

Strong Growth and Excellent Financial Position: Continental Paves the Way for Future Mobility

Speech of the Chairman of the Executive Board

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Continental Aktiengesellschaft, Hanover, Germany

at the

Annual Shareholders' Meeting

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Check against delivery



Good morning, ladies and gentlemen!

It's great to see you here today.

Continental is experiencing strong growth.

We are in an excellent financial position.

And, with that, we are paving the way for future mobility.

You are investing in our strength. Together, we are developing pioneering technologies. In doing so we are helping to protect millions of people on the roads.

We are contributing to cleaner air.

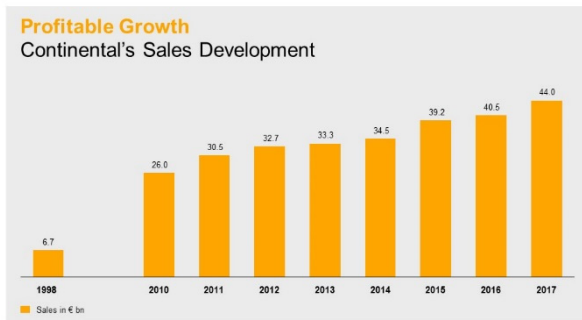
We are making driving simpler.

We are making driving more convenient.

And in doing so we are creating value sustainably on the road and in your bank account.

You are therefore putting your money on the right horse.

The Continental horse!



Since 1998, we have increased our sales more than six-fold.

Not only that, we have boosted our operating result twelve-fold.



Our more than 240,000 employees work hard for this lasting success.

In 2017, they again showed tremendous passion and outstanding commitment.

They deserve our thanks!

Per-share earnings and dividend.

Last year, we increased our sales by more than 8 percent compared with 2016. We grew faster than global production of cars and light commercial vehicles, which rose by around 2 percent.

I think this is an excellent achievement!

We generated profit after taxes of around €3 billion.

Fiscal 2017: Earnings and Dividend per Share**€14.92**

earnings per share

€4.50

dividend per share

>30% dividend payout ratio

This corresponds to €14.92 per share. That's 6.5 percent more than in the previous year.

The Executive and Supervisory Boards are proposing a dividend of €4.50 per share.

The dividend payout ratio is somewhat higher than 30 percent of consolidated profit.

We will increase the payout for the sixth time in a row. If you agree of course!

We promise you that our run of success will continue.

But we are not driving with horse power.

Instead we are driving with bits and bytes at maximum frequency.

That is our future!

Thank you, CoTwo.

This is CoTwo. He is my robot assistant.

We are working together hand in hand.

I'm sure you are all optimists.

Which is why you see immediately that this glass is half full.

Obviously! Because we are brimming with confidence.

And for good reason.



Last year, for example, we sold some 155 million tires, which is almost 3 percent more than in 2016 – a new record.

We develop sustainable, intelligent natural rubber and plastic solutions, including a protective foil that helps prevent water reservoirs from drying up, like here in Cyprus. Solar cells provide the pumps with electricity.

Both our Tire and ContiTech divisions are leaders around the world, and they are continuing to build on this position. These divisions are therefore experiencing substantial growth – both in terms of sales as well as value creation.



Another example is the high level of incoming orders in our three Automotive divisions, which has been increasing by a double-digit percentage each year for two years.

In 2017 alone, we received orders of €40 billion.

In the first quarter of 2018, we receive €11 billion worth of new orders – another record.

This is proof of our customers' confidence in us and demonstrates our substantial strength.

First quarter and outlook for 2018: growing faster than our markets.

We are experiencing strong growth, which is how we started the new fiscal year. This was substantiated by our strong organic growth. We increased our sales by 4.3 percent, which was again considerably higher than the growth of the relevant markets.

Key Data for the First Quarter of 2018



In the first three months, we generated sales of €11 billion. We showed strength in a declining market.

And we generated these sales despite fluctuating exchange rates, which had a negative impact of more €500 million. Moreover, we valued our inventories in the Tire division at the current raw-material prices, which are lower.

For these two reasons, we achieved a lower adjusted EBIT margin compared with the first quarter of 2017. This was 9.7 percent.

We will publish our full key financial figures for the first quarter on May 8, 2018.

