# Despite a Turbulent Market Environment, Continental Is Optimistic for the Second Half of the Year

- **Consolidated sales of €9.4 billion (Q2 2021: €8.4 billion, +13.0 percent)**
- **Adjusted EBIT of €411 million (Q2 2021: €512 million, -19.8 percent)**
- **Adjusted EBIT margin of 4.4 percent (Q2 2021: 6.2 percent)**
- **Operating result of -€165 million (Q2 2021: €473 million, -134.8 percent)**
- **Net income of -€251 million (Q2 2021: €545 million for continuing and discontinued operations)**
- **Adjusted free cash flow of -€687 million (Q2 2021: €302 million for continuing and discontinued operations)**
- **CEO Nikolai Setzer: "We are making significant progress in the development and marketing of our technologies, with a strong order intake in Automotive. This shows that we have the right strategy and positioning."**
- **CFO Katja Dürrfeld: "The current headwind is rather like a hurricane, but we are optimistic for the second half of the year. We are therefore maintaining our outlook for the current fiscal year."**
- **High order volume of more than €6.0 billion in the Automotive group sector**
- **More than 300 original-equipment approvals for Continental tires in the electric vehicle segment**
- **ContiTech is expanding its industrial business in North America and Sweden**

Hanover, August 9, 2022. Continental is looking ahead to the second half of the year with optimism and maintaining its outlook for the current fiscal year. As expected, the ongoing turbulent market environment had a noticeable impact in the second quarter of 2022, however. In particular, the geopolitical uncertainties as a result of the war against Ukraine, disrupted supply chains and massive price increases for raw materials, semi-finished products, energy and logistics, coupled with the shortage of electronic components and the consequences of the coronavirus lockdowns in China, heavily affected Continental's results. At the same time, the technology company recorded a high order intake in the Automotive group sector of more than €6.0 billion.

**Consolidated sales** in the past quarter were €9.4 billion (Q2 2021: €8.4 billion, +13.0 percent), and **adjusted EBIT** was €411 million (Q2 2021: €512 million, -19.8 percent). This corresponded to an **adjusted EBIT margin** of 4.4 percent (Q2 2021: 6.2 percent).

"The market environment remained extremely challenging for automotive suppliers in the second quarter. At the same time, we are making significant progress in the development and marketing of our technologies, with a strong order intake in Automotive. This shows that we have the right strategy and positioning. Our most recent mobility study also supports this," said Continental CEO Nikolai Setzer on Tuesday in Hanover.

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As shown in the representative Continental Mobility Study published in July 2022, connectivity, automation and the user experience play a decisive role for the majority of people (in China, Germany, France, Japan, Norway and the USA) when purchasing a new vehicle. The car as well as the technology built into it must also remain intuitive to operate, safe and affordable. Continental is ideally positioned to deliver this across all group sectors – from vehicle electronics and tires to vegan surface materials.

**Adjusted EBIT** for the past quarter was above the reported EBIT of -€165 million. This was primarily attributable to accounting effects of around €370 million that had to be taken into account in the Automotive group sector as a result of higher interest rates. In connection with its business activity in Russia, Continental also impaired assets of around €75 million as a result of the additional sanctions imposed. Furthermore, there were restructuring expenses of €63 million in the ContiTech group sector in the second quarter of 2022, primarily for the Mobile Fluid Systems business area as a result of the transformation of certain production sites communicated at the end of June 2022.

These effects also had an impact on the **net income** achieved. This came to -€251 million in the second quarter of 2022 (Q2 2021: €545 million for continuing and discontinued operations). **Adjusted free cash flow** was -€687 million (Q2 2021: €302 million for continuing and discontinued operations).

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**Continental maintains outlook for the current fiscal year**

“The current headwind is rather like a hurricane and will not subside any time soon. Given this environment, we have performed well and become more resilient. We cannot be entirely satisfied with our current business results – even if they are as expected – but we are optimistic for the second half of the year. We anticipate a rise in automotive production, and our measures to improve earnings are also taking effect. We are therefore maintaining our outlook for the current fiscal year,” said Katja Dürrfeld, CFO of Continental. In the second half of the year, Continental anticipates a stabilization of global supply chains, a slight improvement in the availability of semiconductors and continued stable energy supplies in Europe, and particularly in Germany.

