

# Continental Media Webcast: Fiscal 2023

Comments of the Chairman of the Executive Board  
of Continental Aktiengesellschaft,  
Nikolai Setzer,  
and the company's Chief Financial Officer,  
Katja Garcia Vila,  
on the occasion of the  
Continental Media Webcast: Fiscal 2023  
on March 7, 2024

**Check against delivery!**

Please note that all statements are preliminary  
numbers that still need to be approved or determined  
by the Supervisory Board.

## Nikolai Setzer, CEO:

Ladies and gentlemen,

2023 was another challenging year in many respects, with geopolitical conflicts, war, weak markets in the tire-replacement business and inflation impacting our economic development. We can't count on any tailwinds in the near future, either.

Not only is this affecting the economy, but it's also unsettling many people, causing them to look for guidance. Excluding others cannot be the answer, however. Diversity makes us successful as a global company and stronger as a society, which is why we promote it however we can. We are clearly withstanding these challenges.

Looking at how Continental performed financially last year, the trend is a positive one. We continued to develop and came a big step closer to achieving our mid-term targets. We also laid the foundations for the future and presented our updated strategy for increasing value creation at our Capital Market Day in December.

There's no doubt we're emerging stronger from the challenges we've faced in recent years. We've become more robust. We've repositioned our organization and increased our resilience. And we've created the basis for our future success: for our continued evolution into a mobility and material technology group for safe, smart and sustainable solutions.

## Katja Garcia Vila, CFO:

Ladies and gentlemen,

as mentioned, 2023 was once again a year in which Continental's development was influenced by numerous external events. Inflation-related additional costs alone amounted to around €1.4 billion. In addition, exchange-rate effects affected us to a greater extent than in previous years.

Despite this situation, we achieved our financial targets in the past fiscal year and generated solid earnings overall. In Tires, we once again demonstrated our earnings power despite weak European and North American tire-replacement markets. In ContiTech, we remained stable throughout the year – continuing our positive development. In the Automotive group sector, we improved significantly year-on-year.

We still have some way to go to reach our mid-term targets but we made significant ground in 2023. Our consolidated sales amounted to €41.4 billion in 2023, an increase of more than 5 percent compared with the previous year. In a difficult market environment, we achieved an adjusted operating result of €2.5 billion, up 31 percent from the previous year. The adjusted EBIT margin was 6.1 percent compared with 4.9 percent in the previous year. All three group sectors contributed to this improvement.

In the Automotive group sector, sales amounted to €20.3 billion in 2023, up around 11 percent from the previous year. In organic terms – without the influence of exchange rates and changes in the scope of consolidation – sales rose by 12.3 percent. Our growth thus exceeded that of global automotive production, which according to the latest estimates increased by just under 10 percent to more than 90 million units worldwide in 2023. The adjusted EBIT margin for the Automotive group sector came to 1.9 percent, up from -0.3 percent in the previous year.

The main reasons for the improvement were:

- higher production efficiency thanks to a more stable material supply,
- our high cost discipline,
- and a lower special freight volume.

This represents a significant step forward and shows we're on the right path, but we're still aiming to improve even further. Last year, for instance, we adopted a package of cost-reduction measures in order to achieve our mid-term targets. From 2025, we will reduce annual administrative costs in Automotive by €400 million.

We also want to become considerably more efficient in research and development. Automotive's R and D ratio, in other words its ratio of research and development expenses to sales, improved from 12.4 percent in 2022 to 11.8 percent in 2023. Our goal is to develop top technologies even more efficiently, and with this goal in mind, we will reduce our net research and development expenses to around 9 percent of sales by the end of 2028. To achieve this, we will consolidate development units and improve capacity utilization. By doing so, we will be able to

leverage synergies in work processes more efficiently. Despite the reduction in the R and D ratio, absolute expenditure on research and development may continue to increase in the medium term in line with expected sales growth.

The Tires group sector achieved a very good result. Sales amounted to €14 billion, roughly on a par with the previous year. The adjusted EBIT margin was 13.5 percent. The continued high share of premium tires and a strong end-of-year business in Europe had a positive effect.