Fluctuating exchange rates had a negative impact on the first quarter. They will also lower our earnings in the first half of the year. These fluctuations, coupled with the value of our inventories, will reduce our earnings by around €150 million in the first six months. We do not expect to compensate for this amount by the end of the year.

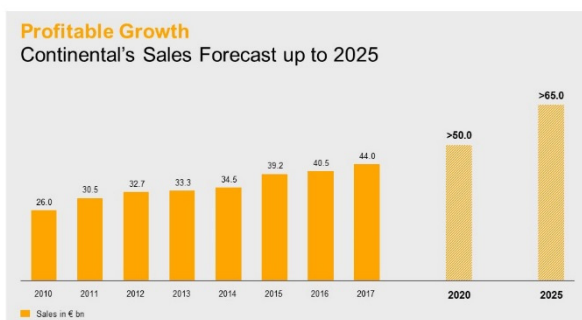
For this reason, our outlook for 2018 is as follows:

- › Global production of passenger cars and light commercial vehicles will continue to rise. We expect an increase of more than 1 percent.

2018 Outlook



- › Assuming the same exchange rates as in 2017, we anticipate sales to increase significantly to approximately €47 billion. Fluctuating exchange rates may lower the sales further when calculated in euros. At current exchange rates, this could be by more than €1 billion.
- › But your Continental is strong, which is particularly evident at present since we are dealing with a very difficult environment. We expect an adjusted EBIT margin of over 10 percent for the year as a whole.



And we continuing to grow profitably. We are heading for sales of more than €50 billion for 2020.

In 2025, we should surpass the threshold of significantly more than €65 billion. And we will do so with organic growth.

As long as we do everything right.

And that's exactly what we intend to do!

But there is a significant, economic risk posed by the current threat to free trade.

Free trade is a necessity for affordable mobility for all.



We have clear objectives. These include providing sustainable, personal mobility – at an affordable price.

These are, for instance, the responsibilities of our three automotive divisions. They work closely with a global network of over 17,000 suppliers and partners.

They handle over 140 billion components a year, which cross national borders four times on average. This is because these components do not reach our customers until they are finished products.

Protectionism and trade wars make our products more expensive.

For example, unequal tariffs are hurting the free trade of cars between the U.S.A. and Europe. The best solution is to abolish them completely or bring them into line at the lowest level.

We are calling for policy makers to enter into negotiations. We expect them to work harder for fair, free trade.

Artificially inflating prices reduces national income and in doing so puts jobs and prosperity at risk!

When it comes to tariffs, there aren't any winners. There are only losers.

We need all the help we can get because, in our industries, the global rules are currently changing fundamentally.

Radical changes are afoot. Like in the case of Bertha Benz 130 years ago, when she literally overtook the old horse-drawn carriage with her spectacular car journey from Mannheim to Pforzheim.

Now we are doing the overtaking!

- › With ever faster computers.
- › With ever-more powerful programs.
- › With clean drive systems.
- › With interconnected vehicles.
- › We are overtaking with the help of artificial intelligence.
- › With maximum data security.
- › With interconnected transportation systems.

We are seeing this all now, but it's nothing compared to what is coming.

One of our customers, who is a global market leader, is quite clear about this: "The battle for survival has begun!"

There are new competitors from other industries such as information technology, telecommunications and electronics. Their main focus is not producing or driving cars, but selling services and electronics to achieve big profits.

We have prepared well for this massive transformation by transforming ourselves.

Your Continental has become a cutting-edge developer of technology and software.

We have, for example, more than 44,000 engineers worldwide, more than 16,000 of whom are experts in software and computer programming. Every year, we need around 2,000 additional experts in these fields. By doing so, we are right at the forefront of shaping fundamental transformation.

Competition is fierce.

But we firmly believe in the path we have taken.

We will be one of the winners.

We will do everything it takes.

We have two key requirements needed to achieve this.

First, we are willing to change.

Second, we are extremely innovative.

We have demonstrated both on several occasions in the past.

We anticipate change as a normal, everyday activity. We shape it. That's the crucial task of our managers. In this way, we are ensuring our success for the coming years.

That is the winning formula for your Continental.

We are aware that our success today does not guarantee our success tomorrow.

Which is why we are becoming even more flexible and agile. And this keeps us competitive in the long term. And ensures we remain fit for the future.