All in all, Continental still anticipates consolidated sales for the year as a whole of around €38.3 to €40.1 billion and an adjusted EBIT margin of around 4.7 to 5.7 percent. This includes additional costs of €3.5 billion as a result of the massive price increases for raw materials, semi-finished products, energy and logistics. The freight costs for a standard overseas shipping container have in some cases increased eightfold.

To overcome these significant challenges, Continental has taken numerous measures. These include spreading purchasing across multiple sources, building up and maintaining security stocks, carrying out more comprehensive inspections of the procurement and logistics chain for electronics, negotiating prices with customers to share increased costs, and focusing on business with technologically advanced products. As an example, the share of premium tire sales is steadily growing.

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## Key figures for the Continental Group

| | January 1 to June 30 | | | Second Quarter | | |
|---|---|---|---|---|---|---|
| € millions | **2022** | 2021 | Δ in % | **2022** | 2021 | Δ in % |
| Sales | 18,722.4 | 16,929.7 | 10.6 | 9,444.1 | 8,354.4 | 13.0 |
| EBITDA | 1,780.9 | 2,245.9 | -20.7 | 848.6 | 1,032.3 | -17.8 |
| in % of sales | 9.5 | 13.3 | | 9.0 | 12.4 | |
| EBIT | 210.7 | 1,135.3 | -81.4 | -164.6 | 472.7 | -134.8 |
| in % of sales | 1.1 | 6.7 | | -1.7 | 5.7 | |
| | | | | | | |
| Research and development expenses (net) | 1,509.7 | 1,330.5 | 13.5 | 738.5 | 706.1 | 4.6 |
| in % of sales | 8.1 | 7.9 | | 7.8 | 8.5 | |
| Capital expenditure[1] | 987.5 | 623.2 | 58.5 | 543.2 | 380.2 | 42.9 |
| in % of sales | 5.3 | 3.7 | | 5.8 | 4.6 | |
| | | | | | | |
| Net income attributable to the shareholders of the parent | -5.3 | 992.9[4] | -100.5 | -250.7 | 545.3[4] | -146.0 |
| Basic earnings per share in € | -0.03 | 4.96 | -100.5 | -1.26 | 2.72 | -146.0 |
| Diluted earnings per share in € | -0.03 | 4.96 | -100.5 | -1.26 | 2.72 | -146.0 |
| | | | | | | |
| Adjusted sales[2] | 18,654.4 | 16,844.2 | 10.7 | 9,410.1 | 8,314.2 | 13.2 |
| Adjusted operating result (adjusted EBIT)[3] | 849.0 | 1,240.1 | -31.5 | 410.5 | 512.1 | -19.8 |
| in % of adjusted sales | 4.6 | 7.4 | | 4.4 | 6.2 | |
| | | | | | | |
| Adjusted free cash flow (before acquisitions and divestments) | -860.6 | 947.5[4] | -190.8 | -686.7 | 302.0[4] | -327.4 |
| | | | | | | |
| Net indebtedness as at June 30 | 5,433.9 | 4,054.0 | 34.0 | | | |
| Gearing ratio in % | 37.8 | n.a. | | | | |
| | | | | | | |
| Number of employees as at June 30[5] | 194,577 | 193,754 | 0.4 | | | |

*1 Capital expenditure on property, plant and equipment, and software.*
*2 Before changes in the scope of consolidation.*
*3 Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.*
*4 For continuing and discontinued operations.*
*5 Excluding trainees.*

**Stagnant automotive production in the second quarter**

In the months of April to June 2022, global automotive production was on par with the comparably weak second quarter of the previous year, when the semiconductor shortage first really made itself felt. The production of passenger cars and light commercial vehicles was down in the second quarter of 2022, particularly in China as a result of the temporary lockdowns imposed in many cities because of the pandemic (5.4 million units, -5.8 percent). Europe also recorded a weaker second quarter due to disrupted supply chains (3.8 million units, -5.4 percent). In North America, however, the production of passenger cars and light commercial vehicles was up against the very weak prior-year period (3.6 million units, +11.6 percent). According to preliminary figures, the global production of passenger cars and light commercial vehicles stagnated compared with the second quarter of 2021 at a total of 18.8 million units (Q2 2021: 18.8 million units).