Our ContiTech group sector posted a solid performance over the course of the year. Its sales amounted to €6.8 billion, up 3.7 percent year-on-year, which had a positive impact on earnings. The adjusted EBIT margin was 6.7 percent, a significant increase from 4.7 percent in the previous year.

Let's now take a look at some other key financials for the Continental Group: In total, we generated net income of €1.2 billion – an encouraging increase compared with the previous year's figure of €67 million. Furthermore, we significantly increased our adjusted free cash flow to around €1.3 billion in the past fiscal year. We therefore slightly exceeded our cash flow target, thanks to improved operating earnings and reduced inventories and receivables.

On the basis of these earnings, the Executive Board will propose to the Annual Shareholders' Meeting a dividend of €2.20 per share, which amounts to a distribution of around €440 million. This puts us at the upper end of the range, adjusted by us at the Capital Market Day, for dividend distributions of around 20 to 40 percent of net income.

Our balance sheet remains solid: Our equity ratio is 37.4 percent, which represents an improvement on the previous year. Our liquidity cushion remains appropriate. At the end of 2023, it totaled more than €7 billion.

And now for our outlook for the current year: We expect roughly the same level of global passenger car and light commercial vehicle production as last year. Year-on-year, it is likely to change by -1 to +1 percent. Additional costs for wages and salaries of around €500 million are expected to be a major burden in 2024.

Based on our assumptions regarding the trends in our markets and industries, we anticipate consolidated sales of around €41 billion to €44 billion and an adjusted EBIT margin of around 6 to 7 percent.

The expectations for our three group sectors are as follows:

For Automotive, we expect sales of around €20 billion to €22 billion and an adjusted EBIT margin in the range of around 3 to 4 percent. A large part of the financial improvement in Automotive in 2023 was achieved in the second half of the year and was due to price adjustments. We will once again be holding talks with some of our customers in 2024. Our expectation is that, like last year, these will result in an improved operating profit in the second half of the year. Together with the initial effects from the measures taken in Automotive, we therefore anticipate a stronger second half of the year.

Sales in the Tires group sector are expected to amount to around €14 billion to €15 billion, and the adjusted EBIT margin to around 13 to 14 percent.

For ContiTech, we expect sales of around €6.6 billion to €7.0 billion and an adjusted EBIT margin of around 6.5 to 7.5 percent. Adjusted free cash flow is expected to be around €0.7 billion to €1.1 billion.

Why are these figures below last year's level?

The main reasons for this are as follows: In order to strengthen its liquidity during the financial market crisis, Continental sold 24.9 percent of its shares in ContiTech AG to Continental Pension Trust in 2009. The shares have now been bought back, restoring the original ownership structure. The payment this year will have a negative impact on our cash flow of around €500 million. Furthermore, we anticipate additional special expenses of around €500 million. These relate to the carve-out of ContiTech's automotive business and Automotive's User Experience business area, as well as the measures already announced to strengthen competitiveness. We therefore expect total negative special expenses of around €1 billion, which will impact adjusted free cash flow in fiscal 2024.

That just about wraps up our expectations for 2024. Even without automotive market growth and despite a volatile environment, we are striving to improve further. We have laid the foundation and adopted appropriate measures, which we will now implement rigorously. We are therefore looking ahead with confidence, but nonetheless conscious of the numerous challenges awaiting us in the fiscal year ahead.

## Nikolai Setzer, CEO:

As you've heard:

- We've increased our earnings.
- We've taken the necessary measures to safeguard our future.
- And we're expecting a further improvement in earnings this year.

That won't happen by itself. It's only possible if we work as a team. And working together as a team is precisely how we achieved so much last year. This is something we can be proud of. My special thanks go to our around 200,000 employees worldwide.

Our focused portfolio and our comprehensive hardware, software and digitalization expertise give us a unique edge. No other supplier offers this, which is why, today, four out of five new cars are equipped with hardware and software solutions from Continental. This comes as no surprise to us, because we are well positioned when it comes to innovation and future technologies. According to a renowned innovation study, Continental is the leading automotive supplier worldwide in terms of both the number of innovations and their value.