Our organizational structure has now become too small for us to do this, which is why we are expanding it.

To do so, we are focusing on the following key elements:

- Our network culture through which we shorten the decision-making process.

- › Flat hierarchies. Smaller, interconnected units that can respond more quickly to our customers' requests.
- › The use of artificial intelligence and other digital technologies enhances our ability to innovate.
- › We give our staff greater responsibility and freedom. This includes flexible working hours as well as more trust-based working hours worldwide.

With all this, we are creating more value. In addition, we continue to attract the most talented individuals, such as those who develop and apply digital technologies.

We are currently testing suitable scenarios. We want to find out which setup for our organization will make us as adaptable even faster.

We expect to submit a recommendation to the Supervisory Board by the middle of the year.

We are continuing to expand your Continental's values alliance for top value creation. The Executive Board and the employees have therefore just agreed a new future alliance. Together, we will thus maximize our success.



The drive-system revolution is taking place throughout our whole industry. It has affected over half the sales of our Powertrain division. The changeover to the electric age is therefore an enormous leadership challenge.

We are taking it on.

We are looking forward to the opportunities.

Our goal is to continue to expand our competitive drive-system business. We are continuing to program it for lasting success.

This might mean that we make part of the business independent as a separate organization, giving it greater entrepreneurial freedom.

By doing so, we are taking on responsibility. For our staff. For climate protection.

And for coming up with innovative answers to one of the two most important questions for the future.

Two major challenges: clean air and greater safety and convenience

Mobility of the future poses two major challenges: clean air as well as greater safety and convenience.

Both of these are big opportunities for us, which we will make the most of.



It is clear that we all want to breathe clean air, even though the number of vehicles is increasing.

But how can we achieve it? Step by step.

And with the help of all available, economically viable technologies.

Electric drive systems are the future of vehicle propulsion. We are convinced of this.

But electric does not automatically mean clean. The ecobalance of electric mobility is not looking too good at the moment.

This starts with the extraction of raw materials. It moves on to the generation of electricity, and is similarly affected by the storage and distribution of electricity. And it continues right up to the recycling and disposal of batteries. All of which is not green enough.

Today, electric mobility's contribution to climate protection is therefore relatively limited and will remain so for some years to come.

The biggest hurdle is the battery.

It is too big.

It is too heavy.

It is too weak.

And, above all, it is too expensive.

We do not anticipate there to be a competitive battery technology until after 2025.

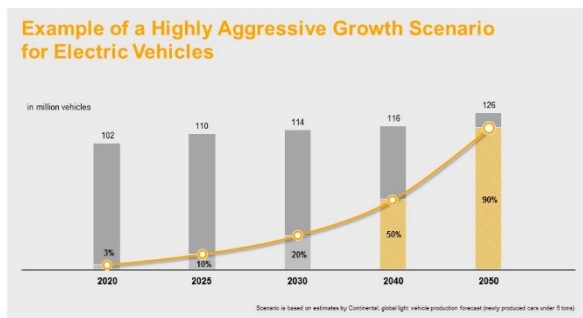
In the future, we can imagine producing battery cells ourselves. Here, we have in mind batteries that use solid materials. This would require an attractive business model.

We do not expect to make a decision on this until after 2020,

The market share of electric vehicles is increasing. But it is not growing as fast as many would like. I already mentioned the main reason. The drive systems with an acceptable range are still too expensive.

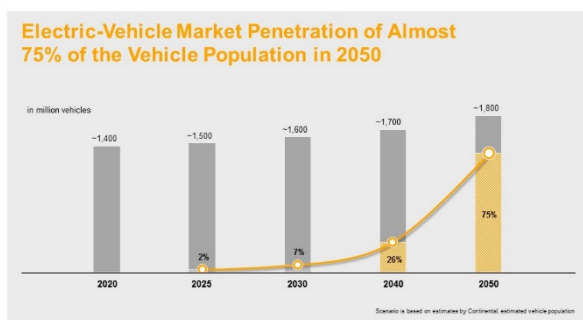
It's being reported everywhere that our industry is producing more electric vehicles, but at prices that are not profitable today. This is not good business. This will not result in lasting success.

The key question for policy makers is therefore: How sensible is it to attempt to push electric mobility quickly onto the market via regulation?



We did some calculations based on an extremely aggressive growth model that starts in 2020. It is possible, theoretically. But it is not very likely.

