Continental

Press Release

Continental Gains Speed on the Road to Success

- **EBIT up more than €1 billion in first half of 2010 and tops pre-crisis level**
- **Sales of €12.7 billion / EBIT margin 8.0%**
- **Net indebtedness reduced further / Leverage ratio of net indebtedness to EBITDA** drops to below 2.5**

Hanover, July 29, 2010. In the first half of 2010, the Continental Corporation's EBIT topped the pre-crisis level of the first half of 2008. Borne by the continuing recovery of the auto markets and the increased operational performance, the international automotive supplier achieved EBIT of more than €1 billion and thus nearly €100 million more than in the first six months of 2008. At the same time, consolidated sales in the first six months rose by a good €3.5 billion, or 40%, to €12.7 billion, compared to the figure for the same period of 2009. Sales however still remained €600 million below the value for the first half of 2008. At 8.0%, the EBIT margin in the first half of 2010 also climbed above the pre-crisis level: in the first six months of 2008, there was an EBIT margin of 6.9%.

"As already announced, Continental is well on its way to emerging from the crisis stronger than before, as demonstrated by the successes achieved in operations with the very positive development of EBIT and the EBIT margin that exceeded the pre-crisis margin. This is also however obvious from our balance sheet, which we have improved substantially since the beginning of the year with the capital increase and the equally successful placement of an initial bond, as announced. With this basis, we are tackling the upcoming tasks brimming with confidence," said Continental Executive Board chairman Dr. Elmar Degenhart on Thursday, on the publication of the half-year financial report. "We were also able to reduce our net indebtedness further and significantly improve key financial figures such as the gearing ratio and the leverage ratio of net indebtedness to EBITDA**."

Consolidated sales for the first six months of 2010 jumped 39.6% year-on-year to €12,654.4 million (PY: €9,063.2 million). Before changes in the scope of consolidation and exchange rate effects, sales were up 36.4%.

.../2

Your contact:
Hannes Boekhoff, phone: +49 511 938-1278

The adjusted* EBIT for the corporation was up in the first six months of 2010 compared with the same period of 2009 by €1,057.4 million, or 425.2%, to €1,306.1 million (PY: €248.7 million), equivalent to 10.4% (PY: 2.8%) of adjusted sales. In the first half of 2010, **consolidated EBIT** was up €1,137.3 million on the previous year to €1,011.1 million (PY: -€126.2 million), an increase of 901.2%. The return on sales was higher at 8.0% (PY: -1.4%). **Net income attributable to the shareholders of the parent** rose 176.3% to €348.9 million (PY: -€457.1 million), with earnings per share higher at €1.74 (PY: -€2.70). Here, the write-down of tax loss carry forwards totaling €88.0 million had a negative impact in the second quarter in particular.

Continental Corporation	**€ millions**		**Margin in %**	
	1-6/2010	**1-6/2009**	**1-6/2010**	**1-6/2009**
Sales	12,654.4	9,063.2		
EBITDA	1,824.3	697.2	14.4	7.7
EBIT	1,011.1	-126.2	8.0	-1.4
Adjusted EBIT*	1,306.1	248.7	10.4	2.8
Net income attributable to the shareholders of the parent	348.9	-457.1		
Earnings per share (in €)	1.74	-2.70		

At €8,016.9 million, **net indebtedness** on June 30 was €878.6 million lower than on December 31, 2009, and €1,729.7 million lower than on June 30, 2009. Since the end of 2007, Continental has been able to reduce the net indebtedness by more than €2.8 billion. This reduction can be attributed in particular to the capital increase implemented in January 2010, which resulted in net proceeds of a good €1 billion, in addition to the strong free cash flow in the past two years. The resulting strengthening of the company’s capital base (equity ratio 24.6%) in conjunction with the reduction of net indebtedness produced a **gearing ratio** of 133%, a major improvement in comparison to the ratio for the same period of 2009 (186%). With the most recent finance measures, it was also possible to further improve the maturities profile of the company's indebtedness.

At -€321.9 million, **net interest expense** improved slightly by €7.3 million in the first half of 2010 compared with the same period of last year (PY: -€329.2 million). This decrease was due, among other things, to positive (mostly non-cash) effects of exchange rate changes.

.../3

Your contact:
Hannes Boekhoff, phone: +49 511 938-1278

The interest expenses, which resulted primarily from the utilization of the VDO loan, rose only slightly by €0.4 million year-on-year to approximately €353 million. “Thanks to the lower market interest rate as well as the substantial reduction in net indebtedness, we were able to keep interest expense at the previous year level,” commented Continental CFO Wolfgang Schäfer. This was impacted, however, by a higher margin level resulting from the decline in our rating during the course of 2009, as well as the renegotiation of the terms of the VDO loan in December 2009.

