1 million).

**Capital expenditure (additions)**

Additions to the Powertrain division decreased by €34.5 million year-on-year to €360.5 million (PY: €395.0 million). Capital expenditure amounted to 5.8% (PY: 6.4%) of sales.

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

**Employees**

The number of employees in the Powertrain division rose by 1,325 compared with the previous year to 32,353 (PY: 31,028). In line with the sales performance, there was an increase in the headcount in the Sensors & Actuators, Transmission and Fuel Supply business units. The number of employees in the Engine Systems business unit decreased. As a supplier for vehicles with diesel engines and smaller gasoline engines, this business unit is impacted by the continuing downward trend on the European sales market.

# Development of the Divisions: Interior

› Sales up 2.7%
› Sales up 6.0% before changes in the scope of consolidation and exchange rate effects
› Adjusted EBIT up 0.4%

**Sales volumes**
Sales volumes in the Body & Security business unit were above the previous year's level in 2013. Declines on the Western European market were compensated by increases on both the North American and the Asian market. Particularly high increases were achieved for access control systems and door control units. Unit sales of audio components were down in 2013 in the Infotainment & Connectivity business unit. This was primarily due to declining demand in Europe, while Asia recorded a slight increase. Unit sales of multimedia systems picked up significantly in Asia and on the U.S. market on account of new products. There was a decline in the device connectivity segment that was countered by an increase in the telematics segment. Sales volumes in the Commercial Vehicles & Aftermarket business unit were slightly above the previous year's level. This was mainly due to moderately better replacement parts and aftermarket activities and a slight upturn in original equipment business in Western Europe. In the Instrumentation & Driver HMI business unit, sales figures increased in comparison to the previous year. The highest growth was attributable to sales volumes of instrument clusters, with stable demand on the European market and constant growth in North America and Asia.

**Sales up 2.7%; sales up 6.0% before changes in the scope of consolidation and exchange rate effects**
Sales in the Interior division rose by 2.7% year-on-year to €6,605.7 million (PY: €6,434.2 million) in 2013. Before changes in the scope of consolidation and exchange rate effects, sales rose by 6.0%.

**Adjusted EBIT up 0.4%**
The Interior division's adjusted EBIT increased by €2.2 million or 0.4% year-on-year in 2013 to €585.3 million (PY: €583.1 million), equivalent to 8.9% (PY: 9.1%) of adjusted sales.

**EBIT down 8.0%**
In comparison to the previous year, the Interior division posted a decrease in EBIT of €32.9 million or 8.0% to €380.6 million (PY: €413.5 million) in 2013. The return on sales declined to 5.8% (PY: 6.4%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 9.5% (PY: 9.6%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €182.7 million (PY: €206.1 million).

**Special effects in 2013**
As at January 29, 2013, Continental sold its shares in S-Y Systems Technologies Europe GmbH, Regensburg, Germany, to Yazaki Europe Ltd., Hertfordshire, U.K. The transaction resulted in income of €54.6 million in the Interior division.

On July 10, 2013, the European Commission imposed fines on a number of automotive suppliers for anti-competitive conduct in the field of supplying wire harnesses for automotive applications. These companies included S-Y Systems Technologies Europe GmbH, Regensburg, Germany, and its French subsidiary, which must pay a fine of €11.1 million due to cartel agreements with regard to one automotive manufacturer. Since Continental held a 50% share of S-Y Systems Technologies Europe GmbH, Regensburg, Germany, until January 29, 2013, a provision of €9.0 million was recognized in the Interior division based upon contingent liabilities.

The annual impairment test on goodwill resulted in an impairment loss of €40.0 million in the Interior division.

The reversal of restructuring provisions no longer required resulted in a positive special effect of €13.8 million.

Activities were concluded and restructured in one product segment within the Infotainment & Connectivity business unit. Expenses totaling €39.4 million were incurred in this context, of which €7.4 million was attributable to impairment of property, plant and equipment, and €0.1 million to impairment of intangible assets. This affected the locations in Manaus, Brazil (€13.2 million), Bizerte, Tunisia (€10.0 million), Wetzlar, Germany (€7.0 million), Rambouillet, France (€2.0 million), Nogales, Mexico (€1.9 million), Tianjin, China (€1.6 million), Melbourne, Australia (€1.4 million), Guarulhos, Brazil (€1.4 million), and Deer Park, Illinois, U.S.A. (€0.9 million).

As part of an asset deal effective July 1, 2013, Continental Automotive Trading France SAS, Rambouillet, France, sold its cockpit activities in the Instrumentation & Driver HMI business unit at the location in Hambach, France, to SAS Automotive France SAS, Voisins le Bretonneux, France. This transaction resulted in a positive special effect in the amount of €0.2 million.

Special effects in 2013 had a negative impact totaling €19.8 million in the Interior division.

| Interior in € millions | 2013 | 2012 | Δ in % |
|---|---|---|---|
| Sales | 6,605.7 | 6,434.2 | 2.7 |
| EBITDA | 850.2 | 853.3 | -0.4 |
| in % of sales | 12.9 | 13.3 | |
| EBIT | 380.6 | 413.5 | -8.0 |
| in % of sales | 5.8 | 6.4 | |
| Research and development expenses | 492.0 | 446.1 | 10.3 |
| in % of sales | 7.4 | 6.9 | |
| Depreciation and amortization[1] | 469.6 | 439.8 | 6.8 |
| - thereof impairment[2] | 47.5 | 1.1 | 4,218.2 |
| Operating assets as at December 31 | 3,751.7 | 4,176.2 | -10.2 |
| EBIT in % of operating assets as at December 31 | 10.1 | 9.9 | |
| Operating assets (average) | 3,989.4 | 4,313.0 | -7.5 |
| EBIT in % of operating assets (average) | 9.5 | 9.6 | |
| Capital expenditure[3] | 253.3 | 257.1 | -1.5 |
| in % of sales | 3.8 | 4.0 | |
| Number of employees as at December 31[4] | 34,368 | 33,074 | 3.9 |
| | | | |
| Adjusted sales[5] | 6,600.5 | 6,382.7 | 3.4 |
| Adjusted operating result (adjusted EBIT)[6] | 585.3 | 583.1 | 0.4 |
| in % of adjusted sales | 8.9 | 9.1 | |

*1 Excluding impairment on financial investments.*
*2 Impairment also includes necessary reversal 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 purchase price allocation (PPA), changes in the scope of consolidation, and special effects.*

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

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

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

### Procurement
The year 2013 was characterized by stable procurement markets. The growing demand for electronic and electromechanical components was met by the suppliers at all times. Production and customer supplies were continuously ensured. In keeping with active risk management, the ordering systems were improved and the further establishment of alternative supply sources was expanded.

### Research and development
Research and development expenses rose by €45.9 million or 10.3% year-on-year to €492.0 million (PY: €446.1 million) and amounted to 7.4% (PY: 6.9%) of sales.

### Depreciation and amortization
Depreciation and amortization rose by €29.8 million compared to fiscal 2012 to €469.6 million (PY: €439.8 million) and amounted to 7.1% (PY: 6.8%) of sales. This included impairment losses totaling €47.5 million (PY: €1.1 million) in 2013.

### Operating assets
Operating assets in the Interior division declined by €424.5 million year-on-year to €3,751.7 million (PY: €4,176.2 million) as at December 31, 2013.

Working capital posted a decrease of €29.7 million to €527.5 million (PY: €557.2 million). Inventories decreased by €17.1 million to €545.7 million (PY: €562.8 million). Operating receivables increased by €52.2 million to €963.4 million (PY: €911.2 million) as at the reporting date. Operating liabilities were up €64.8 million at €981.6 million (PY: €916.8 million).

Non-current operating assets amounted to €3,549.5 million (PY: €3,817.6 million), down €268.1 million in comparison to the previous year. Goodwill declined by €70.3 million to €2,154.0 million (PY: €2,224.3 million) due to an impairment loss of €40.0 million resulting from the annual impairment test and exchange rate effects of €30.3 million. Property, plant and equipment, at €1,036.3 million, was slightly above the previous year's level of €1,035.6 million. Other intangible assets fell by €195.7 million to €268.5 million (PY: €464.2 million). This was mainly due to the amortization of intangible assets from the purchase price allocation (PPA) in the amount of €182.7 million (PY: €206.1 million).

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

Exchange rate effects reduced the Interior division's total operating assets by €90.5 million (PY: €7.6 million) in the year under review.

Average operating assets in the Interior division decreased by €323.6 million to €3,989.4 million in comparison to fiscal 2012 (€4,313.0 million).

**Capital expenditure (additions)**

Additions to the Interior division decreased by €3.8 million year-on-year to €253.3 million (PY: €257.1 million). Capital expenditure amounted to 3.8% (PY: 4.0%) of sales.

Investments focused primarily on the expansion of manufacturing capacity for the Body & Security and Instrumentation & Driver HMI business units. Investments were made in production capacity at the German locations and in China, Mexico, Romania, and the Czech Republic.

**Employees**

The number of employees in the Interior division rose by 1,294 to 34,368 (PY: 33,074). In line with the sales performance, the recovery of global commercial vehicle business and the further expansion of research and development, the number of employees in the Body & Security, Instrumentation & Driver HMI and Commercial Vehicles & Aftermarket business units increased. In the Infotainment & Connectivity business unit, there was a decrease in the number of employees as a result of restructuring and consolidation programs, particularly at the locations in Bizerte, Tunisia, and Manaus, Brazil.

# Key Figures for the Rubber Group

| Rubber Group in € millions | 2013 | 2012 | Δ in % |
|---|---|---|---|
| Sales | 13,355.5 | 13,261.7 | 0.7 |
| EBITDA | 2,714.0 | 2,564.0 | 5.9 |
| in % of sales | 20.3 | 19.3 | |
| EBIT | 2,214.8 | 2,120.1 | 4.5 |
| in % of sales | 16.6 | 16.0 | |
| Research and development expenses | 289.3 | 269.5 | 7.3 |
| in % of sales | 2.2 | 2.0 | |
| Depreciation and amortization[1] | 499.2 | 443.9 | 12.5 |
| – thereof impairment[2] | -1.1 | -25.1 | 95.6 |
| Operating assets as at December 31 | 5,545.0 | 5,333.7 | 4.0 |
| EBIT in % of operating assets as at December 31 | 39.9 | 39.7 | |
| Operating assets (average) | 5,913.3 | 5,590.7 | 5.8 |
| EBIT in % of operating assets (average) | 37.5 | 37.9 | |
| Capital expenditure[3] | 964.6 | 981.2 | -1.7 |
| in % of sales | 7.2 | 7.4 | |
| Number of employees as at December 31[4] | 74,233 | 70,734 | 4.9 |
| | | | |
| Adjusted sales[5] | 13,184.3 | 13,261.7 | -0.6 |
| Adjusted operating result (adjusted EBIT)[6] | 2,256.0 | 2,091.6 | 7.9 |
| in % of adjusted sales | 17.1 | 15.8 | |

*1 Excluding impairment on financial investments.*
*2 Impairment also includes necessary reversal 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 purchase price allocation (PPA), changes in the scope of consolidation, and special effects.*

# Development of the Divisions: Tires

› Sales down 0.8%
› Sales up 1.7% before changes in the scope of consolidation and exchange rate effects
› Adjusted EBIT up 9.2%

**Sales volumes**
Sales volumes of passenger and light truck tires were up year-on-year in both OEM business and tire replacement business. In the APAC region (Asia and Pacific), sales figures climbed by a double-digit percentage. Passenger and light truck tire replacement business in The Americas (North, Central and South America) also generated growth in sales volumes. The EMEA region (Europe, Middle East and Africa) was at the previous year's level. In the commercial vehicle tire business, sales figures climbed by around 6% as compared to the same period of the previous year.

**Sales down 0.8%; sales up 1.7% before changes in the scope of consolidation and exchange rate effects**
Sales in the Tire division fell by 0.8% year-on-year to €9,583.2 million (PY: €9,665.0 million) in 2013. Before changes in the scope of consolidation and exchange rate effects, sales rose by 1.7%.

**Adjusted EBIT up 9.2%**
The Tire division's adjusted EBIT rose by €150.4 million or 9.2% year-on-year in 2013 to €1,790.7 million (PY: €1,640.3 million), equivalent to 18.7% (PY: 17.0%) of adjusted sales.

**EBIT up 5.2%**
In comparison to the previous year, the Tire division posted an increase in EBIT of €86.2 million, or 5.2%, to €1,752.7 million (PY: €1,666.5 million) in 2013. The return on sales rose to 18.3% (PY: 17.2%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 37.7% (PY: 37.6%).

**Special effects in 2013**
In connection with the cessation of passenger tire production at the plant in Clairoix, France, a large number of employees at Continental France SNC, Sarreguemines, France, had filed claims with the industrial tribunals in Compiègne and Soissons, France, against this subsidiary company and, in some cases, against Continental AG as well. On August 30, 2013, the industrial tribunal in Compiègne ordered Continental France SNC and Continental AG to pay damages for the allegedly unlawful dismissal of the employees. Continental still considers the plaintiffs' claims to be unfounded and has appealed the tribunal's ruling. Nonetheless, a provision of €40.5 million in total was recognized in the Tire division.

As part of the step acquisition of the SACI Group (Société Alsacienne de Commerce et d'Investissement, Colmar, France), the market value adjustment of the shares previously held resulted in income of €7.9 million in the Tire division.

Reversal of impairment losses and impairment losses on property, plant and equipment resulted in a positive effect totaling €1.3 million.

Special effects in 2013 had a negative impact totaling €31.3 million in the Tire division.

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

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

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

**Procurement**
The Tire division benefited from lower prices for production materials in comparison to the previous year. The price for natural rubber was down 20% year-on-year, based on the SICOM quotations for the type TSR 20. Between the second and third quarters in particular, there were considerably lower price fluctuations in comparison to previous quarters. Despite the expansive monetary policy adopted by the central banks in the U.S.A. and Europe, the additional capital mostly did not go into commodity markets. Instead, investors generally preferred to invest it in the stock market. The price for butadiene, an important raw material for many types of synthetic rubber, fell by an average of 38% year-on-year in 2013 for contracts in Europe. In the Americas and Asia, butadiene prices decreased by 39% and 33% respectively in comparison to the previous year. The decline in prices was attributable to a lack of demand in connection with new production capacity, especially for synthetic rubber, that began operations during 2013.

**Research and development**
Research and development expenses rose by €9.6 million or 4.9% year-on-year to €204.7 million (PY: €195.1 million) and amounted to 2.1% (PY: 2.0%) of sales.

| Tires in € millions | 2013 | 2012 | Δ in % |
|---|---|---|---|
| Sales | 9,583.2 | 9,665.0 | -0.8 |
| EBITDA | 2,137.7 | 2,005.1 | 6.6 |
| in % of sales | 22.3 | 20.7 | |
| EBIT | 1,752.7 | 1,666.5 | 5.2 |
| in % of sales | 18.3 | 17.2 | |
| Research and development expenses | 204.7 | 195.1 | 4.9 |
| in % of sales | 2.1 | 2.0 | |
| Depreciation and amortization[1] | 385.0 | 338.6 | 13.7 |
| – thereof impairment[2] | -1.3 | -25.1 | 94.8 |
| Operating assets as at December 31 | 4,309.3 | 4,154.3 | 3.7 |
| EBIT in % of operating assets as at December 31 | 40.7 | 40.1 | |
| Operating assets (average) | 4,645.8 | 4,430.8 | 4.9 |
| EBIT in % of operating assets (average) | 37.7 | 37.6 | |
| Capital expenditure[3] | 798.6 | 830.2 | -3.8 |
| in % of sales | 8.3 | 8.6 | |
| Number of employees as at December 31[4] | 44,508 | 42,524 | 4.7 |
| | | | |
| Adjusted sales[5] | 9,552.7 | 9,665.0 | -1.2 |
| Adjusted operating result (adjusted EBIT)[6] | 1,790.7 | 1,640.3 | 9.2 |
| in % of adjusted sales | 18.7 | 17.0 | |

*1 Excluding impairment on financial investments.*
*2 Impairment also includes necessary reversal 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 purchase price allocation (PPA), changes in the scope of consolidation, and special effects.*

### Depreciation and amortization

Depreciation and amortization rose by €46.4 million as compared to fiscal 2012 to €385.0 million (PY: €338.6 million) and amount to 4.0% (PY: 3.5%) of sales. This included reversal of impairment losses totaling €1.3 million (PY: €25.1 million) in 2013.

### Operating assets

Operating assets in the Tire division increased by €155.0 million year-on-year to €4,309.3 million (PY: €4,154.3 million) as at December 31, 2013.

The Tire division posted a €37.6 million decline in working capital to €1,842.4 million (PY: €1,880.0 million). Inventories decreased by €151.1 million to €1,291.2 million (PY: €1,442.3 million). Operating receivables increased by €81.1 million to €1,681.8 million (PY: €1,600.7 million) as at the reporting date. Operating liabilities were down €32.4 million at €1,130.6 million (PY: €1,163.0 million).

Non-current operating assets amounted to €3,192.2 million (PY: €2,907.0 million), up €285.2 million in comparison to the previous year. This increase was primarily due to the €257.3 million rise in property, plant and equipment to €2,945.6 million (PY: €2,688.3 million). Goodwill increased by €23.4 million to €97.2 million (PY: €73.8 million). With exchange rate effects having the opposite impact, this development was mainly attributable in the amount of €19.4 million to the acquisition of additional shares in the SACI Group (Société Alsacienne de Commerce et d'Investissement, Colmar, France).

Overall, the acquisition of the remaining shares in the SACI Group by Continental Holding France SAS, Sarreguemines, France, as part of a share deal resulted in a €44.8 million rise in the Tire division's operating assets. Other changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets.

Exchange rate effects reduced the Tire division's total operating assets by €251.4 million in the year under review. In the previous year, this effect had reduced operating assets by €53.7 million.

Average operating assets in the Tire division increased by €215.0 million to €4,645.8 million compared with fiscal 2012 (€4,430.8 million).

**Capital expenditure (additions)**
Additions to the Tire division decreased by €31.6 million year-on-year to €798.6 million (PY: €830.2 million). Capital expenditure amounted to 8.3% (PY: 8.6%) of sales.

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

**Employees**
The number of employees in the Tire division increased by 1,984 to 44,508 (PY: 42,524). At the production companies, the increase in staff numbers was due in particular to the recruitment of additional staff in connection with the start-up of the two new passenger and light truck tire plants in Kaluga, Russia, and Sumter, South Carolina, U.S.A. Furthermore, the increase in the number of employees is also attributable to expansion projects at retail companies and the adjustment of sales, development and administrative functions in line with the more globalized market focus.

# Development of the Divisions: ContiTech

› Sales up 4.5%
› Sales up 2.0% before changes in the scope of consolidation and exchange rate effects
› Adjusted EBIT up 3.1%

**Sales up 4.5%; sales up 2.0% before changes in the scope of consolidation and exchange rate effects**
Sales in the ContiTech division rose by 4.5% year-on-year to €3,878.3 million (PY: €3,711.8 million) in 2013. Before changes in the scope of consolidation and exchange rate effects, sales rose by 2.0%.

Both automotive replacement business and original equipment (OE) business generated growth in sales in 2013. In industry business, the Compounding Technology business unit recorded a decline in comparison to the same period of the previous year. Before consolidation changes, the other business units with non-OE automotive exposure posted a slight drop in sales overall.

**Adjusted EBIT up 3.1%**
The ContiTech division's adjusted EBIT rose by €14.0 million or 3.1% year-on-year in 2013 to €465.3 million (PY: €451.3 million), equivalent to 12.4% (PY: 12.2%) of adjusted sales.

**EBIT up 1.9%**
Compared with the previous year, the ContiTech division posted an increase in EBIT of €8.5 million or 1.9% to €462.1 million (PY: €453.6 million) in 2013. The return on sales declined to 11.9% (PY: 12.2%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 36.5% (PY: 39.1%).

**Special effects in 2013**
Special effects in 2013 had a negative impact totaling €0.3 million in the ContiTech division. This included impairment losses on property, plant and equipment totaling €0.2 million.

**Special effects in 2012**
The acquisition of the molded brake components business of Freudenberg Sealing Technologies GmbH & Co. KG, Weinheim, Germany, resulted in income from a negative difference arising as part of the preliminary purchase price allocation and totaling €11.5 million.

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

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

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

**Procurement**
Like the Tire division, ContiTech benefited from lower raw material prices in comparison to the previous year. With a higher share of synthetic rubber at ContiTech, there was a positive impact from the lower prices for butadiene in particular, but also from the declining markets for other specialty rubbers.

**Research and development**
Research and development expenses rose by €10.2 million or 13.7% year-on-year to €84.6 million (PY: €74.4 million), or 2.2% (PY: 2.0%) of sales.

**Depreciation and amortization**
Depreciation and amortization rose by €8.9 million as compared to fiscal 2012 to €114.2 million (PY: €105.3 million) and amounted to 2.9% (PY: 2.8%) of sales. This included impairment losses totaling €0.2 million in 2013. There were no significant impairment losses in fiscal 2012.

**Operating assets**
Operating assets in the ContiTech division increased by €56.3 million year-on-year to €1,235.7 million (PY: €1,179.4 million) as at December 31, 2013.

Working capital was up €5.9 million at €546.5 million (PY: €540.6 million). Inventories increased by €16.2 million to €400.1 million (PY: €383.9 million). Operating receivables increased by €22.7 million to €588.1 million (PY: €565.4 million) as at the reporting date. Operating liabilities were up €33.0 million at €441.7 million (PY: €408.7 million).

Non-current operating assets amounted to €857.7 million (PY: €792.4 million), up €65.3 million compared with the previous year. This increase was primarily due to the €53.2 million rise in property, plant and equipment to €706.5 million (PY: €653.3 million). Goodwill increased by €5.1 million to €90.2 million (PY: €85.1 million), mainly due to the acquisition of various business operations which was partially offset by exchange rate effects.

| ContiTech in € millions | 2013 | 2012 | Δ in % |
|---|---|---|---|
| Sales | 3,878.3 | 3,711.8 | 4.5 |
| EBITDA | 576.3 | 558.9 | 3.1 |
| in % of sales | 14.9 | 15.1 | |
| EBIT | 462.1 | 453.6 | 1.9 |
| in % of sales | 11.9 | 12.2 | |
| Research and development expenses | 84.6 | 74.4 | 13.7 |
| in % of sales | 2.2 | 2.0 | |
| Depreciation and amortization[1] | 114.2 | 105.3 | 8.5 |
| – thereof impairment[2] | 0.2 | 0.0 | 1,690.9 |
| Operating assets as at December 31 | 1,235.7 | 1,179.4 | 4.8 |
| EBIT in % of operating assets as at December 31 | 37.4 | 38.5 | |
| Operating assets (average) | 1,267.5 | 1,159.9 | 9.3 |
| EBIT in % of operating assets (average) | 36.5 | 39.1 | |
| Capital expenditure[3] | 166.0 | 151.0 | 9.9 |
| in % of sales | 4.3 | 4.1 | |
| Number of employees as at December 31[4] | 29,725 | 28,210 | 5.4 |
| | | | |
| Adjusted sales[5] | 3,737.6 | 3,711.8 | 0.7 |
| Adjusted operating result (adjusted EBIT)[6] | 465.3 | 451.3 | 3.1 |
| in % of adjusted sales | 12.4 | 12.2 | |

*1 Excluding impairment on financial investments.*
*2 Impairment also includes necessary reversal 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 purchase price allocation (PPA), changes in the scope of consolidation, and special effects.*

The acquisition of 100% of the shares in Legg Company, Inc., Halstead, Kansas, U.S.A., by ContiTech North America, Inc., Wilmington, Delaware, U.S.A., as part of a share deal increased the ContiTech division's operating assets by €29.6 million. In addition, the acquisition of certain operations of Metso Minerals, Inc., Helsinki, Finland, as part of an asset deal increased operating assets by €7.8 million. Other changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets.

Exchange rate effects reduced the ContiTech division's total operating assets by €35.2 million in the fiscal year. In the previous year, this effect had reduced operating assets by €1.0 million.

Average operating assets in the ContiTech division climbed by €107.6 million to €1,267.5 million in comparison to fiscal 2012 (€1,159.9 million).

**Capital expenditure (additions)**
Additions to the ContiTech division rose by €15.0 million year-on-year to €166.0 million (PY: €151.0 million). Capital expenditure amounted to 4.3% (PY: 4.1%) of sales.

ContiTech invested in rationalizing production processes and expanding production capacity for new products. In addition to investments in Germany, the production facilities in China, Brazil, India and the U.S.A. in particular were expanded. In Kaluga, Russia; Macae, Brazil; and Subotica, Serbia, investments were made in the establishment of new plants for the Fluid Technology business unit.

**Employees**
The number of employees in the ContiTech division increased by 1,515 compared with the previous year to 29,725 (PY: 28,210). This increase was due to volume increases in the Benecke-Kaliko Group, Fluid Technology, Power Transmission Group, and Air Spring Systems business units. In addition, the acquisition of the conveyor belt division of Metso Minerals, Inc., Helsinki, Finland, and of the conveyor belt manufacturer Legg Company, Inc., Halstead, Kansas, U.S.A., led to a further increase in employee numbers in the Conveyor Belt Group business unit.

# 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, *Handelsgesetzbuch – HGB)* and the German Stock Corporation Act *(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.

Continental AG acts solely as a management and holding company for the Continental Corporation. In order to duly reflect the nature of Continental AG as a holding company, its net investment income is presented as its primary earnings figure.

Total assets declined by €551.0 million year-on-year to €17,813.6 million (PY: €18,364.6 million). On the assets side, the change is primarily due to the €679.3 million decrease in receivables from affiliated companies. Offsetting this, cash and cash equivalents rose by €87.2 million.

| **Net assets and financial position of Continental AG** | **Dec. 31, 2013** | Dec. 31, 2012 |
|---|---|---|
| **Assets in € millions** | | |
| Intangible assets | 17.3 | 12.3 |
| Property, plant and equipment | 1.5 | 1.2 |
| Investments | 11,082.2 | 11,059.9 |
| **Non-current assets** | **11,101.0** | **11,073.4** |
| Inventories | 0.0 | 0.0 |
| Receivables and other assets | 6,174.1 | 6,849.4 |
| Short-term securities | 0.0 | 0.0 |
| Cash and cash equivalents | 503.4 | 416.2 |
| **Current assets** | **6,677.5** | **7,265.6** |
| **Prepaid expenses and deferred charges** | **35.1** | **25.6** |
| **Total assets** | **17,813.6** | **18,364.6** |
| | | |
| **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 brought forward from the previous year | 416.5 | 208.5 |
| Net income | 496.9 | 658.0 |
| **Shareholders' equity** | **5,659.2** | **5,612.3** |
| **Provisions** | **724.3** | **722.7** |
| **Liabilities** | **11,430.1** | **12,029.5** |
| **Deferred income** | **0.0** | **0.1** |
| **Total equity and liabilities** | **17,813.6** | **18,364.6** |
| | | |
| Gearing ratio in % | 91.7 | 90.7 |
| Equity ratio in % | 31.8 | 30.6 |

Investments increased by €22.3 million as compared to the previous year to €11,082.2 million (PY: €11,059.9 million) and now account for 62.2% of total assets after 60.2% in the previous year.

At €35.1 million (PY: €25.6 million), prepaid expenses were up €9.5 million. This increase resulted in particular from expenses incurred in connection with the renegotiation of the syndicated loan with a total volume of €4.5 billion.

On the equity and liabilities side, liabilities to affiliated companies decreased by €1,584.0 million year-on-year to €7,305.0 million (PY: €8,889.0 million), corresponding to 17.8%. This decline primarily resulted from the early redemption of the four bonds with a total volume of €3,000.0 million issued via Conti-Gummi Finance B.V., Maastricht, Netherlands, in fiscal 2010 and transferred to Continental AG via intragroup loans. Furthermore, bank loans and overdrafts decreased by €589.5 million to €2,031.7 million (PY: €2,621.2 million). This decrease is particularly due to the €782.1 million lower utilization of the syndicated loan as at December 31, 2013. Offsetting this, bonds increased by €1,606.1 million to €2,065.8 million (PY: €459.7 million). This increase chiefly resulted from the euro bonds issued by Continental AG for refinancing purposes on July 9, 2013, and on September 2, 2013, with an issue volume of €750.0 million each and from a bond issued in a private placement on August 29, 2013, with a volume of €50.0 million.

Provisions increased by €1.6 million to €724.3 million (PY: €722.7 million), primarily due to the €20.7 million rise in other provisions and the €10.4 million rise in provisions for pension liabilities and similar obligations. Offsetting this, tax provisions fell by €29.6 million.

Equity increased by €46.9 million to €5,659.2 million (PY: €5,612.3 million). The decrease as a result of the dividend payment for 2012 in the amount of €450.0 million was offset by the net income of €496.9 million generated in fiscal 2013. The equity ratio therefore rose from 30.6% to 31.8%.

Net investment income decreased by €343.7 million year-on-year to €1,105.1 million (PY: €1,448.8 million). In the previous year, net investment income had included gains from intragroup company disposals amounting to €352.3 million. Net investment income for the year under review includes gains from the disposal of an investment in the amount of €175.6 million. As in the previous year, it mainly consisted of profit and loss transfers from the subsidiaries. The income from profit transfers essentially resulted from the German companies Continental Automotive GmbH, Hanover, in the amount of €599.2 million, Continental Caoutchouc-Export-GmbH, Hanover, in the amount of €349.9 million, and Formpolster GmbH, Hanover, in the amount of €157.7 million. This was partly offset by expenses from loss transfers from UMG Beteiligungsgesellschaft mbH, Hanover, in the amount of €35.3 million.

As in the previous year, other operating income and other operating expenses particularly include expenses and income from corporate overheads and cost credits and charges from or for other subsidiaries. In addition, other operating expenses include premiums for the early redemption of the four bonds issued via Conti-Gummi Finance B.V., Maastricht, Netherlands, in fiscal 2010 and transferred to Continental AG via intragroup loans in the amount of €112.0 million.

Net interest expense improved by €122.2 million year-on-year to €278.1 million in fiscal 2013 (PY: €400.3 million). The €154.1 million decline in interest expenses to €326.3 million (PY: €480.4 million) is primarily due to a lower utilization of the syndicated loan in comparison to the previous year and the lower year-on-year average level of market interest rates and margins. The interest rate level of the euro bonds issued in the third quarter of 2013 remains considerably lower than that of the bonds redeemed early that were issued via Conti-Gummi Finance B.V., Maastricht, Netherlands, in fiscal 2010 and transferred to Continental AG via intragroup loans.

Tax expense amounted to €24.5 million (PY: €149.2 million). The previous year's tax expense was negatively influenced by deferrals for previous years.

After taking this tax expense into account, Continental AG posted net income for the year of €496.9 million (PY: €658.0 million). The after-tax return on equity was 8.8% (PY: 11.7%).

Taking into account the profit carryforward from the previous year of €416.5 million, retained earnings amounted to €913.4 million. The Supervisory Board and the Executive Board will propose to the Annual Shareholders' Meeting the distribution of a dividend of €2.50 per share. With 200,005,983 shares entitled to dividends, the total distribution will therefore amount to €500,014,957.50. The remaining amount is to be carried forward to new account.

We expect a slight decline in the income from profit and loss transfers from the subsidiaries in fiscal 2014.

| **Statement of income of Continental AG in € millions** | **2013** | 2012 |
|---|---|---|
| **Net investment income** | **1,105.1** | **1,448.8** |
| General administrative expenses | 101.7 | 79.0 |
| Other operating income | 119.7 | 116.1 |
| Other operating expenses | 336.5 | 290.2 |
| Income from other securities and long-term loans | 12.9 | 11.8 |
| Net interest expense | -278.1 | -400.3 |
| **Result from ordinary activities** | **521.4** | **807.2** |
| Income tax expense | -24.5 | -149.2 |
| **Net income** | **496.9** | **658.0** |
| Accumulated profits brought forward from the previous year | 416.5 | 208.5 |
| **Retained earnings** | **913.4** | **866.5** |

# Report Pursuant to Section 289 (4) and Section 315 (4) of *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. **Shareholdings exceeding 10% of voting rights**
   For details of the equity interests exceeding ten percent of the voting rights (reported level of equity interest), please refer to the notice in accordance with the German Securities Trading Act *(Wertpapierhandelsgesetz – WpHG)* under Note 39 to the consolidated financial statements.

3. **Bearers of shares with privileges**
   There are no shares with privileges granting control.

4. **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.

5. **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 Co-determination 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.

6. **Authorizations of the Executive Board, particularly with regard to its options for issuing or withdrawing shares**
   6.1 The Executive Board can issue new shares only on the basis of resolutions by the Shareholders' Meeting.

   a) By way of resolution of the Annual Shareholders' Meeting of April 23, 2009 (Article 4 (2) of the Articles of Incorporation), the Executive Board is authorized, with the approval of the Supervisory Board, to increase the share capital by up to €66.0 million by issuing up to 25,781,250 new shares against cash or non-cash contributions by April 22, 2014 (Authorized Capital 2009).

   In doing so, the Executive Board may exclude shareholders' pre-emptive rights with the approval of the Supervisory Board,

   (1) if this is necessary in order to exclude any fractional amounts from shareholders' pre-emptive rights;

   (2) if this is necessary in order to ensure that holders of option or conversion rights from warrant-linked bonds or convertible bonds are granted pre-emptive rights to new shares to the extent they would have been entitled after exercising their option or conversion rights or meeting the conversion requirement as shareholders;

   (3) if capital is increased against cash contributions and the entire pro rata amount relating to shares issued on the basis of this authorization exceeds neither the amount of €43.265 million nor the amount of 10% of share capital at the time of this authorization first being exercised ("maximum amount") and the issue price of the new shares is not significantly less than the quoted price of shares of the same type already listed at the time the issue price is conclusively established. The pro rata amount of share capital relating to new or previously acquired treasury shares issued or sold during the term of this authorization

with the simplified disapplication of pre-emptive rights as per or in accordance with Section 186 (3) Sentence 4 *AktG*, and the pro rata amount of share capital relating to shares that can or must be subscribed to on the basis of option or conversion rights or requirements issued during the term of this authorization with pre-emptive rights disapplied in accordance with Section 186 (3) Sentence 4 *AktG*, mutatis mutandis, must be deducted from this maximum amount;

(4) if new shares are issued against contributions in kind and the pro rata amount of share capital relating to the new shares does not exceed 10% of the share capital at the time of this authorization taking effect.

b) By way of resolution of the Annual Shareholders' Meeting of April 27, 2012 (Article 4 (3) of the Articles of Incorporation), the Executive Board is authorized, with the approval of the Supervisory Board, to increase the share capital by up to €70.0 million by issuing new shares against cash or non-cash contributions by April 26, 2015 (Authorized Capital 2012).

In doing so, the Executive Board may exclude shareholders' pre-emptive rights with the approval of the Supervisory Board,

(1) if this is necessary in order to exclude any fractional amounts from shareholders' pre-emptive rights;

(2) if this is necessary in order to ensure that holders of option or conversion rights from warrant-linked bonds or convertible bonds are granted pre-emptive rights to new shares to the extent they would have been entitled after exercising their option or 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 shares to be issued and already issued against cash contributions using this authorization and disapplying pre-emptive rights exceeds neither the amount of €51.0 million nor the amount of 10% of share capital at the time of this authorization being exercised ("maximum amount") and the issue price of the new shares is not significantly less than the quoted price of shares of the same type already listed at the time the issue price is conclusively established. The pro rata amount of share capital relating to new or previously acquired treasury shares issued or sold during the term of this authorization with the simplified disapplication of pre-emptive rights as per or in accordance with Section 186 (3) Sentence 4 *AktG*, and the pro rata amount of share capital relating to shares that can or must be subscribed to on the basis of option or conversion rights or requirements issued during the term of this authorization with pre-emptive rights disapplied in accordance with Section 186 (3) Sentence 4 *AktG*, mutatis mutandis, must be deducted from this maximum amount.

c) The authorization of the Executive Board to issue new shares to the beneficiaries of the 2008 stock option plan resolved by the Annual Shareholders' Meeting in accordance with the conditions of this plan expired on April 24, 2013. There are no longer any subscription rights from the 2008 stock option plan or the 2004 stock option plan and no more subscription rights can be issued from these stock option plans.

d) Finally, on the basis of the contingent capital in place in accordance with Article 4 (6) of the Articles of Incorporation, the Executive Board may issue up to 19,921,875 shares to the bearers or creditors of convertible bonds and/or warrant-linked bonds, participation rights and/or income bonds (or combinations of these instruments) that are issued by the company, or by domestic or foreign companies in which it directly or indirectly holds a majority interest, on the basis of the authorization resolved by the Annual Shareholders' Meeting of April 27, 2012, and that grant a conversion or option right in relation to bearer shares of the company or stipulate a conversion requirement. To date, none of the above rights have been issued on the basis of this authorization.

6.2 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*.

**7. Material agreements of the company subject to a change of control following a takeover bid and their consequences**

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

a) The agreement concluded on January 22, 2013, for a syndicated loan of €4.5 billion grants each creditor the right to terminate the agreement prematurely and to demand repayment of the loans granted by it if one person or several persons acting in concert acquire control of Continental AG and subsequent negotiations concerning a continuation of the loan do not lead to an agreement. The term "control" is defined as the holding of more than 50% of the voting rights or if Continental AG concludes a domination agreement as defined under Section 291 *AktG* with Continental AG as the company dominated.

b) The bonds issued by Continental AG on July 9 and on September 2, 2013, at a nominal amount of €750 million each, the bond issued by a subsidiary of Continental AG, Conti-Gummi Finance B.V., Maastricht, Netherlands, on

September 12, 2013, also at a nominal amount of €750 million, and guaranteed by Continental AG, and the bond issued by another subsidiary of Continental AG, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., on September 24, 2012, at a nominal amount of U.S. $950 million entitle each bondholder to demand that the respective issuer redeem or acquire the bonds held by the bondholder at a price established in the bond conditions in the event of a change of control at Continental AG. The bond conditions define a change of control as one person or several persons acting in concert, pursuant to Section 2 (5) of the German Takeover Code *(Wertpapiererwerbs- und Übernahmegesetz – WpÜG)*, holding more than 50% of the voting rights in Continental AG by means of acquisition or as a result of a merger or other form of combination with the participation of Continental AG. The holding of voting rights by Schaeffler GmbH (operating as Schaeffler AG following the change in its legal form), its legal successor or its affiliated companies does not constitute a change of control within the meaning of the bond conditions.

If a change of control occurs as described in the agreements above and a contractual partner or bondholder exercises its respective rights, it is possible that required follow-up financing may not be approved under the existing conditions, which could therefore lead to higher financing costs.

c) In 1996, Compagnie Financière du Groupe Michelin, “Senard et Cie”, Granges-Paccot, Switzerland, and Continental AG founded MC Projects B.V., Maastricht, 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 Continental Barum 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 division and a reduction in the production capacity available to it.

**8. 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 40. The Remuneration Report is a part of the Management Report.

# Report on Subsequent Events

As at February 11, 2014, there were no events or developments that could have materially affected the measurement and presentation of individual asset and liability items as at December 31, 2013.

# 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 2013, Continental AG was a dependent company of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, as defined under Section 312 *AktG*. In line with Section 312 (1) *AktG*, the Executive Board of Continental AG has prepared a report on relations with affiliated companies, which contains the following final declaration:

"We declare that the company received an appropriate consideration for each transaction and measure listed in the report on relations with affiliated companies from January 1 to December 31, 2013, 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 2013 fiscal year. The company did not suffer any detriment because of taking or refraining from measures."

# Corporate Governance Declaration Pursuant to Section 289a of *HGB*

The Corporate Governance Declaration pursuant to Section 289a of the German Commercial Code *(Handelsgesetzbuch – HGB)* is available to our shareholders at www.continental-corporation.com under the Corporate Governance section of our Investor Relations site.

# Report on Risks and Opportunities

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

The management of the Continental Corporation is geared towards creating added value and ensuring a well-balanced financing structure. For us, this means sustainably increasing the value of each individual business unit and the corporation as a whole. The aim is that Continental generates a long-term return on capital that exceeds our weighted-average costs of capital. We evaluate the risks and opportunities that arise responsibly and on an ongoing basis in order to achieve our goal of adding value.

We understand risk as the possibility of internal or external events occurring that can have a negative influence on the attainment of our strategic and operational targets. As a global corporation, Continental is exposed to a number of different risks that could impair business and, in extreme cases, endanger the company's existence. We accept manageable risks if the resulting opportunities lead us to expect to achieve a sustainable growth in value.

**Risk and opportunity 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, that their causes are 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 summarized presentation is therefore given below. The risk management system also includes the compliance management system which is described in detail in the Corporate Governance declaration on page 37.

The Executive Board is responsible for the risk management system and the internal control system. The Supervisory Board and the Audit Committee monitor and review its effectiveness. For this purpose, the internal control system includes regulations on reporting to the Supervisory Board, the Audit Committee, the Executive Board and the Compliance & Risk Management Committee.

The risk management system and the internal control system include all subsidiaries significant to the consolidated financial statements. Key elements of the corporation-wide control systems are the clear allocation of responsibilities and controls inherent in the system when preparing the financial statements. The dual control principle and separation of functions are fundamental principles of this organization. In addition, Continental's management ensures accounting that complies with the requirements of law via guidelines on the preparation of financial statements and on accounting, access authorizations for IT systems and regulations on the involvement of internal and external specialists.

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's management.

If any weaknesses are identified, the corporation's management initiates the necessary measures.

In our opportunity management, we assess market and economic analyses and changes in legal requirements (e.g. with regard to fuel consumption and emission standards, safety regulations) and deal with the corresponding effects on the automotive sector, our production factors and the composition and further development of our product portfolio.

**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

**Risk reporting**


utilize various instruments for this, such as local operations management handbooks, centrally-developed function-specific questionnaires and the process and control descriptions of the InternalControls@Continental system, which were developed for all major companies for implementing the requirements of the revised version of the 8th EU Directive. In line with this, the key controls in business processes (e.g. purchase to pay, order to cash, asset management, HR, IT authorizations and the financial statement process) are controlled on a quarterly basis and reviewed with respect to their effectiveness.

Corporate functions such as Compliance, HR, Quality, Law, Purchasing, Insurance, Systems & Standards and Finance & Treasury also conduct additional audits with respect to the implementation of the respective corporate guidelines relevant to each area and analyze the processes concerned in terms of efficiency and potential weak points. The aim is to monitor compliance with the guidelines, identify potential risks in processes and to support the standardization of the operating processes.

The risks identified within the framework described above are categorized and assessed according to specified criteria. Risks are normally assessed according to their negative impact on the unit's operating result.

The risks and their effects are assessed according to qualitative criteria and assigned to different categories that take account of the respective probability of occurrence and the impacts. There is no explicit quantification of the individual risks.

In addition to the risk analyses carried out by the local management and the corporate functions, the internal audit department also performs audits.

Continental AG has set up a Compliance & Anti-Corruption Hotline to give the employees and third parties outside the corporation the opportunity to report violations of legal regulations, its fundamental values, and ethical standards. Information on any kind of potential violations, such as bribery or antitrust behavior, but also accounting manipulation, can be reported anonymously via the hotline where permissible by law. Tips received by the hotline are examined and pursued by Corporate Audit and the Compliance department.

**Risk reporting**

As with risk assessment, the reporting of the identified and analyzed risks is also allocated to various organizational levels.

Using an extensive risk inventory, the units regularly report any changes to previously reported risks plus any new developments that could turn into material risks. Any new material risks arising between regular reporting dates have to be reported immediately. This also includes risks identified in the audits of the corporate functions. Furthermore, the central controlling function analyzes the key figures provided as part of this reporting at corporation and division level so that the causes of potential risks can be identified early on.

The Compliance & Risk Management Committee informs the Executive Board of Continental on a regular basis of existing risks, their assessment and the measures taken. In addition, there is reporting to the management levels below the Executive Board according to their area of responsibility. The Supervisory Board and the Audit Committee are also informed regularly of the major risks, any weaknesses in the control system and measures taken. Moreover, the auditors are to report to the Audit Committee of the Supervisory Board regarding any weaknesses in the accounting-related internal control system which the auditors identified as part of their audit activities.

**Risk management**
The responsible management initiates suitable countermeasures that are also documented in the reporting systems for each risk identified and assessed as material. The Compliance & Risk Management Committee monitors and consolidates the identified risks at the corporation level. It regularly reports to the Executive Board and recommends further measures if needed. The Executive Board discusses and resolves these measures, and reports to the Supervisory Board's Audit Committee. The responsible bodies continually monitor the development of all identified risks and the progress of actions initiated. Regular audits of the risk management process by the internal auditors guarantee its efficiency and further development.

## Material risks

The order of the risks presented within the four categories reflects the current assessment of the relative risk exposure for Continental and thus provides an indication of the current significance of these risks to us. The risks are presented in gross terms.

### Financial risks

**Continental is exposed to risks in connection with its syndicated loan and other financing agreements.**
In order to finance its current business activities as well as its investments and payment obligations, Continental concluded a new syndicated loan agreement in January 2013. Among other obligations, this syndicated loan agreement requires Continental to meet specific financial covenants, in particular a maximum leverage ratio (calculated as the ratio of Continental's consolidated net indebtedness to consolidated adjusted EBITDA) and a minimum interest cover ratio (calculated as the ratio of Continental's consolidated adjusted EBITDA to consolidated net interest). The maximum leverage ratio remains at 3.00. As with the previous syndicated loan, the interest cover ratio may not fall below 2.50.