**Automotive outperforms the automotive market**

Continued weak automotive production amidst massive increases in costs affected the **Automotive** group sector in particular. Nevertheless, as a result of continued high demand for its products and positive effects from various measures, the group sector significantly outperformed the market. Its sales increased by 13.7 percent to €4.3 billion (Q2 2021: €3.8 billion). After adjusting for exchange-rate effects and changes in the scope of consolidation, it posted **organic sales growth** of +7.7 percent, while global automotive production stagnated. Its adjusted EBIT margin was -2.3 percent (Q2 2021: -2.3 percent).

In addition, Continental continued to boost its order volume. This amounted to more than €6.0 billion in the second quarter, around 40 percent higher than the previous year's figure. Continental recorded strong order growth in all five Automotive business areas over the past quarter – from display solutions and state-of-the-art systems for internet connectivity in cars to cloud-based solutions that reduce fuel consumption in commercial vehicles, as well as cameras, high-performance computers and conventional electronics.

**Continental tires particularly popular for electric cars**

The **Tires** group sector closed the second quarter successfully, recording increased sales in the car tires and commercial-vehicle tires replacement business compared with the previous year. With sales of €3.4 billion (Q2 2021: €2.9 billion, +17.1 percent), it achieved an adjusted EBIT margin of 13.8 percent (Q2 2021: 17.8 percent).

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When it comes to electric vehicles, Continental tires are particularly popular. They have received original-equipment approvals for more than 300 different vehicle models already, and seven of the ten most successful manufacturers of electric vehicles worldwide rely on Continental tires for their original equipment. Overall, the company's market share in the electric vehicle segment is higher than for cars with combustion engines.

In addition, Continental is launching more and more sustainability components, with tires containing polyester from recycled PET bottles now available to all dealers in Europe. Continental introduced its ContiRe.Tex technology – which makes it possible to completely replace the polyester conventionally used in the tire casing – into volume production in April 2022. The premium tire manufacturer currently offers three models featuring polyester from recycled PET bottles, each available in five sizes: the PremiumContact 6, the EcoContact 6 and the AllSeasonContact year-round tire.

**ContiTech is investing in North America and Sweden**

The **ContiTech** group sector also felt the effects of increased costs and weaker automotive production in the second quarter, posting sales of €1.6 billion (Q2 2021: €1.5 billion, +8.2 percent) and an adjusted EBIT margin of 4.9 percent (Q2 2021: 7.9 percent). The industrial hose business performed particularly well, and sales of conveyor belts and air spring systems also rose.

ContiTech is also expanding its industrial business. In San Luis Potosí, Mexico, a new, ultra-modern production site for industrial hydraulic hoses is being built. The planned investment amounts to more than €38 million. The new plant will create additional capacity for a wide range of hose solutions in order to cover the increasing demand in North America. Hydraulic products support many key industries, including agriculture, construction, energy, engineering as well as fluid transport in agricultural, construction and many other industrial vehicles. Around 150 new jobs will be created at the new plant. In addition, the group sector has acquired conveyor belt manufacturer WCCO Belting, headquartered in Wahpeton, North Dakota, USA. With this acquisition, ContiTech is expanding its customer portfolio for conveyor belts and strengthening its conveying solutions business in the agricultural industry.

ContiTech has also taken over the conveyor belt system and services business of NorrVulk AB, which is headquartered in Gällivare, Sweden. This complements the technology company's portfolio for conveyor belt systems and related services and strengthens its business with industrial customers in the region.

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Continental develops pioneering technologies and services for sustainable and connected mobility of people and their goods. Founded in 1871, the technology company offers safe, efficient, intelligent and affordable solutions for vehicles, machines, traffic and transportation. In 2021, Continental generated sales of €33.8 billion and currently employs more than 190,000 people in 58 countries and markets. On October 8, 2021, the company celebrated its 150th anniversary.

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