In the first half of 2010, **free cash flow** stood at -€43.9 million (PY: €689.8 million). Negative effects in the first half of 2010 resulted in particular from the higher working capital owing to substantial increases in sales in all business fields as well as higher tax payments and cash outflow for investment activities in comparison to the first half of 2009. These negative effects were not offset by any comparable positive effects in the period under review.

In the first two quarters of 2010, €430.1 million (PY: €413.7 million) was invested in property, plant, equipment and software, The **capital expenditure ratio** after six months thus amounted to 3.4% (PY: 4.6%). In the first half of 2010, **research and development expenses** rose by 3.3% compared with the same period of 2009 to €754.4 million (PY: €730.6 million), representing 6.0% (PY: 8.1%) of sales.

At the end of the second quarter of 2010, the corporation's **employees** numbered 142,765, an increase of 8,331 compared with the end of 2009 and of 12,231 compared with the prior-year period.

A **look at the two groups** of the Continental Corporation confirms the recovery of the global automotive markets as well as the effectiveness of the cost-cutting programs initiated already in 2009. In the first half-year, the **Automotive Group** generated sales of €7.86 billion and reported EBIT of €360.7 million (PY: -€440.7 million). This corresponds to a margin of 4.6%, following -8.2% a year earlier. The adjusted EBIT margin is 7.7%, after -2.1% a year ago. “So after a very good start to the year in the Automotive Group, the positive trend continues. If business continues to thrive, break-even point for the Powertrain division will be within reach by as early as the end of this year,” Degenhart explained.

.../4

Your contact:
Hannes Boekhoff, phone: +49 511 938-1278

Automotive Group	€ millions		Margin in %	
	1-6/2010	1-6/2009	1-6/2010	1-6/2009
Sales	7,858.9	5.359.1		
EBITDA	950.3	173.9	12.1	3.2
EBIT	360.7	-440.7	4.6	-8.2
Adjusted EBIT*	605.2	-110.1	7.7	-2.1

In the first six months, the **Rubber Group** generated sales of a good €4.8 billion and reported EBIT of €690.7 million (PY: €338.3 million). The margin amounted to 14.4%, compared with 9.1% the year before. “In the first six months of this year, we already felt the effect of raw material costs, which have been rising since last year. It has however been possible to mitigate this effect with higher sales volumes on the whole. We are, though, expecting to be burdened further with roughly €250 million from rising raw material costs in the second half of 2010 alone," Degenhart added.

Rubber Group	€ millions		Margin in %	
	1-6/2010	1-6/2009	1-6/2010	1-6/2009
Sales	4,806.6	3,710.4		
EBITDA	912.9	546.5	19.0	14.7
EBIT	690.7	338.3	14.4	9.1
Adjusted EBIT*	734.0	382.6	15.5	10.3

Outlook: Significant increase in adjusted EBIT expected

Continental Executive Board chairman Degenhart confirms the outlook that was adjusted at the beginning of July. “In view of the development of Continental’s most important sales markets, we are upping our sales forecast from at least 5% to about 15% for 2010. We still expect a significant year-on-year increase in adjusted* EBIT. From the current perspective, we anticipate that the adjusted* EBIT margin will be in the range of 8.0% to 8.5% for 2010. Here, we expect to be burdened with roughly an additional €250 million from rising raw material costs in the second half of 2010 alone. Special effects, which amounted to €70 million in the first half of 2010, are expected to total about €100 million for the whole year.

* Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.
** Adjusted EBITDA Q2/2009 to Q2/2010

.../5

Your contact:
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With sales of approximately €20 billion in 2009, Continental is among the leading automotive suppliers worldwide. As a supplier of brake systems, systems and components for powertrains and chassis, instrumentation, infotainment solutions, vehicle electronics, tires and technical elastomers, Continental contributes enhanced driving safety and global climate protection. Continental is also a competent partner in networked auto-mobile communication. Continental currently employs approximately 143,000 in 46 countries.

Dr. Felix Gress
Senior Vice President
Corporate Communications
Continental AG
Vahrenwalder Strasse 9
30165 Hanover, Germany
Ph.: +49 511 938-1485
Fax: +49 511 938-1055
E-mail: prkonzern@conti.de

Hannes Boekhoff
Vice President
Media Relations
Continental AG
Vahrenwalder Strasse 9
30165 Hanover, Germany
Ph.: +49 511 938-1278
Fax: +49 511 938-1055
E-mail: prkonzern@conti.de

Half-year financial report: www.conti-online.com/financialreports

Media database: www.mediacenter.continental-corporation.com