Even under these highly dynamic conditions, we will have to wait until 2050 before we see nine out of ten vehicles roll off the production line with an all-electric drive system.



If this were to happen by then, just three-quarters of all vehicles on the roads in 2050 would be all-electric. The other 25 percent would still be using combustion engines.

In 32 years!

That is still a long time away.

This leads to one clear and conclusive consequence. We will need various kinds of drive systems side-by-side well beyond 2030. By this I mean a combination of gasoline, diesel and natural gas. In addition, we need hybrid systems, all-electric vehicles and hydrogen.

This is why we are appealing to policy makers to set sensible exhaust-gas limits for effect climate protection. But let the industry choose the best technologies for this. Do not use regulation to force the use of solutions that are not economically viable.

After all, effective climate protection is not currently possible without combustion engines. Which is why we are making them even more efficient and even cleaner.



We can achieve this thanks in particular to:

- › Our highly flexible, efficient fuel-injection system.
- › Our highly effective exhaust-gas aftertreatment technology.
- › And our hybrid systems.

The best example is our 48-volt system. We were the first to bring such a system to market.

Its battery is now also part of our portfolio. The battery cells contain lithium ions. We get these cells from our Chinese partner CITC.

Modern diesel engines emit much less carbon dioxide than gasoline engines. That is why diesel engines are so essential for climate protection at this time.

However, some people in Germany now want to ban diesels from cities because of the engines' nitrogen-oxide emissions.

But there are many measures for keeping the air in cities clean in the long term that have faster impact.

Here are three examples:

- Flowing traffic instead of congestion. Efficiently managing traffic reduces nitrogen-oxide emissions by up to 40 percent.
- Retrofitting diesel buses to comply with Euro 6 standard. This reduces nitrogen-oxide emissions, at least 80 percent lower than the Euro 5 standard.
- Smarter parking. Quicker and more efficient thanks to apps and software.

For all that, we supply the right solutions.

In parallel, we are radically advancing electric drive systems. Starting in 2019, a Chinese customer will be fitting our all-electric drive system in its production vehicles.

From clean drive systems, I'm now moving on to the second major challenge. This concerns:

Easy-to-use, interconnected technology for safe and convenient mobility.

The interconnected city of the future.

Vehicles, buildings and transport facilities all interconnected.

This will make transportation in cities safer. Smarter. Quieter. Greener. And there will be less congestion.

Residents will buy fewer cars. They will purchase "punctual arrival." This is a potential service that Continental could provide.

My assistant here is getting quite excited.

Yes, CoTwo. Millions of your mobile relatives will be on the roads by 2030.

Rolling robots will be the vehicles of the future. They are always alert.

No motorcycle will be able to approach them unnoticed.

Oncoming traffic? They will be able to see it all.

Pedestrians at the side of the road? Detected instantly.

They will protect the weakest on the road – attentively and carefully – and warn if there are children playing, for instance.

They will send up-to-date information to traffic control centers, which control traffic light phases intelligently.

Advanced driver assistance systems are the foundation of automated driving. We are one of the world's leading suppliers.

In 2017, our sales of these systems were €1.6 billion.

We expect around €2.5 billion in 2020.

Sensors, actuators and electronics are key components. They are the main players in driving functions for automated driving, and we provide all of them.

Sensors are the vehicle's senses. The cameras and radar and laser systems are, for instance, its eyes.

We are currently modernizing the inner workings of the vehicle. This means we are rebuilding the architecture of its systems.

We are doing so with our operating system, Autosar.

The programs of over 100 functions will interact on this platform. They have local control over the engine, chassis and telematics, for example, as well as control over vehicle access, data transmission and multimedia applications.

Sensors, software and computing power combine well, enabling us to build a protective shield around the vehicle. It fends off external attacks. I feel safe behind it.

For this reason, we acquired Argus from Israel, whose solutions help my vehicle protect me in three ways:

- › First, with its external protective shield. It prevents any false commands or messages from entering my vehicle.
- › Second, with its immune system. It sounds an alarm if a disruptive signal manages to penetrate the protective shield. At the same time, it initiates targeted defense measures.
- › Third, with its warning system for infections, which we use to monitor fleets of vehicles. We provide them with preventive protection by transmitting anti-virus updates – wirelessly and fast.