Owing to the market and operational risks presented below, it cannot be ruled out that 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. As at December 31, 2013, the leverage ratio was 0.68 and the interest cover ratio was 7.47. The financial covenants were complied with at all times.

Furthermore, under the terms of the syndicated loan agreement, the lenders also have the right to demand repayment of the loan in the event of a change of control at Continental AG. Under the loan agreement, 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. 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.

In addition to the risks associated with the syndicated loan, Continental is also subject to risks in connection with its other financing agreements, especially the bond of U.S. $950.0 million issued in September 2012 (due in 2019) and the three bonds that Continental issued in the amount of €750.0 million each in July 2013 (due for repayment in 2018) and in September 2013 (due in 2017 and 2020) as part of its Debt Issuance Programme launched in May 2013. These financing agreements also contain covenants that could limit Continental's capacity to take action and require Continental to maintain specific financial ratios, as well as change-of-control provisions. However, because Continental's credit rating has since been classified as investment grade again, the obligations to maintain specific financial ratios have been suspended or disapplied in some cases.

**Continental's current investment-grade credit rating could be downgraded.**
If the present global economic situation and the level of production in the automotive sector prove not to be lasting, this could have negative effects on Continental's liquidity and lead to a 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 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 consequences could be exacerbated if credit insurers were to restrict coverage for Continental's accounts payable.

**Continental is exposed to risks in connection with interest rate changes and hedging.**
Continental is exposed to risks associated with changes in variable interest rates, as a number of Continental's credit facilities (in particular the facilities granted under the syndicated loan) bear interest at a floating rate. Therefore, an increase or decrease in interest rates would affect Continental's current interest expenses and its future refinancing costs. These risks are monitored and evaluated as part of the interest rate management activities and managed by means of derivative interest rate hedging instruments where necessary. However, the future use of derivative interest rate hedging instruments is also generally dependent on the availability of adequate credit lines. The availability of additional credit lines could be negatively affected by disruptions in the financial markets, Continental's level of net indebtedness and its credit rating. Moreover, any hedging transactions executed in the form of derivative instruments could result in losses.

Regarding the risks from the use of financial instruments we refer to the information provided in Note 29 of the Notes to the Consolidated Statement of Financial Position.

**Continental cannot dispose freely of all of the corporation's reported liquidity.**
Limitations that can negatively impact the availability of capital are understood as comprising all existing limitations on liquidity. In the Continental Corporation, this relates to the following items: Pledging of cash and cash equivalents and other financial assets (e.g. assignment of receivables in connection with sale of receivables programs), plan assets from the contractual trust arrangements (CTAs) and balances in the following countries with exchange restrictions: Argentina, Brazil, Chile, Greece, India, and Serbia. Taxes payable on the transfer of cash assets from one country (e.g. China) to another (e.g. Germany) are not considered to represent a limitation on liquidity.

The liquid funds of Continental Pension Trust e. V., which acts as trustee under contractual trust arrangements (CTAs) for Continental AG, Continental Reifen Deutschland GmbH and Continental Teves AG & Co. OHG, are reported under cash and cash equivalents in Continental AG's consolidated financial statements, since Continental Pension Trust e. V. does not fulfill the requirements for qualification as plan assets pursuant to IAS 19. These liquid funds totaling €243.3 million must be used only for the purposes of Continental Pension Trust e. V. as set out in its Articles of Association and are thus subject to a restriction on disposal.

## 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 in Europe will persist. If this is not the case, automobile production in this region could fall again and remain at a low level for an extended period of time. This would impact Continental's business and earnings situation, especially in Europe, where Continental generated approximately 54% of its sales in 2013. A prolonged weakness in or deterioration of the European automotive market would be likely to adversely affect Continental's sales and results of operations. Tax increases that reduce consumers' disposable income could be another factor to weaken demand on the vehicle markets in Europe. Especially in the member countries of the EU, tax increases are a likely reaction to the increase in public debt due to the various aid programs for banks and the EU's aid measures for its member states. Furthermore, Continental's five largest OEM customers (Daimler, FIAT-Chrysler, Ford, General Motors, and VW) generated approximately 45% of the Continental Corporation's sales in 2013. If one or more of Continental's OEM customers is lost or terminates a supply contract prematurely, the original investments made by Continental to provide such products or outstanding claims against such customers could be wholly or partially lost.

**Continental operates in a cyclical industry.**
Global production of vehicles and, as a result, sales to OEM customers (from whom Continental currently generates approximately 72% of its sales) experience major fluctuations in some cases. They depend, among other things, on general economic conditions, disposable income and consumer spending and preferences, which can be affected by a number of factors, including fuel costs and the availability and cost 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 also makes it harder to estimate the requirements for production capacity. Since its business is characterized by high fixed costs, Continental is subject to the risk of underutilization of its facilities (particularly in the Automotive Group) or having insufficient capacity to meet customer demand if the markets in which Continental is active either decline or grow faster than Continental has anticipated.

**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 component prices, while the divisions of the Rubber Group are mainly affected by the development of prices of natural and synthetic rubber as well as oil. In the recent past, prices for rare earths, steel and electronic components, oil, natural and synthetic rubber have been subject to at times substantial fluctuations around the world. Continental does not actively hedge against the risk of rising prices of electronic components or raw materials by using derivative instruments. Therefore, if Continental is unable to compensate for or pass on its increased costs to customers, such price increases could have a significant adverse impact on Continental's results of operations.

While the lower prices for natural and synthetic rubber had a positive effect of around €375 million on Continental's earnings in 2013, price increases in 2010 resulted in additional costs of €483 million. In 2011 the additional costs even amounted to over €950 million. By contrast, there was only a slight positive effect in 2012. Even to the extent that Continental is able to pass on such additional costs by increasing its selling prices, it is possible that the positive effects of the price increases will not start until after the period in which the additional costs are incurred. In this case, the additional costs may not be compensated for at the time they arise.

As a manufacturer dependent on large quantities of energy for production purposes, Continental is also affected by changes in energy prices. If Continental is unable to compensate for or pass on its increased costs resulting from rising energy prices to customers, such price increases could also have an 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 2013, Continental generated 54% of its total sales in Europe and 24% in Germany alone. By comparison, 22% of Continental's total sales in 2013 were generated in NAFTA, 19% 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 effects of its strong focus on Europe and Germany. In the current global economic situation, adverse changes in the geographical distribution of automotive demand could also cause Continental to suffer. The current level of automotive production is driven mainly by solid demand from the Asian and North American markets, while demand in Europe is losing relative importance. It is not known if the development in Asia and North America will prove sustainable. If demand falls there and is not compensated for by an increase on another regional market, this could adversely affect demand for Continental products.

**Continental is exposed to risks associated with the market trends and developments that could affect the vehicle mix sold by OEMs.**
Continental currently generates approximately 72% of its sales from OEMs, mainly in its Automotive Group. Global production of vehicles and, as a result, business with OEM customers are currently subject to a number of market trends and technical developments that may affect the vehicle mix sold by OEMs.

› Due to increasingly stringent consumption and emission standards throughout the industrial world, including the EU, the U.S.A. and Japan, as well as oil price fluctuations and the resulting significant increase in fuel costs, car manufacturers are increasingly being forced to develop environmentally-friendly technologies aimed at lower fuel consumption and a reduction of $CO_2$ emissions. These developments have caused a trend towards lower-consumption vehicles. The emerging markets are focusing strongly on the small car segment as their introduction to mobility.

› In recent years, the market segment of "affordable" cars (those costing less than U.S. $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 one or more electric motors for propulsion have already been launched. If the industry is able to develop 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. As a technology leader, Continental is reacting to this development with a balanced and innovative product portfolio.

**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 and/or liabilities denominated in currencies with a rising exchange rate appreciate. In addition, fluctuations in foreign exchange rates could intensify or reduce fluctuations in the prices of raw materials, as Continental sources a considerable portion of its raw materials in foreign currency. As a result of these factors, fluctuations in exchange rates can influence Continental's earnings situation.

External and internal transactions involving the delivery of products and services to third parties and companies of the Continental Corporation can result in cash inflows and outflows which are denominated in currencies other than the functional currency of the respective member of the Continental Corporation (transaction risk). In particular, Continental is exposed to fluctuations in the U.S. dollar, Mexican peso, Czech koruna, Chinese renminbi, Romanian leu, South Korean won, Japanese yen and Hungarian forint. To the extent that cash outflows of the respective member of the Continental Corporation in any one foreign currency are not offset by cash flows resulting from operational business in the same currency, the remaining net foreign currency exposure is hedged against on a case-by-case basis using the appropriate derivative instruments, particularly currency forwards, currency swaps and currency options with a term of up to twelve months.

Moreover, Continental is exposed to foreign exchange risks arising from external and internal loan agreements, which result from cash inflows and outflows in currencies which are denominated in currencies other than the functional currency of the respective member of the Continental Corporation. These foreign exchange risks are in general hedged against by using appropriate derivative instruments, particularly currency forwards/swaps and cross-currency interest-rate swaps. Any hedging transactions executed in the form of derivative instruments can result in losses. Continental's net foreign investments are, as a rule, not hedged against exchange rate fluctuations. In addition, a number of Continental's consolidated companies report their results in currencies other than the euro, which requires Continental to convert the relevant items into euro when preparing Continental's consolidated financial statements (translation risk). Translation risks are generally not hedged.

### Risks related to Continental's business operations

**Continental depends on its ability to develop and launch innovative products in a timely manner, which includes providing sufficient funds for this purpose.**
The future success of Continental depends on its 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. If Continental is unable to provide sufficient funding to finance its development activities, it could lose its competitive position in a number of important and rapidly growing sub-markets. Continental devotes significant resources to research and development (R&D), especially in the divisions of its Automotive Group, but also in the Rubber Group. In recent years, Continental's R&D expenses in relation to total sales accounted for more than 5%. If Continental devotes resources to the pursuit of new technologies and products that fail to be accepted in the marketplace or that fail to be commercially viable, all or part of these significant R&D expenses may be lost.

**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, which could make it impossible for Continental to source input products from other suppliers upon short notice if the relevant OEM customer has not already approved other suppliers at an earlier point in time. All of this could lead to order cancellations or even claims for damages. Furthermore, Continental's reputation amongst OEM customers could suffer, with the possible consequence that they select a different supplier.

**Continental is exposed to warranty and product liability claims.**

Continental is constantly subject to product liability claims and proceedings alleging violations of due care, violation of warranty obligations or material defects, and claims arising from breaches of contract due to recall campaigns or government proceedings. Any such lawsuits, proceedings and other claims could result in increased costs for Continental. Moreover, defective products could result in loss of sales and of customer and market acceptance. Such risks are insured up to levels considered economically reasonable by Continental, but its insurance coverage could prove insufficient in individual cases. Additionally, any defect in one of Continental's products (in particular tires and other safety-related products) could also have a considerable adverse effect on the company's reputation and market perception. This could in turn have a negative impact on Continental's sales and income. Moreover, vehicle manufacturers are increasingly requiring a contribution from their suppliers for potential product liability, warranty and recall claims. In addition, Continental has long been subject to continuing efforts by its customers to change contract terms and conditions concerning warranty and recall participation. Furthermore, Continental manufactures many products pursuant to OEM customer specifications and quality requirements. If the products manufactured and delivered by Continental do not meet the requirements stipulated by its OEM customers at the agreed date of delivery, production of the relevant products is generally discontinued until the cause of the product defect has been identified and remedied. Furthermore, Continental's OEM customers could potentially claim damages, even if the cause of the defect is remedied at a later point in time. Besides this, failure to fulfill quality requirements could have an adverse effect on the market acceptance of Continental's other products and its market reputation in various market segments.

**Continental's operations depend on qualified executives and key employees.**

Continental's success depends on its Executive Board members, other qualified executives, and employees in key functions. The loss of executives or key employees could have a material adverse effect on the market position and prospects of Continental. Considerable expertise could be lost or access thereto gained by competitors. Due to the intense competition in the automotive industry, there is a risk of losing qualified employees to competitors or being unable to find a sufficient number of appropriate new employees. There is no guarantee that Continental will be successful in retaining these executives and the employees in key positions or in attracting new employees with corresponding qualifications. Continental tries to retain the commitment of its qualified executives and key employees through interesting development perspectives and performance-based remuneration systems.

**Continental is exposed to risks in connection with its pension commitments.**

Continental provides defined benefit pension plans in Germany, the U.S.A., the U.K. and certain other countries. As at December 31, 2013, the pension obligations amounted to €4,052.2 million. These existing obligations are financed predominantly through externally invested pension plan assets. In 2006, Continental established legally independent trust funds under contractual trust arrangements (CTAs) for the funding of pension obligations of certain subsidiaries in Germany. In 2007, Continental assumed additional pension trust arrangements in connection with the acquisition of Siemens VDO. As at December 31, 2013, Continental's net pension obligations (pension obligations less pension plan assets) amounted to €2,170.0 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 du Groupe Michelin, "Senard et Cie", Granges-Paccot, Switzerland (Michelin), each hold a 50% stake in MC Projects B.V., Maastricht, 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 Continental Barum 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 companies in which it does not hold a 100% interest. Continental's ability to fully exploit the strategic potential in markets in which it operates through associated companies would be impaired if it were unable to agree with its partners or other interest groups on a strategy and the implementation thereof. Moreover, Continental could be subjected to fiduciary obligations to its partners or other shareholders, which could prevent or impede its ability to unilaterally expand in a business area in which the company in question operates. Additionally, there is a risk that the transfer of know-how and/or trade secrets to partners in the context of such collaborations could result in a drain of expertise from Continental. In particular, after a potential separation from a collaboration partner, there is no guarantee that the know-how and/or trade secrets transferred to such partner will not be used or disclosed to third parties, thereby adversely affecting Continental's competitive position.

**Continental's operations rely on complex IT systems and networks.**
Continental relies heavily on centralized, standardized information technology systems and networks to support business processes, as well as internal and external communications. These systems and networks are potentially vulnerable to damage or interruption from a variety of sources. Although Continental has taken precautions to manage its risks related to system and network disruptions, an extended outage in a data center or telecommunications network or a similar event could lead to an extended unanticipated interruption of Continental's systems or networks. Furthermore, Continental has outsourced all its SAP operations and certain other business-critical systems to a third-party service provider, making it and thus Continental vulnerable to damage and loss caused by fire, natural hazards, terrorism, power failures, or other disturbance at such third party's facilities and networks. Continental's systems and networks are also subject to the risk that third parties could attempt to spy on confidential information that is saved, processed or communicated in the systems and networks. If the precautions taken by Continental to provide adequate protection of its systems, networks and information are insufficient, the knowledge or use of its information by third parties could result in disadvantages for Continental.

**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.

## 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 Varzea 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.**
As a corporation that operates worldwide, Continental must observe a large number of different regulatory systems across the world that change frequently and are continuously evolving and being made more stringent in many cases, 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 the requirements specified therein must be complied with. 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.

**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 May 2005, the Brazilian competition authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Indústria Automotiva Ltda., Guarulhos, Brazil (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 (around €3.7 million) on CBIA, which was then reduced to BRL 10.8 million. CBIA denies the accusation that it has infringed Brazilian antitrust law. The court of first instance appealed to by CBIA upheld the decision. However, on CBIA's further appeal the next higher court annulled this decision and remanded the matter. In addition, third parties may claim damages from CBIA in case of an 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.) Ltd., Port Elizabeth (CTSA), a company that is wholly 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 in case of an infringement of South African competition law.

On October 24, 2012, Continental Automotive Systems US, Inc., Auburn Hills, Michigan, U.S.A., received a subpoena from the U.S. Department of Justice (DOJ) to submit certain documents in connection with the suspected involvement in violations of U.S. antitrust law in instrument cluster business. On October 25, 2012, the South Korean antitrust authorities searched two South Korean subsidiaries of Continental in connection with the suspected involvement in violations of South Korean antitrust law in instrument cluster business. On December 23, 2013, the authorities announced that they imposed a fine of KRW 45,992 million (around €32 million) on Continental Automotive Electronics LLC, Bugan-myeon, South Korea. It remains to be seen whether and in what amount the DOJ will impose a fine on Continental Automotive Systems US, Inc., or other companies in the corporation. The DOJ may impose a fine of a maximum of U.S. $100 million, unless twice the company's profit or the losses for customers of the cartel would exceed this amount. Claims for damages by alleged victims would remain unaffected by any fines imposed. Continental has conducted internal audits in certain business units to check compliance with antitrust law. These audits revealed anticompetitive behavior with respect to product groups. Continental took measures to end this behavior. There is a risk that antitrust authorities may conduct investigations due to this behavior and impose fines and that third parties, especially customers, may file claims for damages. The amount of such fines and any subsequent claims is unknown from the current perspective, but could be significant. It also cannot be ruled out that future internal audits may reveal further actual or potential violations of antitrust law that in turn could result in fines and claims for damages. In addition, alleged or actual antitrust behavior could seriously disrupt the relationships with business partners.

**Continental could be subject to tax risks attributable to previous tax assessment periods.**
Additional tax expenses could accrue at the level of the company or its subsidiaries in relation to previous tax assessment periods which have not been subject to a tax audit yet. The last completed tax audit for the company and its German subsidiaries related to the assessment periods up to and including 2007. A routine tax audit for the company and its German subsidiaries is currently being conducted by the German tax authorities for the assessment periods of 2008 to 2010. Tax audits are also pending in foreign jurisdictions for essentially the same assessment periods. As a result of the aforementioned tax audits, a material increase in the company's or its subsidiaries' tax burden is currently not expected. It cannot however be ruled out that tax audits may lead to an additional tax burden.

Furthermore, Continental is exposed to risks in connection with the takeover of Siemens VDO in 2007, since the tax indemnity provided by the seller of Siemens VDO does not cover the entire tax exposure potentially materializing for pre-acquisition periods.

**Continental is exposed to risks from legal disputes.**
Companies from the Continental Corporation are involved in a number of legal and arbitration proceedings and could become involved in other such proceedings in future. These proceedings could involve substantial claims for damages or payments, particularly in the U.S.A. Further information on legal disputes can be found in Note 34.

**Continental could be required to make subsequent payments of levies under the German Renewable Energy Act *(EEG)*.**
On December 18, 2013, the European Commission initiated state aid proceedings against the Federal Republic of Germany, as it considers parts of the German Renewable Energy Act *(Erneuerbare-Energien-Gesetz – EEG)* to be incompatible with EU law. In its opinion, discounts on the levy payable under the *EEG* that are granted to energy-intensive companies constitute an impermissible subsidy. At present, two of Continental's sites in Germany have received discounts on the *EEG* levy under the *EEG*. If it is established that these discounts are impermissible, there is a risk that Continental could be required to repay them. The potential losses would total an amount in the single-digit millions.

## Material opportunities

**There are opportunities for Continental if the macroeconomic development is better than anticipated.**
If the general economic conditions develop better than we have anticipated, we expect that global demand for vehicles, replacement tires and industrial products will also develop better than we have anticipated. Due to the increased demand for Continental's products among vehicle manufacturers and industrial clients and in replacement business that would be expected as a consequence, sales could rise more significantly than expected and there could be positive effects with regard to fixed cost coverage.

**There are opportunities for Continental if the sales markets develop better than anticipated.**
If demand for automobiles and replacement tires develops better than we have anticipated, particularly on the European market, this would have positive effects on Continental's sales and earnings due to the high share of sales generated in this region (54%).

**There are opportunities for Continental if there is a stable price level on the raw material markets relevant to us.**
Continental's earnings situation is affected to a significant extent by the cost of raw materials, electronic components and energy. For the Automotive Group divisions, this particularly relates to the cost of rare earths, steel and electronic components. If we succeed even better than before in offsetting possible cost increases or compensating for them through higher prices for our products, this would then have a positive effect on Continental's earnings. The earnings situation of the Rubber Group divisions is significantly impacted by the cost of oil, natural rubber and synthetic rubber. If prices for natural and synthetic rubber in particular settle down at the level of 2013, this could have a positive impact on Continental's earnings. We currently anticipate that prices, particularly for rubbers, will rise again over the course of 2014 as a result of the assumed increase in demand on the global tire replacement and industrial markets.

**There are opportunities for Continental from changes in the legal framework.**
Further tightening of the regulatory provisions on fuel consumption and emission standards for motor vehicles in developing markets, too, could trigger higher demand for Continental's products. With our 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, as well as with tires with optimized rolling resistance and tires for hybrid vehicles, we are already providing solutions that enable compliance with such changes in the legal framework and can therefore react fast to changes that arise in the regulatory provisions. An increase in the installation rates for these products due to increased regulatory provisions would have a positive influence on our sales and earnings.

Additional legal regulations with the aim of further improving traffic safety would also provide an opportunity for a rise in demand for Continental's products. We are already among the leading providers of electronic brake systems and control electronics for airbags and seat belts. Based on our broad product portfolio for active vehicle safety, we have developed more advanced safety systems over the past years, including emergency brake assist, lane departure warning and blind spot detection systems, as well as the head-up display. At present, these systems are mainly optionally installed in luxury vehicles.

**There are opportunities for Continental from an intensified trend towards vehicle hybridization.**
If the trend towards vehicle hybridization intensifies, with the effect that hybrid technology then represents more of a cost-effective alternative than previously expected due to economies of scale, this would have a positive impact on Continental, since Continental is already well positioned on these future markets with its products.

**There are opportunities for Continental from intelligent networking of advanced driver assistance systems and driver information systems with the Internet.**
Through intelligent networking of advanced driver assistance systems and driver information systems with the Internet, we are laying the foundations for gradually making automated driving possible in the coming years. We also plan to implement fully automated driving in the coming decade by means of collaborations with leading providers from the technology and Internet sector. To this end, we are developing new cross-divisional system, service and software solutions that can offer substantial growth potential for Continental with positive effects on its future sales and attainable margins.

## Statement on overall risk and opportunities 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, individual risks from fiscal 2012 have been verified:

› For example, uncertainty regarding the economic recovery in Europe still persists. Accordingly, market risks in conjunction with falling demand remain high in Europe, which is precisely the most important market.

› However, despite the changes in individual risks, the analysis in the corporation-wide risk management system did not reveal any risks that, individually or collectively, pose a threat to the company or the corporation as a going concern. In the opinion of the Executive Board, there are also no discernible risks to the corporation as a going concern in the foreseeable future.

Considering the material opportunities, the overall risk assessment for the Continental Corporation presents a reasonable risk and opportunities situation to which our strategic goals have been aligned accordingly.

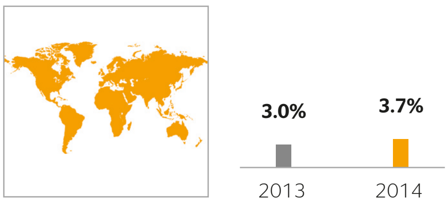
# Report on Expected Developments

## Forecast for economic development in selected regions

**Forecast economic growth (GDP) for 2014**

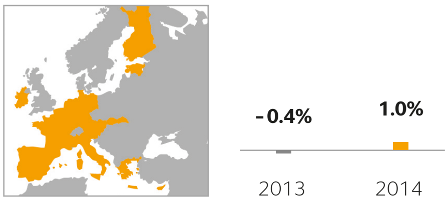
**Core aspects of the forecast economic development**

### WORLD



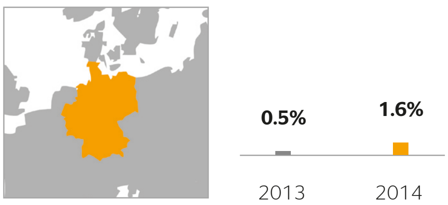

- **Upturn in GDP growth in advanced economies (up 0.9 percentage points to +2.2%):** Uncertainties – particularly in relation to the economic development in the eurozone – should decrease further. The financial systems are also likely to recover increasingly, meaning that, given a continued expansive monetary policy, the credit supply will permit higher growth.
- **Slight increase in economic growth in emerging and developing economies (up 0.4 percentage points to +5.1%):** Owing to the anticipated recovery of the advanced economies, exports are expected to increase again slightly in 2014. However, the gradual reduction of bond purchases in the U.S.A. (tapering) is already leading to a capital outflow from emerging and developing economies and to increasing depreciation of the currencies in many emerging economies.

### EUROZONE



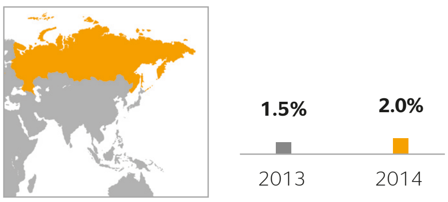

- **Uncertainty decreases further:** The eurozone as a whole and most of the crisis-hit countries should emerge from the recession in 2014 and the debt problems should slowly diminish as a result of rising tax revenue. Confidence in the euro is likely to increase further. The financial markets are expected to remain tense. The ECB intends to continue its expansive monetary policy in 2014.
- **Continuing risks for the euro:** In the event of political changes, the consolidation processes could be called into question – which could lead to a resurgence of the euro crisis.

### GERMANY



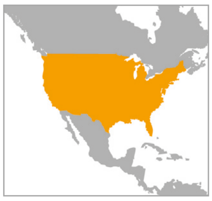

- **Strong consumer spending and increasing exports:** Private consumer spending is expected to remain a key pillar of growth in 2014. With the global economy picking up and the eurozone emerging from the recession, positive impetus is expected from foreign trade.
- **Stable labor market:** Growth in employment is expected to continue, together with a slight decrease in the number of unemployed persons.
- **Slight increase in pricing pressure:** With the economy picking up and wages rising, the price level is expected to increase – although the inflation rate should remain below 2%.
- **Rising corporate investment:** The continued very good financing conditions, the reduced uncertainty in the eurozone and the global economic upturn point to a favorable climate for investment.

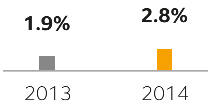
### RUSSIA




- **Increase in growth, but risks from oil and gas export business:** As a result of an increase in exports, particularly in terms of volume, growth in Russia should pick up again. There is a continuing risk to growth from the high level of dependence on oil and gas exports in the event of further declines in raw materials prices or a decline in demand from other emerging and developing economies.
- **Rise in debt:** Sovereign debt is likely to increase further in 2014 (2013: +14.1%), albeit at a lower growth rate.
- **Decreasing inflationary pressure:** The inflation rate is expected to fall to around 5.7% in 2014 (2013: 6.7%).

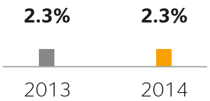
**U.S.A.**





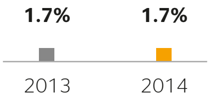

- **Upturn in consumer spending:** Economic growth is likely to be driven to a large extent by a further moderate increase in consumer spending.
- **Strong investments:** Enhanced competitiveness should lead to an increase in investments.
- **National budget remains tense:** It should be possible to avoid unplanned budget cuts in 2014 as a result of the agreement reached in the budget debate. However, the national budget remains tense and government spending is therefore likely to increase only moderately.

**BRAZIL**



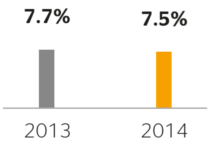

- **Further rise in interest rates:** The Brazilian central bank raised its key interest rate again from 10.0% to 10.5% in January 2014.
- **Only stable economic growth:** As a result of higher financing costs and modest domestic demand, the economy is expected to grow only at around the same rate as in the previous year.
- **Slight decrease in inflation rate:** Inflation is expected to fall to around 5.6% in 2014 (2013: 5.9%).
- **Moderate rise in unemployment:** The unemployment rate is likely to rise again in 2014, increasing the pressure on government measures to safeguard employment.

**JAPAN**



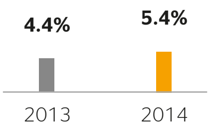

- **Budget policy measures:** Government incentives should at least partly offset the negative effects of the hike in consumption taxes (increase in two steps in April 2014 and in April 2015).
- **Combating deflation:** An inflation rate of 2% is expected to be achieved by 2015 by means of the continued highly expansive monetary policy and the accompanying economic stimulus measures.
- **Further effects of political measures remain to be seen:** As well as offering opportunities, the combination of a highly expansive monetary policy, debt-financed economic stimulus measures and structural reforms also entails high risks. In particular, the high level of sovereign debt (debt/GDP in 2013: 244%; by way of comparison, Germany: 80%) is unique worldwide.

**CHINA**




- **Further high growth expected:** Growth in 2014 is however likely to be somewhat lower than the previous year's level at 7.5%. The state intends to refrain from stimulus measures primarily to slow down credit growth.
- **Decrease in sovereign debt:** The level of debt is expected to decrease to 21% of GDP (2013: 23%).
- **Steady inflation:** The inflation rate is expected to rise only slightly to 3.0% (2013: 2.6%).
- **Appreciation of the renminbi:** Further moderate appreciation of the Chinese currency is expected, making exports more expensive.

**INDIA**




- **Further growth in economic output together with high risks:** Initial structural policy measures and increasing industrial activity should encourage growth in India – although the growth opportunities are also countered by risks from an outflow of foreign capital and high interest rates.
- **Pressing need for reform:** There is still a need to catch up on structural reforms.
- **Inflation remains at high level:** Consumer prices are expected to increase by 9% in 2014 (2013: 11%).
- **Rise in key interest rate:** The Indian central bank already reacted by raising the key interest rate from 7.75% to 8.0% in January 2014. Further hikes in the key interest rate and other measures to stem inflation are possible over the course of the year.

*Sources: IMF – World Economic Outlook 12/2013 und Update 1/2014, World Bank – Global Economic Prospects 1/2014, Central banks 12/2013 und 1/2014, Federal Statistical Office 1/2014, IMF – Regional Economic Outlook Asia 10/2013, IMF – Economic Health Check Russia 10/2013, Destatis 2014, own estimates.*

## Macroeconomic development

According to the forecast made in January 2014 by the International Monetary Fund (IMF), the global economy will generate GDP growth of 3.7% in 2014, up on the 2013 level of 3.0%. Economic activity in advanced economies is expected to record a growth rate of 2.2% (2013: 1.3%). An increase in economic activity of 5.1% (2013: 4.7%) is anticipated in emerging and developing economies.

Among the advanced economies, the forecast expects higher growth rates both in the U.S.A. and in the eurozone. In the U.S.A., the budget dispute has been resolved for the time being, meaning that unplanned budget cuts are not expected in 2014. Furthermore, consumer spending and investments are likely to rise considerably. In the eurozone, the situation is stabilizing in the wake of the sovereign debt crisis. Most countries have emerged from recession, meaning that economic activity should increase again in 2014 – albeit initially only at low growth rates. Confidence in the eurozone is therefore likely to increase further, which could offer additional growth impetus.

In emerging and developing economies, growth had recently increased, particularly as a result of rising exports. This process is expected to continue slowly. Growth in China was due in particular to a high level of mainly public-sector investment activity and corresponding stimulation of domestic demand. The IMF expects that this development will not last and that growth in domestic demand will be somewhat lower in 2014. This is also likely to curb growth in the other Asian economies.

The expectation of a global recovery is countered by a number of risks. Inflation rates in advanced economies have recently been considerably lower than the target levels. This is also expected to be the case in 2014, and could result in a deflation process. In addition to these risks, there are also continuing political risks: For example, individual eurozone countries could slow down their reform processes or even stop the consolidation process, leading to a resurgence of the euro crisis.

In emerging and developing economies, public and corporate debt has recently increased significantly. In the event of an increased outflow of foreign capital as the U.S. Federal Reserve (Fed) gradually moves away from its highly expansive monetary policy, combined with high inflation, this would result in significant risks to economic development. In late January 2014, there were already signs of increased turbulence on the currency markets for several currencies of emerging economies. The central banks of India, South Africa and Turkey thereupon raised their key interest rates – in some cases significantly – on January 28, 2014. However, the currencies still remained under pressure. The further development and the effects on emerging and developing economies remain to be seen.

There is likely to be an increasing need for supporting measures in some emerging and developing economies in 2014 in the area of tension between stemming inflation, attracting capital, and promoting investment and economic growth.

## Development of key customer sectors

Global original equipment business with vehicle manufacturers is central to the performance of the Automotive divisions Chassis & Safety, Powertrain, and Interior. The ContiTech division also generated about 56% of its sales in 2013 with the global automotive original equipment manufacturers. By contrast, the development of the global replacement markets for passenger, light truck and commercial vehicle tires is more important to the Tire division, since original equipment business accounts for only 29% of its sales.

For the production of light vehicles (passenger cars, station wagons and light commercial vehicles weighing less than 6 tons), we currently anticipate an increase of around 2% to 86 million units in 2014.

China will again contribute the largest share of the global increase in production in 2014. We expect growth to be slower than in 2013 at 8% to 10%. In Japan, the rise in consumption taxes will curb demand and production. The pace of growth in other Asian countries is also likely to slow somewhat in comparison to the previous year. For Asia as a whole, we anticipate a 4% increase in production to 43.8 million units in the current fiscal year.

We believe that the U.S.A. will post further increases in production in 2014, although the growth rate is likely to be lower than in the previous year, since the average production level from 2003 to 2007 has now been reached again. There are sales opportunities arising from the comparatively high age of the vehicle pool, which is currently at more than eleven years. However, inventories have recently also been at a slightly higher level, despite an increase in incentives. In NAFTA as a whole, growth in light vehicle production could amount to just over 3% in 2014, provided the economic recovery continues as forecast.

In Europe, we anticipate a slight upturn in domestic demand at the same time as generally stagnating export volumes due to lower economic momentum in various emerging and developing economies. Overall, we expect light vehicle production here to increase by 1%.

| Vehicle production | Light vehicles[1] in millions of units | | Heavy vehicles[2] in thousands of units | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Europe[3] | 19.5 | 19.3 | 574 | 580 |
| NAFTA | 16.7 | 16.2 | 510 | 477 |
| South America | 4.3 | 4.5 | 246 | 256 |
| Asia | 43.8 | 42.3 | 1,967 | 1,928 |
| Other markets | 1.7 | 1.7 | 3 | 3 |
| **Worldwide** | **86.0** | **84.0** | **3,300** | **3,244** |

*Source: IHS, preliminary figures and own estimates.*
*1 Passenger cars, station wagons, and light commercial vehicles (<6t).*
*2 Commercial vehicles (>6t).*
*3 Western, Central and Eastern Europe, including Russia and Turkey.*

After substantial growth in the previous year, which was driven by South America and China in particular, global production of heavy vehicles is expected to increase only to a limited extent in 2014. We are currently anticipating an increase of as much as 2% to 3.3 million units worldwide. As a result of stronger growth in the U.S.A., we anticipate production in NAFTA to increase by roughly 7%. By contrast, heavy vehicle production in Asia is expected to grow by only 2%. In South America and Europe, we currently anticipate a slight decline in production volumes.

We expect that global demand for replacement passenger and light truck tires is likely to grow by 3% or around 33 million tires to 1.08 billion tires in 2014. Over half of this growth will be attributable to the Asian market – still driven by Chinese demand. Demand in NAFTA should improve further and rise by 2%. In South America, we anticipate a further increase in demand for replacement passenger and light truck tires of 5%, attributable to the first half of the year in particular. In Europe, we expect demand to rise by 2% in 2014 following the weak sales figures in 2012 and 2013.

Global demand for replacement commercial vehicle and trailer tires should increase further in 2014 due to increasing tonnage as a result of economic growth in all regions. We currently anticipate global sales volumes in the order of 150.6 million commercial vehicle and trailer tires, equivalent to an increase of 5.1 million tires or 3.5%. We expect Asia and South America to grow by around 4% each. We anticipate a rise in demand for replacement commercial vehicle tires of 3% in Europe and 2% in NAFTA.

| Replacement sales of tires | Passenger, light truck, and 4x4 tires in millions of units | | Commercial vehicle tires in millions of units | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Europe[1] | 318 | 312 | 23.3 | 22.6 |
| NAFTA | 269 | 264 | 20.6 | 20.2 |
| South America | 66 | 63 | 13.8 | 13.3 |
| Asia | 313 | 294 | 73.9 | 71.0 |
| Other markets | 112 | 112 | 19.0 | 18.4 |
| **Worldwide** | **1,078** | **1,045** | **150.6** | **145.5** |

*Source: LMC World Tyre Forecast Service, preliminary figures and own estimates.*
*1 Western, Central and Eastern Europe, including Russia and Turkey.*

# Outlook for the Continental Corporation

### Comparison of the past fiscal year against forecast

Continental achieved, and in some cases significantly exceeded, the key figures from the forecast for fiscal 2013 it issued in March 2013. Due primarily to negative exchange rate effects and lower replacement tire sales, we were unable to achieve the sales figure of more than €34 billion we had forecast for the corporation at the beginning of 2013. The negative effect of the exchange rates alone amounted to more than €800 million, which impacted both core areas of business. The fact that the adjusted EBIT margin in the Automotive Group fell slightly short of the forecast was more than offset by the positive development of EBIT in the Rubber Group. The reason behind the much lower tax rate is the recognition of deferred taxes totaling €256.2 million in the U.S.A., which reduced the income tax reported in the statement of income by that amount. The highly positive deviation in free cash flow was attributable to the better-than-expected development of EBIT, the lower capital expenditure, and the working capital at year-end that was considerably below our forecast.

### Order situation

In the past fiscal year, the Automotive Group again experienced a positive trend in incoming orders. All together, the Automotive divisions Chassis & Safety, Powertrain, and Interior acquired orders for a total value of some €25 billion over the lifetime of the deliveries for the vehicles. These lifetime sales are based primarily on assumptions regarding production quantities of the respective vehicle platforms, the agreed cost reductions and the development of key raw material prices. As such, the volume of orders calculated in this way represents a benchmark for sales that may be subject to deviations if the specified influencing factors change. Should the assumptions prove to be correct, the lifetime sales are a good benchmark for the sales volumes that can be achieved in the Automotive Group in four to five years.

Because the replacement tire business accounts for a large share of the Tire division's sales, it is not possible to calculate a reliable figure for order volumes. The same applies to the ContiTech division, which consists of eight different business units operating in various markets and industrial sectors, each in turn with their own influencing factors. Consolidating the order figures from the ContiTech business units would thus be meaningful only to a limited extent.

### Outlook for the Continental Corporation

For fiscal 2014, we anticipate an increase in global light vehicle production (passenger cars, station wagons and light commercial vehicles) of around 2% to approximately 86 million units. We also expect demand on Continental's key markets for replacement passenger tires (Europe and NAFTA) to grow by 11 million units or 2%.

Based on these assumptions, we anticipate an increase in consolidated sales to around €35 billion in 2014. The emerging unfavorable development of many currency pairs that are important to Continental, particularly the euro in relation to the U.S. dollar, the Japanese yen, the Brazilian real, the Romanian leu and the Czech koruna, may have a negative impact on the sales forecast, as in the past year. At present, a negative currency translation effect of some €700 million is expected for 2014. We have set ourselves the goal of comfortably achieving a consolidated adjusted EBIT margin of more than 10% for the full year. We do not expect the exchange rate developments to have any additional negative effects on EBIT. For the Automotive Group, we anticipate sales growth of more than 5% to approximately €21 billion with an adjusted EBIT margin of over 8%. For the Rubber Group, we expect sales to climb by more than 5% to around €14 billion, and the adjusted EBIT margin to exceed 15%.

We do not anticipate any negative impact from increases in raw material prices in the Rubber Group in 2014. Here we are assuming an average price of U.S. $2.50 per kilogram for natural rubber (TSR 20) and U.S. $1.50 per kilogram for butadiene, a base material for synthetic rubber.

### Comparison of fiscal 2013 against forecast

| | Corporation | | | | | | Automotive Group | | Rubber Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Sales | Adjusted EBIT margin | Tax rate | Capital expenditure in % of sales | Free cash flow | Equity ratio | Sales | Adjusted EBIT margin | Sales | Adjusted EBIT margin |
| 2013 forecast | > €34 billion | > 10% | < 30% | ~6% | > €0.7 billion | > 32% | > €20 billion | > 8% | > €14 billion | > 14% |
| **2013 reported** | **€33.3 billion** | **11.3%** | **18.3%** | **5.9%** | **€1.8 billion** | **34.8%** | **€20.0 billion** | **8.0%** | **€13.4 billion** | **17.1%** |

As a result of the substantial reduction in net indebtedness and the successful refinancing of the euro high-yield bonds, we anticipate net interest expense of less than €400 million in the current year. The tax rate should be under 30% again in 2014.

For the current year, we expect special effects of approximately €50 million. Amortization from the purchase price allocation resulting primarily from the acquisition of Siemens VDO in 2007 will amount to around €190 million in 2014 (2013: €370.7 million).

In fiscal 2014, the capital expenditure ratio before financial investments will again amount to around 6% of sales. Roughly half is attributable to the Automotive Group and half to the Rubber Group. The largest projects within the Automotive Group are the global expansion of production capacities for the MK 100 and MK C1 brake generations in the Vehicle Dynamics business unit, and investments for the expansion of capacities for multifunction cameras as well as radar and laser sensors in the Advanced Driver Assistance Systems unit. In its Engine Systems business unit, the Powertrain division is investing primarily in the expansion of gasoline and diesel high pressure injectors in Germany, China, and the U.S.A. Further investments are also planned in the Hybrid Electric Vehicle business unit.

Major investment projects in 2014 in the Tire division are the expansion of truck tire capacities primarily in Otrokovice, Czech Republic, and Mount Vernon, Illinois, U.S.A.; the expansion of passenger and light truck tire capacities in Puchov, Slovakia, and in Hefei, China; as well as the two newly commissioned tire plants in Kaluga, Russia, and Sumter, South Carolina, U.S.A. Capital expenditure in the ContiTech division will focus on increasing capacity in the Fluid Technology and Conveyor Belt Group business units. Capital employed at the corporation will rise to a similar extent as the sales in fiscal 2014.

Continental still has net indebtedness of more than €4 billion. Despite this relatively high figure, however, we are in a position to further strengthen the industrial business in particular, also through the acquisition of companies should the situation arise. For 2014 we are planning on free cash flow of at least €1.2 billion before acquisitions.

The effects of the takeover of Veyance Technologies, Inc., Fairlawn, Ohio, U.S.A., on the outlook for fiscal 2014 depend heavily on when it is consolidated for the first time and therefore can be quantified once the transaction has been closed.

Continental had a pleasing start to the first quarter of 2014. As of today, consolidated sales are expected to go up by between 3% and 4%. The continued unfavorable development of foreign exchange rates is preventing an even greater increase and is negatively impacting first-quarter sales growth by as much as 4 percentage points. Adjusted EBIT for the first quarter of 2014 will be higher than the figure for the same period of the previous year. Net indebtedness will increase during the first quarter of 2014 due to seasonal factors.

In addition to the parent company, the consolidated financial statements include 443 (PY: 443) domestic and foreign companies in which Continental Aktiengesellschaft holds a direct or indirect interest of more than 20.0% of the voting rights, or that must be included in consolidation in accordance with SIC-12. Of these, 316 (PY: 315) are fully consolidated and 127 (PY: 128) are accounted for using the equity method.

