



# Your Future Starts Earlier with Continental

Statements by the Chairman of the Executive Board

Dr. Elmar Degenhart

Continental Aktiengesellschaft, Hanover, Germany

at the

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**Check against delivery.**

Dear shareholders,  
members of the Supervisory Board,  
ladies and gentlemen,  
honored guests.

I am delighted to see you here today.

We truly appreciate your interest in our work – and our contributions to the future of mobility, which is currently being redefined. It is supposed to be even safer, even cleaner, and – above all – fully connected.

All of this requires more efficient, more intelligent, and more sustainable mobility solutions. At the same time, digital developments are challenging our industry's proven business models.

With your Continental, this future is starting earlier.

We are prepared for this major change. After all, for more than 145 years now, our business model has been centered around individual mobility – our great passion.

We are playing a pioneering role in shaping mobility – and have been doing so ever since back when we began, starting off with solutions and products from rubber and plastics. In the process, we have been continually honing and expanding our skills.

Then, in 1998, came the leap to becoming a supplier of mechanical, electronic and sensor systems. Companies like Teves, Temic, Motorola, and Siemens-VDO joined us, broadening your Continental's business field significantly.

### **The path to becoming a hi-tech company**

Today, just 18 years later, tires and other products from rubber and plastics make up 40 percent of our consolidated sales.

In the meantime, the sales we generate with digital technologies for mobility are at a similar level of €14 billion, and this will increase rapidly over the coming years.

This is exactly what sustainable companies do. They continually challenge and question themselves. They are constantly adapting themselves and - if necessary - their proven business models. They recognize opportunities early on. They are fully determined. They improve well-trodden paths and create new ones.

Our benchmark has remained the same for 145 years: the success of our customers. In this way, we can

- › Create added value for all our stakeholder groups.
- › Provide employment for more than 212,000 people.
- › Make an important contribution to the growth and prosperity of individuals and society as a whole.

But most importantly, we are fully aware of our responsibility.

## **Four corporate values**

And what's more, we live up to this responsibility. Our corporate culture is firmly rooted in our four values:

- › Trust
- › Freedom To Act
- › Passion To Win
- › For One Another

These four values guide us. And this guidance is crucial in an increasingly complex and volatile world.

We do, after all, firmly believe that values create value.

And I stand behind this fully, as do my colleagues on the Executive Board, and the whole of the global Continental team.

In line with our values, we act purposefully, flexibly, and with agility. This is where our unique strength lies: in the rapid development of new products, systems, features, and solutions for our customers.

Over the past few years, we have laid the foundation for this.

- › Our finances are in excellent shape.
- › We make decisions backed by our strong position.
- › We act tactically and decisively in a challenging environment.

## **Share price performance**

Your investment has benefited from this. You have put your money on the right horse – the Continental horse.

Today, you – and all of us – are the winners.

Congratulations!

We are delighted about the recognition our investor relations activities received recently. Analysts and investors from all over Europe chose Continental as their favorite in the automotive industry – in four out of five categories.

## Review of 2015

In 2015, we were once again faced with a very challenging market environment. Accordingly, our targets were equally challenging. Yet we achieved all of them. Here are the key figures:

- › Sales: €39.2 billion, which corresponds to growth of almost 14 percent. Exchange-rate effects and sales contributions from acquisitions contributed ten percentage points to this growth, so in purely organic terms, we grew by four percent. This means we once again exceeded market growth.
- › Earnings before interest and taxes: €4.1 billion, an increase of 23 percent.
- › The adjusted EBIT margin rose to 11.8 percent.
- › Another top figure was our free cash flow, which amounted to €2.7 billion before acquisitions. That's another €500 million more than the year before. Taking into account acquisitions of companies such as Veyance Technologies and Elektrobit Automotive, this figure was still €1.4 billion.
- › Our total equity is at an all-time high of €13.2 billion, resulting in an equity ratio of 40 percent.
- › Our automotive business posted above-average results, with sales rising by five percent in organic terms. This meets our growth rate target, which should be four to five percentage points a year above the global growth in automobile production.

Market growth in Europe and the U.S.A. helped us here by compensating for weak development in other markets in 2015, including major recessions in Russia and Brazil, and slower growth in China.

- › Lower costs for raw materials had a positive impact of around €250 million for our Rubber Group.
- › The Tire division posted particularly positive results, which were once again up on the previous year. It sold five percent more tires, boosting its sales revenue to over €10 billion. The adjusted earnings margin before interest and taxes reached 20 percent. The Tire division alone thus contributes half of the corporation's EBIT.
- › Sales in the ContiTech division grew by more than 36 percent to €5.4 billion, due chiefly to the acquisition of Veyance Technologies. Not taking into account this acquisition and exchange-rate effects, business grew by almost four percent.

There was a slight decrease in this division's adjusted earnings before interest and taxes. This was due to continued weakness in business with mining companies as well as significantly lower demand from the petrochemical industry.

Our overall success, however, shows impressively that:

- › Your Continental is growing fast.
- › Your Continental is profitable.
- › Your Continental is in great shape.

## **Outstanding employees**

Our employees worldwide made a significant contribution to our success in 2015:

- › with total commitment
- › with outstanding work
- › with great passion

Our thanks go to the entire global Continental team.

## **Earnings per share, dividend, and share-price increase**

As shareholders, you have thus invested your money wisely.

Our profit after taxes amounted to €2.7 billion, which corresponds to €13.64 per share. Compared to the excellent year before, this was a significant rise of 15 percent.

For this reason, the Executive Board is again proposing to increase the dividend accordingly to €3.75 per share.