This innovative strength is paying off. Last year, for example, we were able to boost our order intake in the Automotive group sector to more than €27 billion, an increase of around 16 percent compared with the previous year. These orders demonstrate how we're shaping the mobility of the future.

Together with the company Aurora, we're taking a decisive step toward autonomous mobility. Starting in the USA, we will be bringing the first fully autonomous trucks to the road from 2027. The system design is already in place – less than a year after our partnership began. This will be the first autonomous trucking system in the world to go into production and will allow trucks to transport freight in a third of the time – without a driver, with less fuel and therefore with lower CO2 emissions. To make autonomous driving a reality, AI is key. We use AI to test our systems. Our cameras, for example, feature advanced AI. We use this to improve the detection of pedestrians and traffic signs. And AI is also a driving force when it comes to communication between driver and vehicle. For this purpose, we're equipping vehicles with AI jointly with Google, allowing you to ask about interesting things to see along the route or at your destination. This combination of AI and our vehicle computers will find the information you're looking for.

In fact, we've already achieved some major successes with our portfolio of vehicle computers. Thirty vehicle models worldwide featuring our powerful computers will be on the market by the end of 2024. We're also a strong partner to automotive manufacturers in the area of vehicle safety. As part of one such partnership, we're combining our brake technology with electric motors from DeepDrive to improve the coordination between motors and brakes. The new design is used at the wheel directly, enabling a high degree of efficiency when accelerating and braking.

Vehicle safety is also fundamental in the direct vicinity of the vehicle. In Germany alone, more than 50,000 accidents involving persons were caused by driver error when turning, reversing and parking in 2022. Every accident is one accident too many. We can provide greater safety with dynamic near-field projection. Dynamic turn signal and backup warnings, for example, can be used to show people nearby if the vehicle is about to back out of a parking space. The effects used are based on the latest micro-LED technology. This ensures added safety, particularly in the case of electric cars, which barely make a sound.

The world's first automotive display embedded in transparent Swarovski crystal is also based on this latest micro-LED technology. An innovative solution for premium vehicles that has already gained us the CES Innovation Award for outstanding product design. This innovative product was developed by our User Experience business area, which we are making organizationally independent with the aim of opening up new strategic options. It is in fact part of our strategy to regularly review whether Continental is the best owner for our business activities. In particular, we examine industrial and financial aspects. We analyze the extent to which a business has a clear technology focus, growth potential and relevance for our systems expertise. We also look into whether we can operate the business profitably at the highest possible level.

A further business area that we are making organizationally independent is Original Equipment Solutions, which covers a large part of ContiTech's automotive business. Possible options include the onboarding of a strategic investor, a joint venture or a sale. Another area of focus for the ContiTech group sector is the industrial business. Our aim here is to increase the industrial share of ContiTech's sales from currently around 52 to 80 percent.

We will also be intensifying our activities relating to hydrogen. By 2030, we expect a market volume of around €220 million for our products. We then expect further strong growth in subsequent years. For this reason, we established a TechCenter for hydrogen in Hamburg last year. With our materials expertise, we develop products along the entire value chain, from the production and transport of hydrogen through to its storage and use. As an example, we're already developing hoses for the transport of gaseous hydrogen, which is transported at pressures of up to 700 bar. The forces acting on our hoses are therefore immense. By way of comparison, the air pressure in a car tire is around 2.5 bar. Hydrogen is a key future market since it will help to supply energy to the world more sustainably.

A particularly innovative example in the area of sustainability is our solution for combating weeds, which will allow farmers to dispense with herbicides and rid their fields of weeds in a fully sustainable way. How? When driving over a field, the prototype detects the weeds using software and AI, supported by optical sensors – all technologies developed in-house at Continental. The weeds are then targeted and destroyed using hot water, without the need for any chemical agents. This system delivers a highly efficient, precise and sustainable method for combating weeds.

Technological expertise and sustainability – two concepts that are also synonymous with our Tires group sector in particular. A perfect example of this is our UltraContact NXT, the most sustainable production tire currently on the market. Available at specialist tire dealers in Europe since July, it is made from up to 65 percent renewable and

recycled materials. It has the highest possible EU tire label rating in all areas: rolling resistance, wet braking and exterior noise. We're also delighted with the international awards it has received from customers and experts.