# Consolidated Financial Statements ›



**Notes to the Consolidated Financial Statements**

# 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.

KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, Germany, was engaged as the auditor for fiscal year 2013 by the Annual Shareholders' Meeting of Continental AG. The audit mandate was issued by the Audit Committee of the Supervisory Board. 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 in accordance with Section 91 (2) *AktG* are 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 11, 2014

The Executive Board

# Independent Auditor's Report

We have audited the consolidated financial statements prepared by the Continental Aktiengesellschaft, Hanover, comprising the statement of income and comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and the notes to the consolidated financial statements together with the management report for the group and the company for the business year from January 1 to December 31, 2013. 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 18, 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| M. Ufer | D. Papenberg |
| Wirtschaftsprüfer | Wirtschaftsprüfer |

Owing to the first-time adoption of IAS 19 (revised 2011), *Employee Benefits*, as at January 1, 2013, all subsequent figures for the comparative period have been restated in accordance with the requirements of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

## Consolidated Statement of Income

| **in € millions** | See Note | **2013** | 2012 |
|---|---|---|---|
| **Sales** | | **33,331.0** | **32,736.2** |
| Cost of sales | | –25,529.4 | –25,616.9 |
| **Gross margin on sales** | | **7,801.6** | **7,119.3** |
| Research and development expenses | | –1,878.4 | –1,744.8 |
| Selling and logistics expenses | | –1,657.0 | –1,581.5 |
| Administrative expenses | | –698.7 | –661.2 |
| Other expenses and income | 6 | –342.2 | –16.7 |
| Income from at-equity accounted investees | 8 | 37.6 | 63.4 |
| Other income from investments | 8 | 0.8 | 7.7 |
| **Earnings before interest and taxes** | | **3,263.7** | **3,186.2** |
| Interest income | 9 | 29.1 | 27.8 |
| Interest expense[1] | 9 | –833.4 | –526.6 |
| **Net interest expense** | | **–804.3** | **–498.8** |
| **Earnings before taxes** | | **2,459.4** | **2,687.4** |
| Income tax expense | 10 | –449.6 | –697.8 |
| **Net income** | | **2,009.8** | **1,989.6** |
| Non-controlling interests | | –86.7 | –84.4 |
| Net income attributable to the shareholders of the parent | | 1,923.1 | 1,905.2 |
| | | | |
| **Basic earnings per share in €** | **36** | **9.62** | **9.53** |
| **Diluted earnings per share in €** | **36** | **9.62** | **9.53** |

*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. Interest effects from pension obligations and from other long-term employee benefits as well as from pension funds are also included.*

# Consolidated Statement of Comprehensive Income

| in € millions | 2013 | 2012[1] |
|---|---|---|
| **Net income** | **2,009.8** | **1,989.6** |
| **Items that will not be reclassified to profit or loss** | | |
| Remeasurement of defined benefit plans | 269.9 | –516.3 |
| Fair value adjustments | 267.9 | –694.3 |
| Portion for at-equity accounted investees[2] | –4.4 | – |
| Deferred taxes on other comprehensive income | 6.4 | 178.0 |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Currency translation[3] | –564.4 | –24.2 |
| Difference from currency translation[3] | –563.3 | –25.0 |
| Reclassification adjustments to profit and loss | 3.1 | 1.2 |
| Portion for at-equity accounted investees[2] | –4.2 | –0.4 |
| Available-for-sale financial assets | –0.3 | 7.5 |
| Fair value adjustments | 3.9 | 10.0 |
| Reclassification adjustments to profit and loss | –4.2 | –2.5 |
| Cash flow hedges | –0.1 | 28.4 |
| Fair value adjustments | – | – |
| Reclassification adjustments to profit and loss | – | 28.4 |
| Portion for at-equity accounted investees[2] | –0.1 | – |
| Deferred taxes on other comprehensive income | 8.2 | –21.0 |
| **Other comprehensive income** | **–286.7** | **–525.6** |
| **Comprehensive income** | **1,723.1** | **1,464.0** |
| Attributable to non-controlling interests | –41.7 | –77.9 |
| Attributable to the shareholders of the parent | 1,681.4 | 1,386.1 |

*1 The comparative figures as at December 31, 2012, have been restated in accordance with the 2013 structure.*
*2 Including taxes.*
*3 Including non-controlling interests.*

# Consolidated Statement of Financial Position

## Assets

| in € millions | See Note | **Dec. 31, 2013** | Dec. 31, 2012 | Jan. 1, 2012[1] |
|---|---|---|---|---|
| Goodwill | 11 | 5,520.9 | 5,622.2 | 5,692.4 |
| Other intangible assets | 11 | 557.7 | 945.1 | 1,365.9 |
| Property, plant and equipment | 12 | 7,728.0 | 7,391.0 | 6,608.5 |
| Investment property | 13 | 20.4 | 19.8 | 19.0 |
| Investments in at-equity accounted investees | 14 | 450.0 | 376.5 | 480.2 |
| Other investments | 15 | 7.9 | 6.9 | 6.9 |
| Deferred tax assets | 16 | 928.4 | 850.4 | 600.4 |
| Defined benefit assets | 25 | 6.0 | 2.0 | 10.1 |
| Long-term derivative instruments and interest-bearing investments | 29 | 285.1 | 433.9 | 193.2 |
| Other long-term financial assets | 17 | 45.0 | 23.8 | 26.7 |
| Other long-term assets | 18 | 20.1 | 14.1 | 14.1 |
| **Non-current assets** | | **15,569.5** | **15,685.7** | **15,017.4** |
| Inventories | 19 | 2,830.9 | 2,998.7 | 2,989.7 |
| Trade accounts receivable | 20 | 5,315.8 | 4,993.3 | 5,341.5 |
| Other short-term financial assets | 17 | 336.2 | 321.8 | 263.5 |
| Other short-term assets | 18 | 601.2 | 661.4 | 624.0 |
| Income tax receivables | 27 | 69.3 | 77.9 | 101.7 |
| Short-term derivative instruments and interest-bearing investments | 29 | 18.3 | 102.3 | 55.9 |
| Cash and cash equivalents | 21 | 2,044.8 | 2,397.2 | 1,541.2 |
| Assets held for sale | 22 | 34.8 | 211.8 | 45.4 |
| **Current assets** | | **11,251.3** | **11,764.4** | **10,962.9** |
| **Total assets** | | **26,820.8** | **27,450.1** | **25,980.3** |

1 *A third statement of financial position is prepared as at the start of the preceding period as the restatements due to the first-time adoption of IAS 19 (revised 2011), Employee Benefits, have a material effect on the information in the statement of financial position.*

**Total equity and liabilities**

| in € millions | See Note | Dec. 31, 2013 | Dec. 31, 2012 | Jan. 1, 2012[1] |
|---|---|---|---|---|
| Subscribed capital | | 512.0 | 512.0 | 512.0 |
| Capital reserves | | 4,155.6 | 4,155.6 | 4,155.6 |
| Retained earnings | | 5,535.3 | 4,062.2 | 2,457.0 |
| Other comprehensive income | | –1,191.7 | –950.8 | –472.3 |
| **Equity attributable to the shareholders of the parent** | | **9,011.2** | **7,779.0** | **6,652.3** |
| Non-controlling interests | | 311.0 | 377.4 | 397.2 |
| **Total equity** | **23** | **9,322.2** | **8,156.4** | **7,049.5** |
| Provisions for pension liabilities and similar obligations | 25 | 2,391.1 | 2,583.1 | 1,871.0 |
| Deferred tax liabilities | 16 | 113.2 | 269.2 | 266.2 |
| Long-term provisions for other risks and obligations | 26 | 266.9 | 308.5 | 321.8 |
| Long-term portion of indebtedness | 28 | 5,041.2 | 4,181.0 | 6,048.0 |
| Other long-term financial liabilities | 30 | 16.2 | 13.1 | 8.0 |
| Other long-term liabilities | 32 | 42.2 | 52.7 | 57.1 |
| **Non-current liabilities** | | **7,870.8** | **7,407.6** | **8,572.1** |
| Trade accounts payable | 31 | 4,596.3 | 4,344.6 | 4,111.4 |
| Income tax payables | 27 | 588.2 | 713.3 | 648.2 |
| Short-term provisions for other risks and obligations | 26 | 631.1 | 597.0 | 905.1 |
| Indebtedness | 28 | 1,596.3 | 4,072.3 | 2,514.4 |
| Other short-term financial liabilities | 30 | 1,448.0 | 1,406.9 | 1,415.2 |
| Other short-term liabilities | 32 | 767.9 | 751.2 | 764.4 |
| Liabilities held for sale | 33 | — | 0.8 | — |
| **Current liabilities** | | **9,627.8** | **11,886.1** | **10,358.7** |
| **Total equity and liabilities** | | **26,820.8** | **27,450.1** | **25,980.3** |

*1 A third statement of financial position is prepared as at the start of the preceding period as the restatements due to the first-time adoption of IAS 19 (revised 2011), Employee Benefits, have a material effect on the information in the statement of financial position.*

# Consolidated Statement of Cash Flows

| in € millions | See Note | 2013 | 2012 |
|---|---|---|---|
| **Net income** | | **2,009.8** | **1,989.6** |
| Income tax expense | 10 | 449.6 | 697.8 |
| Net interest expense | 9 | 804.3 | 498.8 |
| **EBIT** | | **3,263.7** | **3,186.2** |
| Interest paid | | –565.1 | –602.3 |
| Interest received | | 30.8 | 27.8 |
| Income tax paid | 10, 27 | –805.4 | –683.5 |
| Dividends received | | 37.9 | 57.6 |
| Depreciation, amortization, impairment and reversal of impairment losses | 6, 11, 12, 13 | 1,831.3 | 1,781.2 |
| Income from at-equity accounted and other investments, incl. impairment and reversal of impairment losses | 8 | –46.3 | –71.1 |
| Gains from the disposal of assets, companies and business operations | | –86.9 | –10.8 |
| Other non-cash items | 1 | –2.4 | –13.3 |
| Changes in | | | |
| inventories | 19 | 67.9 | 1.0 |
| trade accounts receivable | 20 | –451.6 | 359.7 |
| trade accounts payable | 31 | 379.8 | 203.2 |
| pension and similar obligations | 25 | –8.2 | –65.5 |
| other assets and liabilities | | 76.3 | –385.7 |
| **Cash flow arising from operating activities** | | **3,721.8** | **3,784.5** |
| Proceeds on the disposal of property, plant and equipment, and intangible assets | 11, 12 | 27.2 | 34.2 |
| Capital expenditure on property, plant and equipment, and software | 11, 12 | –1,980.7 | –2,017.6 |
| Capital expenditure on intangible assets from development projects and miscellaneous | 11 | –42.9 | –63.1 |
| Proceeds on the disposal of companies and business operations | 5 | 246.9 | 7.1 |
| Acquisition of companies and business operations | 5 | –154.0 | –92.6 |
| **Cash flow arising from investing activities** | | **–1,903.5** | **–2,132.0** |
| | | | |
| **Cash flow before financing activities (free cash flow)** | | **1,818.3** | **1,652.5** |
| Changes in short-term debt | | –339.1 | –336.8 |
| Proceeds from the issuance of long-term debt | | 4,082.3 | 1,102.0 |
| Principal repayments on long-term debt | | –5,276.6 | –1,192.9 |
| Step acquisitions | | –48.5 | –18.1 |
| Dividends paid | | –450.0 | –300.0 |
| Dividends paid and repayment of capital to non-controlling interests | | –62.7 | –49.5 |
| Cash and cash equivalents arising from first consolidation of subsidiaries | | 1.7 | 4.8 |
| **Cash flow arising from financing activities** | | **–2,092.9** | **–790.5** |
| | | | |
| **Change in cash and cash equivalents** | | **–274.6** | **862.0** |
| Cash and cash equivalents as at January 1 | | 2,397.2 | 1,541.2 |
| Effect of exchange rate changes on cash and cash equivalents | | –77.8 | –6.0 |
| **Cash and cash equivalents as at December 31** | | **2,044.8** | **2,397.2** |

# Consolidated Statement of Changes in Equity

| in € millions | Number of shares[1] (thousands) | Subscribed capital | Capital reserves | Retained earnings | Step acquisitions[2] | Difference from: Remeasurement of defined benefit plans[3] | Difference from: Currency translation[4] | Difference from: Financial instruments[5, 6] | Subtotal | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **As at Jan. 1, 2012** | **200,006** | **512.0** | **4,155.6** | **2,454.6** | **-59.8** | **—** | **105.3** | **-21.6** | **7,146.1** | **397.2** | **7,543.3** |
| **Adjustments IAS 19[7]** | **—** | **—** | **—** | **2.4** | **—** | **-496.2** | **—** | **—** | **-493.8** | **—** | **-493.8** |
| **As at Jan. 1, 2012, adjusted** | **200,006** | **512.0** | **4,155.6** | **2,457.0** | **-59.8** | **-496.2** | **105.3** | **-21.6** | **6,652.3** | **397.2** | **7,049.5** |
| Net income | – | – | – | 1,905.2 | – | – | – | – | 1,905.2 | 84.4 | **1,989.6** |
| Comprehensive income | – | – | – | – | – | -516.3 | -28.2 | 25.4 | -519.1 | -6.5 | **-525.6** |
| **Net profit for the period** | **—** | **—** | **—** | **1,905.2** | **—** | **-516.3** | **-28.2** | **25.4** | **1,386.1** | **77.9** | **1,464.0** |
| Dividends paid | – | – | – | -300.0 | – | – | – | – | -300.0 | -49.5 | **-349.5** |
| Step acquisitions | – | – | – | – | 36.6 | – | – | – | 36.6 | -52.4 | **-15.8** |
| Other changes[8] | – | – | – | – | 4.0 | – | – | – | 4.0 | 4.2 | **8.2** |
| **As at Dec. 31, 2012** | **200,006** | **512.0** | **4,155.6** | **4,062.2** | **-19.2** | **-1,012.5** | **77.1** | **3.8** | **7,779.0** | **377.4** | **8,156.4** |
| Net income | – | – | – | 1,923.1 | – | – | – | – | 1,923.1 | 86.7 | **2,009.8** |
| Comprehensive income | – | – | – | – | – | 271.3 | -513.0 | 0.0 | -241.7 | -45.0 | **-286.7** |
| **Net profit for the period** | **—** | **—** | **—** | **1,923.1** | **—** | **271.3** | **-513.0** | **0.0** | **1,681.4** | **41.7** | **1,723.1** |
| Dividends paid | – | – | – | -450.0 | – | – | – | – | -450.0 | -62.7 | **-512.7** |
| Step acquisitions | – | – | – | – | 0.5 | – | – | – | 0.5 | -48.5 | **-48.0** |
| Other changes[8] | – | – | – | – | 0.3 | – | – | – | 0.3 | 3.1 | **3.4** |
| **As at Dec. 31, 2013** | **200,006** | **512.0** | **4,155.6** | **5,535.3** | **-18.4** | **-741.2** | **-435.9** | **3.8** | **9,011.2** | **311.0** | **9,322.2** |

*See Notes 2, 5, 23 and 24 to the consolidated financial statements.*

1 *Shares outstanding.*
2 *Step acquisitions of shares in fully consolidated companies, subsequent purchase price adjustments and effects from the first consolidation of previously non-consolidated subsidiaries.*
3 *Includes shareholder's portion of -€4.4 million (PY: –) in non-realized gains and losses from pension obligations of companies accounted for under the equity method.*
4 *Includes shareholder's portion of -€4.2 million (PY: -€0.4 million) in the foreign currency translation of companies accounted for under the equity method.*
5 *Includes shareholder's portion of -€0.1 million (PY: –) in non-realized gains and losses from cash flow hedges of companies accounted for under the equity method.*
6 *The change in the previous year's figure for the difference from financial instruments, including deferred taxes, mainly results from the voluntary termination of cash flow hedge accounting for interest rate hedges in 2011.*
7 *We refer to our comments in section 25.*
8 *Other changes in non-controlling interests due to changes in the scope of consolidation, capital increases and effects from the first consolidation of previously non-consolidated subsidiaries.*

# Notes to the Consolidated Financial Statements

## 1. Segment Reporting

**Notes to segment reporting**
In accordance with the provisions of IFRS 8, *Operating Segments*, Continental AG's segment reporting is based on the management approach with regard to segment identification, under which information regularly provided to the chief operating decision maker for decision-making purposes is considered decisive.

The activities of the Continental Corporation are divided into the following segments:

**Chassis & Safety** focuses on modern technologies for active and passive safety and for driving dynamics.

**Powertrain** integrates innovative and efficient system solutions for the powertrain of today and of the future for vehicles of all categories.

**Interior** offers solutions for information management within vehicles and networking between vehicles, making them safer, more environmentally friendly and more comfortable.

**Tires** offers the right tires for nearly every application: from passenger cars through trucks, buses and construction site vehicles to special vehicles, motorcycles and bicycles.

**ContiTech** develops products made from rubber and plastic, individually customized for a wide range of industries.

**Other/Consolidation**
This comprises centrally managed subsidiaries and affiliates, such as holding, financing and insurance companies, as well as the holding function of Continental AG and certain effects of consolidation. It also contains the effects on earnings of uncertain risks, particularly those in connection with contractual and similar claims or obligations representing, among other things, risks from investments that cannot currently be assigned to the individual operating units.

Internal control and reporting within the Continental Corporation is based on International Financial Reporting Standards (IFRS) as described in Note 2. The corporation measures the performance of its segments on the basis of their operating result (EBIT). This is expressed as the return on sales (ROS) and as the return on capital employed (ROCE), which represents EBIT as a percentage of average operating assets. Intersegment sales and other proceeds are determined at arm's length prices. For administrative services performed by centrally operated companies or by the corporation's management, costs are calculated on an arm's length basis in line with utilization. Where direct allocation is not possible, costs are assigned according to the services performed.

The segment assets comprise the operating assets of the assets side of the statement of financial position as at the end of the reporting period. The segment liabilities show the operating asset parts on the liabilities side of the statement of financial position.

Capital expenditure relates to additions to property, plant and equipment, and software as well as additions to capitalized finance leases and capitalized borrowing costs in line with IAS 23. Depreciation and amortization include the scheduled diminution of and the impairments on intangible assets, property, plant and equipment, and investment properties as well as the impairments on goodwill. This figure does not include impairments on financial investments.

Non-cash expenses/income mainly include the changes in provisions for pension liabilities – except for contributions to or withdrawals from the associated funds – and the profit or loss of and impairment and reversal of impairment losses on the value of at-equity accounted investees. 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 country and 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.

Viewed across all segments, Continental recorded sales totaling €5,404.7 million (PY: €5,261.9 million) with a group of companies under common control in the year under review.

In 2013, more than 20% of sales were generated in Germany. Otherwise, there were no countries, except the U.S.A., in which more than 10% of sales were made in the period under review.

**Segment report for 2013**

| in € millions | Chassis & Safety | Powertrain | Interior |
|---|---|---|---|
| External sales | 7,229.4 | 6,195.0 | 6,589.5 |
| Intercompany sales | 39.8 | 65.3 | 16.2 |
| **Sales (total)** | **7,269.2** | **6,260.3** | **6,605.7** |
| EBIT (segment result) | 598.9 | 179.5 | 380.6 |
| in % of sales | 8.2 | 2.9 | 5.8 |
| – thereof income from at-equity accounted investees | 15.6 | –3.5 | 22.4 |
| Capital expenditure[1] | 401.7 | 360.5 | 253.3 |
| in % of sales | 5.5 | 5.8 | 3.8 |
| Depreciation and amortization[2] | 391.3 | 470.7 | 469.6 |
| – thereof impairment[3] | 41.4 | 38.9 | 47.5 |
| Internally generated intangible assets | 5.4 | 5.8 | 29.1 |
| Significant non-cash expenses/income | 12.9 | –13.7 | 0.5 |
| Segment assets | 5,447.4 | 4,173.3 | 5,193.7 |
| – thereof investments in at-equity accounted investees | 76.7 | 204.1 | 75.5 |
| Operating assets as at December 31 | 3,865.3 | 2,759.7 | 3,751.7 |
| ROCE in % as at December 31 | 15.5 | 6.5 | 10.1 |
| Operating assets (average) | 4,032.6 | 2,936.9 | 3,989.4 |
| ROCE in % (average) | 14.9 | 6.1 | 9.5 |
| Segment liabilities | 1,582.1 | 1,413.6 | 1,442.0 |
| Number of employees as at December 31[4] | 36,496 | 32,353 | 34,368 |

| in € millions | Tires | ContiTech | Other/ Consolidation | Continental Corporation |
|---|---|---|---|---|
| External sales | 9,567.9 | 3,749.2 | — | 33,331.0 |
| Intercompany sales | 15.3 | 129.1 | –265.7 | — |
| **Sales (total)** | **9,583.2** | **3,878.3** | **–265.7** | **33,331.0** |
| EBIT (segment result) | 1,752.7 | 462.1 | –110.1 | 3,263.7 |
| in % of sales | 18.3 | 11.9 | — | 9.8 |
| – thereof income from at-equity accounted investees | 1.9 | 0.0 | 1.2 | 37.6 |
| Capital expenditure[1] | 798.6 | 166.0 | 1.0 | 1,981.1 |
| in % of sales | 8.3 | 4.3 | — | 5.9 |
| Depreciation and amortization[2] | 385.0 | 114.2 | 0.5 | 1,831.3 |
| – thereof impairment[3] | –1.3 | 0.2 | — | 126.7 |
| Internally generated intangible assets | — | — | –0.1 | 40.2 |
| Significant non-cash expenses/income | 12.6 | –6.7 | 7.7 | 13.3 |
| Segment assets | 6,277.4 | 1,908.0 | 29.9 | 23,029.7 |
| – thereof investments in at-equity accounted investees | 85.4 | 1.3 | 7.0 | 450.0 |
| Operating assets as at December 31 | 4,309.3 | 1,235.7 | –89.4 | 15,832.3 |
| ROCE in % as at December 31 | 40.7 | 37.4 | — | 20.6 |
| Operating assets (average) | 4,645.8 | 1,267.5 | –68.2 | 16,804.0 |
| ROCE in % (average) | 37.7 | 36.5 | — | 19.4 |
| Segment liabilities | 1,968.1 | 672.3 | 119.3 | 7,197.4 |
| Number of employees as at December 31[4] | 44,508 | 29,725 | 312 | 177,762 |

*1 Capital expenditure on property, plant and equipment, and software.*
*2 Excluding impairment on financial investments.*
*3 Impairment also includes necessary reversal of impairment losses.*
*4 Excluding trainees.*

**Segment report for 2012**

| in € millions | Chassis & Safety | Powertrain | Interior |
|---|---|---|---|
| External sales | 7,012.8 | 6,073.7 | 6,417.6 |
| Intercompany sales | 39.7 | 61.1 | 16.6 |
| **Sales (total)** | **7,052.5** | **6,134.8** | **6,434.2** |
| EBIT (segment result) | 672.7 | 48.3 | 413.5 |
| in % of sales | 9.5 | 0.8 | 6.4 |
| – thereof income from at-equity accounted investees | 18.6 | 0.1 | 35.3 |
| Capital expenditure[1] | 383.8 | 395.0 | 257.1 |
| in % of sales | 5.4 | 6.4 | 4.0 |
| Depreciation and amortization[2] | 335.2 | 560.7 | 439.8 |
| – thereof impairment[3] | –2.0 | 75.9 | 1.1 |
| Internally generated intangible assets | 23.0 | 8.2 | 29.5 |
| Significant non-cash expenses/income | –5.8 | –27.5 | 10.5 |
| Segment assets | 5,421.1 | 4,226.7 | 5,569.4 |
| – thereof investments in at-equity accounted investees | 79.5 | 128.5 | 73.7 |
| Operating assets as at December 31 | 3,970.1 | 2,866.3 | 4,176.2 |
| ROCE in % as at December 31 | 16.9 | 1.7 | 9.9 |
| Operating assets (average) | 4,097.4 | 3,028.1 | 4,313.0 |
| ROCE in % (average) | 16.4 | 1.6 | 9.6 |
| Segment liabilities | 1,451.0 | 1,360.4 | 1,393.2 |
| Number of employees as at December 31[4] | 34,517 | 31,028 | 33,074 |

| in € millions | Tires | ContiTech | Other/ Consolidation | Continental Corporation |
|---|---|---|---|---|
| External sales | 9,648.4 | 3,583.7 | – | 32,736.2 |
| Intercompany sales | 16.6 | 128.1 | –262.1 | – |
| **Sales (total)** | **9,665.0** | **3,711.8** | **–262.1** | **32,736.2** |
| EBIT (segment result) | 1,666.5 | 453.6 | –68.4 | 3,186.2 |
| in % of sales | 17.2 | 12.2 | – | 9.7 |
| – thereof income from at-equity accounted investees | 8.2 | 0.1 | 1.1 | 63.4 |
| Capital expenditure[1] | 830.2 | 151.0 | 2.3 | 2,019.4 |
| in % of sales | 8.6 | 4.1 | – | 6.2 |
| Depreciation and amortization[2] | 338.6 | 105.3 | 1.6 | 1,781.2 |
| – thereof impairment[3] | –25.1 | 0.0 | – | 49.9 |
| Internally generated intangible assets | – | – | – | 60.7 |
| Significant non-cash expenses/income | –11.0 | –5.9 | 126.9 | 87.2 |
| Segment assets | 6,075.7 | 1,796.9 | 20.9 | 23,110.7 |
| – thereof investments in at-equity accounted investees | 86.6 | 1.2 | 7.0 | 376.5 |
| Operating assets as at December 31 | 4,154.3 | 1,179.4 | –68.7 | 16,277.6 |
| ROCE in % as at December 31 | 40.1 | 38.5 | – | 19.6 |
| Operating assets (average) | 4,430.8 | 1,159.9 | –75.4 | 16,953.8 |
| ROCE in % (average) | 37.6 | 39.1 | – | 18.8 |
| Segment liabilities | 1,921.4 | 617.5 | 89.6 | 6,833.1 |
| Number of employees as at December 31[4] | 42,524 | 28,210 | 286 | 169,639 |

*1 Capital expenditure on property, plant and equipment, and software.*
*2 Excluding impairment on financial investments.*
*3 Impairment also includes necessary reversal of impairment losses.*
*4 Excluding trainees.*

## Reconciliation of EBIT to net income

| in € millions | 2013 | 2012 |
|---|---|---|
| Chassis & Safety | 598.9 | 672.7 |
| Powertrain | 179.5 | 48.3 |
| Interior | 380.6 | 413.5 |
| Tires | 1,752.7 | 1,666.5 |
| ContiTech | 462.1 | 453.6 |
| Other/consolidation | –110.1 | –68.4 |
| **EBIT** | **3,263.7** | **3,186.2** |
| Net interest expense | –804.3 | –498.8 |
| **Earnings before taxes** | **2,459.4** | **2,687.4** |
| Income tax expense | –449.6 | –697.8 |
| **Net income** | **2,009.8** | **1,989.6** |
| Non-controlling interests | –86.7 | –84.4 |
| **Net income attributable to the shareholders of the parent** | **1,923.1** | **1,905.2** |

## Segment report by region

| in € millions | Germany | Europe excluding Germany | NAFTA | Asia | Other countries | Continental Corporation |
|---|---|---|---|---|---|---|
| **External sales 2013** | **7,920.4** | **9,933.0** | **7,277.0** | **6,449.3** | **1,751.3** | **33,331.0** |
| External sales 2012 | 8,064.9 | 9,941.6 | 7,036.1 | 5,982.4 | 1,711.2 | 32,736.2 |
| **Capital expenditure 2013[1]** | **455.2** | **679.0** | **430.3** | **311.0** | **105.6** | **1,981.1** |
| Capital expenditure 2012[1] | 449.0 | 700.2 | 378.7 | 320.1 | 171.4 | 2,019.4 |
| **Segment assets as at Dec. 31, 2013** | **8,781.9** | **6,220.8** | **3,810.8** | **3,575.0** | **641.2** | **23,029.7** |
| Segment assets as at Dec. 31, 2012 | 9,124.2 | 6,154.0 | 3,755.3 | 3,266.6 | 810.6 | 23,110.7 |
| **Number of employees as at Dec. 31, 2013[2]** | **49,884** | **55,636** | **29,114** | **33,230** | **9,898** | **177,762** |
| Number of employees as at Dec. 31, 2012[2] | 48,495 | 52,124 | 27,581 | 31,288 | 10,151 | 169,639 |

*1 Capital expenditure on property, plant and equipment, and software.*
*2 Excluding trainees.*

**Reconciliation of total assets to operating assets**

| in € millions | Dec. 31, 2013 | Dec. 31, 2012 |
|---|---|---|
| **Total assets** | **26,820.8** | **27,450.1** |
| – Cash and cash equivalents | 2,044.8 | 2,397.2 |
| – Current and non-current derivative instruments, interest-bearing investments | 303.4 | 536.2 |
| – Other financial assets | 96.4 | 61.4 |
| **Less financial assets** | **2,444.6** | **2,994.8** |
| **Less other non-operating assets** | **348.8** | **416.3** |
| – Deferred tax assets | 928.4 | 850.4 |
| – Income tax receivables | 69.3 | 77.9 |
| **Less income tax assets** | **997.7** | **928.3** |
| **Segment assets** | **23,029.7** | **23,110.7** |
| | | |
| **Total liabilities and provisions** | **17,498.6** | **19,293.7** |
| – Current and non-current indebtedness | 6,637.5 | 8,253.3 |
| – Interest payable | 66.7 | 120.6 |
| **Less financial liabilities** | **6,704.2** | **8,373.9** |
| – Deferred tax liabilities | 113.2 | 269.2 |
| – Income tax payables | 588.2 | 713.3 |
| **Less income tax liabilities** | **701.4** | **982.5** |
| **Less other non-operating liabilities** | **2,895.6** | **3,104.2** |
| **Segment liabilities** | **7,197.4** | **6,833.1** |
| | | |
| **Operating assets** | **15,832.3** | **16,277.6** |

## 2. General Information and Accounting Principles

Continental Aktiengesellschaft (Continental AG), whose registered office is Vahrenwalder Strasse 9, Hanover, Germany, is the parent company of the Continental Corporation and a listed stock corporation. It is registered in the commercial register (HRB No. 3527) of the Hanover Local Court *(Amtsgericht)*. Continental AG is a supplier to the automotive industry, with worldwide operations. The areas of business and main activities in which Continental AG is engaged are described in more detail in Note 1 on Segment Reporting. By way of resolution of the Executive Board of February 11, 2014, the consolidated financial statements of Continental AG for fiscal 2013 were approved and will be submitted to the electronic German Federal Gazette *(elektronischer Bundesanzeiger)* and published there.

The consolidated financial statements of Continental AG as at December 31, 2013, 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 Standards Interpretations Committee or its predecessor the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). All International Financial Reporting Standards mandatory for fiscal 2013 have been applied, subject to endorsement by the European Union.

The consolidated financial statements have been prepared on the basis of amortized cost, except for certain assets held for sale and derivative instruments recognized at fair value.

The annual financial statements of companies included in the corporation have been prepared using accounting principles consistently applied throughout the corporation, in accordance with IAS 27. The end of the reporting period for the subsidiary financial statements is the same as the end of the reporting period for the consolidated financial statements.

The consolidated financial statements have been prepared in euro. Unless otherwise stated, all amounts are shown in millions of euro. Please note that differences may arise as a result of the use of rounded amounts and percentages.

**Consolidation principles**
All major subsidiaries in which Continental AG directly or indirectly holds a majority of voting rights and has the possibility of control have been included in the consolidated financial statements and fully consolidated. In accordance with the provisions of SIC-12 *(Consolidation – Special Purpose Entities)*, the consolidated financial statements must also include companies that can be controlled by Continental AG, despite a lack of majority voting rights, by other means such as agreements or guarantees. Companies were required to be included in the consolidated financial statements as a result of these provisions in 2013. The consolidation of subsidiaries is based on the purchase method, by offsetting the acquisition cost against the proportion of net assets attributed to the parent company at fair value at the date of acquisition. Intangible assets not previously recognized in the separate financial statements of the acquired company are carried at fair value. Intangible assets identified in the course of a business combination, including for example brand names, patents, technology, customer relationships and order backlogs, are recognized separately at the date of acquisition only if the requirements under IAS 38 for an intangible asset are met. Measurement at the time of acquisition is usually provisional only. Increases or reductions of assets and liabilities that become necessary within twelve months after the acquisition are adjusted accordingly. These adjustments are presented in the notes to the financial statements.

Any positive remaining amount is capitalized as goodwill. The share of non-controlling interests is measured using the pro rata (remeasured) net assets of the subsidiary. In order to ensure the recoverability of goodwill arising from an as yet incomplete measurement and the corresponding purchase price allocation, the goodwill is allocated provisionally to the affected business units as at the end of the reporting period. This provisional allocation can deviate significantly from the final allocation. Any negative difference that arises is recognized in other operating income.

The shares in the net assets of subsidiaries that are not attributable to the corporation are shown under “non-controlling interests” as a separate component of total equity.

For the term during which Continental or any of its subsidiaries have made binding offers to minority shareholders to purchase their shares in subsidiaries, those non-controlling interests are reported as financial liabilities and not as equity. These financial liabilities are recognized at fair value, which corresponds to the price offered. In the event that the offer was made simultaneously at the time of the business combination, then the fair value of the binding purchase offer is considered part of the total cost of acquisition. On the other hand, if that offer was made separately from the business combination, then any difference between the binding purchase offer and the carrying amount of the non-controlling interests at the time that offer is made is recognized outside profit or loss.

Once control has been obtained, any differences arising from successive purchases of shares from non-controlling interests between the purchase price and the carrying amount of those non-controlling interests are recognized outside profit or loss.

Where there are successive purchases of shares resulting in control, the difference between the carrying amount and the fair value at the time of first-time consolidation for those shares already held is recognized in profit and loss under other income and expenses.

Significant investments where Continental AG holds between 20.0% and 50.0% of the voting rights, thereby enabling it to exert significant influence on the associated companies, are accounted for using the equity method. No companies are included in the consolidated financial statements using the proportionate consolidation method.

Associates are included using the equity method in which the carrying amount is adjusted to reflect the share in the associate’s net equity. If the annual financial statements of the associates are not available, the pro rata earnings or losses are recognized as necessary based on estimated amounts. Goodwill arising from first-time consolidation is reported using the equity method. Goodwill is not amortized but the carrying amount of investments in associates consolidated using the equity method is tested for impairment if there are relevant indications.

Companies that are dormant or have only a low level of business activity and therefore no significant impact on the net assets, financial and earnings position of the Continental Corporation are not included in the consolidated financial statements. Such companies are recognized in the consolidated financial statements at cost unless their fair value can be determined in accordance with IAS 39.

Intercompany receivables and liabilities, in addition to income and expenses, are eliminated on consolidation. Intercompany profits arising from internal transactions, and dividend payments made within the corporation, are eliminated on consolidation. Deferred taxes on the elimination of intercompany transactions are carried in the amount derived from the average income tax rate for the corporation.

**Currency translation**
The assets and liabilities of foreign subsidiaries with a functional currency other than the euro are translated into euro at the year-end middle rates. The statement of comprehensive income is translated at the average exchange rates for the period. Differences resulting from currency translation are recognized in the difference from currency translation until the disposal of the subsidiary, without recognizing deferred taxes.

In the separate financial statements of Continental AG and its subsidiaries, foreign currency receivables and liabilities are measured on recognition at the transaction rate and adjusted at the end of the reporting period to the related spot rates. Gains and losses arising on foreign currency translation are recognized in profit or loss, except for certain loans. Foreign currency adjustments relating to the translation of intercompany financing made in the functional currency of one of the parties, and for which repayment is not expected in the foreseeable future, are recognized in the difference from currency translation.

Goodwill is recognized directly as an asset of the subsidiary acquired and therefore also translated into euro for subsidiaries whose functional currencies are not the euro at the end of the reporting period using the middle rate. Differences resulting from foreign currency translation are recognized in the difference from currency translation.

The following table summarizes the exchange rates used in currency translation that had a material effect on the consolidated financial statements:

| **Currencies** | | **Closing rate** | | **Average rate for the year** | |
|---|---|---|---|---|---|
| **1 € in** | | **Dec. 31, 2013** | Dec. 31, 2012 | **2013** | 2012 |
| Brazil | BRL | 3.25 | 2.70 | 2.87 | 2.51 |
| Switzerland | CHF | 1.23 | 1.21 | 1.23 | 1.21 |
| China | CNY | 8.33 | 8.22 | 8.17 | 8.11 |
| Czech Republic | CZK | 27.41 | 25.12 | 25.98 | 25.14 |
| United Kingdom | GBP | 0.83 | 0.82 | 0.85 | 0.81 |
| Hungary | HUF | 297.17 | 292.58 | 296.95 | 289.30 |
| Japan | JPY | 144.51 | 113.57 | 129.65 | 102.63 |
| South Korea | KRW | 1,448.72 | 1,405.13 | 1,453.94 | 1,448.59 |
| Mexico | MXN | 18.03 | 17.18 | 16.96 | 16.91 |
| Malaysia | MYR | 4.51 | 4.03 | 4.19 | 3.97 |
| Philippines | PHP | 61.17 | 54.09 | 56.42 | 54.29 |
| Romania | RON | 4.48 | 4.44 | 4.42 | 4.46 |
| U.S.A. | USD | 1.38 | 1.32 | 1.33 | 1.29 |
| South Africa | ZAR | 14.49 | 11.21 | 12.83 | 10.56 |

### 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 been 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 at the date of nomination as supplier and fulfillment of a specific pre-production release stage. The development is considered to be completed once the final approval for the unlimited series production is granted. Only very few development projects fulfill the recognition criteria.

Although suppliers are nominated by original equipment manufacturers with the general obligation to supply products over the entire life of the particular model or platform, these supply agreements constitute neither long-term contracts nor firm commitments, in particular because the original equipment manufacturers make no commitments in regard of the purchase quantities. For this reason, all pre-series production expenses – with the exception of the capitalized development costs described above – are recognized immediately in profit or loss.

**Interest and investment income and expenses**
Interest income and expenses are recognized for the period to which they relate; dividends receivable are recognized upon the legal entitlement to payment.

**Earnings per share**
Earnings per share are calculated on the basis of the weighted average number of shares outstanding. Treasury stock is deducted for the period it is held. Diluted earnings per share also include shares from the potential exercise of option or conversion rights. The corresponding expenses that would no longer be incurred after the conversion or exchange are eliminated.

**Statement of financial position classification**
Assets and liabilities are reported as non-current assets and liabilities in the statement of financial position if they have a remaining term of over one year and, conversely, as current assets and liabilities if the remaining term is shorter. Liabilities are treated as current if there is no unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Provisions for pensions and other post-employment obligations as well as deferred tax assets and liabilities are shown as non-current. If assets and liabilities have both current and non-current portions, the amounts are classified separately and shown as current and non-current assets or liabilities.

**Goodwill**
Goodwill corresponds to the difference between the purchase cost and the fair value of the acquired assets and liabilities of a business combination. Goodwill is not subject to amortization; it is tested for impairment at least annually and, if necessary, impaired.

**Intangible assets**
Purchased intangible assets are carried at acquisition costs and internally generated intangible assets at their production costs, provided that the conditions for recognition of an internally generated intangible asset are met in accordance with IAS 38. If intangible assets have finite useful lives, they are amortized on a straight-line basis over a useful life of three to eight years. Intangible assets with indefinite useful lives are tested at least annually for impairment and, if necessary, impaired.

**Property, plant and equipment**
Property, plant and equipment is carried at cost less straight-line depreciation. If necessary, additional impairment losses are recognized on the affected items.

Production cost consists of the direct costs and attributable material and manufacturing overheads, including depreciation.

Under certain conditions, portions of the borrowing costs are capitalized as part of the acquisition cost. This also applies to finance leases and investment property.

As soon as an asset is available for its intended use, subsequent cost is capitalized only to the extent the related modification changes the function of the asset or increases its economic value and the cost can be clearly identified. All other subsequent expenditure is recognized as current maintenance expense.

Property, plant and equipment is broken down into the lowest level of the components that have significantly different useful lives and, to the extent integrated in other assets, when they are likely to be replaced or overhauled during the overall life of the related main asset. Maintenance and repair costs are recognized in profit or loss as incurred. The corporation has no property, plant or equipment that by the nature of its operation and deployment can be repaired and serviced only in intervals over several years. The useful lives are up to 25 years for buildings and land improvements; up to 20 years for technical equipment and machinery; and up to 12 years for operating and office equipment.

**Government grants**
Government grants are reported if there is reasonable assurance that the conditions in place in connection with the grants will be fulfilled and that the grants will be awarded.

Monetary grants that are directly attributable to depreciable fixed assets are deducted from the cost of the assets in question. All other monetary grants are recognized as income in line with planning and are presented alongside the corresponding expenses. Non-monetary government grants are recognized at fair value.

**Investment property**
Land and buildings held for the purpose of generating rental income instead of production or administrative purposes are carried at depreciated cost. Depreciation is charged on a straight-line basis over the useful lives, which correspond to those for real estate in use by the company.

**Leases**
Continental leases property, plant and equipment, especially buildings. If the substantial risks and rewards from the use of the leased asset are controlled by Continental, the agreement is treated as a finance lease and an asset and related financial liability are recognized. In the case of an operating lease, where the economic ownership remains with the lessor, only the lease payments are recognized as incurred and charged to income. Other arrangements, particularly service contracts, are also treated as leases to the extent they require the use of a particular asset to fulfill the arrangement and the arrangement conveys a right to control the use of the asset.

**Impairment**
The corporation immediately reviews intangible assets and property, plant and equipment, investment property and goodwill as soon as there is an indication of impairment (triggering event). Impairment is assessed by comparing the carrying amount with the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the present value of the expected future cash flows from the continued use of the asset (value in use). If the carrying amount is higher than the recoverable amount, the difference is recognized as an impairment loss. If the indications for the prior recognition of impairment no longer apply, the impairment losses are reversed for intangible assets, property, plant and equipment, and investment property.

Capitalized goodwill is tested for impairment once per year in the fourth quarter at the level of cash-generating units (CGU). Cash-generating units are the strategic business units that come below the segments (sub-segments) and are the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The impairment test is performed by comparing the carrying amount of the business unit including its goodwill and the recoverable amount of this business unit. The recoverable amount in this case is the value in use calculated on the basis of discounted cash flows before interest and taxes. An impairment loss is recognized to the extent the carrying amount exceeds the recoverable amount for the business unit. If the reasons for this cease to apply in future, impairment losses on goodwill are not reversed.

The expected cash flows for the business units are derived from long-term planning that covers the next five years and is approved by the management. The plans are based in particular on assumptions for macroeconomic developments, as well as trends in sales prices, raw material prices and exchange rates. In addition to these current market forecasts, past developments and experience are also taken into account. The perpetuity beyond the period of five years is extrapolated using the expected long-term growth rates for the individual business units. A more detailed model with a longer period of detailed planning was used for the Hybrid Electric Vehicle (HEV) CGU on account of its specific situation as a start-up.

The main assumptions when calculating the value in use of a cash-generating unit are the free cash flows, the discount rate and its parameters, and the long-term growth rate.

Annual impairment testing was performed on the basis of the bottom-up business plan for the next five years approved by management in the period under review. A uniform interest rate of 11.3% (PY: 10.8%) before taxes was used to discount cash flows. This pre-tax WACC is based on the capital structure of the relevant peer group on average over the last five years. The risk-free interest rate is 2.7% and the market risk premium 5.8%. Borrowing costs were calculated as the total of the risk-free interest rate plus the credit spreads of peer group companies rated by S&P, Moody's or Fitch and a discount for anticipated rating improvements. The sources of this information were data from Bloomberg and Bonds-Online.

The long-term growth rate for the CGUs of the Interior, Chassis & Safety and Powertrain segments was 1.0% in the year under review (PY: 1.0%). For the cash-generating units of the Tire and ContiTech segments, the long-term growth rate was 0.5% (PY: 0.5%). These growth rates do not exceed the long-term average growth rates for the fields of business in which the cash-generating units operate.

The goodwill impairment test for 2013 resulted in impairment totaling €67.6 million (PY: €75.6 million). €27.6 million of this impairment relates to the HEV CGU of the Powertrain segment and €40.0 million to the Infotainment & Connectivity (IC) business unit in the Interior segment.

The impairment loss is reported under other expenses and income. The remaining goodwill of the IC CGU amounts to €494.4 million. The goodwill of the HEV business unit was written down in full.

According to management opinion, the impairment at the HEV CGU is due to the delayed market penetration of e-mobility products. The reason for the IC CGU lies in the lower than expected incoming orders.

Assuming a 0.5 percentage point increase in the discount rate to 11.8% before taxes would have resulted in goodwill impairment of €109.1 million and asset impairment of €42.1 million. Reducing long-term growth rates by 0.5 percentage points each would have resulted in total goodwill impairment of €96.4 million and asset impairment of €25.8 million. If sales in perpetuity would decline by 5%, this would result in goodwill impairment totaling €97.5 million and asset impairment of €26.1 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. Financial instruments include primary financial instruments such as trade accounts receivable and payable, securities and financial receivables or liabilities and other financial liabilities. They also include derivative instruments that are used to hedge against risks from changes in exchange rates and interest rates.

**Non-derivative financial instruments**
Non-derivative financial instruments are recognized at the settlement date, i.e. the date at which the asset is delivered to or by Continental AG. Non-derivative financial instruments are classified under one of the following four categories according to the purpose for which they are held. The classification is reviewed at the end of each reporting period and affects whether the asset is reported as non-current or current as well as determining whether measurement is at cost or fair value.

› Changes in the fair value of financial assets at fair value through profit and loss – which are either designated as such (fair value option) on initial recognition or are classified as held for trading – are recognized immediately in the income statement. In addition, they are reported as current assets if they are either held for trading purposes or are expected to be realized within twelve months of the end of the reporting period. The fair value option is not applied in the Continental Corporation.

› Held-to-maturity financial assets – which have fixed or determinable payments at the date of initial recognition as well as a fixed maturity and are intended to be held until that maturity – are recognized at amortized cost and reported as non-current or current assets in accordance with their term. Any impairment is reported in profit or loss. No financial assets are classified as held-to-maturity at present.

› Loans and receivables – which have fixed or determinable payments and are not quoted in an active market – are measured at amortized cost less any necessary impairments. They are reported in the statement of financial position in accordance with their term as non-current or current assets.

› Available-for-sale financial assets – which were designated as available for sale and not assigned to the other categories at the date of initial recognition – are measured at fair value and reported as non-current or current assets according to the expected date of sale. Unrealized gains or losses are recognized in other reserves, net of tax effects, until the date of derecognition. In the event of a significant or long-lasting decline in fair value to below cost, the impairment is recognized immediately in profit or loss. Reversal of impairment losses on equity instruments is recognized outside profit or loss. Reversal of impairment losses on debt instruments is recognized in profit or loss. Where there is no price quoted on an active market and the fair value cannot be measured reliably, for example in the case of investments in unconsolidated affiliated companies or other equity investments, the assets are measured at cost.

Liabilities arising from non-derivative financial instruments may be recognized either at amortized cost or at fair value through profit and loss. Continental AG measures all non-derivative financial liabilities at amortized cost, which comprises the remaining principal balance and issuing costs, net of any unamortized premium or discount. Liabilities from finance leases are shown at the present value of the remaining lease payments based on the implicit lease interest rate. Financial obligations with fixed or determinable payments that comprise neither financial liabilities nor derivative financial liabilities and are not quoted in an active market are reported in the statement of financial position under other financial liabilities in accordance with their term.