I trust the best technology only if it provides maximum protection.

If it is easy to use.

And if it tells me what it is going to do next.

Humans and machines will communicate with each other using our systems – a dialog with and without words – either by speaking or using gestures.

Important information, such as the route, is shown on the windshield.

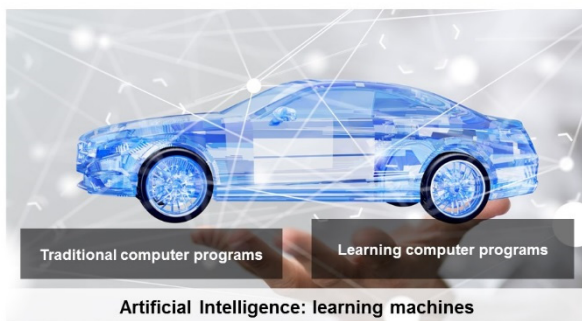
I know what's going on at all times. So my vehicle becomes my trusted companion. If I

want, it gets to know my taste in music.

It knows what I like to listen to on the way to the Annual Shareholders' Meeting.

Let's listen.

Greater safety thanks to artificial intelligence.



The future of mobility requires more and more software. Today, more than half of investment in new driving functions is spent on their development. In some cases it will soon be as high as 80 percent.

We differentiate between classic computer programs and those that are able to learn.

Classic programs are the technology used today. First we derive the rules for safe driving from human behavior. Then we transfer this information to our software.

Learning programs use artificial intelligence. They are faster. They are the future. We develop them differently than the classic programs. We do so using complex traffic situations such as 100 different road-construction sites. The programs learn from them. They discover what road-construction sites look like. Later, they steer a road vehicle through a much larger number of completely different construction sites. And they do so reliably and safely.



Intelligent robots on wheels are an interesting idea for cities.

A UNO study has shown that two-thirds of the world's population will live in urban areas in 2050. They need many transportation options.

Sharing cars instead of owning them. The number of vehicles per capita is set to fall, while the number of kilometers driven per vehicle a day is expected to rise.

Two examples of our contributions to transportation in cities.

This is CUBE. It is our platform on which we develop driverless vehicles for urban areas. It is jam packed with cutting-edge technology.

These robot taxis connect to other transportation systems, enabling seamless mobility until arrival.

We are already taking them for test drives on the campus of Frankfurt University.



BEE is our visionary concept. It stands for the best balance between economy and environment.

BEE is the industrious worker bee from Continental. It is a vehicle designed for one or two people.

It is powered by electricity. It buzzes around alone or in a swarm, covering a distance of more than 350 kilometers every day.

All it takes is a quick call from your smartphone. And it'll appear at your door without fuss in a matter of minutes. It can be summoned to any departure point.

CuBE and BEE are two of our pioneering solutions. We are developing them for a brand-new vehicle segment. They are two of many major opportunities for profitable growth for your Continental.



We are developing mobility services into a further pillar of our business, step by step.

Take for example the smartphone as a car key. Car rental companies and operators of vehicle fleets are very interested in this. We are currently testing our solution. Our partner in this regard is our customer Avis.

By 2020, we anticipate sales of €1 billion from these and other services. Today, our sales are €500 million.

Ladies and gentlemen,

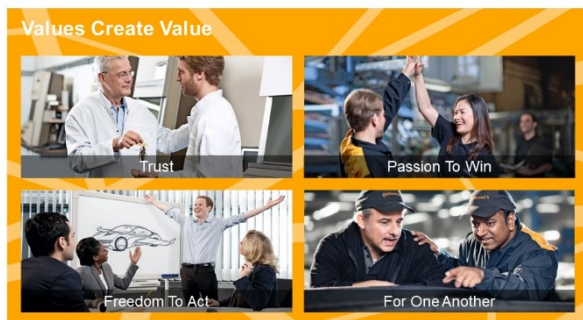
Your Continental is strong and continues to grow.

It is growing quickly.

It is growing profitably.

And it is growing sustainably.

Our future is in our hands!



We are able to adapt.

And more importantly we are willing to do so.

We are making the most of opportunities.

Our values alliance for top value creation remains strong.

After all, our values do create value.

Keep backing your Continental horse!

And more importantly keep cheering us on!

And what better time to do so than now!