Developing sustainable premium-quality tires requires in-depth technological expertise, innovative spirit and, just as importantly, extensive tire testing. After all, safety is what sets our tires apart. Every year, new tire models from Continental cover around 25 million kilometers in total on test benches and test tracks before they go into production. That's equivalent to driving around the Earth 625 times or to the Moon and back 32 times. At our one-of-a-kind test track at the Contidrom, we can conduct driverless and fully electric tire brake tests all year round. Since 2012, we've completed more than one million road tests here: efficiently, while also conserving resources and reducing carbon emissions. These tests help to continuously reduce the braking distance of tires, helping ensure greater road traffic safety. At the facility, vehicles are accelerated to speeds of up to 120 kilometers an hour over a track of just under 100 meters. They are then autonomously braked on a 75-meter braking section. Around two-thirds of our tire brake tests take place at this facility. In total, we've already tested more than 130,000 tires there.

The Contidrom is our oldest tire testing center, but it's also technologically state-of-the-art. More and more tire tests are now being conducted virtually, meaning we can test the tires with the aid of a dynamic driving simulator even before we manufacture them. This allows us to save around 10,000 test tires and around 100,000 test kilometers each year, economizing on raw materials and shortening development times as a result. At the same time, we can cater even better to the needs and requirements of our customers.

And our efforts are being rewarded: the world's 10 highest-volume manufacturers of electric vehicles all trust in Continental tires for their original equipment. This is evidence of our development expertise and the premium quality of our tires.

As you can see, we are committed to the highest technological standards. And this commitment goes hand in hand with the high standards we set ourselves. The same, of course, also applies to integrity and law, an area that we have strengthened significantly over the past year. In Olaf Schick, we welcomed a new member to the Executive Board in May. Together, we're setting the highest standards in this area and adding to our strengths, since the benchmark for our actions is responsible and sustainable value creation.

We also strive for responsible solutions in our transformation, because change that is fair and socially responsible is part of our DNA. Our location in Gifhorn is a case in point. For economic reasons, we are no longer able to operate here. So we sought out alternative jobs for the employees affected at an early stage – and had success doing so. Stiebel Eltron is planning to create around 300 jobs at the location, providing good prospects for our employees. Siemens in Braunschweig, just under 30 kilometers away, has also expressed interest in taking on up to 100 Continental employees. And we're also involved in talks with further companies. We're preparing our employees in Gifhorn for these new opportunities. At our in-house training institute, CITT, we're training them in new tasks. In this way, we're helping as many of our employees as possible to transition from one job to the next.



A further step for introducing employees to new opportunities is ContiMotion, a company we set up specifically for job placement services. Its goal is to place our employees on both the internal and external job market. But only temporarily. Since, due to demographic change, we'll continue to need a large number of specialist staff in the future. Our aim is therefore to recruit new employees for our job placement service and train them to meet our own needs. This joint project with the IG BCE is the only one of its kind in Germany.

These examples all show how we're taking responsibility to actively shape change and break new ground. As you've also seen: we're improving and moving forward. Of course, we're still a long way from our goal, so we'll need to keep up the hard work.

What ultimately counts for us is:

First: to expand our technology position wherever this gives us an edge over the competition and where we can create more value.

Second: to achieve our mid-term targets with a clear plan for improving performance and to develop our growth areas into profitable business.

Third: to ensure that our group sectors constitute a balanced and resilient portfolio. We will manage this process flexibly, proactively and with foresight, including by making adjustments to our portfolio, as announced at our Capital Market Day in December.

Like our dynamic markets, we too will continue to develop and change as a company. As the Executive Board, this involves fulfilling our responsibility and continuing to regularly review our portfolio.

Ladies and gentlemen,

in 2024, we will once again tackle the challenges facing us head on. We will pursue our goals with determination and take further steps forward. The lessons we've learned in the past form the basis for our further development. We're confident we'll make the most of the opportunities arising from the changes to mobility. We did this last year. And we will prove it once again this year.

Thank you!