In the case of information reported in accordance with IFRS 7, classification is in line with the items disclosed in the statement of financial position and/or the measurement category used in accordance with IAS 39.

**Hybrid financial instruments**
Financial instruments that have both a debt and an equity component are classified and measured separately by those components. Instruments under this heading primarily include bonds with warrants and convertible bonds. In the case of convertible bonds, the fair value of the share conversion rights is recognized separately in capital reserves at the date the bond is issued and therefore deducted from the liability incurred by the bond. Fair values of conversion rights from bonds with below-market interest rates are calculated based on the present value of the difference between the coupon rate and the market rate of interest. The interest expense for the debt component is calculated for the term of the bond based on the market interest rate at the date of issue for a comparable bond without conversion rights. The difference between the deemed interest and the coupon rate increases the carrying amount of the bond indebtedness. In the event of maturity or conversion, the equity component previously recognized in capital reserves at the date of issue is offset against the accumulated retained earnings in accordance with the option permitted by IAS 32.

**Derivative instruments**
Derivative instruments are only used to hedge statement of financial position items or forecast cash flows, and are recognized at their fair values. The fair value is generally the market or exchange price. In the absence of an active market, the fair value is determined using financial models, for example by discounting expected future cash flows at the market rate of interest or by applying recognized option pricing models. Derivative instruments are recognized at the date when the obligation to buy or sell the instrument arises.

Changes in the fair values of derivative instruments used for fair value hedging purposes (fair value hedges) to offset fluctuations in the market value of recognized assets or liabilities are charged to income together with the changes in value of the hedged item. Changes in the fair values of derivative instruments used to hedge future cash flows where effectiveness is demonstrated are recognized in the difference from financial instruments until the associated hedged transaction is settled.

In the hedging of foreign currency risks from net investments in foreign operations (hedge of net investments), the effective portion of the change in value of the hedges together with the effect from the currency translation of the net investment is recognized in the difference from currency translation. The accumulated currency effects are not reclassified in profit and loss until the foreign operations are sold or liquidated.

If the criteria for hedge accounting are not met or the hedge becomes ineffective, the changes in fair value of the specific derivative instrument are recognized in profit or loss as incurred, independently of the hedged item.

**Embedded derivatives**
Non-derivative host contracts are regularly inspected for embedded derivatives, e.g. contractual payment terms in currencies other than the typical trading currency. Embedded derivatives must be separated from the host contract if the assessment finds that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. Separable embedded derivatives are measured at fair value.

**Receivables**
Receivables are carried at their nominal value. Valuation allowances on special items are recognized in specific cases where default is known, or based on experience. Default risks leading to lower payment inflows usually manifest themselves in financial difficulties, non-fulfillment, probable insolvency or breach of contract on the part of the customer.

Continental sells some of its trade accounts receivable under sale of receivables programs with banks. Receivables are recognized in the statement of financial position when the risks and rewards, in particular credit and default risk, have not been essentially transferred. The repayment obligations from these sales are, as a rule, then shown as short-term financial liabilities.

**Inventories**
Inventories are recognized at the lower of cost and net realizable value. Acquisition cost is generally determined using the weighted-average method. Production cost includes direct costs, production-related material costs, overheads and depreciation. Inventory risks resulting from decreased marketability or excessive storage periods are accounted for with write-downs.

**Other assets**
Other assets are recognized at amortized cost. Allowances are recognized as appropriate to reflect any possible risk related to recoverability.

**Accounting for income taxes**
Income taxes are measured using the concept of the statement of financial position liability method in accordance with IAS 12. Tax expenses and refunds that relate to income are recognized as income taxes. Accordingly, late payment fines and interest arising from subsequently assessed taxes are reported as tax expenses as soon as it becomes probable that the recognition of a reduction in taxes will be rejected.

Current taxes owed on income are recognized as expenses when they are incurred.

Deferred taxes include expected tax payments and refunds from temporary differences between the carrying amounts in the consolidated financial statements and the related tax bases, as well as from the utilization of loss carryforwards. No deferred tax is recognized for non-tax-deductible goodwill. The deferred tax assets and liabilities are measured at the applicable tax rates related to the period when the temporary differences are expected to reverse. Changes in tax rates are recognized once the rate has been substantially enacted. Deferred tax assets are not recognized if it is not probable that they will be realized in the future.

**Provisions for pension liabilities and similar obligations**
The retirement benefits offered by the corporation comprise both defined benefit and defined contribution plans.

Pension liabilities under defined benefit plans are actuarially measured pursuant to IAS 19 (revised 2011), 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 are recognized outside profit or loss. Expenses for the interest cost on pension liabilities and income from the pension funds are reported separately in net finance costs.

Accordingly, the interest effects of other long-term employee benefits are reported in net finance costs. Pension liabilities for some companies of the corporation are covered by pension funds. Furthermore, plan assets comprise all assets, as well as claims from insurance contracts, that are held exclusively towards payments to those entitled to pensions and are not available to meet the claims of other creditors. Pension obligations and plan assets are reported on a net basis in the statement of financial position.

The other post-employment benefits also shown under the provision for pension and other post-employment liabilities relate to obligations to pay for health costs for retired workers in the U.S.A. and Canada in particular.

Defined contribution plans represent retirement benefits where the company only contributes contractually fixed amounts for current service entitlements, which are generally invested by independent, external asset managers until the date of retirement of the employee. The fixed amounts are partly dependent on the level of the employee's own contribution. The company gives no guarantees of the value of the asset after the fixed contribution, either at the retirement date or beyond. The entitlement is therefore settled by the contributions paid in the year.

**Provisions for other risks and obligations**
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 at 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.

**Estimates**
Proper and complete preparation of the consolidated financial statements requires management to make estimates and assumptions affecting the assets, liabilities and disclosures in the notes, as well as the income and expenses for the period.

The most important estimates relate to the determination of the useful lives of intangible assets and property, plant and equipment; the impairment testing of goodwill and non-current assets, in particular the underlying cash flow forecasts and discount rates; the recoverability of amounts receivable and other assets as well as income taxes receivable; the financial modeling parameters for stock option plans; the recognition and measurement of liabilities and provisions, especially the actuarial parameters for pensions and other post-employment obligations; and the probabilities of claims and amounts of settlements for warranty, litigation or environmental risks.

The assumptions and estimates are based on the information currently available at the date of preparation of the consolidated financial statements. The underlying information is regularly reviewed and updated to reflect actual developments as necessary.

**Consolidated statement of cash flows**
The statement of cash flows shows the sources during the period that generated cash and cash equivalents as well as the application of cash and cash equivalents. This includes all cash and cash equivalents and demand deposits. Cash equivalents are short-term, highly liquid financial investments that can be readily converted into known cash amounts and are subject to an insignificant risk of changes in value. Financial investments are considered to be cash equivalents only if they have a remaining term not exceeding three months.

**Transitional provisions**
Specific transitional provisions used by Continental AG apply on first-time adoption of IAS 19 (revised 2011), *Employee Benefits*.

The effects of retrospective application of the new standard are shown below:

**Consolidated statement of income and comprehensive income**

| in € millions | 2013 | 2012 |
|---|---|---|
| **Sales** | **–** | **–** |
| Cost of sales | 48.8 | 63.4 |
| **Gross margin on sales** | **48.8** | **63.4** |
| Research and development expenses | 16.5 | 21.4 |
| Selling and logistics expenses | 4.5 | 5.9 |
| Administrative expenses | 18.0 | 23.3 |
| Other expenses and income | –0.9 | –1.2 |
| Income from at-equity accounted investees | – | – |
| Other income from investments | – | – |
| **Earnings before interest and taxes** | **86.9** | **112.8** |
| Interest income | 52.7 | 69.1 |
| Interest expense | –139.6 | –161.1 |
| **Net interest expense** | **–86.9** | **–92.0** |
| **Earnings before taxes** | **–** | **20.8** |
| Income tax expense | – | 0.9 |
| **Net income** | **–** | **21.7** |
| Non-controlling interests | – | – |
| Net income attributable to the shareholders of the parent | – | 21.7 |
| | | |
| **Basic earnings per share in €** | **–** | **0.11** |
| **Diluted earnings per share in €** | **–** | **0.11** |
| | | |
| **Net income** | **–** | **21.7** |
| **Items that will not be reclassified to profit or loss** | | |
| Remeasurement of defined benefit plans | 269.9 | –516.3 |
| Fair value adjustments | 267.9 | –694.3 |
| Portion for at-equity accounted investees | –4.4 | – |
| Deferred taxes on other comprehensive income | 6.4 | 178.0 |
| **Other comprehensive income** | **269.9** | **–516.3** |
| **Comprehensive income** | **269.9** | **–494.6** |
| Attributable to non-controlling interests | – | – |
| Attributable to the shareholders of the parent | 269.9 | –494.6 |

**Consolidated statement of financial position**

| in € millions | Dec. 31, 2013 | Dec. 31, 2012 | Jan. 1, 2012 |
|---|---|---|---|
| **Assets** | | | |
| Deferred tax assets | 218.7 | 211.3 | 34.6 |
| Defined benefit assets | –99.1 | –99.1 | –92.8 |
| **Non-current assets** | **119.6** | **112.2** | **–58.1** |
| **Total assets** | **119.6** | **112.2** | **–58.1** |
| | | | |
| **Total equity and liabilities** | | | |
| Retained earnings | — | 24.1 | 2.4 |
| Other comprehensive income | –741.2 | –1,012.5 | –496.2 |
| **Equity attributable to the shareholders of the parent** | **–741.2** | **–988.4** | **–493.8** |
| **Total equity** | **–741.2** | **–988.4** | **–493.8** |
| Provisions for pension liabilities and similar obligations | 866.1 | 1,105.9 | 438.8 |
| Deferred tax liabilities | –5.3 | –5.3 | –3.1 |
| **Non-current liabilities** | **860.8** | **1,100.6** | **435.7** |
| **Total equity and liabilities** | **119.6** | **112.2** | **–58.1** |

**Consolidated statement of cash flows**

| in € millions | 2013 | 2012 |
|---|---|---|
| **Net income** | **—** | **21.7** |
| Income tax expense | — | –0.9 |
| Net interest expense | 86.9 | 92.0 |
| **EBIT** | **86.9** | **112.8** |
| Changes in pension and similar obligations | –86.9 | –114.0 |
| Changes in other assets and liabilities | — | 1.2 |
| **Cash flow arising from operating activities** | **—** | **—** |

## 3. New Accounting Pronouncements

In accordance with EU Regulation (EC) 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 2013 and have been adopted accordingly:**

As a result of the amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards (Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters)*, existing references to fixed dates (for example January 1, 2004) have been replaced by a reference to the “date of transition to IFRS”. Furthermore, rules have been included for cases in which an entity is not able to satisfy all IFRS regulations due to hyperinflation. The amendments are required to be applied for annual periods beginning on or after January 1, 2013. The amendments had no effect on the consolidated financial statements of Continental AG.

The amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards (Government Loans),* introduce an exception to retrospective application of IFRS. In accordance with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, the benefit of a government loan at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan determined in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, and accordingly IFRS 9, *Financial Instruments*, and the proceeds received. These amendments require first-time adopters to apply the requirements of IAS 20 prospectively to government loans existing at the date of transition. Retrospective application may be chosen if the necessary information was obtained at the time of initial recognition of the loan. With the amendments, first-time adopters are permitted to apply the previous GAAP carrying amount of the loan at the date of transition as the carrying amount of the loan in the opening IFRS statement of financial position. The amendments have no effect on the requirement to classify the loan as a financial liability or as an equity instrument in accordance with IAS 32, *Financial Instruments: Presentation*. The amendments are required to be applied for annual periods beginning on or after January 1, 2013. The amendments had no effect on the 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 had no significant effect on the consolidated financial statements of Continental AG.

IFRS 13, *Fair Value Measurement*, defines the fair value, describes the measurement of fair value, and enhances the corresponding disclosures. IFRS 13 and the consequential amendments to other standards and interpretations are required to be applied for annual periods beginning on or after January 1, 2013. The standard and the consequential amendments had no significant effect on the consolidated financial statements of Continental AG.

The amendments to IAS 1, *Presentation of Financial Statements*, deal with the presentation of items of other comprehensive income (OCI). The amendments require entities to group items presented in OCI on the basis of whether they are potentially subsequently reclassifiable to profit and loss or not. The option of IAS 1 (revised 2007) to present OCI items either before or net of tax will not be changed by the amendments. If presentation before tax is chosen, the tax related to each of the groups (described above) must be shown separately. The amendments and the consequential amendments to other standards are required to be applied for annual periods beginning on or after July 1, 2012. The amendments and the consequential amendments had no significant effect on the consolidated financial statements of Continental AG.

The amendments to IAS 12, *Income Taxes (Deferred Tax: Recovery of Underlying Assets)*, contain a clarification regarding the treatment of temporary tax differences when using the fair value model in IAS 40, *Investment Property*. It can be difficult to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40. The amendments provide a practical approach in such cases by introducing a rebuttable presumption that an investment property is recovered entirely through sale. The amendments supersede SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*. The amendments are required to be applied for annual periods beginning on or after January 1, 2013. The amendments had no effect on the consolidated financial statements of Continental AG.

IAS 19 (revised 2011), *Employee Benefits*, changes IAS 19 (revised 2008) fundamentally. The recognition of actuarial gains and losses using the corridor method and the recognition of past service cost over the vesting period are eliminated. The revised standard changes the presentation of defined benefit costs and the calculation of net interest. Furthermore, the definitions of termination benefits, curtailments, as well as short-term and other long-term benefits have been clarified and the disclosures of IAS 19 enhanced. The revised standard and the consequential amendments to other standards and interpretations are required to be applied for annual periods beginning on or after January 1, 2013. IAS 19 (revised 2011) and the consequential amendments had a significant effect on the consolidated financial statements of Continental AG, the details of which are given in Note 25 of the notes to the consolidated financial statements.

IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, deals with the accounting of waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). The interpretation clarifies the requirements for recognition of production stripping costs as an asset and the corresponding measurement of the stripping activity asset. The interpretation and the consequential amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, are required to be applied for annual periods beginning on or after January 1, 2013. IFRIC 20 and the consequential amendment had no effect on the consolidated financial statements of Continental AG.

Under the IASB's fourth annual improvements project *(Improvements to IFRSs, May 2012, Cycle 2009-2011)*, the following amendments became effective:

- The amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, clarifies that under certain circumstances a repeated application of IFRS 1 is possible. Furthermore, the amendment clarifies the recognition of borrowing costs in accordance with IAS 23, *Borrowing Costs*, relating to qualifying assets for which the commencement date for capitalization is prior to the date of transition to IFRS.

› The amendment to IAS 1, *Presentation of Financial Statements*, clarifies the disclosure requirements for comparative information when a third balance sheet is provided on a voluntary or mandatory basis. A consequential amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, clarifies that supporting notes for all statements have to be presented. Furthermore, IAS 34, *Interim Financial Reporting*, was changed through the amendment of IAS 1.

› The amendment to IAS 16, *Property, Plant and Equipment*, clarifies that spare parts and servicing equipment should not be classified as inventory when they meet the definition of property, plant and equipment as per IAS 16.

› The amendment to IAS 32, *Financial Instruments: Presentation*, clarifies that IAS 12, *Income Taxes*, is the relevant standard to account for income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction. A consequential amendment to IFRIC 2, *Members' Shares in Co-operative Entities and Similar Instruments*, was made.

› The amendment to IAS 34, *Interim Financial Reporting*, clarifies the disclosure of segment information for total assets and liabilities in the interim financial reporting in order to achieve harmonization with the requirements of IFRS 8, *Operating Segments*.

The amendments are required to be applied for annual periods beginning on or after January 1, 2013. The amendments had no significant effect on the consolidated financial statements of Continental AG.

**The following endorsed standards, interpretations issued in relation to published standards and amendments that were applicable to Continental AG and have already been endorsed by the EU were adopted earlier in 2013 on a voluntary basis:**

The amendments to IAS 36, *Impairment of Assets (Recoverable Amount Disclosures for Non-Financial Assets)*, clarify that disclosure of the recoverable amount is only required for individual assets (including goodwill) or a cash-generating unit, for which an impairment loss has been recognized or reversed during the period. Furthermore, the amendments require additional information when this recoverable amount is based on fair value less costs of disposal. The amendments are required to be applied for annual periods beginning on or after January 1, 2014. However, Continental AG has decided to adopt the amendments earlier on a voluntary basis in the current consolidated financial statements. The amendments had no significant effect on the consolidated financial statements of Continental AG.

**The following amendments have already been endorsed by the EU but will not take effect until a later date:**

IFRS 10, *Consolidated Financial Statements*, establishes principles for the presentation and preparation of consolidated financial statements when an entity (parent) controls one or more other entities. A reporting entity is required to consolidate an investee when that entity controls the investee. Control exists only if the investor has the power over the investee, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee to affect the amount of the investor's returns. Besides the introduction of a single consolidation model based on the principle of control, IFRS 10 includes accounting requirements regarding, inter alia, non-controlling interests, potential voting rights, and loss of control. The standard supersedes the requirement related to consolidated financial statements in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. The standard and the consequential amendments to other standards and interpretations are required to be applied for annual periods beginning on or after January 1, 2014. The standard and the consequential amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRS 11, *Joint Arrangements*, describes the principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements). A joint arrangement is either a joint operation or a joint venture. A joint operator shall recognize assets, liabilities, expense and revenue in relation to its interest in the joint operation. A joint venturer shall recognize its interest in a joint venture as investment and shall account for the investment using the equity method in accordance with IAS 28, *Investments in Associates and Joint Ventures*. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. The standard and the consequential amendments to other standards and interpretations are required to be applied for annual periods beginning on or after January 1, 2014. The standard and the consequential amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRS 12, *Disclosure of Interests in Other Entities*, requires the disclosure of information that enables users of financial statements to evaluate the nature of and risk associated with interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities, and the financial effect of those interests. The standard and the consequential amendments to other standards are required to be applied for annual periods beginning on or after January 1, 2014. IFRS 12 and the consequential amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 12, *Disclosure of Interests in Other Entities*, and IAS 27 (revised 2011), *Separate Financial Statements (Investment Entities)*, deal with the definition of investment entities and introduce an exception to the general principle that all subsidiaries are to be consolidated. An investment entity that is a parent should measure its investments in particular subsidiaries in accordance with IAS 39, *Financial Instruments: Recognition and Measurement,* and accordingly IFRS 9, *Financial Instruments*. Furthermore, the amendments specify new disclosure requirements for investment entities. The amendments (and the consequential amendments to other standards) are required to be applied for annual periods beginning on or after January 1, 2014. The amendments are not expected to have any effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, and IFRS 12, *Disclosure of Interests in Other Entities (Transition Guidance)*, define the date of initial application of IFRS 10 and explain when and how adjustments should be made. The amendments describe that an entity need only present adjusted comparative information for the period immediately preceding the date of initial application of IFRS 10. A similar transition relief is provided for IFRS 11 and IFRS 12 regarding the presentation and adjustment of comparative information. The requirement to present comparatives for the disclosures relating to unconsolidated structured entities for periods before the annual reporting period in which IFRS 12 is first applied is eliminated. The amendments (and the consequential amendment of IFRS 1, *First-time Adoption of International Financial Reporting Standards*) 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.

IAS 27 (revised 2011), *Separate Financial Statements*, deals with the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates in separate financial statements. IAS 27 requires that investments in subsidiaries, joint ventures and associates be accounted for either at cost or in accordance with IAS 39, *Financial Instruments: Recognition and Measurement,* and accordingly IFRS 9, *Financial Instruments*. The standard is required to be applied for annual periods beginning on or after January 1, 2014. The standard is not expected to have any effect on the future consolidated financial statements of Continental AG.

IAS 28 (revised 2011), *Investments in Associates and Joint Ventures*, deals with the accounting for investments in associates and the application of the equity method when accounting for investments in associates and joint ventures. Furthermore, IAS 28 clarifies cases in which an investment, or a portion of an investment, in an associate or a joint venture is classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. The standard implements a measurement option for investments in associates or joint ventures which are held by, or are held indirectly through, an entity that is a venture capital organization, a mutual fund, unit trust or similar entity including investment-linked insurance funds. IAS 28 (revised 2011) supersedes IAS 28 (revised 2003), *Investment in Associates*, and incorporates rules of SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. IAS 28 is required to be applied for annual periods beginning on or after January 1, 2014. The standard is not expected to have any significant 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.

The amendments to IAS 39, *Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting),* provide relief from discontinuing hedge accounting when the novation of a hedging instrument to a central counterparty is required by new law or regulations and meets certain criteria. IFRS 9 has been amended accordingly. 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.

**The following standards, interpretations issued in relation to published standards, and amendments are not yet endorsed by the EU and will become effective at a later date:**

The amendments to IAS 19, *Employee Benefits (Defined Benefit Plans: Employee Contributions)*, clarify the accounting for contributions from employees or third parties with regard to defined benefit plans. IAS 19 (revised 2011) requires that contributions that are set out in the formal terms of a defined benefit plan and that are linked to the service rendered are required to be attributed to periods of service as a reduction of service cost (negative benefit). The amendments provide for an option in respect of such contributions. If the amount of the contributions depends on the number of years of service, the amendments require that those contributions must be attributed to periods of service using the projected unit credit method. If the amount of the contributions is independent of the number of years of service, the entity is permitted to recognize such contributions as a reduction of service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service. The amendments are required to be applied for annual periods beginning on or after July 1, 2014. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRIC 21, *Levies*, provides guidance on when to recognize a liability for a levy imposed by a government, other than income taxes. IFRIC 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and the accounting for a liability to pay a levy whose timing and amount is certain. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is required to be applied for annual periods beginning on or after January 1, 2014. The interpretation is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRS 9, *Financial Instruments*, revises the requirements of IAS 39, *Financial Instruments: Recognition and Measurement*, for the classification and measurement of financial assets and financial liabilities. The standard represents the completion of the first phase of the project to replace IAS 39. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications – those measured at amortized cost and those measured at fair value. A financial asset is measured at amortized cost if the asset is held within a business model with the objective of holding assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets which do not fulfill both conditions are measured at fair value. IFRS 9 states that an entity shall reclassify all affected financial assets only when it changes its business model for managing financial assets. IFRS 9 restricts the option to designate a financial asset at fair value through profit or loss. An entity may designate if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch'). Furthermore, IFRS 9 introduces an option that, at initial recognition, an entity may irrevocably elect to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this IFRS that is not held for trading. If an entity elects to report in this manner, it must recognize in profit or loss dividends from that investment. With regard to embedded derivatives, IFRS 9 adopts the IAS 39 concept only for hosts that are assets outside the scope of IFRS 9. Requirements on classification and measurement of financial liabilities and requirements for derecognition of financial assets and liabilities were added to IFRS 9 in October 2010. The existing requirements of IAS 39, *Financial Instruments: Recognition and Measurement*, for derecognition were adopted thereby. New requirements affect the accounting of financial liabilities when choosing the fair value option: The portion of the change in the fair value due to changes in the entity's own credit risk should be presented in other comprehensive income (OCI). IFRS 9 (including 2010 supplements) is to be applied to annual periods beginning on or after January 1, 2015. The effective date was rescheduled to 2015 by the amendments to IFRS 9, *Financial Instruments (2009 and 2010)*, and IFRS 7, *Financial Instruments: Disclosures, (Mandatory Effective Date and Transition Disclosures)*. Furthermore, the relief from restating comparative periods and associated disclosures in accordance with IFRS 7 were amended. The adopted pronouncement on *Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39 (2013)* represents the third phase of the project to replace IAS 39. The amendments to IFRS 9 introduce a new (general) hedge accounting model with the aim of aligning risk management more closely with the accounting. One of the key changes is the increased eligibility of hedged items and hedging instruments. Furthermore, the hedge effectiveness requirements have been amended. The requirement of IAS 39 to perform retrospective hedge effectiveness testing with a threshold for effective hedges has been superseded by the new regulation and replaced by the requirement to provide evidence of the economic relationship between the hedged item and the hedging instrument. The disclosures regarding the risk management strategy, the impact of the risk management on the future cash flows and the impact of the hedge accounting on the financial statements have been increased. The general model of hedge accounting in IFRS 9 does not deal with portfolio or macro hedge accounting and thus implements policy options. Entities that currently apply the requirements in IAS 39 for portfolio hedge accounting of interest rate risks may continue doing so under the new requirements of IFRS 9. In addition, entities can choose to account for all hedges under either IAS 39 or IFRS 9. An amendment not related to hedge accounting allows entities to recognize in OCI the changes in fair value attributable to changes in an entity's own credit risk from financial liabilities that are designated under the fair value option without adopting the remainder of IFRS 9. The amendments to IFRS 9 have removed the previous effective date of January 1, 2015, without substitution. IFRS 9 is expected to have an effect on the future consolidated financial statements of Continental AG.

Under the IASB's fifth annual improvements project *(Improvements to IFRSs, December 2013, Cycle 2010-2012)*, the following amendments will become effective at a later date:

- The amendment to IFRS 2, *Share-based Payment*, clarifies the definition of 'vesting condition' by introducing separate definitions for 'performance condition' and 'service condition'. Furthermore, the amendment clarifies the definition of 'market condition'.

- The amendment to IFRS 3, *Business Combinations*, clarifies that an obligation to pay contingent consideration that meets the definition of a financial instrument shall be classified as a financial liability or as equity on the basis of the definitions in IAS 32, *Financial Instruments: Presentation*. Furthermore, the standard clarifies that non-equity contingent considerations, irrespective whether financial or non-financial, are measured at fair value at each reporting date, with changes in fair value recognized in profit or loss. Consequential amendments have been made to IFRS 9, *Financial Instruments*, IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and IAS 39, *Financial Instruments: Recognition and Measurement*.

- The amendments to IFRS 8, *Operating Segments*, require disclosure of the judgment made by management when operating segments have been aggregated. Furthermore, the amendments require a reconciliation of the total of the reportable segments' assets to the entity's assets if segment assets are reported.

- The amendment to IFRS 13, *Fair Value Measurement*, clarifies in the basis for conclusions that the consequential amendments to IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 9, *Financial Instruments*, do not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial. The bases for conclusions on IAS 39 and IFRS 9 have been amended accordingly.

- The amendment to IAS 16, *Property, Plant and Equipment*, and the amendment to IAS 38, *Intangible Assets*, clarify the calculation of the accumulated depreciation at the revaluation date when the revaluation method is used.

- The amendment to IAS 24, *Related Party Disclosures*, clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

The amendment to IFRS 2 is required to be applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The amendment to IFRS 3 and the corresponding amendments are required to be applied to business combinations for which the acquisition date is on or after July 1, 2014. The other amendments are required to be applied for annual periods beginning on or after July 1, 2014. The amendments are not expected to have a significant effect on the future consolidated financial statements of Continental AG.

Under the IASB's sixth annual improvements project *(Improvements to IFRSs, December 2013, Cycle 2011-2013)*, the following amendments will become effective at a later date:

- The amendment to IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, clarifies in the basis for conclusions the meaning of "effective IFRSs".

- The amendment to IFRS 3, *Business Combinations*, clarifies the scope of IFRS 3. Consequently, the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself is excluded from the scope of the standard.

- The amendment to IFRS 13, *Fair Value Measurement*, clarifies that the portfolio exception of IFRS 13 applies to all contracts within the scope of, and accounted for in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, or IFRS 9, *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities in IAS 32, *Financial Instruments: Presentation*.

- The amendment to IAS 40, *Investment Property*, clarifies that a determination whether a specific transaction meets the definition of a business combination as defined in IFRS 3, *Business Combinations*, and includes an investment property as defined in IAS 40 requires the separate application of both standards.

The amendments are required to be applied for annual periods beginning on or after July 1, 2014. The amendments are not expected to have a significant effect on the future consolidated financial statements of Continental AG.

## 4. Companies Consolidated

In addition to the parent company, the consolidated financial statements include 443 (PY: 443) domestic and foreign companies in which Continental Aktiengesellschaft holds a direct or indirect interest of more than 20.0% of the voting rights, or that must be included in consolidation in accordance with SIC-12. Of these, 316 (PY: 315) are fully consolidated and 127 (PY: 128) are accounted for using the equity method.

The scope of consolidated companies has not changed overall as compared to the previous year. Three companies were acquired, nine companies were formed and six previously unconsolidated units were included in consolidation for the first time. In addition, three new special-purpose entities were included in consolidation for the first time in accordance with SIC-12. Seven companies were sold and five were liquidated. In addition, the number of companies consolidated was reduced by nine as a result of mergers.

In particular, the additions to the scope of consolidation in 2013 relate to the newly formed companies of the Automotive Group with a total of five consolidated companies. Companies no longer included in the scope of consolidation essentially relate to mergers within the Rubber Group and disposals by the Automotive Group. The effects of this are shown under Note 5.

36 (PY: 36) 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. 35 (PY: 34) of these are affiliated companies, 9 (PY: 7) of which are currently inactive. One further company not included in consolidation (PY: 2) is an associated company. This unit is currently active (PY: one unit active, one unit inactive).

Further information on equity investments and an overview of the German corporations and partnerships that utilized the exemption provisions of Section 264 (3) of the German Commercial Code *(Handelsgesetzbuch – HGB)* and Section 264b *HGB* can be found in Note 40.

## 5. Acquisition and Sale of Companies and Business Operations

The expansion of the product portfolio and an improvement in market access in the Industry and Engineered Products field of operations in Northern Europe motivated the asset deal by the ContiTech division in its Conveyor Belt Group business unit. After signing the purchase agreement between Metso Minerals, Inc., Helsinki, Finland, and ContiTech Transportbandsysteme GmbH, Hanover, Germany, on September 3, 2013, the closing took place on November 3, 2013. The purchase price was €7.8 million and was paid in cash. The incidental acquisition costs of €0.3 million were recognized as other operating expenses. The current, preliminary purchase price allocation resulted in preliminary acquired net assets of €5.6 million and goodwill of €2.2 million. Other than this, there was no material effect on the net assets, financial and earnings position of Continental as at December 31, 2013.

The ContiTech division has strengthened its Conveyor Belt Group business unit with the acquisition of 100% of shares in Legg Company, Inc., Halstead, Kansas, U.S.A., by ContiTech North America, Inc., Wilmington, Delaware, U.S.A. The transaction was closed on July 1, 2013. The acquisition is intended to facilitate market access and the expansion of the market share in North America. The provisional purchase price was €24.5 million and was paid in cash. The incidental acquisition costs of €0.3 million were recognized as other operating expenses. As part of the preliminary purchase price allocation, intangible assets of €8.4 million and goodwill of €1.9 million were identified. Since July 1, 2013, Legg Company, Inc. has contributed €11.8 million to sales and €0.3 million to net income after taxes. If the transaction had already been completed as at January 1, 2013, net income after taxes would have been another €2.0 million higher and sales would have been up by an additional €15.6 million. Other than this, there was no material effect on the net assets, financial and earnings position of Continental as at December 31, 2013.

In addition, an asset deal in the division was closed on April 16, 2013, by ContiTech Tianjin Conveyor Belt Co. Ltd., Tianjin, China. The purchase price was €4.3 million. No intangible assets were identified in purchase price allocation. The effects of these transactions were immaterial for the net assets, financial and earnings position as at December 31, 2013.

In order to strengthen and expand the product portfolio in the Advanced Driver Assistance Systems business unit of the Chassis & Safety division, 100% of shares in Application Solutions (Electronics and Vision) Limited, Lewes, U.K., were acquired as at January 1, 2013. The purchase price was €20.7 million. The purchase price allocation resulted in acquired net assets of €5.6 million and goodwill of €15.1 million. Since January 1, 2013, Application Solutions (Electronics and Vision) Limited has contributed €0.7 million to net income after taxes. Other than this, there was no material effect on the net assets, financial and earnings position of Continental as at December 31, 2013.

To strengthen the sales network in the Tire division, an asset deal between Continental Banden Groep B.V., Barneveld, Netherlands, and Continental Benelux SPRL, Herstal, Belgium, to take over operating facilities in the Netherlands was concluded as at December 2, 2013. The provisional purchase price was €6.2 million. As part of the preliminary purchase price allocation, intangible assets of €1.3 million and goodwill of €4.1 million were capitalized. Other than this, there was no material effect on the net assets, financial and earnings position of Continental as at December 31, 2013.

Effective November 7, 2013, Continental Holding France SAS, Sarreguemines, France, acquired the remaining shares in the SACI Group (Société Alsacienne de Commerce et d'Investissement, Colmar, France) with the aim of expanding the sales network on the French tire market. This resulted in a gain in the value of the shares previously held in the amount of €7.9 million, which was recognized as other income. The purchase price was €18.5 million. The current, preliminary purchase price allocation resulted in acquired net assets of €8.9 million and preliminary goodwill of €19.4 million. Since the closing date, the SACI Group has contributed €19.7 million to sales and €0.0 million to net income after taxes. If the transaction had already been completed as at January 1, 2013, net income after taxes would have been down by €4.6 million and sales up by a further €73.9 million. Other than this, there was no material effect on the net assets, financial and earnings position of Continental as at December 31, 2013.

Other share and asset deals with a total value of €5.5 million were performed to strengthen the sales network of the Tire division. Intangible assets were capitalized in the amount of €1.9 million. In preliminary purchase price allocation, the individual transactions resulted in positive differences capitalized as goodwill of €2.8 million. The effects of these transactions, including the corresponding preliminary purchase price allocation, are immaterial for the net assets, financial and earnings position as at December 31, 2013.

The assets and liabilities included in the consolidated statement of financial position for the first time as a result of the aforementioned transactions were carried in the following amounts:

| **Acquired net assets in € millions** | **Carrying amount immediately before acquisition** | **Preliminary fair value at date of first-time consolidation** |
|---|---|---|
| Other intangible assets | — | 13.2 |
| Property, plant and equipment | 19.6 | 27.6 |
| Other investments | 0.8 | 0.8 |
| Net deferred taxes | 2.3 | 0.8 |
| Inventories | 25.2 | 25.2 |
| Trade accounts receivable | 22.4 | 22.4 |
| Other short-term financial assets | 2.4 | 2.4 |
| Other short-term assets | 1.4 | 1.6 |
| Income tax receivables | 0.1 | 0.1 |
| Cash and cash equivalents | 4.3 | 4.3 |
| Assets held for sale | 0.1 | 0.1 |
| Long-term provisions for other risks and obligations | –0.2 | –0.2 |
| Long-term portion of indebtedness | –2.2 | –2.2 |
| Trade accounts payable | –21.6 | –21.6 |
| Income tax payables | –0.8 | –0.8 |
| Short-term provisions for other risks and obligations | –0.2 | –0.2 |
| Indebtedness | –12.8 | –12.8 |
| Other short-term financial liabilities | –3.5 | –3.5 |
| Other short-term liabilities | –5.4 | –5.4 |
| **Purchased net assets** | **31.9** | **51.8** |
| Fair value of previously held shares | | 9.8 |
| Purchase price | | 87.5 |
| **Goodwill** | | **45.5** |

On January 1, 2013, the closing took place for SK Continental E-motion Pte. Ltd., Singapore, Singapore, a company jointly managed by SK Innovation Co., Ltd., Seoul, South Korea, and Continental, after the agreement to form the company was signed in July 2012. SK Continental E-motion develops, produces and markets battery systems based on lithium-ion technology for cars and light commercial vehicles. Continental holds 49% in the new company through its subsidiary Continental Automotive Singapore Pte. Ltd., Singapore, Singapore, while SK Innovation holds 51%. In addition to its head office in Singapore, SK Continental E-motion Pte. Ltd. has operative units in Berlin, Germany, and in Daejeon, South Korea, and commenced operations on January 2, 2013. The transaction resulted in income of €23.6 million that was reported under other expenses and income.

### Acquisitions of non-controlling interests and business operations

Effective April 24, 2013, the remaining 26% of the shares in Continental Tyre South Africa (Pty.) Ltd., Port Elizabeth, South Africa, were acquired for €25.7 million. Continental acquired a further 5% of the interests in Continental Automotive Corporation, Yokohama, Japan, for a purchase price of €17.7 million in the reporting period. This transaction was closed on April 22, 2013. In addition, 12% of the shares in Synerject LLC, Wilmington, Delaware, U.S.A., were acquired for a purchase price of €4.6 million. The transaction was closed on March 1, 2013. The effects of these transactions were immaterial for the net assets, financial and earnings position of the Continental Corporation as at December 31, 2013. The difference between the respective purchase prices and the non-controlling interests amounting to a total of €0.8 million was recognized in equity.

**Disposals of companies and business operations**

As part of an asset deal effective July 1, 2013, Continental Automotive Trading France SAS, Rambouillet, France, sold its cockpit activities in the Instrumentation & Driver HMI business unit at the location in Hambach, France, to SAS Automotive France SAS, Voisins le Bretonneux, France. This transaction resulted in a gain of €0.2 million that was reported under other expenses and income. The effect on the net assets, financial and earnings position was immaterial as at December 31, 2013.

As at January 29, 2013, Continental sold its shares in S-Y Systems Technologies Europe GmbH, Regensburg, Germany, to Yazaki Europe Ltd., Hertfordshire, U.K., a subsidiary of Yazaki Corporation, Tokyo, Japan, as a result of which Yazaki now holds all shares in the company. Continental and Yazaki previously each held 50% in the company. The transaction resulted in income of €54.6 million that was reported under other expenses and income.

# Notes to the Consolidated Statement of Income

## 6. Other Expenses and Income

| in € millions | 2013 | 2012 |
|---|---|---|
| Other expenses | –627.5 | –412.9 |
| Other income | 285.3 | 396.2 |
| **Other expenses and income** | **–342.2** | **–16.7** |

### Other expenses

| in € millions | 2013 | 2012 |
|---|---|---|
| Expenses for provisions | 240.1 | 111.3 |
| Litigation and environmental risks | 101.0 | 61.0 |
| Impairment of goodwill | 67.6 | 75.6 |
| Impairment on property, plant and equipment, and intangible assets | 61.4 | 2.6 |
| Valuation allowances for doubtful accounts | 22.1 | 8.7 |
| Expenses for termination benefits | 20.7 | 29.2 |
| Special bonuses | 15.9 | 28.5 |
| Losses on the sale of property, plant and equipment, and from scrapping | 14.5 | 12.7 |
| Realized and unrealized foreign currency exchange losses | 5.1 | 32.6 |
| Other | 79.1 | 50.7 |
| **Other expenses** | **627.5** | **412.9** |

Other operating expenses increased by €214.6 million to €627.5 million (PY: €412.9 million) in the reporting period.

Higher additions to specific warranty provisions and provisions for restructuring measures resulted in a rise in these expenses of €128.8 million to €240.1 million (PY: €111.3 million). Please see Notes 26 and 34.

Activities were concluded and restructured in one product segment within the Infotainment & Connectivity business unit in the Interior division. Restructuring expenses of €39.4 million were incurred in this context. This affected the locations Manaus, Brazil (€13.2 million), Bizerte, Tunisia (€10.0 million), Wetzlar, Germany (€7.0 million), Rambouillet, France (€2.0 million), Nogales, Mexico (€1.9 million), Tianjin, China (€1.6 million), Melbourne, Australia (€1.4 million), Guarulhos, Brazil (€1.4 million), and Deer Park, Illinois, U.S.A. (€0.9 million).

In connection with the cessation of passenger tire production at the plant in Clairoix, France, a large number of employees at Continental France SNC, Sarreguemines, France, had filed claims with the industrial tribunals in Compiègne and Soissons, France, against this subsidiary company and, in some cases, against Continental AG as well. On August 30, 2013, the industrial tribunal in Compiègne ordered Continental France SNC and Continental AG to pay damages for the allegedly unlawful dismissal of employees. Continental still considers the plaintiffs' claims to be unfounded and has appealed the tribunal's ruling. Nonetheless, a provision of €40.5 million in total was recognized in the Tire division.

The expenses related to provisions for litigation and environmental risks rose to €101.0 million (PY: €61.0 million). On December 23, 2013, the Korea Fair Trade Commission in South Korea announced that it had imposed fines on Continental Automotive Electronics LLC, Bugan-myeon, South Korea, and another automotive supplier, for violations of antitrust law in instrument cluster business. The fine imposed on Continental Automotive Electronics LLC, Bugan-myeon, South Korea, amounts to KRW 45,992 million (roughly €32 million), for which an appropriate provision has been made. See also Note 34.

The annual impairment test on goodwill resulted in an impairment loss of €27.6 million (PY: €75.6 million) in the Powertrain division and €40.0 million (PY: – ) in the Interior division.

Impairment on intangible assets and property, plant and equipment amounted to €61.4 million (PY: €2.6 million) in the reporting period. This included impairment losses of €40.5 million on account of the strategic change in direction in one segment of the Chassis & Safety division.

The cost resulting from allowances on receivables was €22.1 million (PY: €8.7 million).

Personnel adjustments not related to restructuring led to expenses for severance payments of €20.7 million (PY: €29.2 million).

The special bonuses relate to expenses for the virtual shares in the amount of €15.9 million (PY: €5.7 million). Expenses for the long-term incentive plan are reported in function costs from 2013. In the previous period they were recognized in other expenses at €22.8 million.

Losses of €14.5 million (PY: €12.7 million) arose on the sale of property, plant and equipment, and scrapping activities in 2013.

In the year under review, expenses of €5.1 million (PY: €32.6 million) were incurred as a result of foreign currency translations from operating receivables and liabilities in foreign currencies not classified as indebtedness.

On July 10, 2013, the European Commission imposed fines on a number of automotive suppliers for anti-competitive conduct in the field of supplying wire harnesses for automotive applications. These companies included S-Y Systems Technologies Europe GmbH, Regensburg, Germany, and its French subsidiary, which must pay a fine of €11.1 million due to cartel agreements with regard to one automotive manufacturer. Continental held a 50% share of S-Y Systems Technologies Europe GmbH, Regensburg, Germany, until January 29, 2013. Based on contingent liabilities, a provision of €9.0 million was recognized in the Interior division. This is reported in other expenses.

The “Other” item also includes expenses for other taxes and various compensations from customer and supplier claims.

## Other income

| **in € millions** | **2013** | 2012 |
|---|---|---|
| Gain on the reversal of provisions | 90.2 | 218.8 |
| Gain on the sale of companies and business operations | 78.4 | 1.6 |
| Litigation and environmental risks | 12.8 | – |
| Gain from the reimbursement of customer tooling expenses | 12.6 | 11.6 |
| Gain on the sale of property, plant and equipment | 10.4 | 10.9 |
| Adjustments of the syndicated loan | 2.4 | 13.3 |
| Reversal of impairment losses on property, plant and equipment | 2.3 | 28.3 |
| Negative difference | – | 11.5 |
| Other | 76.2 | 100.2 |
| **Other income** | **285.3** | **396.2** |

In particular, the €110.9 million decline in other operating income to €285.3 million (PY: €396.2 million) results from €128.6 million lower reversal of specific warranty and restructuring provisions no longer required in the amount of €90.2 million (PY: €218.8 million).

On January 1, 2013, the closing took place for SK Continental E-motion Pte. Ltd., Singapore, Singapore, a company jointly managed by SK Innovation Co., Ltd., Seoul, South Korea, and Continental, after the agreement to form the company was signed in July 2012. The transaction resulted in income of €23.6 million in the Powertrain division.

As at January 29, 2013, Continental sold its shares in S-Y Systems Technologies Europe GmbH, Regensburg, Germany, to Yazaki Europe Ltd., Hertfordshire, U.K. The transaction resulted in income of €54.6 million in the Interior division.

As part of an asset deal effective July 1, 2013, Continental Automotive Trading France SAS, Rambouillet, France, sold its cockpit activities in the Instrumentation & Driver HMI business unit at the location in Hambach, France, to SAS Automotive France SAS, Voisins le Bretonneux, France. This transaction resulted in a positive special effect in the amount of €0.2 million in the Interior division.

The reversal of provisions for litigation and environmental risks resulted in income of €12.8 million (PY: – ).

In 2013, reimbursements of €12.6 million (PY: €11.6 million) were received for customer tooling.

Income of €10.4 million (PY: €10.9 million) was generated from the sale of property, plant and equipment in the period under review.

Owing to the anticipated higher cash outflow for the syndicated loan resulting from rising interest margins, the carrying amount was adjusted as an expense in 2009 and 2010. However, in 2011 the carrying amount was adjusted as income due to signs of decreasing margins and the associated anticipated lower cash outflow for the syndicated loan. These deferrals will be amortized over the term of the loan, reducing or increasing expenses accordingly. The amortization of the carrying amount adjustments led to a positive effect totaling €2.4 million in 2013 (PY: €13.3 million).

The reversal of impairment losses on property, plant and equipment resulted in income of €2.3 million (PY: €28.3 million).

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

Other income included proceeds from license agreements and provisions for customer and supplier claims. Income from insurance compensation due to damage to property, plant and equipment caused by force majeure is also reported here. In addition, government grants amounting to €7.9 million (PY: €7.3 million) that were not intended for investments in non-current assets were recognized in profit or loss in the “Other” item. The adjustment of the market value of shares already held in the context of the step acquisition of the SACI Group (Société Alsacienne de Commerce et d’Investissement, Colmar, France) resulted in income in the Tire division of €7.9 million, which is likewise reported here.

## 7. Personnel Expenses

The following total personnel expenses are included in function costs in the income statement:

| **in € millions** | **2013** | 2012 |
|---|---|---|
| Wages and salaries | 5,765.2 | 5,534.6 |
| Social security contributions | 1,167.6 | 1,103.5 |
| Pension and post-employment benefit costs | 191.7 | 175.6 |
| **Personnel expenses** | **7,124.5** | **6,813.7** |

The rise in personnel expenses of €310.8 million to €7,124.5 million (PY: €6,813.7 million) is due in particular to recruitment activities on account of the positive business performance in the year under review. The reclassification of the interest cost on expected pension obligations and the expected return on plan assets from the operating result to net finance costs, as part of the first-time adoption of IAS 19 (revised 2011), *Employee Benefits*, resulted in a corresponding adjustment in pension and post-employment benefit costs.

The average number of employees in 2013 was 175,431 (PY: 168,997). As at the end of the year, there were 177,762 (PY: 169,639) employees in the Continental Corporation. Please also see the comments in the Management Report.

## 8. Income from Investments

| in € millions | 2013 | 2012 |
|---|---|---|
| Share of income from at-equity accounted investees | 37.3 | 63.3 |
| Impairment and reversal of impairment losses on investments in at-equity accounted investees | 0.3 | 0.1 |
| **Income from at-equity accounted investees** | **37.6** | **63.4** |
| | | |
| Income from other investments | 0.7 | 7.6 |
| Reversal of impairment losses | 0.1 | 0.1 |
| **Other income from investments** | **0.8** | **7.7** |

Please see Note 14 for information on impairment and reversal of impairment losses for at-equity accounted investees. Income from investments includes in particular the pro rata share of the profit or loss of at-equity accounted investees in the amount of €37.3 million (PY: €63.3 million).

## 9. Net Interest Expense

| in € millions | 2013 | 2012 |
|---|---|---|
| **Interest income** | **29.1** | **27.8** |
| Interest and similar expenses | –471.9 | –551.2 |
| Finance lease expenses | –0.7 | –5.6 |
| Losses from foreign currency translation | –29.0 | –109.6 |
| Losses/gains from changes in the fair value of derivate instruments | –239.1 | 236.4 |
| Gains from available-for-sale financial assets | 4.2 | 2.5 |
| Interest cost for long-term provisions and liabilities | –10.4 | –7.7 |
| Capitalized interest | 0.4 | 0.5 |
| Interest income from pension funds | 52.7 | 69.2 |
| Interest expense from pension obligations and other long-term employee benefits | –139.6 | –161.1 |
| **Interest expense** | **–833.4** | **–526.6** |
| **Net interest expense** | **–804.3** | **–498.8** |

Net interest expense rose by €305.5 million year-on-year to €804.3 million in 2013 (PY: €498.8 million). This increase is due in particular to non-cash effects from changes in the fair value of derivative instruments relating to the valuation of the early redemption options included in the bonds.

Interest expense – not including the effects of foreign currency translation, changes in the fair value of derivative instruments and of available-for-sale financial assets and not including interest income on plan assets or interest expense from pension obligations and other long-term employee benefits – was down on the figure for the previous year (€564.0 million) by €81.4 million at €482.6 million. They essentially result from the utilization of the syndicated loan and the bonds issued by Continental AG, Conti-Gummi Finance B.V., Maastricht, Netherlands, and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A. While the cost of the syndicated loan declined to less than a third compared to the same period of the previous year at €76.9 million in 2013 (PY: €240.7 million), the interest expense for the previously mentioned bonds rose from €235.4 million to €335.4 million. The significant decrease in expenses for the syndicated loan was due firstly to lower utilization and secondly to the lower levels on average of market interest rate and margin as compared to the previous year. The lower utilization of the syndicated loan in 2013 was essentially due to the significantly lower net indebtedness on average in 2013, as compared to the previous year. Further margin decreases were achieved in 2013. Thus, the improvement in the leverage ratio already achieved as at the end of 2012 resulted in a margin decrease from the second quarter of 2013. With the mandating of the rating agency Fitch on November 7, 2013, there were now two solicited rating agencies that classified Continental as investment grade. Thus, the requirement for a further margin reduction was met. The increase in interest expenses for the previously mentioned bonds was due in particular to the early termination of four bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, in 2010 with a total volume of €3.0 billion in the period from May to September 2013. The repayment prices stipulated in the respective terms and conditions in 2010 ranged between 103.25% and 104.25%. The premiums paid increased net interest expense by €112.0 million in 2013. This relates to the following four bonds:

- the bond originally scheduled to mature in July 2015 with a nominal volume of €750.0 million and an interest rate of 8.5% p.a. was redeemed on July 15, 2013, at 104.25%

- the bond originally scheduled to mature in September 2017 with a nominal volume of €1,000.0 million and an interest rate of 7.5% p.a. was redeemed on September 16, 2013, at 103.75%

- the bond originally scheduled to mature in October 2018 with a nominal volume of €625.0 million and an interest rate of 7.125% p.a. was redeemed on November 8, 2013, at 103.563%

- the bond originally scheduled to mature in January 2016 with a nominal volume of €625.0 million and an interest rate of 6.5% p.a. was redeemed on November 18, 2013, at 103.25%.

To refinance the bonds redeemed early, Continental AG and Conti-Gummi Finance B.V., Maastricht, Netherlands, issued three euro bonds with a volume of €750.0 million each in the third quarter of 2013 under the Debt Issuance Programme (DIP) for the issuance of bonds set up in May 2013 with a total volume of €5.0 billion. As the interest level of the new bonds is significantly lower than of those redeemed early, the interest expenses for bonds will be considerably lower in future. The average interest rate of the new bonds is 2.875% p.a., while for the bonds redeemed early it was 7.464% p.a. The bond issued in September 2012 by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., also resulted in higher interest expenses for bonds than in the previous year.

As a result of implementing the changes in the requirements of IAS 19 (revised 2011), *Employee Benefits*, that are effective from fiscal 2013, expenses from interest cost on expected pension obligations and the expected return on plan assets are now no longer allocated to personnel expenses in the relevant functional areas, but instead are reported separately under net interest expense. This likewise applies to interest effects from other long-term employee benefits. The figures for 2012 have been restated accordingly. This resulted in interest expenses totaling €86.9 million (PY: €91.9 million) in 2013.

At €29.1 million, interest income in 2013 was €1.3 million higher than the previous year's figure of €27.8 million.

Changes in the fair value of derivative instruments resulted in valuation losses in 2013 of €239.1 million (PY: gains of €236.4 million). Of this amount, a loss of €217.7 million (PY: gain of €113.0 million) related to the reporting of early redemption options for the bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, in 2010. The aforementioned early redemption options for all four bonds were exercised in 2013. The recognition of the early redemption option for the bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in September 2012 resulted in a valuation loss of €9.8 million (PY: gain of €0.4 million). In the previous year, the termination of cash flow hedge accounting in 2011 and the changes in the fair value of the derivative instruments concerned recognized in profit or loss as a result meant positive effects of €138.8 million. These were the interest and cross-currency interest hedges expiring in August 2012 of the syndicated loan tranches originally maturing in April 2014 and August 2012. Changes in value recognized in equity as the difference from financial instruments for the interest hedges for a partial amount of €2.5 billion that were used until the voluntary end of cash flow hedge accounting in July 2011 were reversed in profit and loss over the remaining term of the hedges – this resulted in a negative effect of €28.4 million in 2012. Although cash flow hedge accounting was terminated at the end of December 2011 for a cross-currency interest hedged tranche of €625.0 million as a result of its early repayment, economically there was still an effective hedge as this tranche was refinanced in full by utilizing the revolving tranche of the syndicated loan, and the parameters of this utilization were still consistent with those of the cross-currency interest hedge. When this utilization matured in August 2012, it resulted in a foreign currency translation expense of €87.9 million.

The significant €80.6 million year-on-year reduction in foreign exchange losses from €109.6 million to €29.0 million is essentially due to the aforementioned effect.

Gains from available-for-sale financial assets amounted to €4.2 million (PY: €2.5 million) in 2013.

## 10. Income Tax Expense

The domestic and foreign income tax expense of the corporation is as follows:

| in € millions | 2013 | 2012 |
|---|---|---|
| Current taxes (domestic) | –93.5 | –201.1 |
| Current taxes (foreign) | –616.7 | –581.5 |
| Deferred taxes (domestic) | 15.1 | –39.8 |
| Deferred taxes (foreign) | 245.5 | 124.6 |
| **Income tax expense** | **–449.6** | **–697.8** |

The average domestic tax rate in 2013 was 30.2% (PY: 30.2%). This takes into account a corporate tax rate of 15.0% (PY: 15.0%), a solidarity surcharge of 5.5% (PY: 5.5%) and a trade tax rate of 14.4% (PY: 14.4%).

The following table shows the reconciliation of the expected to the reported tax expense:

| in € millions | 2013 | 2012 |
|---|---|---|
| **Earnings before taxes** | **2,459.4** | **2,687.4** |
| Expected tax expense at the domestic tax rate | –742.7 | –811.6 |
| Foreign tax rate differences | 114.9 | 115.9 |
| First-time recognition of deferred tax assets likely to be realized | 284.0 | 32.4 |
| Non-deductible expenses and non-imputable withholding taxes | –106.7 | –97.7 |
| Non-recognition of deferred tax assets unlikely to be realized | –79.7 | –41.4 |
| Incentives and tax holidays | 38.4 | 54.7 |
| Local income tax with different tax base | –29.1 | –23.6 |
| Taxes for previous years | 27.1 | –31.2 |
| Realization of previously non-recognized deferred taxes | 21.1 | 97.0 |
| Tax effect of companies consolidated at equity | 13.6 | 16.0 |
| Effects from changes in enacted tax rate | 8.5 | –12.7 |
| Other | 1.0 | 4.4 |
| **Reported tax expense** | **–449.6** | **–697.8** |
| **Effective tax rate in %** | **18.3** | **26.0** |

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.

In the year under review, given the consistently positive business performance in the U.S.A., deferred tax assets of €256.2 million were recognized there, the future utilization of which is considered likely.

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 imputable tax for foreign withholding taxes.

The effect of not recognizing deferred tax assets due to insufficient probability of recoverability is higher than in the previous year. In the year under review, the effect of allowances on deferred tax assets recognized in foreign corporation companies amounted to €79.7 million (PY: €41.4 million), €33.9 million (PY: €12.1 million) of which for previous years. For further information please see Note 16.

The tax effects from government incentives and tax holidays declined in comparison to the previous year. As in the previous year, they result in particular from the ongoing utilization of incentives in Eastern Europe and Asia.

In the year under review, local income taxes of €29.1 million (PY: €23.6 million) were incurred with an alternative assessment basis, mainly in Hungary, the U.S.A. and Italy.

In the previous year, deferred tax assets of €97.0 million which had not been recognized in the past could be realized in the U.S.A. and Mexico in particular, mainly through the utilization of loss carryforwards.

The results of at-equity accounted investees included in net income resulted in tax income of €13.6 million (PY: €16.0 million) in the year under review.

The effects of changes in tax rates relate to the remeasurement of deferred tax assets and liabilities that was required predominantly in Mexico and the U.K. (PY: Mexico) in the year under review due to changes in the law already taking effect with regard to future applicable tax rates.

# Notes to the Consolidated Statement of Financial Position

## 11. Goodwill and Other Intangible Assets

| in € millions | Goodwill | Internally generated intangible assets | Purchased intangible assets | Advances to suppliers | Total other intangible assets |
|---|---|---|---|---|---|
| **As at January 1, 2012** | | | | | |
| Cost | **8,109.7** | 250.6 | 3,658.1 | 17.0 | **3,925.7** |
| Accumulated amortization | **-2,417.3** | -78.4 | -2,481.4 | – | **-2,559.8** |
| **Book value** | **5,692.4** | **172.2** | **1,176.7** | **17.0** | **1,365.9** |
| **Net change in 2012** | | | | | |
| Book value | **5,692.4** | 172.2 | 1,176.7 | 17.0 | **1,365.9** |
| Foreign currency translation | **26.0** | 1.1 | -2.7 | 0.0 | **-1.6** |
| Additions | **–** | 60.7 | 32.8 | 13.6 | **107.1** |
| Additions from first consolidation of subsidiaries | **21.8** | – | 30.8 | – | **30.8** |
| Reclassification to assets held for sale | **-42.4** | – | 0.0 | – | **0.0** |
| Transfers | **–** | 0.0 | 14.1 | -14.1 | **0.0** |
| Disposals | **–** | 0.0 | -1.3 | 0.0 | **-1.3** |
| Amortization | **–** | -66.2 | -489.0 | – | **-555.2** |
| Impairment[2] | **-75.6** | – | -0.6 | – | **-0.6** |
| **Book value** | **5,622.2** | **167.8** | **760.8** | **16.5** | **945.1** |
| **As at December 31, 2012** | | | | | |
| Cost | **8,114.5** | 308.0 | 3,701.0 | 16.5 | **4,025.5** |
| Accumulated amortization | **-2,492.3** | -140.2 | -2,940.2 | – | **-3,080.4** |
| **Book value** | **5,622.2** | **167.8** | **760.8** | **16.5** | **945.1** |
| **Net change in 2013** | | | | | |
| Book value | **5,622.2** | 167.8 | 760.8 | 16.5 | **945.1** |
| Foreign currency translation | **-81.5** | -0.6 | -5.8 | -0.4 | **-6.8** |
| Additions | **-0.1** | 40.2 | 35.1 | 11.7 | **87.0** |
| Additions from first consolidation of subsidiaries[1] | **47.9** | – | 11.8 | – | **11.8** |
| Reclassification to assets held for sale | **–** | – | 0.0 | – | **0.0** |
| Transfers | **–** | – | 11.2 | -11.2 | **0.0** |
| Disposals | **–** | – | -0.1 | -0.9 | **-1.0** |
| Amortization | **–** | -63.1 | -414.8 | – | **-477.9** |
| Impairment[2] | **-67.6** | – | -0.5 | – | **-0.5** |
| **Book value** | **5,520.9** | **144.3** | **397.7** | **15.7** | **557.7** |
| **As at December 31, 2013** | | | | | |
| Cost | **8,077.5** | 343.7 | 3,698.3 | 15.7 | **4,057.7** |
| Accumulated amortization | **-2,556.6** | -199.4 | -3,300.6 | – | **-3,500.0** |
| **Book value** | **5,520.9** | **144.3** | **397.7** | **15.7** | **557.7** |

1 *Including subsequent adjustment from purchase price allocations.*
2 *Impairment also includes necessary reversal of impairment losses.*

The acquisition of companies in 2013 resulted in an addition to goodwill totaling €47.9 million (PY: €21.8 million). Goodwill also includes €2.4 million added in the measurement period due to subsequent changes in the preliminary purchase price allocations in the previous year.

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), and AP Italia (2007).

The goodwill and the other intangible assets are allocated to the individual segments as follows:

| | Goodwill | | Other intangible assets | |
|---|---|---|---|---|
| **in € millions** | **Dec. 31, 2013** | Dec. 31, 2012 | **Dec. 31, 2013** | Dec. 31, 2012 |
| Chassis & Safety | 2,331.3 | 2,340.1 | 92.1 | 159.9 |
| Powertrain | 848.2 | 898.9 | 104.8 | 231.0 |
| Interior | 2,154.0 | 2,224.3 | 268.5 | 464.2 |
| Tires | 97.2 | 73.8 | 51.7 | 49.0 |
| ContiTech | 90.2 | 85.1 | 37.5 | 36.9 |
| Other/consolidation | – | – | 3.1 | 4.1 |
| **Continental Corporation** | **5,520.9** | **5,622.2** | **557.7** | **945.1** |

Additions to purchased intangible assets related mainly to software in the amount of €32.4 million (PY: €30.4 million). The remaining additions from consolidation changes are primarily attributable to customer relationships and know-how.

Amounts reported under internally generated intangible assets represent capitalized development costs. €40.2 million (PY: €60.7 million) of the total development expenses incurred in 2013 qualified for recognition as an asset under IAS 38.

Amortization on intangible assets amounted to €477.9 million (PY: €555.2 million), €382.3 million (PY: €444.2 million) of which is included in the consolidated income statement under the cost of sales and €95.6 million (PY: €111.0 million) of which is included in administrative expenses.

The acquired intangible assets include carrying amounts not subject to amortization of €80.9 million. These relate in particular to the VDO brand name in the amount of €71.2 million, the Phoenix brand name in the amount of €4.2 million, and the Matador brand name in the amount of €3.2 million. The remaining purchased intangible assets mainly comprise the carrying amount of software amounting to €78.8 million (PY: €74.2 million), which is amortized on a straight-line basis as scheduled.

## 12. Property, Plant and Equipment

| in € millions | Land, land rights and buildings[1] | Technical equipment and machinery | Other equipment, factory and office equipment | Advances to suppliers and assets under construction | Total |
|---|---|---|---|---|---|
| **As at January 1, 2012** | | | | | |
| Cost | 2,966.9 | 10,413.7 | 1,625.4 | 1,134.7 | **16,140.7** |
| Accumulated depreciation | –1,166.2 | –7,112.8 | –1,224.5 | –28.7 | **–9,532.2** |
| **Book value** | **1,800.7** | **3,300.9** | **400.9** | **1,106.0** | **6,608.5** |
| thereof finance leases | 90.4 | 4.3 | 0.2 | – | **94.9** |
| **Net change in 2012** | | | | | |
| Book value | 1,800.7 | 3,300.9 | 400.9 | 1,106.0 | **6,608.5** |
| Foreign currency translation | –4.7 | –15.8 | –3.7 | –25.8 | **–50.0** |
| Additions[2] | 83.9 | 644.5 | 116.0 | 1,131.0 | **1,975.4** |
| Additions from first consolidation of subsidiaries | 13.1 | 23.8 | 2.5 | 1.9 | **41.3** |
| Amounts disposed of through disposal of subsidiaries | 0.0 | 0.0 | – | – | **0.0** |
| Reclassification to/from assets held for sale[3] | –0.1 | –1.2 | –0.1 | 0.0 | **–1.4** |
| Transfers | 95.7 | 580.0 | 68.3 | –745.5 | **–1.5** |
| Disposals | –1.3 | –24.1 | –3.3 | –3.6 | **–32.3** |
| Depreciation | –117.6 | –911.0 | –146.7 | – | **–1,175.3** |
| Impairment[4] | – | 26.3 | – | – | **26.3** |
| **Book value** | **1,869.7** | **3,623.4** | **433.9** | **1,464.0** | **7,391.0** |
| **As at December 31, 2012** | | | | | |
| Cost | 3,140.7 | 11,404.4 | 1,749.2 | 1,471.2 | **17,765.5** |
| Accumulated depreciation | –1,271.0 | –7,781.0 | –1,315.3 | –7.2 | **–10,374.5** |
| **Book value** | **1,869.7** | **3,623.4** | **433.9** | **1,464.0** | **7,391.0** |
| thereof finance leases | 36.5 | 2.4 | 1.2 | – | **40.1** |
| **Net change in 2013** | | | | | |
| Book value | 1,869.7 | 3,623.4 | 433.9 | 1,464.0 | **7,391.0** |
| Foreign currency translation | –69.9 | –139.1 | –17.2 | –84.2 | **–310.4** |
| Additions[2] | 164.1 | 652.3 | 128.3 | 992.1 | **1,936.8** |
| Additions from first consolidation of subsidiaries | 15.1 | 10.3 | 1.3 | 1.6 | **28.3** |
| Amounts disposed of through disposal of subsidiaries | 0.0 | 0.0 | 0.0 | – | **0.0** |
| Reclassification to/from assets held for sale[3] | –1.3 | 0.0 | 0.0 | – | **–1.3** |
| Transfers | 243.8 | 721.8 | 88.5 | –1,055.8 | **–1.7** |
| Disposals | –1.3 | –20.7 | –2.3 | –5.9 | **–30.2** |
| Depreciation | –121.5 | –953.8 | –150.6 | – | **–1,225.9** |
| Impairment[4] | –2.7 | –50.3 | –2.9 | –2.7 | **–58.6** |
| **Book value** | **2,096.0** | **3,843.9** | **479.0** | **1,309.1** | **7,728.0** |
| **As at December 31, 2013** | | | | | |
| Cost | 3,447.4 | 12,140.1 | 1,846.6 | 1,318.5 | **18,752.6** |
| Accumulated depreciation | –1,351.4 | –8,296.2 | –1,367.6 | –9.4 | **–11,024.6** |
| **Book value** | **2,096.0** | **3,843.9** | **479.0** | **1,309.1** | **7,728.0** |
| thereof finance leases | 31.6 | 1.3 | 0.7 | – | **33.6** |

1 *Investment property is shown separately under Note 13.*
2 *The additions include €0.4 million (PY: €0.5 million) of capitalized interest.*
3 *Reclassifications to assets held for sale amount to -€1.3 million (PY: -€2.0 million); reclassifications from assets held for sale amount to € – million (PY: €0.6 million).*
4 *Impairment also includes necessary reversal of impairment losses.*

The additions to property, plant and equipment from changes in consolidation essentially relate to the acquisition of Legg Company, Inc., Halstead, Kansas, U.S.A., and the SACI Group (Société Alsacienne de Commerce et d'Investissement, Colmar, France) as part of share deals and other acquisitions in the fiscal year. Please see Note 5.

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

Key additions in the Powertrain segment related to the Engine Systems business unit, with investments in manufacturing facilities for engine injection systems in particular. Furthermore, the production capacity for the Sensors & Actuators, Transmission and Fuel Supply business units was also expanded. Production capacity was increased at the German locations and in the U.S.A, China, the Czech Republic, and Romania. Investments were made in Kaluga, Russia, and Brasov, Romania, for the construction of new plants for the Engine Systems and Fuel Supply business units.

Investments in the Interior segment focused primarily on expanding production capacity for Body & Security and Instrumentation & Driver HMI. Investments were made in production capacity at the German locations and in China, Mexico, Romania, and the Czech Republic.

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

The ContiTech segment invested in rationalizing production processes and expanding production capacity for new products. In addition to investments in Germany, the production facilities in China, Brazil, India and the U.S.A. in particular were expanded. In Kaluga, Russia; Macae, Brazil; and Subotica, Serbia, the establishment of new plants for the Fluid Technology business unit was invested in.

Please see Note 6 for information on impairment losses and reversals of the same.

Government investment grants of €34.5 million (PY: €50.8 million) were deducted directly from cost, including for the tire plant in Timisoara, Romania.

In adopting IAS 23, €0.4 million (PY: €0.5 million) was capitalized as borrowing costs. The average capitalization rate used for this was 4.1% (PY: 2.1%).

Reclassifications to assets held for sale in the period essentially relate to a smaller property of the ContiTech segment.

Property, plant and equipment includes buildings, technical equipment and other facilities assigned to the corporation as the beneficial owner on the basis of the lease agreement. These relate primarily to administration and manufacturing buildings. The leases have an average term of 24 years for buildings and five to ten years for technical equipment. As in the previous year, the effective interest rate of the main leases is between 5.5% and 8.3%.

The main leases do not include prolongation or purchase options.

There are restrictions on title and property, plant and equipment pledged as security for liabilities in the amount of €11.4 million (PY: €13.4 million).

## 13. Investment Property

| in € millions | 2013 | 2012 |
|---|---|---|
| Cost as at January 1 | 34.3 | 32.7 |
| Accumulated depreciation as at January 1 | -14.5 | -13.7 |
| **Net change** | | |
| **Book value as at January 1** | **19.8** | **19.0** |
| Foreign currency translation | -0.1 | 0.1 |
| Additions | 0.1 | – |
| Disposals | -0.2 | – |
| Reclassifications | 1.7 | 1.5 |
| Depreciation | -0.9 | -0.7 |
| Impairment | – | -0.1 |
| **Book value as at December 31** | **20.4** | **19.8** |
| Cost as at December 31 | 38.5 | 34.3 |
| Accumulated depreciation as at December 31 | -18.1 | -14.5 |

The fair value – determined using the gross rental method – of land and buildings accounted for as investment property as at December 31, 2013, amounted to €26.7 million (PY: €24.3 million). Rental income in 2013 amounted to €5.8 million (PY: €5.6 million), while associated maintenance costs of €1.8 million (PY: €1.8 million) were incurred. The reclassifications relate to buildings and assets under construction no longer held for the purpose of manufacturing goods.

## 14. Investments in At-Equity Accounted Investees

| in € millions | 2013 | 2012 |
|---|---|---|
| **As at January 1** | **376.5** | **480.2** |
| Additions | 88.2 | 0.1 |
| Changes in the consolidation method, and transfers | -1.9 | -131.3 |
| Share of earnings | 37.3 | 63.3 |
| Impairment and reversal of impairment losses | 0.3 | 0.1 |
| Other changes in value | – | 14.4 |
| Dividends received | -37.2 | -49.9 |
| OCI changes of at-equity accounted investees | -8.7 | -0.4 |
| Foreign currency translation | -4.5 | 0.0 |
| **As at December 31** | **450.0** | **376.5** |

Investments in at-equity accounted investees include joint ventures in the amount of €351.0 million (PY: €281.0 million) and associates in the amount of €99.0 million (PY: €95.5 million).

Additions in the amount of €88.2 million are mainly due to shares in SK Continental E-motion Pte. Ltd., Singapore, Singapore, a joint venture with SK Innovation Co., Ltd., Seoul, South Korea.

The reclassifications in the year under review include €1.9 million in shares in the SACI Group (Société Alsacienne de Commerce et d'Investissement, Colmar, France), which were reclassified to companies included in consolidation after its step acquisition. In the previous year this figure had been €131.3 million and included €125.8 million in shares in S-Y Systems Technologies Europe GmbH, Regensburg, Germany, and €5.5 million in shares in FIT Automoción S.A., Bergara, Spain, which were reclassified to assets held for sale. These latter shares were sold before the end of 2012.

The review of the carrying amount of an associate resulted in impairment losses of €0.5 million. Offsetting this, there was a reversal of impairment losses of €0.8 million at another associated company.

In the previous year, the item Other changes in value included an adjustment of €14.4 million for the first-time preparation of IFRS consolidated financial statements at the level of a joint venture. This adjustment was reported in profit and loss under other expenses and income.

In the year under review, OCI changes from at-equity accounted investees led to an effect of -€8.7 million (PY: -€0.4 million).

The main investments in joint ventures for the Automotive Group relate to SK Continental E-motion Pte. Ltd., Singapore, Singapore; Emitec GmbH, Lohmar, Germany; Shanghai Automotive Brake Systems Co. Ltd., Shanghai, China; SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany; and for the Rubber Group to MC Projects B.V., Maastricht, Netherlands, together with the respective subsidiaries of these companies.

The figures taken from the last two available sets of annual financial statements (2012 and 2011) for the main joint ventures above are summarized as follows. As yet there are no such financial statements for SK Continental E-motion Pte. Ltd., Singapore, Singapore. Amounts are stated at 100%:

- current assets €823.3 million (PY: €1,000.4 million)
- non-current assets €318.9 million (PY: €293.9 million)
- current liabilities €638.6 million (PY: €829.7 million)
- non-current liabilities €126.9 million (PY: €88.8 million)
- sales €4,081.8 million (PY: €4,256.6 million)
- net profit €80.7 million (PY: €111.7 million).

The unaudited figures taken from the last two available sets of annual financial statements for the main associates are summarized as follows. Amounts are stated at 100%:

- sales €593.6 million (PY: €541.5 million)
- net profit €36.0 million (PY: €26.0 million)
- total assets €387.4 million (PY: €286.8 million)
- liabilities €230.9 million (PY: €179.2 million).

## 15. Other Investments

| in € millions | Dec. 31, 2013 | Dec. 31, 2012 |
|---|---|---|
| Investments in unconsolidated affiliated companies | 1.8 | 0.9 |
| Other participations | 6.1 | 6.0 |
| **Other investments** | **7.9** | **6.9** |

Other investments are carried at cost as their fair value cannot be determined reliably, particularly because there are no listings for these shares on the capital markets. There is no intention to sell these at the current time. There were only insignificant changes in the year under review and the previous year.

## 16. Deferred Taxes

Deferred tax assets and liabilities are composed of the following items:

| in € millions | Dec. 31, 2013 | Dec. 31, 2012 |
|---|---|---|
| Intangible assets | –109.5 | –109.7 |
| Property, plant and equipment | 2.2 | –23.0 |
| Inventories | 163.7 | 141.7 |
| Other assets | –59.1 | –139.5 |
| Pension obligations less defined benefit assets | 282.6 | 249.3 |
| Other provisions | 88.2 | 86.0 |
| Indebtedness | 224.7 | 164.9 |
| Other differences | 21.0 | 63.7 |
| Allowable tax credits | 30.2 | 13.1 |
| Tax losses carried forward and limitation of interest deduction | 171.2 | 134.7 |
| **Net deferred taxes** | **815.2** | **581.2** |
| Deferred tax assets | 928.4 | 850.4 |
| Deferred tax liabilities | –113.2 | –269.2 |

Deferred taxes are measured in accordance with IAS 12 at the tax rate applicable for the periods in which they are expected to be realized. 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 development in deferred taxes in the year under review was essentially due to the recognition of deferred tax assets in the U.S.A., the future utilization of which is considered likely given the consistently positive business performance. See Note 10.

Deferred tax liabilities on property, plant and equipment reversed to deferred tax assets in the reporting year on account of impairment losses in the Chassis & Safety segment. See Note 6.

Deferred tax assets on inventories increased to €163.7 million in the year under review, essentially in conjunction with the elimination of intragroup transactions. The drop in deferred tax liabilities on other assets was essentially due to the early redemption of the bonds issued in 2010 by Conti-Gummi Finance B.V., Maastricht, Netherlands. There was a shift in deferred tax assets from other differences to indebtedness in connection with an increase in the volume of a program for the sale of receivables.

The deferred tax assets on loss and interest carryforwards rose to €171.2 million (PY: €134.7 million) in the year under review. This development was influenced by the recognition of deferred taxes on loss carryforwards in the U.S.A., and the recognition of new loss carryforwards. This was offset by the utilization of loss carryforwards in the amount of €385.6 million (PY: €454.3 million).

As at December 31, 2013, the corporate tax loss carryforwards amounted to €2,419.7 million (PY: €2,483.1 million). The majority of the corporation's tax loss carryforwards relates to foreign subsidiaries and is mostly limited in the time period they can be carried forward.

In total, €784.8 million (PY: €1,109.6 million) in deferred tax assets were written down as it is currently not deemed sufficiently likely that they will be utilized. €588.8 million (PY: €727.6 million) of this relates to allowances on loss and interest carryforwards. In particular, €215.8 million (PY: €248.0 million) of this relates to the German tax group and €145.8 million (PY: €303.9 million) to the U.S.A.

As at December 31, 2013, some corporation companies and tax groups that reported a loss recognized total deferred tax assets of €36.3 million (PY: €129.9 million), which arose from current losses, loss carryforwards and a surplus of deferred tax assets. Given that future taxable income is expected, it is sufficiently probable that these deferred tax assets can be realized.

No deferred tax assets were reported for loss carryforwards abroad of €31.7 million (PY: €31.7 million).

The interest carryforward in Germany as at December 31, 2013, amounted to €369.8 million (PY: €491.3 million) after an adjustment for previous years.

In addition, allowances of €42.6 million (PY: €48.9 million) were recognized on eligible tax credits in Malaysia as it is currently not deemed sufficiently likely that the credits will be utilized.

The cumulative amount of deferred taxes for items deducted from or added to equity was €219.7 million (PY: €214.1 million) as at the end of the reporting period. Of that amount, €224.0 million (PY: €215.8 million) is attributable to pension obligations, -€3.0 million (PY: –) to inventories, and -€1.3 million (PY: -€1.7 million) to other assets. See Note 25 for information in connection with deferred taxes on actuarial gains and losses.

The deferred tax liabilities from retained earnings of foreign companies amount to a total of €95.9 million (PY: €57.1 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, 2013** | | Dec. 31, 2012 | |
|---|---|---|---|---|
| | **Maturity** | | Maturity | |
| **in € millions** | **up to 1 year** | **over 1 year** | up to 1 year | over 1 year |
| Amounts receivable from related parties | 59.2 | 2.4 | 48.0 | 2.4 |
| Loans to third parties | – | 18.9 | – | 21.4 |
| Amounts receivable from employees | 19.4 | – | 22.6 | – |
| Amounts receivable from suppliers | 12.9 | – | 8.5 | – |
| Amounts receivable for customer tooling | 168.3 | – | 166.7 | – |
| Other amounts receivable | 76.4 | 23.7 | 76.0 | – |
| **Other financial assets** | **336.2** | **45.0** | **321.8** | **23.8** |

The current receivables from related parties are mainly attributable to receivables from operating service business with associates and shareholders, as well as loans to associates.

Loans to third parties mainly comprise tenants' loans for individual properties and include loans to customers with various maturities.

Receivables from employees relate mainly to preliminary payments for hourly wages and for other advances.

The receivables from the sale of customer tooling relate to costs that have not yet been invoiced. The rise of €1.6 million as compared to the previous year results from the Automotive Group.

In particular, other financial receivables include investment subsidies for research and development expenses not yet utilized.

The carrying amounts of the other financial assets are essentially their fair values. Impairment amounting to a total of €3.8 million (PY: €3.9 million) was recognized for the probable default risk on other financial assets. Income of €0.1 million (PY: expenses of €0.3 million) was incurred in the period under review.

## 18. Other Assets

| | Dec. 31, 2013 | | Dec. 31, 2012 | |
|---|---|---|---|---|
| | 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) | 369.8 | – | 414.4 | – |
| Prepaid expenses | 99.8 | – | 101.3 | – |
| Others | 131.6 | 20.1 | 145.7 | 14.1 |
| **Other assets** | **601.2** | **20.1** | **661.4** | **14.1** |

The tax refund claims primarily result from VAT receivables from the purchase of production materials.

In particular, prepaid expenses include rent and maintenance services paid for in advance and license fees. Among other things, the "Others" item includes other deferred or advanced costs.

Impairment amounting to a total of €5.5 million (PY: €5.3 million) was recognized for the probable default risk on other assets. Expenses of €0.2 million (PY: €0.2 million) were incurred in the period under review.

## 19. Inventories

| **in € millions** | **Dec. 31, 2013** | Dec. 31, 2012 |
|---|---|---|
| Raw materials and supplies | 1,002.1 | 1,093.5 |
| Work in progress | 343.5 | 365.4 |
| Finished goods and merchandise | 1,485.3 | 1,541.8 |
| Advances to suppliers | – | 5.0 |
| Advances from customers | – | -7.0 |
| **Inventories** | **2,830.9** | **2,998.7** |

Write-downs recognized on inventories amounted to €4.7 million in the year under review (PY: €12.3 million). Inventories include amounts written down (gross inventories) of €344.0 million (PY: €339.3 million).

## 20. Trade Accounts Receivable

| **in € millions** | **Dec. 31, 2013** | Dec. 31, 2012 |
|---|---|---|
| Trade accounts receivable | 5,412.1 | 5,082.3 |
| Allowances for doubtful accounts | -96.3 | -89.0 |
| **Trade accounts receivable** | **5,315.8** | **4,993.3** |

The carrying amounts of the trade accounts receivable, net of allowances for doubtful accounts, are their fair values.

The risk provision is calculated on the basis of corporation-wide standards. Customer relationships are analyzed at regular intervals. Individual valuation allowances are distinguished from general portfolio allowances for trade accounts receivable measured at amortized cost. Trade accounts receivable for which individual valuation allowances must be recognized are not taken into account in calculating the general portfolio allowance.

The allowance for doubtful accounts essentially includes estimates and assessments of individual receivables based on the creditworthiness of the respective customer, current economic developments and the analysis of historical losses on receivables. The creditworthiness of a customer is assessed on the basis of its payment history and its ability to make repayments.

Individual allowances are recognized if the customer displays significant financial difficulties or there is a high probability of insolvency. Corresponding expenses are recognized in the allowances for doubtful accounts. If there is evidence of uncollectibility, the receivables are derecognized. If creditworthiness improves, the impairment is reversed.

Accordingly, the individual valuation allowances and general portfolio allowances for trade accounts receivable developed as follows in the year under review:

| **in € millions** | **2013** | 2012 |
|---|---|---|
| **As at January 1** | **89.0** | **103.5** |
| Additions | 40.6 | 38.8 |
| Utilizations | –12.2 | –24.2 |
| Reversals | –18.5 | –30.1 |
| Amounts disposed of through disposal of subsidiaries | 0.0 | — |
| Foreign currency translation | –2.6 | 1.0 |
| **As at December 31** | **96.3** | **89.0** |

The Continental Corporation uses several programs for the sale of receivables. When the risks and rewards of receivables, in particular credit and default risks, have not been primarily transferred, the receivables are still recognized as assets in the statement of financial position.

Under the existing sale of receivables programs, the contractual rights to the receipt of payment inflows have been assigned to the corresponding contractual parties. The transferred receivables have short remaining terms. As a rule, therefore, the values recognized in the balance sheet as at the reporting date in the amount of €2,095.5 million (PY: €1,702.5 million) are approximately equivalent to their fair value. The respective liabilities with a fair value of €910.6 million (PY: €931.4 million) and a carrying amount of €916.2 million (PY: €936.2 million) represent the liquidation proceeds from the sale of the receivables.

The financing volume of the sale of receivables program concluded with Norddeutsche Landesbank Luxembourg S.A., Luxembourg, was increased from €280.0 million to €300.0 million on September 27, 2013, and prolonged by a further year by way of a new master agreement. This program was fully utilized at the end of 2013 in the amount of €300.0 million (PY: €280.0 million).

The indefinite sale of receivables program in place with Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main, Germany, since December 2010 provides for a flexible adjustment of the financing volume. Thus, at the end of 2013, as in the previous year, the financing volume of €110.0 million (PY: €130.0 million) was almost fully utilized at €109.9 million (PY: €127.6 million).

On September 27, 2013, the sale of receivables program concluded with the U.S. banks Wells Fargo Bank N.A., Atlanta, Georgia; The Bank of Nova Scotia, Houston, Texas; and Bank of America N.A., Charlotte, North Carolina, with an unchanged financing volume of U.S. $400.0 million was extended by an additional year. Only €0.1 million (PY: €278.5 million) of the program had been utilized at the end of 2013.

Following a contractual amendment in January 2013, the indefinite sale of receivables program set up with The Royal Bank of Scotland N.V. Frankfurt branch, Frankfurt am Main, Germany, at the end of April 2012 now provides for a higher financing volume of GBP 90.0 million (PY: GBP 75.0 million) and can be utilized in both euro and pounds sterling. Total utilization amounted to €90.5 million (PY: €91.8 million) as at the end of 2013.

On July 26, 2012, a sale of receivables program with a financing volume of €300.0 million was agreed with Crédit Agricole Corporate and Investment Bank, Paris, France. The program has a term of up to five years if prolonged by both parties on an annual basis. It was prolonged for the first time in July 2013. At the end of 2013, the program had been utilized in the amount of €287.7 million (PY: €158.3 million).

On January 30, 2013, a receivables selling agreement was concluded with Landesbank Baden-Württemberg, Stuttgart, Germany. The agreement, amended on July 29, 2013, continues until the end of January 2020, if prolonged by both parties on an annual basis. The agreed financing volume is €175.0 million. The program had been utilized in the amount of €128.0 million at the end of 2013.

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, 2013** | **Carrying amount** | thereof not overdue | less than 15 days | 15–29 days | 30–59 days | 60–89 days | 90–119 days | 120 days and more |
| Trade accounts receivable[1] | **4,611.2** | 4,276.5 | 164.0 | 55.0 | 47.3 | 14.4 | 9.6 | 44.4 |
| **Dec. 31, 2012** | | | | | | | | |
| Trade accounts receivable[1] | **4,137.1** | 3,759.8 | 206.1 | 63.3 | 53.0 | 16.2 | 8.4 | 30.3 |

*1 The difference between this figure and the first table in this Note of €800.9 million (PY: €945.2 million) results from receivables for which specific valuation allowances have been recognized.*

Based on the customers' payment history and analysis of their creditworthiness, the Continental Corporation expects that the overdue receivables not written down will be settled in full and no valuation allowance will be required. The receivables as at December 31, 2013, do not include any amounts from the percentage-of-completion method.

## 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, 2013** | Dec. 31, 2012 |
|---|---|---|
| Assets held for sale | 34.8 | 167.7 |
| Assets of a disposal group | – | 44.1 |
| **Assets held for sale** | **34.8** | **211.8** |

At €32.5 million (PY: €33.6 million), assets held for sale relate to the land and property reclassified at our Automotive location in Deer Park, Illinois, U.S.A. Assets held for sale also include two smaller properties.

The shares held by Continental Automotive GmbH in S-Y Systems Technologies Europe GmbH, Regensburg, Germany, reclassified in the previous year were sold in the current fiscal year.

The land and property in Switzerland acquired for resale in the previous year was also sold in the reporting year.

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. Equity

| Number of shares outstanding | 2013 | 2012 |
|---|---|---|
| **As at January 1** | **200,005,983** | **200,005,983** |
| Change in the period | – | – |
| **As at December 31** | **200,005,983** | **200,005,983** |

The subscribed capital of Continental AG was unchanged year-on-year. At the end of the reporting period it amounted to €512,015,316.48 and was composed of 200,005,983 no-par-value shares with a notional value of €2.56 per share.

By way of resolution of the Annual Shareholders' Meeting on April 27, 2012, the Executive Board was authorized, with the approval of the Supervisory Board, to increase the share capital by up to €70.0 million by issuing new shares against cash or contributions in kind by April 26, 2015 (Article 4 (3) of the Articles of Incorporation).

By way of resolution of the Annual Shareholders' Meeting on April 23, 2009, the company has additional authorized capital of €66.0 million for the issuance of new shares against cash or contributions in kind by April 22, 2014 (Article 4 (2) of the Articles of Incorporation).

The share capital has been conditionally increased by up to €3.8 million in accordance with Article 4 (4) of the Articles of Incorporation. The conditional capital increase is intended to grant the bearers of rights under the 2004 stock option plan new shares when their rights are exercised. The Annual Shareholders' Meeting on May 14, 2004, approved the 2004 stock option plan for members of the Executive Board and senior executives. The 2004 stock option plan authorized the Executive Board to grant, in line with the plan's more detailed specifications, a total of 3,936,000 subscription rights until May 13, 2009, each of which entitles the option holder to subscribe for one share. There were no subscription rights still outstanding as at the end of the reporting period.

The share capital has been conditionally increased by up to €20.0 million in accordance with Article 4 (5) of the Articles of Incorporation. The conditional capital increase is intended to grant the bearers of rights under the 2008 stock option plan new shares when their rights are exercised. The 2008 stock option plan adopted at the Annual Shareholders' Meeting on April 25, 2008, authorizes the issuance of up to 7,800,000 subscription rights to the Executive Board and senior executives until April 24, 2013. As in the previous year, no subscription rights were issued in fiscal 2013 and 47,900 expired (PY: 0). Thus, there were no subscription rights still outstanding as at the end of the reporting period.

In accordance with Article 4 (6) of the Articles of Incorporation, the share capital has been conditionally increased by up to €51.0 million by issuing up to 19,921,875 new bearer shares. The conditional capital increase serves the issue of bearer shares to the bearers and creditors of convertible and warrant-linked bonds, profit participation rights and participating bonds (or a combination of these instruments) that are issued on the basis of the authorization resolved by the Annual Shareholders' Meeting of April 27, 2012, under agenda item 8 and that grant or establish a conversion or warrant right or a conversion obligation for new shares of Continental AG. The authorization to issue these instruments is limited until April 26, 2015, and a maximum nominal amount of €2,500 million. The authorization had not been utilized as at the end of the reporting period.

The change in conditional capital is shown in the table below:

| in € thousands | 2013 | 2012 |
|---|---|---|
| **Conditional capital as at January 1** | **67,585** | **209,179** |
| Additions | – | 51,000 |
| Disposals | – | -192,500 |
| Expiration of subscription rights granted | -122 | -94 |
| **Conditional capital as at December 31** | **67,463** | **67,585** |

Under the German Stock Corporation Act *(Aktiengesetz – AktG)*, the dividends distributable to the shareholders are based solely on Continental AG's retained earnings as at December 31, 2013, of €913.4 million (PY: €866.5 million), as reported in the annual financial statements prepared in accordance with the German Commercial Code. The Supervisory Board and the Executive Board will propose to the Annual Shareholders' Meeting the distribution of a dividend of €2.50 per share. With 200,005,983 shares entitled to dividends, the total distribution will therefore amount to €500,014,957.50. 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. As in the previous year, no further expenses were incurred for stock option plans in the year under review.

**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. Each stock option granted as part of the stock option plan carries the right to subscribe for one share. In total, up to 7.8 million stock options can be issued as part of the 2008 stock option plan. The issue of the stock options of a tranche takes place on the eleventh working day following the publication of the interim report for the first quarter of the relevant year (issue date). The stock options can be exercised only after a three-year period has elapsed since the issue date (vesting period) and then within a further period of two years commencing immediately upon expiration of the vesting period (exercise period). The stock options can be exercised only within certain time periods (exercise windows) during an exercise period.

The exercise is also linked to the attainment of a "performance target". Accordingly, exercise is possible only if the average closing price of Continental shares in XETRA trading (average closing price) during the last ten trading days before the respective exercise window is at least 15% (= exercise hurdle) above the average closing price during the last ten days of trading before the issue date. The issue amount for shares subscribed on the basis of an exercise of subscription rights derived from the 2008 stock option plan ("exercise price") corresponds to the average closing price during the last ten trading days prior to the issue date (issue price), plus a premium, minus a performance-oriented reduction and adjusted by an outperformance-oriented reduction or surcharge. The performance discount is calculated as a function of the relative change in the corporation's EBIT margin. The outperformance discounts and premiums are determined on the basis of the development of Continental's shares in comparison with the development of the DAX or the stock market index to which the Continental shares belong at the beginning of the exercise window.

The value of the issued stock options is determined using the Monte Carlo simulation model. 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 in comparison to the benchmark index and the increase in the average closing price of Continental shares in comparison to 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 in comparison to the MDAX is a market condition under IFRS and is included only in measurement as at the issue date. The adjustment of the exercise price in line with the change in the return on sales (EBIT in % of sales) of the Continental Corporation is a performance condition under IFRS.

The model used also takes into account the possibility of an early exercise of the options in all cases where the adjusted exercise price falls below 50% of the reference price and the performance target is achieved during the exercise window. Further, the model assumes that, as experience has shown, option holders who have left the corporation exercise the option immediately after the vesting period.

The expected dividends recognized in the model for each year of the options' duration are based on estimates published by analysts.

The volatilities and correlation reflect historical trends, based on the closing prices for Continental shares and the MDAX as at 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 in comparison to the reference price, and that performance in comparison to 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.

At the end of the vesting period on May 16, 2011, a fair value of €32.43 was calculated for the last time for the options of the 2008 tranche. The remaining term is equal to the exercise window still available. The weighted average remaining term was four months and corresponded to the maximum remaining term of the entire 2008 stock option plan that expired in May 2013.

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Number of subscription rights** | **Average exercise price[1]** | Number of subscription rights | Average exercise price[1] |
| **Stock option plan 2008** | **1,000 units** | **€/unit** | 1,000 units | €/unit |
| **Outstanding as at January 1** | **1,165.5** | **89.95** | **1,165.5** | **89.95** |
| Forfeited | – | – | – | – |
| Expired | 1,165.5 | 89.95 | – | – |
| **Outstanding as at December 31** | **0.0** | **–** | **1,165.5** | **89.95** |
| **Exercisable on December 31[2]** | **–** | **–** | **1,165.5** | **89.95** |

*1 The average exercise price is given as no subscription rights were exercised in the period under review or in the previous year.*
*2 It would have been possible to exercise 47,900 of the subscription rights outstanding on January 1, 2013, in the reporting year. The other subscription rights are assignable to the redemption offer for the previous periods.*

In December 2008, a compensation offer for granted and not yet exercised stock options was made to the senior executive management of the corporation to whom stock options were granted from the stock option plans of 2004 and 2008. The reason for the compensation offer was the limited free float of Continental AG's shares, which meant that the share price performance could be subject to coincidental fluctuations which do not reflect Continental's economic development. The stock option plan thus lost its effectiveness as a long-term remuneration instrument geared towards the company's performance.

The compensation offer was based on the fair value of the stock options as at October 31, 2008. The average weighted fair value of the 2005 to 2008 tranches was €3.13 per stock option. Based on this evaluation, a provision was made for the payments in the years 2010 and 2011 for the first time in fiscal 2008. The acceptance period ran until mid-January 2009. The majority of the stock option plan beneficiaries accepted the offer.

The above performance target was not met in the fiscal year, with the result that all the subscription rights still outstanding expired. Thus, as at December 31, there are no longer any claims under stock option plans.

### 2009 to 2012 remuneration plans

As a component of Executive Board remuneration, part of the variable element was converted into virtual shares in the fiscal year, as in previous years. A provision was recognized as at the end of the reporting period in the amount of the fair value of the outstanding virtual shares of €35.7 million (PY: €17.1 million). Information on Executive Board remuneration can be found in the Remuneration Report.

## 25. Provisions for Pension Liabilities and Similar Obligations

Provisions for pension liabilities and similar obligations are shown in the following items of the statement of financial position:

| **in € millions** | **Dec. 31, 2013** | Dec. 31, 2012 |
|---|---|---|
| Pension provisions (unfunded obligations and net liabilities from obligations and related funds) | 2,187.9 | 2,341.4 |
| Provisions for other post-employment benefits | 173.8 | 213.6 |
| Provisions for similar obligations | 29.4 | 28.1 |
| **Provisions for pension liabilities and similar obligations** | **2,391.1** | **2,583.1** |
| **Defined benefit assets (difference between pension obligations and related funds)** | **6.0** | **2.0** |

### Pension plans

In addition to statutory pension insurance, the majority of employees are also entitled to defined benefit or defined contribution plans after the end of their employment.

Our pension strategy is focusing on switching from defined benefit to defined contribution plans in order to offer both employees and the company a sustainable and readily understandable pension system. Many defined benefit plans were closed for new employees or future service and replaced by defined contribution plans.

In countries in which defined contribution plans are not possible for legal or economic reasons, defined benefit plans were optimized or changed to minimize the associated risks of longevity, inflation and salary increases.

### Defined benefit plans

Defined benefit plans include pension plans, termination indemnities regardless of the reason for the end of employment and other post-employment benefits. As a result of the significant increase in employee numbers in recent years and the high level of acquisition activity, pension obligations essentially relate to active employees. The defined benefit pension plans cover 138,702 beneficiaries, including 92,136 active employees, 17,147 former employees with vested benefits and 29,419 retirees and surviving dependents. The pension obligations are concentrated in four countries, Germany, the U.S.A., the U.K. and Canada, which account for more than 90% of totals pension obligations.

### Germany

In Germany, Continental provides pension benefits through the cash balance plan, prior commitments and deferred compensation.

The retirement plan regulation applicable to active members is based primarily on the cash balance plan and thus on benefit modules. When the insured event occurs, the retirement plan assets are paid out as a lump-sum benefit, in installments or as a pension, depending on the amount of the retirement plan assets. There are no material minimum guarantees in relation to a particular amount of retirement benefits.

Pension plans transferred to or assumed by Continental in the context of acquisitions (Siemens VDO, Temic, Teves, Phoenix) were included in the cash balance plans. For the main German companies, the cash balance plan is partly covered by funds in contractual trust arrangements (CTAs). In Germany there are no legal or regulatory minimum allocation obligations.

The CTAs are legally independent from the company and manage the plan assets as trustees in accordance with the respective CTAs.

The plan assets reported for Germany do not include those of the CTA Continental Pension Trust e. V. as they did not meet the status of qualifying plan assets in accordance with IAS 19 in connection with the acquisition of shares in ContiTech AG.

Some prior commitments were granted through two legally independent pension funds. Pensionskasse für Angestellte der Continental Aktiengesellschaft VVaG, and Pensionskasse von 1925 der Phoenix AG VVaG have been closed since March 1, 1984 and July 1, 1983 respectively. The pension funds are smaller associations within the meaning of Section 53 of the German Insurance Supervision Act *(Versicherungsaufsichtsgesetz – VAG)* and are subject to the supervision of the German Federal Financial Supervisory Authority *(Bundesanstalt für Finanzdienstleistungsaufsicht)*. The investment regulations are in accordance with the legal requirements and risk structure of the obligations. The pension funds have tariffs with an interest rate of 3.5%, for which Continental is ultimately liable under the German Company Pensions Law *(Betriebsrentengesetz)*. In accordance with IAS 19, the pension obligations covered by the pension fund are therefore defined benefit pension plans. The pension funds met their minimum net funding requirement as at December 31, 2013. However, given that only the plan members are entitled to the assets and amounts generated, the benefit obligations are recognized in the same amount as the existing assets at fair value.

The company also supports private contribution through deferred compensation schemes.

Deferred compensation is essentially offered through a fully-funded multi-employer plan for contributions up to 4% of the assessment ceiling in social security (Höchster Pensionskasse VVaG). The pension fund ensures guaranteed interest for which Continental is ultimately liable under the German Company Pensions Law. The company is not liable for guarantees to employees of other companies. As Höchster Pensionskasse is a combined defined benefit plan for several companies and Continental has no right to the information required for accounting for this defined benefit plan, this plan is recognized as a defined contribution plan.

Entitled employees can use the cash balance plan for deferred compensation contributions above the 4% assessment ceiling. This section is funded by insurance annuity contracts.

**U.S.A.**
Owing to its acquisition history, Continental has various defined benefit plans in the U.S.A., which were closed to new entrants and frozen to accretion of further benefits in a period from April 1, 2005, to December 31, 2011. The closed defined benefit plans are commitments on the basis of the average final salary for employees of the Tire and Automotive divisions and cash balance commitments for former Siemens VDO employees. The defined benefit plans for union and non-union workers are based on a pension multiplier per year of service.

Closed defined benefit plans were replaced by defined contribution plans. Defined contribution plans apply to all active employees in the U.S.A.

The plan assets of the defined benefit plans are managed in a master trust. Investment supervision was delegated to the Pension Committee, a body appointed within the corporation. The legal and regulatory framework for the plans is based on the U.S. Employee Retirement Income Security Act (ERISA). The valuation of the financing level is required on the basis of this law. The interest rate used for this calculation is the average rate over a period of 25 years and therefore currently higher than the interest rate used to discount obligations under IAS 19. The statutory valuation therefore gives rise to a lower obligation than that in line with IAS 19. There is a regulatory requirement to ensure minimum funding of 80% in the defined benefit plans to prevent benefit curtailments.

**U.K.**
Continental maintains four defined benefit plans as a result of its history of acquisitions. All plans are commitments on the basis of the average or final salary. The four plans were closed to new employees in the period between April 1, 2002 and November 30, 2004. Continental offers defined contribution plans for all employees who have joined the company since that time.

The funding conditions are defined by the U.K. Pensions Regulator and the corresponding laws and regulations. The defined benefit plans are managed by trust companies. The boards of trustees of these companies have an obligation solely to the good of the beneficiaries on the basis of the trust agreement and the law.

The necessary funding is determined every three years through technical valuations in line with local provisions. The obligations are measured using a discounting rate based on government bonds and other conservatively selected actuarial assumptions. Compared to IAS 19, which derives the discounting rate from senior corporate bonds, this usually results in a higher obligation. Three of the four defined benefit plans had a funding deficit on the basis of the most recent technical valuation. The trustees and the company have agreed on a recovery plan that provides for additional temporary annual payments.

The last technical assessments of the four defined benefit pension plans took place between December 2011 and March 2013 and led to the following result:

- Continental Teves UK Employee Benefit Scheme (assessment as at December 31, 2011): As part of the assessment, an agreement on a minimum annual endowment of GBP 1.4 million over a period of four years was resolved.

- Continental Group Pension and Life Assurance Scheme (assessment as at April 5, 2012): As part of the assessment, an agreement on a minimum annual endowment of GBP 1.8 million and an annual adjustment of 3% over a period of six years and ten months was resolved.

- Mannesmann UK Pension Scheme (assessment as at March 31, 2013): The plan is fully endowed, meaning that there is no need for additional payments.

- Phoenix Dunlop Oil & Marine Pension Scheme (assessment as at December 31, 2012): As part of the assessment, an agreement was resolved on a minimum annual endowment of GBP 1.5 million and an annual adjustment of 3.5% over a period of seven years. Thereafter, there will be an annual payment of GBP 0.7 million and an annual adjustment of 3.5% over a period of another three years.

**Canada**

As a result of their complete wind-up via a third party insurance company for several defined benefit commitments, the Canadian plans are no longer significant.

Fluctuations in the amount of the pension obligation resulting from exchange rate effects are subject to the same risks as the overall business development. These relate mainly to the currencies of the U.S.A., Canada and the U.K. and have no material impact on the Continental Corporation. For information on the effects of interest rate risks and longevity risk on the pension obligations, please refer to the sensitivities described further on in this section.

**Net amount recognized for pension provisions**

| in € millions | Dec. 31, 2013 | Dec. 31, 2012 |
|---|---|---|
| Pension provisions (unfunded obligations and net liabilities from obligations and related funds) | 2,187.9 | 2,341.4 |
| Defined benefit assets (difference between pension obligations and related funds) | 6.0 | 2.0 |
| **Net amount recognized** | **2,181.9** | **2,339.4** |

Pension provisions declined by €157.5 million as compared to the previous year. The decrease in pension obligations is essentially due to a lower rise in discounting rates, leading to actuarial gains. Defined benefit assets representing the net assets from pension obligations and related funds rose by €4.0 million.

The pension obligations for Germany, the U.S.A., Canada, the U.K. and other countries, as well as the amounts for the Continental Corporation as a whole, are shown in the tables below.

The reconciliation of the changes in the defined benefit obligations from the beginning to the end of the year is as follows:

| in € millions | 2013 Germany | 2013 U.S.A. | 2013 CAN | 2013 U.K. | 2013 Other | 2013 Total | 2012 Germany | 2012 U.S.A. | 2012 CAN | 2012 U.K. | 2012 Other | 2012 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Defined benefit obligation as at January 1** | **2,532.2** | **1,001.3** | **91.9** | **283.2** | **218.1** | **4,126.7** | **1,877.9** | **919.2** | **141.1** | **234.8** | **192.3** | **3,365.3** |
| Foreign currency differences | – | -38.2 | -8.7 | -6.3 | -6.4 | **-59.6** | – | -20.2 | 1.9 | 6.4 | 3.5 | **-8.4** |
| Current service cost | 99.7 | – | 0.6 | 3.4 | 17.3 | **121.0** | 59.3 | – | 0.6 | 3.1 | 12.5 | **75.5** |
| Service cost from plan amendments | 0.3 | – | – | – | -0.2 | **0.1** | 0.2 | – | – | – | -0.4 | **-0.2** |
| Curtailments/settlements | – | – | – | – | -2.6 | **-2.6** | – | – | -62.6 | – | -9.0 | **-71.6** |
| Interest on defined benefit obligations | 84.9 | 38.7 | 3.2 | 11.1 | 8.6 | **146.5** | 93.7 | 44.9 | 4.9 | 12.3 | 9.4 | **165.2** |
| Actuarial gains/losses from changes in demographic assumptions | – | 1.9 | – | 1.8 | 0.1 | **3.8** | – | – | – | – | – | – |
| Actuarial gains/losses from changes in financial assumptions | -22.2 | -95.0 | -9.7 | 10.3 | -4.9 | **-121.5** | 554.6 | 107.6 | 9.4 | 35.6 | 26.6 | **733.8** |
| Actuarial gains/losses from experience adjustments | 0.2 | 8.3 | -1.9 | -4.5 | -1.9 | **0.2** | 34.0 | 5.3 | 2.7 | -1.4 | -5.7 | **34.9** |
| Net changes in the scope of consolidation | -0.3 | – | – | – | 1.0 | **0.7** | -0.6 | – | – | – | 2.0 | **1.4** |
| Employee contributions | – | – | – | 0.7 | 0.4 | **1.1** | – | – | – | 0.8 | 0.3 | **1.1** |
| Other changes | – | – | – | 0.1 | 3.7 | **3.8** | – | – | – | -0.9 | -0.1 | **-1.0** |
| Benefit payments | -89.3 | -53.5 | -6.3 | -7.8 | -11.1 | **-168.0** | -86.9 | -55.5 | -6.1 | -7.5 | -13.3 | **-169.3** |
| **Defined benefit obligation as at December 31** | **2,605.5** | **863.5** | **69.1** | **292.0** | **222.1** | **4,052.2** | **2,532.2** | **1,001.3** | **91.9** | **283.2** | **218.1** | **4,126.7** |

The reconciliation of the changes in the plan assets from the beginning to the end of the year is as follows:

| in € millions | 2013 Germany | 2013 U.S.A. | 2013 CAN | 2013 U.K. | 2013 Other | 2013 Total | 2012 Germany | 2012 U.S.A. | 2012 CAN | 2012 U.K. | 2012 Other | 2012 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Fair value of plan assets as at January 1** | **709.3** | **662.8** | **68.6** | **279.7** | **94.0** | **1,814.4** | **684.1** | **626.5** | **113.4** | **241.6** | **86.5** | **1,752.1** |
| Foreign currency differences | – | -30.5 | -7.4 | -6.1 | -3.8 | **-47.8** | – | -13.2 | 1.7 | 6.7 | 2.6 | **-2.2** |
| Interest income from pension funds | 22.0 | 25.5 | 2.4 | 9.3 | 4.1 | **63.3** | 28.5 | 43.2 | 4.8 | 14.6 | 5.0 | **96.1** |
| Actuarial gains/losses from plan assets | 3.4 | 101.4 | 4.7 | 5.0 | -1.8 | **112.7** | 21.5 | 35.4 | 2.6 | 15.8 | 0.4 | **75.7** |
| Employer contributions | 2.2 | 21.5 | 1.9 | 9.8 | 15.4 | **50.8** | 2.0 | 26.1 | 14.8 | 8.7 | 5.3 | **56.9** |
| Employee contributions | – | – | – | 0.7 | 0.4 | **1.1** | – | – | – | 0.8 | 0.3 | **1.1** |
| Curtailments/settlements | – | – | – | – | – | **–** | – | – | -62.6 | – | – | **-62.6** |
| Other changes | – | -12.3 | -0.5 | -0.7 | 0.7 | **-12.8** | 0.2 | – | – | -1.0 | -0.1 | **-0.9** |
| Benefit payments | -26.6 | -53.5 | -6.3 | -7.8 | -5.3 | **-99.5** | -27.0 | -55.2 | -6.1 | -7.5 | -6.0 | **-101.8** |
| **Fair value of plan assets as at December 31** | **710.3** | **714.9** | **63.4** | **289.9** | **103.7** | **1,882.2** | **709.3** | **662.8** | **68.6** | **279.7** | **94.0** | **1,814.4** |

€3,966.7 million (PY: €4,050.3 million) of the defined benefit obligations as at December 31, 2013, relates to plans that are fully or partially funded and €85.5 million (PY: €76.4 million) relates to plans that are unfunded.

In particular, the reduction of €74.5 million in defined benefit obligations as compared to December 31, 2012, results from a rise in the discounting factor and the associated actuarial gains that significantly more than compensate the increase in service cost for the current reporting period.

Plan assets in Germany include the CTA assets amounting to €311.6 million (PY: €298.1 million), pension contribution fund assets of €307.0 million (PY: €320.6 million) and insurance annuity contracts amounting to €91.7 million (PY: €90.6 million). Actuarial gains of €2.6 million (PY: actuarial losses of €12.2 million) on plan assets in Germany resulted from official retirement funds and €3.4 million (PY: €9.5 million) from the CTA.

In the Continental Corporation there are pension funds for previously defined contributions in Germany that have been closed to new entrants since July 1, 1983 and March 1, 1984, respectively. As at December 31, 2013, the minimum net funding requirement was exceeded; Continental AG has no requirement to make additional contributions. The pension fund assets had a fair value as at December 31, 2013, of €307.0 million (PY: €320.6 million). 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. 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 income generated, 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, 2013** | | | | | | Dec. 31, 2012 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **in € millions** | **Germany** | **U.S.A.** | **CAN** | **U.K.** | **Other** | **Total** | Germany | U.S.A. | CAN | U.K. | Other | Total |
| **Funded status[1]** | **-1,895.2** | **-148.6** | **-5.7** | **-2.1** | **-118.4** | **-2,170.0** | **-1,822.9** | **-338.5** | **-23.3** | **-3.5** | **-124.1** | **-2,312.3** |
| Asset ceiling | – | – | -2.7 | -6.6 | -2.6 | **-11.9** | – | – | – | -10.4 | -3.2 | **-13.6** |
| Adjustment of assets to discount rate | – | – | – | – | – | **–** | – | -11.6 | – | -1.9 | – | **-13.5** |
| **Net amount recognized** | **-1,895.2** | **-148.6** | **-8.4** | **-8.7** | **-121.0** | **-2,181.9** | **-1,822.9** | **-350.1** | **-23.3** | **-15.8** | **-127.3** | **-2,339.4** |

*1 Difference between plan assets and defined benefit obligations.*

The net amount recognized comprises the following items of the statement of financial position:

| | **Dec. 31, 2013** | | | | | | Dec. 31, 2012 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **in € millions** | **Germany** | **U.S.A.** | **CAN** | **U.K.** | **Other** | **Total** | Germany | U.S.A. | CAN | U.K. | Other | Total |
| Defined benefit assets | – | 2.9 | 0.1 | 2.9 | 0.1 | **6.0** | – | – | – | 2.0 | – | **2.0** |
| Pension and similar obligations | -1,895.2 | -151.5 | -8.5 | -11.6 | -121.1 | **-2,187.9** | -1,822.9 | -350.1 | -23.3 | -17.8 | -127.3 | **-2,341.4** |
| **Net amount recognized** | **-1,895.2** | **-148.6** | **-8.4** | **-8.7** | **-121.0** | **-2,181.9** | **-1,822.9** | **-350.1** | **-23.3** | **-15.8** | **-127.3** | **-2,339.4** |

The pension plan of Continental Automotive Trading UK Ltd., Birmingham, U.K., reports plan assets as at the end of the fiscal year that exceed the defined benefit obligations. The recognition of such an asset is limited to the present value of the benefits to the corporation (asset ceiling). As at December 31, 2013, this present value is €0.0 million (PY: €0.0 million).

The assumptions used in measuring the pension obligations, in particular the discount factors, long-term salary growth rates and the long-term rates of return on plan assets, are established separately for each country.

In the principal pension plans, the following weighted-average valuation factors as at December 31 of the year have been used:

| | 2013 | | | | | 2012 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **in %** | **Germany[1]** | **U.S.A.** | **CAN** | **U.K.** | **Other** | Germany[1] | U.S.A. | CAN | U.K. | Other |
| Discount rate | 3.50 | 4.90 | 4.75 | 4.40 | 3.77 | 3.40 | 4.00 | 3.75 | 4.10 | 3.85 |
| Long-term salary growth rate | 3.00 | 3.50 | 3.50 | 3.96 | 2.86 | 3.00 | 3.25 | 3.25 | 3.59 | 3.49 |

*1 Not including the pension contribution funds.*

Another parameter for measuring the pension obligation is the long-term pension trend. The following weighted average long-term pension trend was used as at December 31, 2013, for the key countries: Germany 1.75%, Canada 1.8%, U.K. 3.4%. For the U.S.A., the long-term pension trend does not constitute a significant measurement parameter due to the fact that the pension plans are closed to new entrants and to future accrual.

Net pension cost can be summarized as follows:

| | 2013 | | | | | | 2012 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **in € millions** | **Germany** | **U.S.A.** | **CAN** | **U.K.** | **Other** | **Total** | Germany | U.S.A. | CAN | U.K. | Other | Total |
| Current service cost | 99.7 | – | 0.6 | 3.4 | 17.3 | **121.0** | 59.3 | – | 0.6 | 3.1 | 12.5 | **75.5** |
| Service cost from plan amendments | 0.3 | – | – | – | -0.2 | **0.1** | 0.2 | – | – | – | -0.4 | **-0.2** |
| Curtailments/settlements | – | – | – | – | -2.6 | **-2.6** | – | – | 8.0 | – | -9.1 | **-1.1** |
| Interest on defined benefit obligations | 84.9 | 38.7 | 3.2 | 11.1 | 8.6 | **146.5** | 93.7 | 44.9 | 4.9 | 12.3 | 9.4 | **165.2** |
| Expected return on plan assets | -22.0 | -25.5 | -2.4 | -9.3 | -4.1 | **-63.3** | -28.5 | -43.2 | -4.8 | -14.6 | -5.4 | **-96.5** |
| Effect of change of asset ceiling | – | – | – | – | 0.3 | **0.3** | – | – | -1.0 | – | 0.4 | **-0.6** |
| Other pension income and expenses | – | 1.0 | 0.5 | -1.8 | 3.2 | **2.9** | – | – | – | – | 0.1 | **0.1** |
| **Net pension cost** | **162.9** | **14.2** | **1.9** | **3.4** | **22.5** | **204.9** | **124.7** | **1.7** | **7.7** | **0.8** | **7.5** | **142.4** |

Curtailments and settlements in 2012 result in particular from the restructuring of the Chatham location in Canada.

The table below shows the reconciliation of changes in actuarial gains and losses at the start and end of the reporting year:

| in € millions | 2013 | | | | | | 2012 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Germany** | **U.S.A.** | **CAN** | **U.K.** | **Other** | **Total** | Germany | U.S.A. | CAN | U.K. | Other | Total |
| Actuarial gains/losses as at Jan. 1 | -644.2 | -405.1 | -22.5 | -50.5 | -43.7 | **-1,166.0** | -77.4 | -335.3 | -20.9 | -36.7 | -21.0 | **-491.3** |
| Actuarial gains/losses from defined benefit obligations | 19.4 | 84.8 | 11.6 | -7.6 | 6.7 | **114.9** | -566.8 | -69.8 | -1.6 | -13.8 | -22.7 | **-674.7** |
| Actuarial gains/losses from plan assets | 3.4 | 101.4 | 4.7 | 5.0 | -1.8 | **112.7** | – | – | – | – | – | **–** |
| Actuarial gains/losses from asset ceiling | – | – | -2.7 | 3.5 | -0.3 | **0.5** | – | – | – | – | – | **–** |
| **Actuarial gains/losses as at Dec. 31** | **-621.4** | **-218.9** | **-8.9** | **-49.6** | **-39.1** | **-937.9** | **-644.2** | **-405.1** | **-22.5** | **-50.5** | **-43.7** | **-1,166.0** |

Actuarial gains and losses arise from increases or decreases in the present value of the defined benefit obligation due to changes in the actuarial assumptions made and the experience adjustments. A slight rise in the discounting factor compared to 2012 resulted in actuarial gains in almost all key countries in the 2013 reporting period. By contrast, the actuarial losses incurred in the 2012 reporting period were essentially due to a sharp decline in the discounting factor compared to the 2011 reporting year.

If the other assumptions are maintained, a one-half 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 at the end of the reporting period:

| in € millions | Dec. 31, 2013 | | | | | Dec. 31, 2012 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Germany**[1] | **U.S.A.** | **CAN** | **U.K.** | **Other** | Germany[1] | U.S.A. | CAN | U.K. | Other |
| **0.5% increase** | | | | | | | | | | |
| Effects on service and interest cost | -6.1 | 2.3 | 0.0 | -0.1 | -0.6 | -2.6 | 1.7 | 0.1 | 0.0 | 3.2 |
| Effects on benefit obligations | -161.2 | -43.9 | -4.1 | -24.2 | -12.5 | -143.3 | -54.1 | -5.5 | -23.3 | -9.8 |
| **0.5% decrease** | | | | | | | | | | |
| Effects on service and interest cost | 6.8 | -2.7 | 0.1 | 0.0 | 0.7 | 2.8 | -2.2 | -0.2 | -0.1 | 4.8 |
| Effects on benefit obligations | 182.0 | 48.1 | 4.7 | 27.5 | 14.0 | 179.1 | 65.9 | 6.8 | 30.2 | 17.3 |

*1 Not including the pension contribution funds.*

A one-half percentage point increase or decrease in the long-term salary growth rate would have had the following impact on the pension obligations as at the end of the reporting period:

| | Dec. 31, 2013 | | | |
|---|---|---|---|---|
| **in € millions** | Germany | U.S.A.[1] | CAN | U.K. |
| **0.5% increase** | | | | |
| Effects on benefit obligations | 0.9 | – | 0.4 | 3.9 |
| **0.5% decrease** | | | | |
| Effects on benefit obligations | -0.9 | – | -0.4 | -3.7 |

1 *The pension plans in the U.S.A. have been closed to new entrants and to future accrual. Any change in the long-term salary growth rate would thus have no effect on the value of the benefit obligations.*

A one-half percentage point increase or decrease in the long-term pension trend would have had the following impact on the pension obligations as at the end of the reporting period:

| | Dec. 31, 2013 | | | |
|---|---|---|---|---|
| **in € millions** | Germany | U.S.A.[1] | CAN | U.K. |
| **0.5% increase** | | | | |
| Effects on benefit obligations | 36.7 | – | 3.1 | 19.0 |
| **0.5% decrease** | | | | |
| Effects on benefit obligations | -33.9 | – | -2.7 | -17.8 |

1 *The pension plans in the U.S.A. have been closed to new entrants and to future accrual. Any change in long-term pension trend would thus have no effect on the value of the benefit obligations.*

Changes in the discount rate and the salary and pension trends do not have a linear effect on the defined benefit obligations (DBO) owing to the financial models used (particularly due to the compounding of interest rates). For this reason, the net periodic pension cost derived from the pension obligations does not change by the same amount as a result of an increase or decrease in the actuarial assumptions.

In addition to the aforementioned sensitivities, the impact of a one-year-longer life expectancy on the value of benefit obligations was computed for the key countries. A one-year increase in life expectancy would lead to a €90.4 million increase in the value of the benefit obligations, and that figure would be broken down as follows: Germany €59.3 million, U.S.A. €24.0 million, U.K. €5.5 million, and Canada €1.6 million.

### Pension funds

The structure of the corporation's plan assets is reviewed by the investment committees on an ongoing basis taking into account the forecast pension obligations. In doing so, the investment committees regularly review the investment decisions taken, the underlying expected returns of the individual asset classes reflecting empirical values and the selection of the external fund managers.

The portfolio structures of the pension plan assets at the measurement date for the fiscal years 2013 and 2012 are as follows:

| in % | 2013 | | | | | 2012 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Asset class** | **Germany[1]** | **U.S.A.** | **CAN** | **U.K.** | **Other** | Germany[1] | U.S.A. | CAN | U.K. | Other |
| Equity instruments | 9 | 61 | 48 | 15 | 10 | 27 | 60 | 48 | 11 | 16 |
| Debt securities | 76 | 35 | 51 | 45 | 70 | 68 | 36 | 51 | 51 | 61 |
| Real estate | 13 | 4 | – | 1 | 3 | 1 | 4 | – | 1 | 3 |
| Diversified growth fund | – | – | – | 32 | 16 | – | – | – | 31 | – |
| Cash, cash equivalents and other | 2 | – | 1 | 7 | 1 | 4 | – | 1 | 6 | 20 |
| **Total** | **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.*

## Employer contributions to pension funds

The following table shows the cash contributions made by the company to the pension funds for 2013 and 2012 as well as the expected contributions for 2014:

| in € millions | 2014 (expected) | **2013** | 2012 |
|---|---|---|---|
| Germany | 0.3 | 2.2 | 2.0 |
| U.S.A. | 24.0 | 21.5 | 26.1 |
| CAN | 3.1 | 1.9 | 14.8 |
| U.K. | 8.3 | 9.8 | 8.7 |
| Other | 12.2 | 15.4 | 5.3 |
| **Total** | **47.9** | **50.8** | **56.9** |

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 | U.S.A. | CAN | U.K. | Other | **Total** |
|---|---|---|---|---|---|---|
| **Benefits paid** | | | | | | |
| 2012 | 86.9 | 55.5 | 6.1 | 7.5 | 13.3 | **169.3** |
| 2013 | 89.3 | 53.5 | 6.3 | 7.8 | 11.1 | **168.0** |
| **Benefit payments as expected** | | | | | | |
| 2014 | 104.5 | 66.1 | 3.9 | 7.5 | 9.7 | **191.7** |
| 2015 | 139.3 | 56.0 | 4.0 | 8.5 | 9.7 | **217.5** |
| 2016 | 137.3 | 56.3 | 4.0 | 9.0 | 11.6 | **218.2** |
| 2017 | 128.7 | 56.5 | 4.0 | 9.0 | 12.5 | **210.7** |
| 2018 | 139.6 | 56.6 | 4.0 | 9.9 | 15.7 | **225.8** |
| Total of years 2019 to 2023 | 789.3 | 287.1 | 20.8 | 63.5 | 95.7 | **1,256.4** |

The pension payments from 2012 onwards relate to lump-sum amounts in connection with fixed service cost benefit plans, as well as annual pension benefits. For the purposes of estimating the future payments, in those cases where employees have an option to immediately receive their benefits in cash on retirement or to opt for monthly pension payments, it has been assumed that in all cases the lump-sum will be chosen. Furthermore, the earliest eligible date for retirement has been assumed when determining future pension payments. The actual retirement date could occur later. Therefore the actual payments in future years for present plan members could be lower than the amounts assumed.

For the current and four preceding reporting periods, the amounts of the defined benefit obligations, plan assets, deficit, as well as the experience adjustments to plan liabilities and to plan assets are as follows:

| **in € millions** | **2013** | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Defined benefit obligations | 4,052.2 | 4,126.7 | 3,365.3 | 3,342.8 | 3,056.4 |
| Plan assets | 1,882.2 | 1,814.4 | 1,752.1 | 1,779.8 | 1,619.9 |
| Deficit | –2,170.0 | –2,312.3 | –1,613.2 | –1,563.0 | –1,436.5 |
| Experience adjustments to plan liabilities | –117.5 | 768.7 | 2.3 | 124.7 | 163.3 |
| Experience adjustments to plan assets | 112.7 | 76.0 | –50.9 | 30.5 | 68.7 |

In particular, the reduction in the deficit as against the previous year is due to the change in the defined benefit obligations. The rise in the discount rate is resulting in actuarial gains in all countries.

### Other post-employment benefits

Certain subsidiaries – primarily in the U.S.A. and Canada – grant eligible employees healthcare and life insurance on retirement if they have fulfilled certain conditions relating to age and years of service. The amount and entitlement can be altered. Certain retirement benefits, in particular for pensions and healthcare costs, are provided in the U.S.A. for hourly-paid workers at unionized tire plants under the terms of collective pay agreements.

No separate plan assets have been set up for these obligations.

The reconciliation of the changes in the defined benefit obligations and the financing status from the beginning to the end of the year is as follows:

| **in € millions** | **2013** | 2012 |
|---|---|---|
| **Defined benefit obligations as at January 1** | **213.6** | **202.2** |
| Foreign currency differences | –10.0 | –3.8 |
| Current service cost | 1.7 | 1.5 |
| Service cost from plan amendments | — | 0.3 |
| Curtailments/settlements | 0.0 | –1.7 |
| Interest on healthcare and life insurance benefit obligations | 7.8 | 9.7 |
| Actuarial losses from changes in demographic assumptions | 0.0 | — |
| Actuarial gains/losses from changes in financial assumptions | –18.9 | 20.6 |
| Actuarial gains/losses from experience adjustments | –4.0 | 0.1 |
| Benefit payments | –16.4 | –15.3 |
| **Defined benefit obligations/net amount recognized as at December 31** | **173.8** | **213.6** |

In particular, the drop in defined benefit obligations is due to actuarial gains as a result of the rise in discount rates.

At the end of 2006, all hourly workers at the U.S. tire operations and retirees were notified that their maximum amount of medical coverage would be reduced further starting at the beginning of 2007. As a result of this amendment, these beneficiaries now have a standardized level of medical coverage. These plan amendments resulted in a reversal of provisions in 2006 for post-employment obligations of €108.8 million. Certain affected individuals filed a class action lawsuit contesting this measure at the end of 2006. Owing to a judicially approved settlement, which ended the legal proceedings, the company had to make a one-time payment totaling €43.5 million as compensation. Most of the payment was made in 2008, with payment of the remainder spread over the following seven years. The remaining provision of €2.5 million (PY: €5.2 million) as at December 31, 2013, is recognized under the provisions for obligations similar to pensions.

The assumptions used for the discount rate and cost increases to calculate the healthcare and life insurance benefits vary according to conditions in the U.S.A. and Canada.

The following weighted average valuation factors as at December 31 of the year have been used:

| **in %** | **2013** | 2012 |
|---|---|---|
| Discount rate | 4.88 | 3.97 |
| Rate of increase in healthcare and life insurance benefits in the following year | 6.74 | 7.07 |
| Long-term rate of increase in healthcare and life insurance benefits | 4.91 | 4.99 |

The net cost of healthcare and life insurance benefit obligations can be broken down as follows:

| **in € millions** | **2013** | 2012 |
|---|---|---|
| Current service cost | 1.7 | 1.5 |
| Service cost from plan amendments | – | 0.3 |
| Curtailments/settlements | 0.0 | –1.7 |
| Interest on healthcare and life insurance benefit obligations | 7.8 | 9.7 |
| **Net loss/income** | **9.5** | **9.8** |

The following table shows the effects of a 0.5% increase or decrease in the cost trend for healthcare and life insurance obligations:

| **in € millions** | **2013** | 2012 |
|---|---|---|
| **0.5% increase** | | |
| Effects on service and interest cost | 0.1 | 0.1 |
| Effects on benefit obligations | 1.3 | 2.5 |
| **0.5% decrease** | | |
| Effects on service and interest cost | –0.1 | –0.1 |
| Effects on benefit obligations | –1.2 | –2.1 |

A one-half 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 | 2013 | 2012 |
|---|---|---|
| **0.5% increase** | | |
| Effects on service and interest cost | 0.4 | 0.4 |
| Effects on benefit obligations | –7.6 | –9.9 |
| **0.5% decrease** | | |
| Effects on service and interest cost | –0.3 | –0.5 |
| Effects on benefit obligations | 8.4 | 12.0 |

The following table shows the payments made for other post-employment benefits in the reporting year and the previous year, as well as the undiscounted, expected benefit payments for the next ten years:

| in € millions | |
|---|---|
| **Benefits paid** | |
| 2012 | 15.3 |
| 2013 | 16.4 |
| **Benefit payments as expected** | |
| 2014 | 14.2 |
| 2015 | 14.1 |
| 2016 | 13.9 |
| 2017 | 14.0 |
| 2018 | 13.9 |
| Total of years 2019 to 2023 | 69.0 |

The amounts for the defined benefit obligations, deficit and experience adjustments to plan liabilities for the current and four preceding reporting periods are as follows:

| in € millions | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Defined benefit obligations | 173.8 | 213.6 | 202.2 | 210.9 | 191.1 |
| Deficit | –173.8 | –213.6 | –202.2 | –210.9 | –191.1 |
| Experience adjustments to plan liabilities | –22.9 | 20.7 | 6.2 | 7.3 | 23.5 |

**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 €2.8 million (PY: €1.8 million).

**Defined contribution pension plans**
The Continental Corporation offers its employees pension plans in the form of defined contribution plans, particularly in the U.S.A., the U.K., Japan and China. Not including social security contributions, the expenses for the defined contribution pension plans were €53.4 million (PY: €32.0 million) in the fiscal year. The year-on-year increase results mainly from the newly concluded compensation schemes in the U.S.A.

## 26. Provisions for Other Risks and Obligations

| | Dec. 31, 2013 | | Dec. 31, 2012 | |
|---|---|---|---|---|
| **in € millions** | **Current** | **Non-current** | Current | Non-current |
| Restructuring provisions | 82.1 | 26.8 | 48.8 | 41.3 |
| Litigation and environmental risks | 99.8 | 89.8 | 81.8 | 94.0 |
| Flexible early retirement contracts | – | 29.6 | – | 55.9 |
| Anniversary and other long-service benefits | – | 75.9 | – | 76.0 |
| Warranties | 324.4 | 6.2 | 348.0 | 9.1 |
| Other provisions | 124.8 | 38.6 | 118.4 | 32.2 |
| **Provisions for other risks and obligations** | **631.1** | **266.9** | **597.0** | **308.5** |

The provisions for other risks developed as follows:

| **in € millions** | **Restructuring provisions** | **Litigation and environ-mental risks** | **Flexible early retirement contracts** | **Anniversary and other long-service benefits** | **Warranties** | **Other provisions** |
|---|---|---|---|---|---|---|
| **As at January 1, 2013** | **90.1** | **175.8** | **55.9** | **76.0** | **357.1** | **150.6** |
| Additions | 63.2 | 100.9 | 22.8 | 8.3 | 353.0 | 157.9 |
| Utilizations | -31.3 | -46.7 | -38.3 | -2.4 | -233.6 | -74.1 |
| Reclassification | 0.0 | -20.8 | – | – | 0.0 | 17.4 |
| Net changes in the scope of consolidation | – | 0.3 | – | – | 0.2 | 0.0 |
| Reversals | -15.3 | -12.8 | -12.1 | -7.9 | -135.4 | -85.0 |
| Interest | 3.3 | 0.1 | 1.3 | 2.6 | – | 2.7 |
| Foreign currency translation | -1.1 | -7.2 | 0.0 | -0.7 | -10.7 | -6.1 |
| **As at December 31, 2013** | **108.9** | **189.6** | **29.6** | **75.9** | **330.6** | **163.4** |

The utilization of restructuring provisions primarily relates to the implementation of restructuring measures decided in previous years – particularly at the German locations in Wetzlar, Babenhausen, Karben and Dortmund.

Reversals of restructuring provisions are due in particular to the location at Babenhausen, Germany.

The addition to restructuring provisions was essentially caused by the restructuring in Clairoix, France, and the restructuring programs implemented at the Interior segment's locations for Infotainment & Connectivity business in Manaus, Brazil; Bizerte, Tunisia; Wetzlar, Germany; Rambouillet, France; Nogales, Mexico; Tianjin, China; Melbourne, Australia; Guarulhos, Brazil; and Deer Park, Illinois, U.S.A.

As in the previous year, the additions to litigation and environmental risks relate in particular to product liability risks from the tire activities in the U.S.A. The further additions relate in part to the antitrust proceedings by the Korea Fair Trade Commission against Continental Automotive Electronics LLC, Bugan-myeon, South Korea. Please see Note 34.

Utilization mainly includes the product liability risks from tire activities mentioned above and payments in connection with the rulings by the antitrust authorities against Dunlop Oil & Marine Ltd., Grimsby, U.K.

Provisions for partial early retirement are calculated using a discount rate of 1.75% (PY: 1.25%). In accordance with the option under IAS 19, the interest component is now reported in net interest expense and no longer under function costs.

Provisions for anniversary and other long-service benefits were calculated using a discount rate of 3.5% (PY: 3.4%). In accordance with the option under IAS 19, the interest component is now reported in net interest expense and no longer under function costs.

The changes in provisions for warranties include utilization of €233.6 million (PY: €243.0 million) and reversals of €135.4 million (PY: €232.4 million), partially offset by additions of €353.0 million (PY: €264.0 million), in particular for specific individual cases in the Automotive Group.

Please see Note 5 for information on changes in the scope of consolidation.

The other provisions also comprise provisions for risks from operations, partially in connection with fixed supply and acceptance agreements.

## 27. Income Tax Liabilities

Tax liabilities developed as follows:

| in € millions | 2013 | 2012 |
|---|---|---|
| **As at January 1** | **713.3** | **648.2** |
| Additions | 510.3 | 692.3 |
| Utilizations and advance payments for the current fiscal year | –592.5 | –613.8 |
| Reversals | –34.4 | –14.0 |
| Additions from the first consolidation of subsidiaries | 0.8 | 0.2 |
| Foreign currency translation | –9.3 | 0.4 |
| **As at December 31** | **588.2** | **713.3** |

When reconciling the income tax liabilities with the income taxes paid in the statement of cash flows, the cash changes in income tax receivables must be included in addition to the utilizations and current advance payments shown here.

## 28. Indebtedness

| | **Dec. 31, 2013** | | | Dec. 31, 2012 | | |
|---|---|---|---|---|---|---|
| | | **Maturity** | | | Maturity | |
| **in € millions** | **Total** | **up to 1 year** | **over 1 year** | Total | up to 1 year | over 1 year |
| Bonds | **2,989.5** | 2.3 | 2,987.2 | **3,744.2** | 1.0 | 3,743.2 |
| Bank loans and overdrafts[1,2] | **2,150.5** | 432.9 | 1,717.6 | **3,030.7** | 2,810.0 | 220.7 |
| Derivative instruments | **13.7** | 13.2 | 0.5 | **11.4** | 10.6 | 0.8 |
| Finance lease liabilities | **54.2** | 7.5 | 46.7 | **64.4** | 7.0 | 57.4 |
| Liabilities from sale of receivables programs | **916.2** | 628.5 | 287.7 | **936.2** | 777.9 | 158.3 |
| Other indebtedness[3] | **513.4** | 511.9 | 1.5 | **466.4** | 465.8 | 0.6 |
| **Indebtedness** | **6,637.5** | **1,596.3** | **5,041.2** | **8,253.3** | **4,072.3** | **4,181.0** |

*1 Thereof €4.3 million (PY: €9.9 million) secured by land charges, mortgages and similar securities.*
*2 In the previous year the syndicated loan drawdown of €2,137.1 million maturing originally in April 2014 was repaid prematurely in February 2013 as a result of the agreement concluded in January 2013 for a new syndicated loan and is thus reported as current.*
*3 Other indebtedness includes €497.5 million (PY: €459.7 million) utilized under the commercial paper program in 2013.*

**Continental's key bond issues**

| in € millions Issuer/type | Amount of issue Dec. 31, 2013 | Carrying amount Dec. 31, 2013 | Stock market value Dec. 31, 2013 | Amount of issue Dec. 31, 2012 | Carrying amount Dec. 31, 2012 | Stock market value Dec. 31, 2012 | Coupon p.a. | Issue/maturity and fixed interest until | Issue price |
|---|---|---|---|---|---|---|---|---|---|
| CGF euro bond | – | – | – | 750.0 | 739.1 | 811.5 | 8.500% | 2010 / 07.2013[1] | 99.005% |
| CGF euro bond | – | – | – | 1,000.0 | 1,003.1 | 1,073.7 | 7.500% | 2010 / 09.2013[2] | 99.330% |
| CGF euro bond | – | – | – | 625.0 | 621.8 | 669.4 | 6.500% | 2010 / 11.2013[3] | 98.861% |
| CGF euro bond | – | – | – | 625.0 | 628.8 | 669.2 | 7.125% | 2010 / 11.2013[4] | 99.246% |
| CGF euro bond | 750.0 | 742.9 | 776.8 | – | – | – | 2.500% | 2013 / 03.2017 | 99.595% |
| CAG euro bond | 750.0 | 738.2 | 790.8 | – | – | – | 3.000% | 2013 / 07.2018 | 98.950% |
| CRoA U.S. dollar bond | 690.2 | 710.4 | 734.1 | 720.2 | 744.6 | 736.7 | 4.500% | 2012 / 09.2019 | 100.000% |
| CAG euro bond | 750.0 | 739.9 | 785.1 | – | – | – | 3.125% | 2013 / 09.2020 | 99.228% |
| **Total** | **2,940.2** | **2,931.4** | **3,086.8** | **3,720.2** | **3,737.4** | **3,960.5** | | | |

*1 Originally maturing July 2015, early redemption on July 15, 2013, at 104.25%.*
*2 Originally maturing September 2017, early redemption on September 16, 2013, at 103.75%.*
*3 Originally maturing January 2016, early redemption on November 18, 2013, at 103.25%.*
*4 Originally maturing October 2018, early redemption on November 8, 2013, at 103.563%.*

The carrying amount of bonds declined by €754.7 million from €3,744.2 million at the end of 2012 to €2,989.5 million as at the end of fiscal 2013. This reduction is essentially due to the early redemption of the four bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, in 2010 with a total volume of €3.0 billion. The redemption options stipulated in the respective terms were exercised for all four bonds in the period from May to September 2013. They were redeemed early from July to November 2013 at the redemption prices also stipulated in the respective terms of issue. These ranged between 103.25% and 104.25%.

To partially refinance the bonds redeemed early, Continental AG and Conti-Gummi Finance B.V., Maastricht, Netherlands, issued three euro bonds with a volume of €750.0 million each in the third quarter of 2013 under the Debt Issuance Programme (DIP) for the issuance of bonds set up in May 2013 with a maximum volume of €5.0 billion. The terms of these bonds are between three and a half and seven years with interest rates between 2.5% and 3.125% p.a. Interest payments for the five-year bond issued in July 2013 will be made in arrears every six months; interest for the two bonds placed in September 2013 will be paid annually in arrears. In addition to the improvement in the maturity profile of indebtedness, these issues will also significantly reduce future interest expenses. The average interest rate on the new bonds is 2.875% p.a., while the average interest rate for the 2010 bonds redeemed early was 7.464% p.a.

The bond denominated in U.S. dollars with an issue volume of U.S. $950.0 million issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in September 2012 is the last bond in the portfolio for which the early redemption option provided for in the terms is measured as an embedded derivative in accordance with IAS 39 as in the previous year (see also comments in Note 29).

The carrying amount of the bonds also includes the U.S. dollar bonds issued in the years 2011 to 2013 by Continental Tire Andina S.A., Quito, Ecuador, at a total of €8.1 million (PY: €6.8 million) and a private placement issued by Continental AG at 100% at the end of August 2013 with a volume of €50.0 million, an interest rate of 3.9% p.a., and a term of twelve years.

**Breakdown of credit lines and available financing from banks**

| in € millions<br>Company | Type[1] | Dec. 31, 2013<br>Amount of issue | Dec. 31, 2013<br>Carrying amount | Dec. 31, 2012<br>Amount of issue | Dec. 31, 2012<br>Carrying amount | Interest | Maturity |
|---|---|---|---|---|---|---|---|
| CAG, Conti Automotive, CRoA, CGF, Conti Benelux, Conti Autom. Benelux, Conti Autom. Holding Netherlands, Conti Autom. Czech Republic | SL | – | – | – | 341.5 | Euribor/USD Libor + | 2018[2] |
| | SL | 4,500.0 | 1,489.9 | 4,637.1 | 2,134.4 | margin | 2016[2] |
| Conti Mabor | LBL | 8.2 | 7.8 | 8.2 | 7.6 | 0%[3] | 2016[4] |
| | LBL | 2.8 | 2.5 | – | – | 0%[3] | 2016 |
| Conti Tire China Production | LBL | – | – | 13.9 | 13.9 | EUR Libor + margin | 2013[5] |
| CAS Changshu | LBL | – | – | 8.5 | 8.5 | 6.21% | 2013[6] |
| Conti Matador Rubber Prod. | LBL | – | – | 20.0 | 20.0 | Euribor + margin | 2013[7] |
| Conti Tire China Production | LBL | – | – | 32.8 | 32.8 | PBoC + margin | 2013[8] |
| Conti Tire do Brasil | LBL | 54.7 | 54.7 | 58.8 | 58.8 | variable[9] + margin | 2018[10] |
| | LBL | 18.0 | 18.0 | – | – | variable[9] + margin | 2019[10] |
| Continental Kaluga | LBL | 80.1 | 80.1 | – | – | 7.4%/MosPrime + margin | 2020[11] |
| Conti Autom. (Thail.) Co., Ltd. | LBL | – | 27.2 | – | 35.0 | | 2017[4] |
| | LBL | 62.2 | 35.0 | 70.0 | 35.0 | Euribor + margin | 2020[4] |
| Various bank lines | | 1,273.5 | 435.3 | 1,003.1 | 343.2 | mainly variable | mainly < 1 year |
| **Credit lines and available financing from banks** | | **5,999.5** | | **5,852.4** | | | |
| **Bank loans and overdrafts** | | | **2,150.5** | | **3,030.7** | | |

*1 SL: syndicated loan; LBL: long-term bank loan.*
*2 Maturity in previous year: February 2013. Syndicated loan originally maturing in April 2014, repaid early at start of February 2013 on account of agreement on a new syndicated loan concluded on January 22, 2013.*
*3 Interest-free development loan.*
*4 Semi-annual repayments.*
*5 Originally maturing in 2015, early redemption April 2013.*
*6 Originally maturing June 2014, early redemption March 2013.*
*7 Originally maturing December 2014, early redemption December 2013.*
*8 Originally maturing November 2015, early redemption April 2013.*
*9 Different variable interest bases.*
*10 Monthly repayments.*
*11 Quarterly repayments.*

The previous year's figures are presented comparably.

## Abbreviations

- CAG, Continental Aktiengesellschaft, Hanover, Germany
- CAS Changshu, Continental Automotive Systems Changshu Co., Ltd., Changshu, China
- CGF, Conti-Gummi Finance B.V., Maastricht, Netherlands
- Conti Automotive, Continental Automotive GmbH, Hanover, Germany
- Conti Autom. Benelux, Continental Automotive Benelux BVBA, Mechelen, Belgium
- Conti Autom. Czech Republic, Continental Automotive Czech Republic s.r.o., Jicin, Czech Republic
- Conti Autom. Holding Netherlands, Continental Automotive Holding Netherlands B.V., Maastricht, Netherlands
- Conti Autom. (Thail.) Co., Ltd., Continental Automotive (Thailand) Co., Ltd., Rayong, Thailand
- Conti Benelux, Continental Benelux SPRL, Herstal, Belgium
- Conti Mabor, Continental Mabor Indústria de Pneus S.A., Lousado, Portugal
- Conti Matador Rubber Prod., Continental Matador Rubber s.r.o., Púchov, Slovakia
- Continental Kaluga, OOO "Continental Kaluga", Kaluga, Russia

- Conti Tire China Production, Continental Tires (China) Co., Ltd., Hefei, China

- Conti Tire do Brasil, Continental do Brasil Produtos Automotivos Ltda., Camacari, Brazil

- CRoA, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.

On December 31, 2013, there were financing commitments from banks in the amount of €5,999.5 million (PY: €5,852.4 million). A nominal amount of €3,833.3 million of this had not been utilized as at the end of the reporting period (PY: €2,801.3 million). €3.0 billion (PY: €2,154.1 million) of this relates to the revolving tranche of the syndicated loan, which was increased from €2.5 billion to currently €3.0 billion as part of the new agreement concluded in January 2013 for the syndicated loan originally maturing in April 2014. In the year under review, the Continental Corporation utilized its commercial paper program, its sale of receivables programs and its various bank lines to meet short-term credit requirements.

Bank loans and overdrafts amounted to €2,150.5 million (PY: €3,030.7 million) as at December 31, 2013, and were therefore €880.2 million down on the previous year's level. This reduction is due in particular to the significantly lower utilization of the syndicated loan as at December 31, 2013.

In the context of further improving its financial and maturity structure with the aim of increasing flexibility at the same time, in December 2012 Continental already started with the refinancing process for the syndicated loan originally due in April 2014. As part of the agreement concluded on January 22, 2013, the credit volume of €4,637.1 million as at the end of 2012 was reduced to a total of €4.5 billion and split into two tranches with different terms: a three-year term loan of €1.5 billion and the increase mentioned above in the revolving credit line from €2.5 billion to €3.0 billion with a term of five years. In this context, tranche C of the previous syndicated loan was reduced from previously €2,137.1 million to €1.5 billion by means of a partial repayment. Under the new loan agreement, Continental is no longer required to furnish security in rem and has obtained further simplifications of the documentation required. Under the new syndicated loan agreement, too, the credit margins are based on the Continental Corporation's leverage ratio (net indebtedness/EBITDA, as defined in the syndicated loan agreement). The improvement in the leverage ratio already achieved as at the end of 2012 resulted in further margin decreases starting from the second quarter of 2013.

As at the end of 2013, the committed volume of the syndicated loan still amounted to €4.5 billion (PY: €4,637.1 million). As at the end of the reporting period it was utilized in an amount of nominally €1,500.0 million (PY: €2,483.0 million) only by Continental AG (PY: utilized by Continental AG and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.).

As in the previous year, the agreed financial covenants were also complied with as at the end of the respective quarter in 2013. Please see Note 29 for the maturity structure of indebtedness.

### Finance lease liabilities

The future payment obligations resulting from finance leases are shown in the table below:

| **Dec. 31, 2013, in € millions** | 2014 | 2015 | 2016 | 2017 | 2018 | from 2019 | **Total** |
|---|---|---|---|---|---|---|---|
| Minimum lease payments | 10.1 | 8.6 | 12.2 | 10.3 | 5.9 | 19.1 | **66.2** |
| Interest component | 2.6 | 2.3 | 1.7 | 1.5 | 0.7 | 3.2 | **12.0** |
| **Finance lease liabilities** | **7.5** | **6.3** | **10.5** | **8.8** | **5.2** | **15.9** | **54.2** |

| **Dec. 31, 2012, in € millions** | 2013 | 2014 | 2015 | 2016 | 2017 | from 2018 | **Total** |
|---|---|---|---|---|---|---|---|
| Minimum lease payments | 10.6 | 9.8 | 9.5 | 9.1 | 18.9 | 24.7 | **82.6** |
| Interest component | 3.6 | 3.1 | 2.6 | 2.2 | 3.6 | 3.1 | **18.2** |
| **Finance lease liabilities** | **7.0** | **6.7** | **6.9** | **6.9** | **15.3** | **21.6** | **64.4** |

The fair value of finance lease liabilities is €56.9 million (PY: €70.5 million). The effective interest rate of the main leases is unchanged as against the previous year at between 5.5% and 8.3%.

## 29. Financial Instruments

The carrying amounts and fair values of financial assets and liabilities in the various measurement categories, classified by statement of financial position category, as well as the summarized non-current and current items, are as follows:

| in € millions | Measurement category in acc. with IAS 39 | **Carrying amount as at Dec. 31, 2013** | **Fair value as at Dec. 31, 2013** | Carrying amount as at Dec. 31, 2012 | Fair value as at Dec. 31, 2012 |
|---|---|---|---|---|---|
| Other investments | AfS | 7.9 | 7.9 | 6.9 | 6.9 |
| Derivative instruments and interest-bearing investments | | | | | |
| Derivative instruments accounted for as hedging instruments | n. a. | 3.0 | 3.0 | 6.1 | 6.1 |
| Derivative instruments not accounted for as hedging instruments | HfT | 30.0 | 30.0 | 260.7 | 260.7 |
| Available-for-sale financial assets | AfS | 257.8 | 257.8 | 178.9 | 178.9 |
| Other receivables with a financing character | LaR | 12.6 | 12.6 | 90.5 | 90.5 |
| Trade accounts receivable | LaR | 5,315.8 | 5,315.8 | 4,993.3 | 4,993.3 |
| Other financial assets | LaR | 381.2 | 381.2 | 345.6 | 345.6 |
| Cash and cash equivalents | | | | | |
| Cash and cash equivalents | LaR | 2,044.8 | 2,044.8 | 2,397.2 | 2,397.2 |
| Available-for-sale financial assets | AfS | 0.0 | 0.0 | 0.0 | 0.0 |
| **Financial assets** | | **8,053.1** | **8,053.1** | **8,279.2** | **8,279.2** |
| | | | | | |
| Indebtedness | | | | | |
| Derivative instruments not accounted for as hedging instruments | HfT | 13.7 | 13.7 | 11.4 | 11.4 |
| Finance lease liabilities | n. a. | 54.2 | 56.9 | 64.4 | 70.5 |
| Other indebtedness | FLAC | 6,569.6 | 6,757.5 | 8,177.5 | 8,412.4 |
| Trade accounts payable | FLAC | 4,596.3 | 4,596.3 | 4,344.6 | 4,344.6 |
| Other financial liabilities | FLAC | 1,464.2 | 1,463.6 | 1,420.0 | 1,419.3 |
| **Financial liabilities** | | **12,698.0** | **12,888.0** | **14,017.9** | **14,258.2** |
| | | | | | |
| Aggregated according to categories as defined in IAS 39: | | | | | |
| Financial assets held for trading (HfT) | | 30.0 | | 260.7 | |
| Loans and receivables (LaR) | | 7,754.4 | | 7,826.6 | |
| Available for sale (AfS) | | 265.7 | | 185.8 | |
| Financial liabilities held for trading (HfT) | | 13.7 | | 11.4 | |
| Financial liabilities measured at amortized cost (FLAC) | | 12,630.1 | | 13,942.1 | |

**Abbreviations**

- AfS, available for sale
- FLAC, financial liability at amortized cost
- HfT, held for trading
- LaR, loans and receivables

Financial instruments in the held for trading category are measured at fair value. Financial instruments in the available for sale category are also measured at fair value, unless this cannot be reliably measured, in which case the financial assets are measured at cost.

Cash and cash equivalents, trade accounts receivable, trade accounts payable and other financial assets and liabilities generally have short remaining maturities. As a result, the carrying amounts as at the end of the reporting period are, as a rule, approximately their fair values.

Derivative instruments that meet the requirements of hedge accounting are not allocated to any IAS 39 measurement category, since they are explicitly excluded from the individual measurement categories.

Derivative instruments for which hedge accounting is not applied are classified as financial assets and liabilities held for trading.

The fair values of other indebtedness and of finance lease liabilities were determined by discounting all future cash flows at the applicable interest rates for the corresponding residual maturities, taking into account a company-specific credit spread.

The total of the positive carrying amounts is equivalent to the maximum default risk of the Continental Corporation from financial assets.

The table below shows the fair values of financial assets and liabilities that are measured at fair value in accordance with IAS 39 on the one hand and the classes of financial instruments for which the fair value was calculated for comparison with the carrying amount on the other. It does not contain information on the fair value for financial assets and liabilities not measured at fair value if the carrying amount is an appropriate approximation of the fair value. 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, 2013 | Level 1 | Level 2 | Cost |
|---|---|---|---|---|---|
| Other investments | AfS | 7.9 | – | – | 7.9 |
| Available-for-sale financial assets | AfS | 257.8 | 247.2 | 10.6 | 0.0 |
| Derivative instruments accounted for as hedging instruments | n. a. | 3.0 | – | 3.0 | – |
| Derivative instruments not accounted for as hedging instruments | HfT | 30.0 | – | 30.0 | – |
| **Financial assets valued at fair value** | | **298.7** | **247.2** | **43.6** | **7.9** |
| Derivative instruments not accounted for as hedging instruments | HfT | 13.7 | – | 13.7 | – |
| **Financial liabilities valued at fair value** | | **13.7** | **–** | **13.7** | **–** |
| Finance lease liabilities | n. a. | 56.9 | – | 56.9 | – |
| Other indebtedness | FLAC | 6,757.5 | 3,095.1 | 2,259.0 | 1,403.4 |
| Other financial liabilities | FLAC | 1,463.6 | – | 13.2 | 1,450.4 |
| **Financial liabilities not valued at fair value** | | **8,278.0** | **3,095.1** | **2,329.1** | **2,853.8** |

| in € millions | | Dec. 31, 2012 | Level 1 | Level 2 | Cost |
|---|---|---|---|---|---|
| Other investments | AfS | 6.9 | – | – | 6.9 |
| Available-for-sale financial assets | AfS | 178.9 | 169.0 | 9.9 | 0.0 |
| Derivative instruments accounted for as hedging instruments | n. a. | 6.1 | – | 6.1 | – |
| Derivative instruments not accounted for as hedging instruments | HfT | 260.7 | – | 260.7 | – |
| **Financial assets valued at fair value** | | **452.6** | **169.0** | **276.7** | **6.9** |
| Derivative instruments not accounted for as hedging instruments | HfT | 11.4 | – | 11.4 | – |
| **Financial liabilities valued at fair value** | | **11.4** | **–** | **11.4** | **–** |
| Finance lease liabilities | n. a. | 70.5 | – | 70.5 | – |
| Other indebtedness | FLAC | 8,412.4 | 3,967.3 | 2,906.2 | 1,538.9 |
| Other financial liabilities | FLAC | 1,419.3 | – | 10.9 | 1,408.4 |
| **Financial liabilities not valued at fair value** | | **9,902.2** | **3,967.3** | **2,987.6** | **2,947.3** |

There are currently no financial assets or liabilities in the Continental Corporation which are measured according to level 3 of the fair value hierarchy.

There were no transfers between the different levels of the fair value hierarchy.

The net gains and losses by measurement category were as follows:

| | | From remeasurement | | | Net gains and losses | |
|---|---|---|---|---|---|---|
| in € millions | From interest | At fair value | Currency translation | Impairment losses | 2013 | 2012 |
| Loans and receivables | 22.8 | – | 24.1 | -22.0 | 24.9 | 2.9 |
| Available-for-sale financial assets | 6.3 | 4.2 | – | -0.1 | 10.4 | 5.3 |
| Financial assets and financial liabilities held for trading | – | -238.5 | – | – | -238.5 | 236.1 |
| Financial liabilities at amortized cost | -471.5 | – | 26.1 | – | -445.4 | -587.8 |
| **Net gains and losses** | **-442.4** | **-234.3** | **50.2** | **-22.1** | **-648.6** | **-343.5** |

Interest income and expense from financial instruments is reported in net interest expense (see Note 9). No interest income was generated from impaired financial assets.

The valuation allowance for loans and receivables essentially 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 available-for-sale financial assets that were recognized directly in equity amounted to €3.9 million (PY: €10.0 million) in the reporting year; €4.2 million (PY: €2.5 million) was taken from equity and recognized in profit or loss in 2013.

## Collateral

As at December 31, 2013, a total of €2,463.0 million (PY: €2,528.1 million) of financial assets had been pledged as collateral. As in the previous year, also in the year under review, collateral mainly consists of trade accounts receivable; the remainder relates to pledged cash or other financial assets. Trade accounts receivable sold under sale of receivables programs as well as the aforementioned collateral in the form of trade accounts receivable are shown in Note 20.

In January 2013 the syndicated loan last adjusted in 2011 was completely replaced by a new syndicated loan with a nominal amount of €4.5 billion. The new syndicated loan includes a term loan of €1.5 billion maturing in January 2016 and a revolving loan of nominally €3.0 billion maturing in January 2018.

The collateral package agreed with the banking syndicate at the time in 2011 was discontinued when the new syndicated loan agreement was concluded. A few selected subsidiaries still guarantee the new syndicated loan. No further collaterals were provided in this context. The guarantees from the subsidiaries are also participated in by the bondholders of the U.S. $950.0 million bond issued in September 2012 by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., as well as by the bondholders of the three bonds with a total volume of €2.25 billion that were issued in 2013 under the Debt Issuance Programme.

**Hedging policy and derivative instruments**

The international nature of its business activities and the resulting financing requirements mean that the corporation is exposed to exchange rate and interest rate fluctuations. Where foreign currency risks are not fully compensated by offsetting delivery and payment flows, exchange rate forecasts are constantly updated to ensure that risks can be hedged as necessary in individual cases using appropriate financial instruments. In addition, long and short-term interest rate movements are monitored continuously and controlled as required using derivative instruments. Thus, interest rate and currency derivative instruments allow debt to be accessed with any required interest and currency structure, regardless of the location at which the financing is required.

The use of hedging instruments is covered by corporate-wide policies, adherence to which is regularly reviewed by internal audit. Internal settlement risks are minimized through the clear segregation of functional areas.

**1. Currency management**

The international nature of the corporation's business activities results in deliveries and payments in various currencies. Currency exchange fluctuations involve the risk of losses because assets denominated in currencies with a falling exchange rate lose value, while liabilities denominated in currencies with a rising exchange rate become more expensive. At Continental the net exposure, calculated primarily by offsetting exports against imports in the individual currencies, is regularly recorded and measured. For many years now, the corporation has been using natural hedges to reduce currency risks so that the difference between receipts and payments in any one currency is kept as low as possible. Expected exchange rate developments are also monitored and analyzed accordingly. Exchange rate risks are hedged as necessary using appropriate financial instruments. Currency management sets tight limits for open positions and thus considerably reduces the risks from hedging activities. For hedging, it is allowed to use only those derivative instruments that can be reported and measured in the risk management system. Financial instruments that do not meet these criteria cannot be used at all. The corporation's net foreign investments are, as a rule, not hedged against exchange rate fluctuations.

**Operational foreign currency risk**

Continental compiles its subsidiaries' actual and expected foreign currency payments at a global level for currency management purposes. These amounts represent the corporation's transaction exposure and are measured as the net cash flow per currency on a trailing twelve-month basis. The foreign exchange and interest rate committee convenes on a weekly basis to review and initiate hedging measures. These must not exceed 30% of the twelve-month exposure per currency without the express permission of the Executive Board.

**Financial foreign currency risks**

In addition, currency risks also result from external and internal loan agreements that are denominated in a currency other than the functional currency of the respective subsidiary. As at December 31, 2013, the net exposure of the major currencies euro and U.S. dollar, including net investment in foreign business operations, amounted to -€140.8 million (PY: -€653.3 million) and €23.7 million (PY: -€38.3 million) respectively. These currency risks are generally hedged against through the use of derivative instruments, particularly currency forwards, currency swaps and cross-currency interest rate swaps.

**Sensitivity analysis**

IFRS 7 requires a presentation of the effects of hypothetical changes of currency prices on earnings and equity using a sensitivity analysis. The changes to the currency prices are related to all financial instruments outstanding as at the end of the reporting period. Forecast transactions are not included in the sensitivity analysis. To determine the transaction-related net foreign currency risk, the financial instruments are categorized according to foreign currency for this portfolio and a 10% appreciation or depreciation of the respective functional currency of the subsidiaries is assumed in relation to the foreign currency. The following table shows, before income taxes, the overall effect as measured using this approach, as well as the individual effects resulting from the euro and the U.S. dollar, as major transaction currencies, on the difference from currency translation and from financial instruments in equity and on net income.

| in € millions | 2013 Total equity[1] | 2013 Net income[1] | 2012 Total equity[1] | 2012 Net income[1] |
|---|---|---|---|---|
| **Local currency +10%** | | | | |
| **Total** | **85.7** | **-2.3** | **88.9** | **18.1** |
| thereof EUR | 51.4 | –10.5 | 51.4 | 33.1 |
| thereof USD | 34.3 | 12.9 | 37.5 | –2.5 |
| **Local currency –10%** | | | | |
| **Total** | **-85.7** | **2.3** | **-88.9** | **-18.1** |
| thereof EUR | –51.4 | 10.5 | –51.4 | –33.1 |
| thereof USD | –34.3 | –12.9 | –37.5 | 2.5 |

1 *Not including tax effects.*

### Effects of translation-related currency risk

A large number of the subsidiaries are located outside the euro currency zone. As Continental AG's reporting currency is the euro, the financial statements of these companies are translated into euro. In order to address translation-related currency effects as part of risk management, it is assumed that investments in foreign companies are entered into for the long term and that earnings are reinvested. Translation-related effects that arise when the value of net asset items translated into euro changes as a result of currency fluctuations are recognized outside profit or loss in the consolidated financial statements.

### 2. Interest rate management

Variable interest agreements pose the risk of rising interest rates for liabilities and falling interest rates for interest-bearing financial investments. These risks are monitored and evaluated as part of our interest rate management activities and managed by means of derivative interest rate hedging instruments as needed. 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 40% to 65% of gross interest-bearing debt at a fixed interest rate.

The corporation is not exposed to a risk of fluctuation in the fair value of long-term financial liabilities due to market changes in fixed interest rates as the lenders do not have the right to demand early repayment in the event of changing rates. If the corporation has the right to redeem instruments before maturity, such redemption is considered only if this is advantageous from the Continental Corporation's perspective.

### Interest rate risk

The profile of interest-bearing financial instruments allocated to net indebtedness, taking into account the effect of the Continental Corporation's derivative instruments, is as follows:

| in € millions | 2013 | 2012 |
|---|---|---|
| **Fixed-interest instruments** | | |
| Financial assets | 0.8 | 0.7 |
| Financial liabilities | –3,180.5 | –3,898.3 |
| | | |
| **Floating-rate instruments** | | |
| Financial assets | 2,314.4 | 2,665.9 |
| Financial liabilities | –3,443.3 | –4,343.6 |
| | | |
| **Fair value of derivative instruments** | | |
| Financial assets | 33.0 | 266.8 |
| Financial liabilities | –13.7 | –11.4 |
| | | |
| **Net indebtedness** | **–4,289.3** | **–5,319.9** |

In accordance with IFRS 7, effects of financial instruments on earnings and equity resulting from interest rate changes must be presented using a sensitivity analysis.

### Fair value sensitivity analysis

An increase in interest rates of 100 basis points in 2013 would have led to a decline in net interest expense of €8.4 million (PY: €71.5 million). €0.0 million (PY: €67.6 million) of this was due to changes in euro interest rates and €8.4 million (PY: €3.9 million) to the change in U.S. dollar interest rates.

A decline in interest rates of 100 basis points would have improved net interest expense by €26.2 million (PY: €68.6 million). €0.0 million (PY: €54.6 million) of this was due to changes in euro interest rates and €26.2 million (PY: €13.9 million) to the change in U.S. dollar interest rates.

These effects resulted primarily from the embedded early redemption options of the bonds. The changes in net interest expense compared to the previous year arising from euro interest rates are due to the exercise of redemption options for the bonds issued in 2010 by Conti-Gummi Finance B.V., Maastricht, Netherlands. This analysis assumes that interest rates cannot be lower than or equal to 0%. Tax effects have not been taken into account.

### Cash flow sensitivity analysis

An increase in interest rates of 100 basis points in 2013 would have led to a decline in net interest expense of €11.3 million (PY: €16.8 million), while a decline in interest rates of 100 basis points would have led to an improvement in net interest expense of €11.3 million (PY: €16.8 million). The effects essentially result from floating-rate financial instruments in the currencies euro, U.S. dollar, Chinese renminbi and South Korean won. This analysis is based on the assumption that all other variables, and in particular exchange rates, remain unchanged. The same assumption applied to 2012.

| in € millions | 2013 | 2012 |
|---|---|---|
| **Interest rate increase +100 basis points** | | |
| **Total** | **–11.3** | **–16.8** |
| thereof EUR | –20.9 | –26.0 |
| thereof CNY | 4.4 | 4.7 |
| thereof KRW | 0.7 | 1.6 |
| thereof USD | 1.6 | –0.9 |
| **Interest rate decline –100 basis points** | | |
| **Total** | **11.3** | **16.8** |
| thereof EUR | 20.9 | 26.0 |
| thereof CNY | –4.4 | –4.7 |
| thereof KRW | –0.7 | –1.6 |
| thereof USD | –1.6 | 0.9 |

## 3. Counterparty risk

Derivative instruments are subject to default risk to the extent that counterparties may not meet their payment obligations either in part or in full. To limit this risk, contracts are entered into with selected banks only. The development of contractual partners' creditworthiness is continuously monitored, particularly by monitoring the rating classifications and the market assessment of default risk using the respective credit default swap rates.

## 4. Liquidity risks

A liquidity forecast is prepared by central cash management on a regular basis.

Cost-effective, adequate financing is necessary for the subsidiaries' operating business. Various marketable financial instruments are used for this purpose. They comprise overnight money, term borrowing, the commercial paper issue, sale of receivables programs, the syndicated loan with a committed nominal amount of €4,500.0 million (PY: €4,637.1 million) and other bilateral loans. Furthermore, approximately 45% of gross indebtedness is financed on the capital market in the form of long-term bonds. Capital expenditure by subsidiaries is primarily financed through equity and loans from banks or subsidiaries. There are also cash-pooling arrangements with subsidiaries to the extent they are possible and justifiable in the relevant legal and tax situation. If events lead to unexpected financing requirements, Continental AG can draw upon existing liquidity and fixed credit lines from banks. For detailed information on the existing used and unused committed credit lines, please refer to Note 28.

The following undiscounted cash outflows result in the next five years and after from the financial liabilities of €12,698.0 million (PY: €14,017.9 million):

| Dec. 31, 2013, in € millions | 2014 | 2015 | 2016 | 2017 | 2018 | thereafter | Total |
|---|---|---|---|---|---|---|---|
| Other indebtedness incl. interest payments | –1,718.0 | –197.1 | –1,671.9 | –1,174.1 | –855.5 | –1,604.0 | **–7,220.6** |
| Derivative instruments[1] | –12.3 | — | — | — | — | — | **–12.3** |
| Finance lease liabilities | –10.1 | –8.6 | –12.2 | –10.3 | –5.9 | –19.1 | **–66.2** |
| Trade accounts payable | –4,596.3 | — | — | — | — | — | **–4,596.3** |
| Other financial liabilities | –1,448.0 | –7.3 | –2.7 | –2.7 | –2.7 | –0.8 | **–1,464.2** |

1 *Not including embedded derivative instruments as they do not give rise to cash outflows.*

| Dec. 31, 2012, in € millions | 2013 | 2014 | 2015 | 2016 | 2017 | thereafter | Total |
|---|---|---|---|---|---|---|---|
| Other indebtedness incl. interest payments[1] | –4,344.7 | –353.2 | –1,048.3 | –818.0 | –1,316.2 | –1,458.8 | **–9,339.2** |
| Derivative instruments[2] | –10.9 | — | — | — | — | — | **–10.9** |
| Finance lease liabilities | –10.6 | –9.8 | –9.5 | –9.1 | –18.9 | –24.7 | **–82.6** |
| Trade accounts payable | –4,344.6 | — | — | — | — | — | **–4,344.6** |
| Other financial liabilities | –1,406.9 | –2.2 | –4.6 | –2.1 | –2.1 | –2.1 | **–1,420.0** |

*1 Includes a drawdown from a credit line originally valid until 2014 with an amount of €2,483.0 million, which matured early in February 2013 due to renegotiation of the loan.*
*2 Not including embedded derivative instruments as they do not give rise to cash outflows.*

In the analysis, foreign currency amounts were translated using the spot exchange rate current as at the end of the reporting period into euro. For floating-rate non-derivative financial instruments, the future interest payment flows were forecast using the most recently contractually fixed interest rates. Forward interest rates were used to determine the floating rate payments for derivative instruments. The analysis only includes cash outflows from financial liabilities. The net payments are reported for derivative instruments that are liabilities as at the end of the reporting period. Cash inflows from financial assets were not accounted for.

The cash outflows in the maturity analysis are not expected to occur at significantly different reference dates or in significantly different amounts.

**Global netting agreements and similar agreements**
Continental AG concludes derivatives on the basis of the German Master Agreement on Financial Derivatives Transactions *(Deutscher Rahmenvertrag für Finanztermingeschäfte – DRV)* and on the basis of the Master Agreement of the International Swaps and Derivatives Association (ISDA). There is fundamentally the option to combine the amounts owed by each counterparty under such agreements on a single day in respect of all outstanding transactions in the same currency into a single net amount to be paid by one party to another. In certain cases – for example when a credit event such as a default occurs – all outstanding transactions under the agreement are ended, the fair value is calculated as at this time and just a single net amount is paid to settle all transactions.

The DRV and ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is due to the fact that Continental AG has no legal right to the netting of the amounts recognized at the current time. The right to netting can only be enforced when future events occur, such as the insolvency of a contractual party. Nor are there any possibilities of offsetting the amounts against hedging transactions concluded directly by subsidiaries.

The table below shows the carrying amounts of the financial instruments recognized that are subject to the agreements shown:

| in € millions | Carrying amounts gross | Amounts netted in accordance with IAS 32.42 | Carrying amounts net | Respective financial instruments not netted | Net amount |
|---|---|---|---|---|---|
| **Dec. 31, 2013** | | | | | |
| **Financial assets** | | | | | |
| Derivative instruments accounted for as hedging instruments | 3.0 | – | 3.0 | – | 3.0 |
| Derivative instruments not accounted for as hedging instruments | 3.9 | – | 3.9 | 1.9 | 2.0 |
| | **6.9** | **–** | **6.9** | **1.9** | **5.0** |
| **Financial liabilities** | | | | | |
| Derivative instruments accounted for as hedging instruments | – | – | – | – | – |
| Derivative instruments not accounted for as hedging instruments | 13.2 | – | 13.2 | 1.9 | 11.3 |
| | **13.2** | **–** | **13.2** | **1.9** | **11.3** |
| **Dec. 31, 2012** | | | | | |
| **Financial assets** | | | | | |
| Derivative instruments accounted for as hedging instruments | 6.1 | – | 6.1 | – | 6.1 |
| Derivative instruments not accounted for as hedging instruments | 6.0 | – | 6.0 | 0.9 | 5.1 |
| | **12.1** | **–** | **12.1** | **0.9** | **11.2** |
| **Financial liabilities** | | | | | |
| Derivative instruments accounted for as hedging instruments | – | – | – | – | – |
| Derivative instruments not accounted for as hedging instruments | 10.6 | – | 10.6 | 0.9 | 9.7 |
| | **10.6** | **–** | **10.6** | **0.9** | **9.7** |

## 5. Default risk

Credit risk from trade accounts receivable and financial receivables includes the risk that receivables will be collected late or not at all. These risks are analyzed and monitored by central and local credit managers. The responsibilities of the central credit management function also include pooled receivables risk management. Contractual partners' creditworthiness and payment history are analyzed on a regular basis. However, default risk cannot be excluded with absolute certainty, and any remaining risk is addressed by establishing portfolio valuation allowances on the basis of experience or charging impairment losses for specific individual risks. Default risk for non-derivative financial amounts receivable is also limited by ensuring that agreements are entered into with partners with proven creditworthiness only or that collateral is provided or trade credit insurance is agreed. Please see Note 20 for information on determining creditworthiness. Financial assets that are neither past due nor impaired accordingly have a prime credit rating.

Further information about risks and risk management can be found in the "Report on Risks and Opportunities" section of the Management Report.

### Measurement of derivative instruments

Derivative 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 at December 31, 2013, positive fair values of embedded derivatives amounted to €26.1 million (PY: €254.7 million) while negative fair values of embedded derivatives amounted to €0.5 million (PY: €0.8 million). The positive fair value essentially relates to the bond issued in September 2012 by Continental Rubber of America Corp., Wilmington, Delaware, U.S.A. The decline in positive fair values compared to the previous year is due to the early redemption of the bonds issued in 2010 by Conti-Gummi Finance B.V., Maastricht, Netherlands.

The options were measured using an option pricing model. A risk-free yield curve adapted to the credit risk of Continental AG was used. The volatility of the Continental AG refinancing rate was determined approximately using swaption volatilities. The recognized amortized costs of these bonds take into account the value calculated for the embedded options on issue.

The following overview shows the fair values and nominal values of the stand-alone derivative instruments as at the end of the reporting period:

| in € millions | Dec. 31, 2013 | | Dec. 31, 2012 | |
|---|---|---|---|---|
| **Fair value** | **Assets** | **Liabilities** | Assets | Liabilities |
| **Hedge of a net investment** | | | | |
| Currency forwards | 3.0 | – | 6.1 | – |
| **Other derivative instruments** | | | | |
| Cross-currency interest rate swaps | – | – | 0.6 | – |
| Currency swap/currency forwards | 3.9 | -13.2 | 5.4 | -10.6 |
| **Total fair value** | **6.9** | **-13.2** | **12.1** | **-10.6** |
| - thereof long-term | – | – | – | – |
| - thereof short-term | 6.9 | -13.2 | 12.1 | -10.6 |
| **Nominal values** | | | | |
| Hedge of a net investment | 173.8 | | 184.3 | |
| Cross-currency interest rate swaps | – | | 5.5 | |
| Currency swap/currency forwards | 1,019.8 | | 869.2 | |
| **Total of nominal values** | **1,193.6** | | **1,059.0** | |

In the case of highly effective and longer term hedges, Continental usually applies hedge accounting as set out in IAS 39.

In 2012 and 2013, the Continental Corporation designated currency swaps as hedging instruments in hedges of net investments in foreign operations. The currency swaps serve to hedge the currency risks of long-term, intragroup foreign currency loans that are classified as net investments in a foreign operation in accordance with IAS 21. The changes in the values of these loans due to exchange rates are offset by the recognition of changes in the value of the currency swaps in consolidated equity. A sensitivity analysis was performed to prospectively measure effectiveness. Effectiveness was demonstrated retrospectively using the dollar offset method by comparing the changes in the value of the hedging instruments with the changes in the value of the hedged transactions. The results of retrospective effectiveness testing fell within a range of 80% to 125%, meaning that the hedges used by the corporation could be considered highly effective. As at the end of 2013 and 2012, these hedges did not result in an ineffectiveness to be recognized in profit or loss.

## 30. Other Financial Liabilities

| | Dec. 31, 2013 | | | Dec. 31, 2012 | | |
|---|---|---|---|---|---|---|
| **in € millions** | **Total** | **Current** | **Non-current** | Total | Current | Non-current |
| Liabilities to related parties | **153.8** | 153.3 | 0.5 | **119.2** | 118.7 | 0.5 |
| Interest payable | **41.3** | 41.3 | – | **96.5** | 96.5 | – |
| Liabilities for payroll and personnel related costs | **639.3** | 639.3 | – | **620.8** | 620.8 | – |
| Liabilities for selling expenses | **567.7** | 567.7 | – | **511.3** | 511.3 | – |
| Termination benefits | **14.0** | 14.0 | – | **18.6** | 18.6 | – |
| Purchase prices payable on company acquisitions | **24.0** | 21.5 | 2.5 | **22.3** | 19.8 | 2.5 |
| Other liabilities | **24.1** | 10.9 | 13.2 | **31.3** | 21.2 | 10.1 |
| **Other financial liabilities** | **1,464.2** | **1,448.0** | **16.2** | **1,420.0** | **1,406.9** | **13.1** |

The liabilities to related parties relate in particular to liabilities to associates for services provided. The clear rise results from a corporation company formed in 2010 that sources significant portions of its merchandise from an at-equity accounted investee.

Interest liabilities at the end of 2013 are mainly due to deferred interest for the bonds issued. Above all, the decline compared to the end of 2012 results from the early redemption of the euro bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, in 2010 with a nominal volume of €3.0 billion and their partial refinancing by the issue of three new euro bonds with a nominal volume of €2.25 billion with considerably better interest rates.

Liabilities for selling expenses relate in particular to obligations from bonus agreements with customers and deferred price reductions granted.

The purchase price obligations from company acquisitions essentially include a liability from a call option for non-controlling interests in a corporation company in the amount of €21.5 million.

The other financial liabilities also include an amount of €13.8 million (PY: €11.7 million) representing an obligation to Chase Community Equity, LLC, Delaware, U.S.A., a subsidiary of JP Morgan Chase Bank, N.A., New York, New York, U.S.A., in connection with greenfield project and plant expansion investments.

The Continental value sharing bonus is a program allowing Continental employees to share in net income. The amount of profits shared is calculated on the basis of key internal figures. A provision of €107.8 million (PY: €90.1 million) was recognized in liabilities for staff costs for the period under review.

Liabilities for staff costs also include the long-term incentive plans:

- 2010 long-term incentive plan
- 2011 long-term incentive plan
- 2012 long-term incentive plan
- 2013 long-term incentive plan

**2009 long-term incentive plan**
In 2009, senior executives of the Continental Corporation were granted a long-term incentive (LTI) bonus which depends on their job grade and their degree of target achievement. This bonus is intended to allow for participation in the long-term, sustainable increase in the corporation's value and profitability.

The LTI plan is issued in annual tranches (LTI tranches). Tranche 2009/13, with a term of four years, was issued in 2009. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2009/13 tranche was resolved on July 20, 2009.

For each beneficiary of an LTI tranche, the Executive Board of Continental AG specifies the amount of a target bonus in euro to be paid out upon 100% target achievement. The actual LTI bonus paid out on expiry of the LTI tranche depends on the degree of target achievement which can lie between 0% (no payment) and 300% (maximum payment). The degree of achievement of two target criteria is decisive for the payment and amount of the LTI bonus. The first target criterion consists of the weighted average of the Continental Value Contribution (CVC) of the Continental Corporation over a period of four fiscal years, 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 second target criterion comprises the ratio of free cash flow in the Continental Corporation (FCF) to consolidated sales. The key variable for measuring this target criterion is based on the last full fiscal year prior to expiry of the respective LTI tranche. The degree of target achievement for both target criteria can lie between 0% and 300%. The key variables for determining the degree of target achievement are defined for each target criterion upon issue of an LTI tranche. The ultimate degree of target achievement used to calculate the LTI bonus to be paid out is determined through the addition of the two equally weighted target criteria. The basis for calculating the LTI bonus comprises the individual bonus amount in the event of 100% target achievement promised upon issue of an LTI tranche. The LTI bonus is paid as a gross one-off payment normally at the end of the second full calendar month following expiry of the LTI tranche at the latest but not before the end of July.

After the expiry of the 2009/13 LTI tranche in July 2013, the bonus was paid out by utilizing the provision in September 2013.

**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, and its basic features are the same as the 2009 LTI plan.

**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, and its basic features are the same as the 2009 LTI plan.

**2012 long-term incentive plan**
Tranche 2012/16, with a term of four years, was issued in 2012. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2012/16 tranche was resolved on July 6, 2012, and its basic features are the same as the 2009 LTI plan.

**2013 long-term incentive plan**
Tranche 2013/17, with a term of four years, was issued in 2013. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2013/17 tranche was resolved on June 24, 2013, and its basic features are the same as the 2009 LTI plan.

All LTI plans granted so far are classified and assessed as "other long-term employee benefits" under IAS 19.

From this fiscal year, the costs of long-term incentive plans will be recognized in the respective function costs, while in the previous year they were reported in other operating expenses. Total expenses for the above long-term incentive plans amounted to €27.3 million (PY: €22.8 million).

## 31. Trade Accounts Payable

Trade accounts payable amounted to €4,596.3 million (PY: €4,344.6 million) as at the end of the fiscal year. The liabilities are measured at amortized cost. The full amount is due within one year.

The liabilities do not include any amounts from the percentage-of-completion method. For information on liquidity risk, currency risk and the sensitivity analysis for trade accounts payable, please see Note 29.

## 32. Other Liabilities

| | Dec. 31, 2013 | | | Dec. 31, 2012 | | |
|---|---|---|---|---|---|---|
| **in € millions** | **Total** | **Current** | **Non-current** | Total | Current | Non-current |
| Liabilities for workers' compensation | **60.7** | 30.6 | 30.1 | **66.2** | 34.4 | 31.8 |
| Liabilities for social security | **134.8** | 134.8 | – | **133.7** | 133.7 | – |
| Liabilities for vacation | **129.6** | 129.6 | – | **131.7** | 131.7 | – |
| Liabilities for VAT and other taxes | **196.2** | 196.2 | – | **199.3** | 199.3 | – |
| Deferred income | **78.7** | 69.9 | 8.8 | **86.8** | 67.4 | 19.4 |
| Others | **210.1** | 206.8 | 3.3 | **186.2** | 184.7 | 1.5 |
| **Other liabilities** | **810.1** | **767.9** | **42.2** | **803.9** | **751.2** | **52.7** |

Deferred income includes advance payments by customers for deliveries of goods and for research and development work outstanding and for tools purchases. Government grants are also reported here.

## 33. Liabilities Held for Sale

No liabilities were reclassified to business operations held for sale in the year under review. In the comparison period, €0.8 million in liabilities held for sale for a disposal group were reported, and were disposed of in 2013.

# Other Disclosures

## 34. Litigation and Compensation Claims

Continental AG and its subsidiaries are involved in lawsuits and regulatory investigations and proceedings worldwide. Such lawsuits, investigations and proceedings could also be initiated or claims asserted in other ways in the future.

**Product liability**
In particular, Continental is constantly subject to product liability and other claims in which the company could be accused of the alleged infringement of its duty of care, violations against warranty obligations or defects of material or workmanship, as well as to claims from alleged breaches of contract, or on account of product recalls or government proceedings. These 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 transfer 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 transfer agreement and the conversion ratio established in the merger agreement, ordering ContiTech AG to make additional payments. Continental is still of the opinion that the 2004 valuation of Phoenix AG and ContiTech AG was appropriate and that the compensation and settlement under the management and profit and loss transfer agreement as well as the conversion ratio in the merger agreement were established correctly. Appeals have therefore been filed. However, an increase in the amounts paid to the minority shareholders after the end of these proceedings cannot be ruled out.

The actions of rescission and nullification by shareholders of ContiTech AG against resolutions adopted at the Annual Shareholders' Meeting of the company on August 22, 2007, regarding the approval of the conclusion of a management and profit and loss transfer agreement between this company as the controlled company and ContiTech-Universe Verwaltungs-GmbH as the controlling company and regarding the squeeze-out of minority shareholders were concluded in 2009 by a dismissal which is final. Partial settlement agreements were entered in the records of the Hanover Regional Court *(Landgericht)* on May 2 and July 12, 2012, in the judicial review proceedings regarding the appropriateness of the settlement and compensation payment under the management and profit and loss transfer agreement and the settlement for the squeeze-out. Under these settlements, a payment of €3.50 plus interest per share on top of the exit compensation under the management and profit and loss transfer agreement was agreed, as was – merely declaratory – a higher compensatory payment under the management and profit and loss transfer agreement on account of the squeeze-out. In October 2012, the Hanover Regional Court had awarded additional payments of the same amount. Upon appeals by a few petitioners, the Celle Higher Regional Court *(Oberlandesgericht)* revoked the rulings on July 17, 2013, and remanded the matter to the Regional Court for a new hearing and ruling.

**Regulatory proceedings**
In 2007, the European Commission and the U.S. Department of Justice (DOJ) initiated investigations into antitrust behavior in the marine hose market. The European Commission found Continental AG, ContiTech AG and Dunlop Oil & Marine Limited (DOM) liable – among other companies – for infringements of antitrust law. The proceedings of the European Commission and the DOJ, and of the authorities in other countries (Brazil, Japan, Australia, South Korea and Canada) against DOM for violations of their respective national antitrust law have since all been concluded or, as in the case of Canada, will not be pursued further. Customers and other third parties have claimed damages from DOM on account of its involvement in the marine hose cartel. Class actions in the U.S.A. were settled. A pending claim for damages brought before the British High Court was also settled, as were several claims made out of court. However, further claims in the U.K. or other countries cannot be ruled out.

In May 2005, the Brazilian antitrust authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Industria Automotiva Ltda., Guarulhos, Brazil (CBIA), following a complaint by a third party of alleged anticompetitive behavior in the area of the commercialization of tachographs. On August 18, 2010, the Brazilian competition authorities determined an "invitation to cartel" and imposed a fine of BRL 12 million (around €3.7 million) on CBIA, which was then reduced to BRL 10.8 million. CBIA refutes the accusation. The court of first instance appealed to by CBIA initially upheld the ruling of the competition authorities. However, on further appeal of CBIA, the court of second instance annulled the ruling and remanded the matter. In addition, third parties may claim damages from CBIA in case of an 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.) Ltd., Port Elizabeth (CTSA), a company that is meanwhile wholly owned by Continental. On August 31, 2010, the South African antitrust authorities came to the conclusion that CTSA and other companies had violated South African antitrust law and referred the matter to the competent Competition Tribunal for a decision. CTSA denies all allegations of infringements of South African antitrust law. However, the tribunal could impose a fine of up to 10% of CTSA's sales. In addition, third parties may claim damages from CTSA in case of an 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 anti-competitive behavior in tachograph business. After investigation by the antitrust authorities, the Basque antitrust court sentenced CAS to a fine of €700,000 on January 20, 2010. On appeal by CAS, the Basque High Court reduced the fine to €150,000 on December 20, 2011. A third party has claimed damages.

On February 24, 2010, the European Commission conducted searches at several companies that manufacture wiring harnesses for automotive purposes, including S-Y Systems Technologies Europe GmbH (S-Y), Regensburg, Germany. Continental held a 50% share of S-Y Systems Technologies Europe GmbH, Regensburg, Germany, until January 29, 2013. On July 10, 2013, the European Commission imposed fines on a number of automotive suppliers for anti-competitive conduct in the field of supplying wire harnesses for automotive applications. These companies included S-Y and its French subsidiary, which must pay a fine of €11.1 million due to cartel agreements with regard to one automotive manufacturer.

On October 24, 2012, Continental Automotive Systems US, Inc., Auburn Hills, Michigan, U.S.A., received a subpoena from the U.S. DOJ to submit certain documents in connection with the suspected involvement in violations of U.S. antitrust law in the instrument cluster business. On October 25, 2012, the South Korean antitrust authorities (Korea Fair Trade Commission, KFTC) searched Continental Automotive Korea Ltd., Seongnam-si, South Korea, and Continental Automotive Electronics LLC, Bugan-myeon, South Korea (CAE), in connection with the suspected involvement in violations of South Korean antitrust law. On December 23, 2013, the KFTC announced that it fined CAE and one other automotive supplier for violations of antitrust law in the instrument cluster business. The fine amounts to KRW 45,992 million (around €32 million). CAE is considering an appeal. It remains to be seen whether and in what amount the DOJ will impose fines on Continental Automotive Systems US, Inc., or other companies in the corporation. The DOJ can impose a maximum fine of U.S. $100 million unless this amount is exceeded by double the company's profits or the losses suffered by customers of the cartel. Claims for damages by alleged victims would remain unaffected by any fines imposed.

**Industrial tribunal proceedings**

A large number of employees at Continental France SNC, Sarreguemines, France, had filed claims at industrial tribunals in Compiègne and Soissons, France, against this corporation company and, in some cases, against Continental AG as well. The plaintiffs seek damages in connection with the cessation of passenger tire production at the plant in Clairoix, France. On August 30, 2013, the industrial tribunal in Compiègne ordered Continental France SNC and Continental AG to pay damages for the allegedly unlawful dismissal of employees. Continental still considers the plaintiffs' claims to be unfounded and has appealed the tribunal's ruling. However, we cannot rule out the possibility that the obligation to pay damages may be upheld in full or in part after the final resolution of the proceedings.

## 35. Contingent Liabilities and Other Financial Obligations

| in € millions | Dec. 31, 2013 | Dec. 31, 2012 |
|---|---|---|
| Liabilities on guarantees | 61.2 | 78.3 |
| Liabilities on warranties | 3.4 | 9.4 |
| Other financial obligations | 78.6 | 110.3 |
| Other contingent liabilities | 9.4 | 8.7 |
| **Contingent liabilities and other financial obligations** | **152.6** | **206.7** |

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 €25.6 million (PY: €27.3 million). To the best of our knowledge, the underlying obligations will be fulfilled in all cases. Utilization is not anticipated.

The other financial obligations relate in part to the acquisition of companies now owned by the corporation and to UEFA and FIFA sponsorship.

The Continental Corporation could be subject to obligations relating to environmental issues under governmental laws and regulations, or as a result of various claims and proceedings that are pending or that might be made or initiated against it. Estimates of future expenses in this area are naturally subject to many uncertainties, such as the enactment of new laws and regulations, the development and application of new technologies and the identification of contaminated land or buildings for which the Continental Corporation is legally liable.

Open purchase commitments for property, plant and equipment amounted to €271.2 million (PY: €245.1 million).

In 2013, expenses for operating leases and rental agreements amounted to €171.5 million (PY: €143.2 million).

Future liabilities relating to operating leases and rental agreements with an original or remaining term of more than one year as at December 31, 2013, for which the corporation is not the beneficial owner, and for which the related assets are therefore not recognized as property, plant and equipment, are shown in the table below for 2014 and cumulatively for the years 2015 through 2018, and likewise cumulatively from 2019:

| Dec. 31, 2013, in € millions | 2014 | 2015–2018 | from 2019 |
|---|---|---|---|
| Operating leases and rental agreements | 196.0 | 359.3 | 140.0 |

| Dec. 31, 2012, in € millions | 2013 | 2014–2017 | from 2018 |
|---|---|---|---|
| Operating leases and rental agreements | 171.5 | 337.4 | 128.9 |

## 36. Earnings per Share

Basic earnings per share rose to €9.62 in 2013 (PY: €9.53), 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 | 2013 | 2012 |
|---|---|---|
| Net income attributable to the shareholders of the parent | 1,923.1 | 1,905.2 |
| Weighted average number of shares issued | 200.0 | 200.0 |
| **Earnings per share in €** | **9.62** | **9.53** |

## 37. Events after the End of the Reporting Period

**Contracts for the acquisition of Veyance Technologies signed**

On February 10, 2014, an agreement was reached with The Carlyle Group, Washington D.C., U.S.A., regarding the purchase of Veyance Technologies, Inc., Fairlawn, Ohio, U.S.A., for approximately €1.4 billion. Completion of the acquisition is subject to the approval of the respective antitrust authorities. Veyance operates globally in the field of rubber and plastics technology. It posted sales in 2013 of approximately €1.5 billion, 90% of which was generated in the industrial business. At the end of 2013, it had a workforce of about 9,000 employees in its 27 plants worldwide. Conveyor belts, hoses, power transmission belts, and air spring systems are the focus of its product range.

The acquisition should strengthen in particular the Conveyor Belt Group, Fluid Technology, Power Transmission Group, and Air Spring Systems business units of the ContiTech division in regions where ContiTech has little or no representation. With the additional business in markets such as the U.S.A. and South America, but also in Mexico, Canada, China, Australia, and South Africa, ContiTech will in the future achieve some 60% of its sales with customers outside of the automotive original equipment sector. Continental has thus moved a step closer to its strategic goal of further increasing the share of its sales derived from industrial clients and the aftermarket.

The combined sales of ContiTech and Veyance amounted to approximately €5.4 billion in 2013, with employees totaling about 39,000 worldwide.

## 38. Auditor’s Fees

For fiscal 2013, a global fee of €8.6 million (PY: €9.0 million) was agreed for the audit of the consolidated financial statements and the separate 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.

The following fees relate only to services directly connected with Continental AG and its German subsidiaries:

| in € millions | 2013 | 2012 |
|---|---|---|
| Audit of financial statements | 3.0 | 2.9 |
| Other assurance services | 1.1 | 1.9 |
| thereof assurance services in connection with bond issues[1] | 0.1 | 0.2 |
| thereof insurance fees in connection with bond issues[1] | – | 0.9 |
| Tax advisory services | 0.1 | 0.1 |
| Other services provided to the parent company or its subsidiaries | 0.1 | 0.0 |
| **Total** | **4.3** | **4.9** |

1 *These amounts essentially relate to the directly attributable costs in connection with the issue of the bonds in accordance with IAS 32.37. These are included in the cost of the bonds and recognized in profit or loss over their term.*

KPMG AG Wirtschaftsprüfungsgesellschaft and its registered branches are deemed the auditor.

## 39. Transactions with Related Parties

**Remuneration of the Executive Board and the Supervisory Board**
The remuneration of the corporation's key management personnel that must be disclosed in accordance with IAS 24 comprises the remuneration of the active members of the Executive Board and the Supervisory Board.

The remuneration of the active members of the Executive Board in the respective years was as follows:

| in € thousands | 2013 | 2012 |
|---|---|---|
| Short-term benefits | 10,449 | 9,583 |
| Service cost relating to post-employment benefits[1] | 4,965 | 3,964 |
| Share-based payment | 20,917 | 10,434 |
| Long-term incentive plan | 5,089 | – |
| **Total** | **41,420** | **23,981** |

*1 Including past service cost resulting from the plan amendment.*

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, which supplements the Corporate Governance Report and is part of the joint management report with the Continental Corporation.

The total remuneration granted to the Executive Board of Continental AG in 2013 amounted to €21.7 million (PY: €14.7 million). That total remuneration also includes a newly granted long-term incentive plan totaling €5.1 million (PY: – ) and the long-term component of variable remuneration totaling €6.1 million (PY: €5.1 million), which is converted into virtual shares of the company. In 2013, this resulted in the long-term component for 2012 being converted into 55,563 virtual shares.

Moreover, former members of the Executive Board and their surviving dependents received payments totaling €5.3 million (PY: €5.4 million). Provisions for pension obligations for former members of the Executive Board and their surviving dependents amounted to €97.2 million (PY: €103.6 million).

No payments were made to members of the Executive Board on termination of employment contracts in the year under review or the previous reporting period.

Remuneration paid to the members of Continental AG's Supervisory Board, including meeting fees, totaled €3.7 million in the past fiscal year (PY: €3.1 million).

As in 2012, no advances or loans were granted to members of Continental AG's Executive Board or Supervisory Board in 2013.

Transactions with related parties other than subsidiaries:

| in € millions | 2013 | 2012 |
|---|---|---|
| Income | 150.6 | 123.6 |
| Expenses | 116.8 | 111.1 |

Income, mainly from sales, and expenses, mainly from product and material procurement, resulting from transactions between subsidiaries and related parties are attributable solely to the ordinary business activities of the respective company and were conducted on an arm's length basis. The corresponding receivables from and liabilities to these companies are reported in the statement of financial position.

Please refer to Note 25 regarding transactions with Continental Pension Trust e. V. in the year under review.

The transactions with the Schaeffler Group in the reporting year are attributable to ordinary business activities and were concluded on an arm's length basis. The income in the reporting year of €49.1 million (PY: €34.4 million) and expenses totaling €94.0 million (PY: €91.2 million) are both included in the transactions with related parties.

**Investment agreement**

On August 20, 2008, Continental AG entered into a far-reaching investment agreement with Schaeffler KG, Mrs. Maria-Elisabeth Schaeffler and Mr. Georg F. W. Schaeffler. It is an agreement that contains comprehensive provisions to safeguard the interests of Continental AG, its shareholders, employees and customers. Former German Chancellor Dr. Gerhard Schröder is the guarantor for the Schaeffler Group's compliance with its obligations in the interest of all Continental AG stakeholders. The legal successor of Schaeffler KG (now "Schaeffler Holding GmbH & Co. KG") is Schaeffler AG, which was Schaeffler GmbH until October 13, 2011. Economically effective retroactively to January 1, 2010, Schaeffler Holding had transferred its holding in Continental AG and the contractual relationship to what is now Schaeffler AG through Schaeffler Verwaltungs GmbH by way of spin-off in accordance with Section 123 (3) No. 1 of the German Transformation Act *(Umwandlungsgesetz – UmwG)*. In the meantime, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG hold the Schaeffler Groups investment in Continental AG and have acceded to the investment agreement. According to the information provided, the Schaeffler Group's equity investment as at September 17, 2013, still amounted to 46.0% of the shares in Continental AG. On May 13, 2013, Mrs. Schaeffler, Mr. Schaeffler, Schaeffler Verwaltungs GmbH, Schaeffler Beteiligungsholding GmbH & Co. KG and Schaeffler AG gave notice of termination on the investment agreement, effective May 13, 2014.

**Notices in Accordance with the German Securities Trading Act (*Wertpapierhandelsgesetz – WpHG)***

From the start of the fiscal year to the time of the preparation of the financial statements, we received the following notifications in accordance with Section 21 (1) *WpHG* on holdings in Continental AG. In the event of the limits stated in this provision being reached, exceeded or fallen below on multiple occasions by the same party, only the most recent notification has been shown here. Notifications from earlier fiscal years about the existence of voting rights shares of at least 3% are still disclosed as at the end of the reporting period.

By way of letter dated May 16, 2013, we received notification that the share of voting rights in Continental AG held by Commerzbank Aktiengesellschaft, Frankfurt am Main, Germany, exceeded the threshold of 3% on May 10, 2013, and amounted to 4.74% (9,488,166 voting rights) at this time. 0.01% of the voting rights (16,422 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 6 *WpHG*.

Commerzbank Aktiengesellschaft, Frankfurt am Main, Germany, also notified us on May 24, 2013, that its share of voting rights in Continental AG fell below the threshold of 3% on May 23, 2013, and amounted to 0.01% (26,268 voting rights) at this time. 0.01% of the voting rights (16,422 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 6 *WpHG*.

By way of letter dated October 1, 2012, we received notification that:

› the share of voting rights in Continental AG held by BR Jersey International Holdings L.P., St. Helier, Jersey, Channel Islands, exceeded the threshold of 3% of voting rights on September 25, 2012, and amounted to 3.08% (6,160,762 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

› the share of voting rights in Continental AG held by BlackRock International Holdings, Inc., New York, NY, U.S.A., exceeded the threshold of 3% of voting rights on September 25, 2012, and amounted to 3.08% (6,160,762 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

› the share of voting rights in Continental AG held by BlackRock Advisors Holdings, Inc., New York, NY, U.S.A., exceeded the threshold of 3% of voting rights on September 25, 2012, and amounted to 3.15% (6,309,605 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

By way of letter dated October 3, 2012, we received notification that the share of voting rights in Continental AG held by BlackRock Group Limited, London, U.K., exceeded the threshold of 3% of voting rights on September 27, 2012, and amounted to 3.42% (6,846,998 voting rights) on this date. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

On October 30, 2012, we received notification that:

› the share of voting rights in Continental AG held by BlackRock, Inc., New York, NY, U.S.A., exceeded the threshold of 5% of voting rights on October 24, 2012, and amounted to 5.09% (10,181,131 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

› the share of voting rights in Continental AG held by BlackRock Holdco 2, Inc., Wilmington, Delaware, U.S.A., exceeded the threshold of 5% of voting rights on October 24, 2012, and amounted to 5.01% (10,022,107 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock Financial Management, Inc., New York, NY, U.S.A., exceeded the threshold of 5% of voting rights on October 24, 2012, and amounted to 5.01% (10,022,107 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

On October 6, 2011, we received notification that:

- the share of voting rights in Continental AG held by Schaeffler Beteiligungsholding GmbH & Co. KG, Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time.
- the share of voting rights in Continental AG held by Schaeffler Familienholding Drei GmbH & Co. KG, Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- the share of voting rights in Continental AG held by Schaeffler Familienholding Zwei GmbH, Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- the share of voting rights in Continental AG held by Schaeffler Familienholding Eins GmbH, Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- the share of voting rights in Continental AG held by Schaeffler GmbH, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- the share of voting rights in Continental AG held by Schaeffler Verwaltungs GmbH, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. 36.14% of these shares (72,290,458 voting rights) are attributed to Schaeffler Verwaltungs GmbH in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- the share of voting rights in Continental AG held by Schaeffler Holding GmbH & Co. KG, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- the share of voting rights in Continental AG held by Schaeffler Management GmbH, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- the share of voting rights in Continental AG held by INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- the share of voting rights in Continental AG held by Schaeffler Holding LP, Dallas, Texas, U.S.A., remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- the share of voting rights in Continental AG held by Mrs. Maria-Elisabeth Schaeffler, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- the share of voting rights in Continental AG held by Mr. Georg F. W. Schaeffler, U.S.A., remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

On September 17, 2013, our major shareholder, the Schaeffler Group, Herzogenaurauch, Germany, announced the sale of 7.8 million Continental shares and thus reduced its shareholding in Continental AG from 49.9% to 46.0%.

In 2013 and until February 11, 2014, inclusively, the members of the Executive Board held shares representing a total interest of less than 1% of the share capital of the company. Shares representing 46.0% of the share capital of the company were attributable to the members of the Supervisory Board Mrs. Maria-Elisabeth Schaeffler and Mr. Georg F. W. Schaeffler. In 2013 and until February 11, 2014, inclusively, the other members of the Supervisory Board held shares representing a total interest of less than 1% of the share capital of the company.

## 40. List of Shareholdings of the Corporation

Further information on equity investments can be found in the list of the corporation's shareholdings in accordance with Section 313 of the German Commercial Code *(Handelsgesetzbuch – HGB)*, which is published as part of the consolidated financial statements in the electronic German Federal Gazette *(elektronischer Bundesanzeiger)*. The consolidated financial statements with the list of the corporation's shareholdings are also made available for inspection by the shareholders in the business premises at the company's headquarters from the date on which the Annual Shareholders' Meeting is convened, and from that point in time are available together with the additional documents and information in accordance with Section 124a of the German Stock Corporation Act *(Aktiengesetz – AktG)* online at www.continental-ir.com.

**Statutory exemption provisions applying to German companies**

The following German companies and partnerships utilized the exemption provisions of Section 264 (3) *HGB* and Section 264b *HGB*:

| Company | Registered office |
|---|---|
| ADC Automotive Distance Control Systems GmbH | Lindau |
| Alfred Teves Beteiligungsgesellschaft mbH | Frankfurt am Main |
| Babel Grundstücksverwaltungsgesellschaft mbH | Schwalbach am Taunus |
| Benecke-Kaliko AG | Hanover |
| Beneform GmbH | Peine |
| CAS München GmbH | Hanover |
| CAS-One Holdinggesellschaft mbH | Hanover |
| Conseo GmbH | Hamburg |
| Conti Temic microelectronic GmbH | Nuremberg |
| Conti Versicherungsdienst Versicherungsvermittlungsges. mbH | Hanover |
| Continental Aftermarket GmbH | Eschborn |
| Continental Automotive GmbH | Hanover |
| Continental Automotive Grundstücksges. mbH | Frankfurt am Main |
| Continental Automotive Grundstücksvermietungsges. mbH & Co. KG | Frankfurt am Main |
| Continental Caoutchouc-Export-GmbH | Hanover |
| Continental Engineering Services & Products GmbH | Ingolstadt |
| Continental Engineering Services GmbH | Frankfurt am Main |
| Continental Finance GmbH | Hanover |
| Continental Mechanical Components Germany GmbH | Roding |
| Continental Reifen Deutschland GmbH | Hanover |
| Continental Safety Engineering International GmbH | Alzenau |
| Continental Teves AG & Co. oHG | Frankfurt am Main |
| Continental Trading GmbH | Schwalbach am Taunus |
| ContiTech AG | Hanover |
| ContiTech Antriebssysteme GmbH | Hanover |
| ContiTech Elastomer-Beschichtungen GmbH | Hanover |
| ContiTech Kühner Beteiligungsgesellschaft mbH | Hanover |
| ContiTech Kühner GmbH & Cie. KG | Oppenweiler |
| ContiTech Luftfedersysteme GmbH | Hanover |
| ContiTech MGW GmbH | Hannoversch Münden |
| ContiTech Schlauch GmbH | Hanover |
| ContiTech Techno-Chemie GmbH | Karben |
| ContiTech Transportbandsysteme GmbH | Hanover |
| ContiTech Verwaltungs-GmbH | Hanover |
| ContiTech Vibration Control GmbH | Hanover |
| ContiTech-Universe Verwaltungs-GmbH | Hanover |

| Company | Registered office |
|---|---|
| Correx Handelsgesellschaft für Kautschukprodukte mbH | Hanover |
| Eddelbüttel & Schneider GmbH | Hamburg |
| eStop GmbH | Schwalbach am Taunus |
| Formpolster GmbH | Hanover |
| Gerap Grundbesitz- und Verwaltungsgesellschaft mit beschränkter Haftung | Frankfurt am Main |
| Göppinger Kaliko GmbH | Eislingen |
| IDM GmbH Industriesensoren | Lindau |
| IPM GmbH Informationen Prozesse Menschen (i.L.) | Hamburg |
| Max Kammerer GmbH | Frankfurt am Main |
| OTA Grundstücks- und Beteiligungsverwaltung GmbH | Frankfurt am Main |
| Phoenix Beteiligungsgesellschaft mbH | Hamburg |
| Phoenix Compounding Technology GmbH | Hamburg |
| Phoenix Conveyor Belt Systems GmbH | Hamburg |
| Phoenix Fluid Handling Industry GmbH | Hamburg |
| Phoenix Industrieanlagen Verwaltungs GmbH (i.L.) | Hamburg |
| Phoenix Sechste Verwaltungsgesellschaft mbH | Hamburg |
| Phoenix Service GmbH & Co. KG | Hamburg |
| Phoenix Vermögensverwaltungsgesellschaft mbH | Hamburg |
| REG Reifen-Entsorgungsgesellschaft mbH | Hanover |
| STEINEBRONN BETEILIGUNGS-GMBH | Oppenweiler |
| TEMIC Automotive Electric Motors GmbH | Berlin |
| UMG Beteiligungsgesellschaft mbH | Hanover |
| Union-Mittelland-Gummi-GmbH & Co. Grundbesitz KG | Hanover |
| Vergölst GmbH | Bad Nauheim |

## 41. German Corporate Governance Code/Declaration in Accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz)*

The declaration required in accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz)* was issued by the Executive Board and the Supervisory Board in December 2013, and is available to our shareholders on the following website: www.continental-corporation.com in the Investor Relations section under Corporate Governance.

# Further Information ›

# 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 11, 2014

Continental AG
The Executive Board

# Other Directorships – The Executive Board

**List of the positions held by the Executive Board members on statutory supervisory boards and on comparable controlling bodies of companies in Germany and abroad in accordance with Section 285 No. 10 of the German Commercial Code *(Handelsgesetzbuch – HGB)*:**

**Companies with no country specified are located in Germany.**

**Dr. Elmar Degenhart**
**Chairman**
**Corporate Communications**
**Corporate Quality and Environment**
**Continental Business System**
**Automotive Central Functions**
ContiTech AG, Hanover* (Chairman)

**José A. Avila**
**Powertrain Division**
Emitec Gesellschaft für Emissionstechnologie mbH, Lohmar (Member of the Board of Directors);
Continental Automotive France SAS, Toulouse, France*;
SK Continental E-motion Pte. Ltd., Singapore, Singapore*

**Dr. Ralf Cramer**
**Chassis & Safety Division (until July 31, 2013)**
**President & CEO China (since August 1, 2013)**
Continental Automotive Changchun Co., Ltd., Changchun, China* (Chairman);
Continental Automotive Corporation, Yokohama, Japan*;
Continental Automotive, Inc., Wilmington, Delaware, U.S.A.*;
Continental Automotive Interior Wuhu Co., Ltd., Wuhu, China* (Chairman);
Continental Automotive Jinan Co., Ltd., Jinan, China* (Chairman);
Continental Automotive Systems Changshu Co., Ltd., Changshu, China* (Chairman);
Continental Automotive Systems Holding US, Inc., Wilmington, Delaware, U.S.A.*;
Continental Automotive Systems, Inc., Wilmington, Delaware, U.S.A.*;
Continental Automotive Systems (Shanghai) Co., Ltd., Shanghai, China* (Chairman);
Continental Automotive Systems (Tianjin) Co., Ltd., Tianjin, China* (Chairman);
Continental Brake Systems (Shanghai) Co., Ltd., Shanghai, China* (Chairman)

**Frank Jourdan**
**Chassis & Safety Division**
**(Member of the Executive Board since September 25, 2013)**
Continental Automotive Mexicana S.A. de C.V., Morelos, Mexico*

**Helmut Matschi**
**Interior Division**
SAS Autosystemtechnik Verwaltungs GmbH, Karlsruhe;
SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe (Vice Chairman);
S-Y Systems Technologies Europe GmbH, Regensburg (until January 29, 2013);
Continental Automotive GmbH, Hanover* (Chairman)

**Wolfgang Schäfer**
**Finance, Controlling, Compliance, Law and IT**
Continental Reifen Deutschland GmbH, Hanover*;
Continental Automotive, Inc., Wilmington, Delaware, U.S.A.*;
Continental Automotive Systems, Inc., Wilmington, Delaware, U.S.A.*;
Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.*

**Nikolai Setzer**
**Tire Division**
Continental Reifen Deutschland GmbH, Hanover* (Chairman);
Continental India Limited, New Delhi, India*;
Continental Tire Holding US, LLC, Wilmington, Delaware, U.S.A.*;
Continental Tire the Americas LLC, Fort Mill, South Carolina, U.S.A.*;
Continental Tyre South Africa (Pty.) Ltd., Port Elizabeth, South Africa* (until May 29, 2013)

**Elke Strathmann**
**Human Resources, Director of Labor Relations, Corporate Social Responsibility**

**Heinz-Gerhard Wente**
**ContiTech Division**
**Corporate Purchasing**
Benecke-Kaliko AG, Hanover* (Vice Chairman);
ContiTech Antriebssysteme GmbH, Hanover* (Chairman);
ContiTech Elastomer Beschichtungen GmbH, Hanover* (Chairman);
ContiTech Luftfedersysteme GmbH, Hanover* (Chairman);
ContiTech MGW GmbH, Hann. Münden* (Vice Chairman);
ContiTech Schlauch GmbH, Hanover* (Chairman);
ContiTech Techno-Chemie GmbH, Karben* (Vice Chairman);
ContiTech Transportbandsysteme GmbH, Hanover* (Chairman);
ContiTech Vibration Control GmbH, Hanover* (Chairman);
Phoenix Compounding Technology GmbH, Hamburg* (Chairman);
ContiTech Grand Ocean Fluid (Changchun) Co., Ltd., Changchun, China*;
ContiTech North America, Inc., Wilmington, Delaware, U.S.A.*;
ContiTech Thermopol, LLC, Manchester, New Hampshire, U.S.A.*;
ContiTech Oil & Marine Corp., Dallas, Texas, U.S.A.*

* Companies pursuant to Section 100 (2) of the German Stock Corporation Act *(Aktiengesetz – AktG)*.

# Other Directorships – The Supervisory Board

**Memberships of other statutory supervisory boards and of comparable controlling bodies of companies in Germany and abroad in accordance with Section 285 No. 10 of the German Commercial Code *(Handelsgesetzbuch – HGB)*:**

**Companies with no country specified are located in Germany.**

**Prof. Dr.-Ing. Wolfgang Reitzle, Chairman**
**President and CEO of Linde AG**
Holcim Ltd., Zurich, Switzerland

**Hartmut Meine*, Vice Chairman (since August 1, 2013)**
**District manager of IG Metall (Metalworkers' Union) for Lower Saxony and Saxony-Anhalt**
KME Germany GmbH, Osnabrück;
Volkswagen AG, Wolfsburg

**Werner Bischoff*, Vice Chairman**
**Trade Union Secretary, IG Bergbau, Chemie, Energie (Mining, Chemical and Energy Industries Union)**
(Member of the Supervisory Board until May 15, 2013)
RWE AG, Essen;
RWE Dea AG, Hamburg;
RWE Power AG, Essen

**Michael Deister***
**Chairman of the Works Council for the Stöcken Plant**

**Dr. Gunter Dunkel**
**Chairman of the Board of Management of Norddeutsche Landesbank Girozentrale**
Bremer Landesbank Kreditanstalt Oldenburg Girozentrale, Bremen**;
Deutsche Hypothekenbank AG, Hanover** (Chairman);
Norddeutsche Landesbank Luxembourg S.A., Luxembourg** (Chairman);
NORD/LB Covered Finance Bank S.A., Luxembourg** (Chairman)

**Hans Fischl***
**Chairman of the Works Council for the Regensburg Location, Chairman of the Corporate Works Council of Continental AG and Member of the Central Works Council of Continental Automotive GmbH**

**Dr. Jürgen Geißinger**
**President and CEO of Schaeffler AG (until October 4, 2013)**
(Member of the Supervisory Board until December 1, 2013)
MTU Aero Engines Holding AG, Munich;
MTU Aero Engines GmbH, Munich;
Schaeffler Group USA, Inc., Fort Mill, South Carolina, U.S.A.** (until October 4, 2013);
Schaeffler Holding (China) Co. Ltd., Changsa, China** (until October 4, 2013);
Sandvik AG, Stockholm, Sweden

**Prof. Dr. Peter Gutzmer**
**Member of the Executive Board, Research and Development, Schaeffler AG**
(Member of the Supervisory Board since December 4, 2013)

**Peter Hausmann***
**Member of the Central Board of Executive Directors, IG Bergbau, Chemie, Energie (Mining, Chemical and Energy Industries Union)**
(Member of the Supervisory Board since July 1, 2013)
Bayer AG, Leverkusen;
Henkel AG & Co. KGaA, Düsseldorf (since April 15, 2013);
50Hertz Transmission GmbH, Berlin (Vice Chairman);
Vivawest GmbH, Gelsenkirchen

**Prof. Dr.-Ing. E. h. Hans-Olaf Henkel**
**Honorary Professor at the University of Mannheim**
UsedSoft Schweiz AG, Zug, 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 Central Region, and IG Metall Delegate for the Corporate Works Council of Continental Teves, as well as the Supervisory Committee of the Central Works Council of Continental Teves, Temic and Automotive**
C.+H. Winter GmbH, Stadtallendorf (since August 22, 2013);
Rasselstein GmbH, Andernach

**Prof. Dr. Klaus Mangold**
**Chairman of the Supervisory Board of Rothschild GmbH**
Alstom Deutschland AG, Mannheim (Chairman);
Metro AG, Düsseldorf (until May 8, 2013);
TUI AG, Hanover (Chairman);
Alstom S.A., Paris, France;
Baiterek JSC, Astana, Kazakhstan (since June 25, 2013);
Swarco AG, Wattens, Austria (since July 4, 2013)

**Dirk Nordmann***
**Chairman of the Works Council for the Vahrenwald Plant, ContiTech Antriebssysteme GmbH, Hanover**
ContiTech Luftfedersysteme GmbH, Hanover

**Artur Otto***
**Head of Marketing & Business Development Automotive Systems & Technology**

**Klaus Rosenfeld**
**Chief Executive Officer of Schaeffler AG**

**Georg F. W. Schaeffler**
**Co-owner of the Schaeffler Group**
Schaeffler AG, Herzogenaurach** (Chairman)

**Maria-Elisabeth Schaeffler**
**Co-owner of the Schaeffler Group**
Nürnberger Lebensversicherung AG, Nuremberg (until December 31, 2013);
Schaeffler AG, Herzogenaurach**;
Österreichische Industrieholding AG, Vienna, Austria

**Jörg Schönfelder***
**Chairman of the Works Council for the Korbach Plant and Chairman of the European Works Council**
Continental Reifen Deutschland GmbH, Hanover**

**Dr. Bernd W. Voss**
**Member of various Supervisory Boards**
Wacker Chemie AG, Munich

**Erwin Wörle***
**Chairman of the Works Council of Conti Temic microelectronic GmbH, Ingolstadt**
Conti Temic microelectronic GmbH, Nuremberg** (Vice Chairman)

**Prof. KR Ing. Siegfried Wolf**
**Chairman of the Board of Directors of Russian Machines OJSC**
Banque Baring Brothers Sturdza SA, Geneva, Switzerland;
GAZ Group, Nizhny Novgorod, Russia (Chairman);
Glavstroy Corporation LLC, Moscow, Russia (Chairman);
Österreichische Industrieholding AG, Vienna, Austria;
Russian Machines OJSC, Moscow, Russia (Chairman);
SBERBANK Europe AG, Vienna, Austria (Chairman);
Siemens Aktiengesellschaft Austria, Vienna, Austria;
STRABAG SE, Vienna, Austria;
VERBUND AG, Vienna, Austria

* Employee representative.
** Companies pursuant to Section 100 (2) of the German Stock Corporation Act *(Aktiengesetz – AktG)*.

**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 (until May 15, 2013),
Michael Deister (since August 1, 2013),
Hans Fischl (until July 31, 2013),
Hartmut Meine (since August 1, 2013),
Georg F. W. Schaeffler

2. Audit Committee

Dr. Bernd W. Voss (Chairman),
Michael Deister (until July 31, 2013),
Hans Fischl (since August 1, 2013),
Peter Hausmann (since August 1, 2013),
Michael Iglhaut,
Hartmut Meine (until July 31, 2013),
Klaus Rosenfeld,
Georg F. W. Schaeffler

3. Nomination Committee

Prof. Dr.-Ing. Wolfgang Reitzle,
Georg F. W. Schaeffler,
Maria-Elisabeth Schaeffler,
Dr. Bernd W. Voss

# Ten-Year Review – Corporation

| | | **2013** | 2012[6] | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance sheets** | | | | | | | | | | | |
| Non-current assets | in € millions | 15,569.5 | 15,685.7 | 15,075.5 | 14,887.9 | 14,724.6 | 16,348.4 | 17,383.9 | 5,877.9 | 5,193.8 | 4,953.9 |
| Current assets | in € millions | 11,251.3 | 11,764.4 | 10,962.9 | 9,502.6 | 8,324.6 | 8,339.5 | 10,353.7 | 4,975.1 | 5,353.9 | 4,742.0 |
| Total assets | in € millions | 26,820.8 | 27,450.1 | 26,038.4 | 24,390.5 | 23,049.2 | 24,687.9 | 27,737.6 | 10,853.0 | 10,547.7 | 9,695.9 |
| Shareholders' equity (excl. non-controlling interests) | in € millions | 9,011.2 | 7,779.0 | 7,146.1 | 5,859.6 | 3,772.6 | 5,265.4 | 6,583.2 | 4,470.8 | 3,574.2 | 2,706.2 |
| Non-controlling interests | in € millions | 311.0 | 377.4 | 397.2 | 343.3 | 289.1 | 264.5 | 272.9 | 239.1 | 220.8 | 231.0 |
| Total equity (incl. non-controlling interests) | in € millions | 9,322.2 | 8,156.4 | 7,543.3 | 6,202.9 | 4,061.7 | 5,529.9 | 6,856.1 | 4,709.9 | 3,795.0 | 2,937.2 |
| Equity ratio[1] | in % | 34.8 | 29.7 | 29.0 | 25.4 | 17.6 | 22.4 | 24.7 | 43.4 | 36.0 | 30.3 |
| Capital expenditure[2] | in € millions | 1,981.1 | 2,019.4 | 1,711.3 | 1,296.4 | 860.1 | 1,595.2 | 896.9 | 805.0 | 871.8 | 703.0 |
| Net indebtedness | in € millions | 4,289.3 | 5,319.9 | 6,772.1 | 7,317.0 | 8,895.5 | 10,483.5 | 10,856.4 | 1,181.0 | 493.2 | 881.1 |
| Gearing ratio | in % | 46.0 | 65.2 | 89.8 | 118.0 | 219.0 | 189.6 | 158.3 | 25.1 | 13.0 | 30.0 |
| **Income statements** | | | | | | | | | | | |
| Sales | in € millions | 33,331.0 | 32,736.2 | 30,504.9 | 26,046.9 | 20,095.7 | 24,238.7 | 16,619.4 | 14,887.0 | 13,837.2 | 12,597.4 |
| Share of foreign sales | in % | 76.2 | 75.4 | 73.7 | 72.8 | 71.0 | 68.5 | 69.2 | 67.6 | 65.8 | 66.8 |
| Cost of sales[3] | in % | 76.6 | 78.3 | 79.0 | 77.8 | 80.0 | 80.4 | 75.8 | 75.3 | 74.6 | 75.0 |
| Research and development expenses[3] | in % | 5.6 | 5.3 | 5.3 | 5.6 | 6.7 | 6.2 | 5.0 | 4.5 | 4.3 | 4.2 |
| Selling expenses[3] | in % | 5.0 | 4.8 | 4.7 | 5.0 | 5.6 | 4.9 | 5.5 | 5.7 | 6.1 | 6.2 |
| Administrative expenses[3] | in % | 2.1 | 2.0 | 2.1 | 2.5 | 3.0 | 3.2 | 2.7 | 3.0 | 3.1 | 3.1 |
| EBITDA | in € millions | 5,095.0 | 4,967.4 | 4,228.0 | 3,587.6 | 1,591.2 | 2,771.4 | 2,490.6 | 2,301.5 | 2,248.9 | 1,824.6 |
| EBITDA[3] | in % | 15.3 | 15.2 | 13.9 | 13.8 | 7.9 | 11.4 | 15.0 | 15.5 | 16.3 | 14.5 |
| Personnel expenses | in € millions | 7,124.5 | 6,813.7 | 6,354.3 | 5,891.7 | 5,199.8 | 5,746.3 | 3,652.7 | 3,175.2 | 3,054.3 | 3,011.7 |
| Depreciation and amortization[4] | in € millions | 1,831.3 | 1,781.2 | 1,631.1 | 1,652.4 | 2,631.6 | 3,067.6 | 814.8 | 699.6 | 741.8 | 667.2 |
| Net income attributable to the shareholders of the parent | in € millions | 1,923.1 | 1,905.2 | 1,242.2 | 576.0 | -1,649.2 | -1,123.5 | 1,020.6 | 981.9 | 929.6 | 716.2 |
| **Dividend and earnings per share** | | | | | | | | | | | |
| Dividend for the fiscal year | in € millions | 500.0[5] | 450.0 | 300.0 | – | – | – | 323.4 | 293.1 | 145.9 | 116.3 |
| Number of shares as at December 31 | in millions | 200.0 | 200.0 | 200.0 | 200.0 | 169.0 | 169.0 | 161.7 | 146.5 | 145.9 | 145.4 |
| Net income (per share) attributable to the shareholders of the parent | in € | 9.62 | 9.53 | 6.21 | 2.88 | -9.76 | -6.84 | 6.79 | 6.72 | 6.38 | 5.19 |
| **Employees** | | | | | | | | | | | |
| Annual average | in thousands | 175.4 | 169.0 | 159.7 | 142.7 | 133.4 | 148.4 | 93.9 | 81.6 | 81.1 | 73.7 |

*1 Including non-controlling interests.*
*2 Capital expenditure on property, plant and equipment, and software.*
*3 As a percentage of sales.*
*4 Excluding impairments on financial investments.*
*5 Subject to the approval of the Annual Shareholders' Meeting on April 25, 2014.*
*6 IAS 19 (revised 2011), Employee Benefits, has been applied since 2012.*

# Glossary of Financial Terms

**American Depositary Receipt (ADR).** ADRs securitize the ownership of shares and can refer to one, several, or even a portion of a share. ADRs are traded on U.S. stock exchanges in the place of foreign shares or shares that may not be listed on U.S. stock exchanges.

**Capital Employed.** Capital employed refers to the funds used by the company to generate its sales.

**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 instruments.** Transactions used to manage interest rate and/or currency risks.

**Dividend payout ratio.** The dividend payout ratio is the ratio between the dividend for the fiscal year and the earnings per share.

**EBIT.** Earnings Before Interest and Taxes. EBIT represents the results of operations.

**EBITDA.** Earnings Before Interest, Taxes, Depreciation and Amortization.

**Finance lease.** Under a finance lease, the lessor transfers the investment risk to the lessee. This means that the lessor bears only the credit risk and any agreed services. The lessee is the beneficial owner of the leased asset. Finance leases are characterized by a fixed basic term during which the lease may not be terminated by the lessee.

**GDP.** Gross domestic product is a measure of the economic performance of a national economy. It specifies the value of all goods and services produced within a country in a year.

**Gearing ratio.** The gearing ratio represents the net indebtedness divided by total equity, expressed as a percentage.

**Hedging.** Securing a transaction against risks, such as fluctuations in exchange rates, by entering into an offsetting hedge transaction, typically in the form of a forward contract.

**IAS.** International Accounting Standards. Accounting standards of the IASB.

**IASB.** International Accounting Standards Board. The authority that defines the International Financial Reporting Standards.

**IFRIC.** International Financial Reporting Interpretations Committee (predecessor of the International Financial Reporting Standards Interpretations Committee, IFRS IC).

**IFRS.** International Financial Reporting Standards. The accounting standards of the IASB.

**IFRS IC.** International Financial Reporting Standards Interpretations Committee. The body that determines appropriate accounting treatment in the context of existing IFRS and IAS.

**Interest rate swap.** An interest rate swap is the exchange of interest payments between two parties. For example, this allows variable interest to be exchanged for fixed interest, or vice versa.

**Net indebtedness.** The net amount of interest-bearing financial liabilities as recognized in the balance sheet, cash and cash equivalents, the positive fair values of the derivative instruments as well as other interest-bearing investments.

**Operating assets.** Operating assets are the assets less liabilities as reported in the balance sheet, without recognizing the net indebtedness, discounted trade bills, deferred tax assets, income tax receivable and payable, as well as other financial assets and debts. According to our definition, operating assets correspond to capital employed.

**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).

**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

| 2014 | |
|---|---|
| Annual Financial Press Conference | March 6 |
| Analyst Telephone Conference | March 6 |
| Annual Shareholders' Meeting | April 25 |
| Financial Report as at March 31, 2014 | May 6 |
| Half-Year Financial Report as at June 30, 2014 | July 31 |
| Financial Report as at September 30, 2014 | November 4 |

| 2015 | |
|---|---|
| Annual Financial Press Conference | March |
| Analyst Telephone Conference | March |
| Annual Shareholders' Meeting | April 30 |
| Financial Report as at March 31, 2015 | May |
| Half-Year Financial Report as at June 30, 2015 | August |
| Financial Report as at September 30, 2015 | November |

**Contact Details**
This Annual Report is also published in German. The financial statements of Continental Aktiengesellschaft are also available in English and German.

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The Future in Motion