This corresponds to a total payout of €750 million – an all-time high – and a dividend payout ratio of 27.5 percent.

Last year, you received a dividend of €3.25 per share.

It has now increased for the fourth year in a row.

In addition, the share price has increased by almost 28 percent, amounting to a return on your investment of almost exactly 30 percent in 2015.

We would like to thank you for the trust you have placed in our performance.

We promise that we intend to remain among the best.

And we will do our utmost to ensure that your investment is among the best.

Keep having faith in the future.

Count on your Continental!

## **Three major challenges**

Ladies and gentleman,

Let us now take a closer look at this future. Our planet and the people who live on it face major challenges.

Three of them are particularly important for our business:

- › Clean air and lower emissions,
- › Enhanced safety and zero accidents on the road,
- › Interconnected mobility and new services.

Your Continental is making key contributions to all three of these challenges.

And we must do so because we and our industry have an enormous responsibility here to society.

## **Clean air and lower emissions**

The challenge of clean air: the agreement that was negotiated at the recent United Nations Climate Change conference was officially signed a few days ago. Experts expect that global warming will cause a rise in sea levels, which, in the worse case, could result in as many as 500 million refugees.

If this prediction is true, there will be chaos on a global scale. Today there are already some 60 million refugees throughout the world. Just imagine that, in the future, there could be around eight times as many.

Carbon dioxide is largely responsible for global warming. Over a billion vehicles produce almost one-fifth of carbon-dioxide emissions.



The battle against harmful emissions has therefore entered a decisive phase, which is why government regulations on climate protection are getting stricter – and rightly so – in Europe, the U.S.A., China, and Japan.

Today, more than seven billion people require mobility. By 2060, there will probably be ten billion. The number of vehicles will continue to increase.

The internal combustion engine will continue to be the main type of drive system far beyond 2020. Our industry is struggling to find the right solutions.

## **Key components for low-emission drive systems**

We are tackling this challenge.

Our contribution is a comprehensive approach to low-emission drive systems.

Key components include the following:

- › Direct injection and turbocharger technology.
- › Exhaust-gas after-treatment.
- › Electrification of the drive system.
- › Connected cars and the ability to see what's ahead and drive economically

Our current technologies help reduce fuel consumption by an average of 20 percent.

Each percentage point improvement counts. After all, when it comes to clean drive systems, our developers are already pushing the boundaries of technology.

Further innovations from Continental are therefore necessary:

- First example: chassis components made of high-performance plastic. This makes transmission crossmembers around 50 percent lighter – a new dimension in automotive engineering. Lighter components made by Continental will reduce the weight of cars in the future by more than 20 kilograms. The lighter a car is, the better it is for the environment.
- Second example: our latest ContiEcoPlus truck tires. They save around 4.6 liters of diesel for every 100 kilometers. They do so thanks to their lower rolling resistance, which is 26 percent lower than that of the previous tire generation.

When it comes to driving without any emissions, the electric vehicle, of course, is the ideal solution. But it is likely to remain a niche product in the coming years due to the high costs and insufficient capacity of battery cells.

### **Higher voltage required: 48 volts**

We need an interim solution, which is why we are combining the internal combustion engine with an electric drive system. We are talking here about a hybrid drive system.

Its secret is a relatively small electric motor that eases the burden on the gasoline or diesel engine depending on the driving situation. Its on-board power supply operates with an increased voltage of 48 volts.

Our technology has the potential to become the people's hybrid, because it is inexpensive and can be used in almost all vehicle classes.

It is going into production in Europe now and in Asia and the Americas soon.

## **Just presented in Vienna: new technology reduces fuel consumption by up to 25 percent**

We have just unveiled the second generation of our technology in Vienna. The technologies from the three partners help cut fuel consumption by up to 25 percent compared to that of the reference vehicle.

When it comes to diesel engines, our technologies not only lower CO<sub>2</sub> emissions, but also reduce nitrogen oxide emissions by up to ten percent – an additional environmental benefit.

## **Electric drive today: too large, too heavy, too expensive**

Moreover, we are investing heavily in technologies for zero-emission mobility. We are paving the way for all-electric vehicles.

But we still have a huge amount of work to do here.

After all, customers do have high expectations. Electric vehicles need to...

- › ... have a service life of at least 250,000 kilometers.
- › ... have a range of 500 kilometers on a single charge – and that's on the road, not in the laboratory.
- › ... be affordable, since they are still far too expensive.
- › ... be charged wirelessly – to around two-thirds capacity while you're having a coffee break.

The crucial question is therefore: When will a battery cell be available that meets all these requirements?

The key here is the cells' energy capacity, weight and volume.

A mid-size car needs around 100 kilowatt hours of energy to travel 500 kilometers. Today's lithium-ion batteries can provide this. But to do so they would take up almost 190 liters of space, which today is half the room in a mid-size car's luggage compartment; they would also weigh over 300 kilograms; and a system like this would cost almost €25,000.

Too large, too heavy, too expensive – and therefore not suitable for everyday use.

In order for electric drive systems to be a success on the market, the target is therefore: 100 – 100 – 150.

That means the battery will need to provide 100 kilowatt hours of energy, have a physical size of 100 liters, and weigh 150 kilograms.

So compared to the systems available today, they will have to be half the size, half the weight, and significantly less than half the price.

The experts say that this is almost impossible to achieve with today's technology, which is why researchers and developers are working on new technologies as we speak. But as things stand, these will not be ready for production until around 2025 at the earliest.

One thing is clear: our industry needs such a powerful battery. It would be great if it were to be made in Germany, but energy costs are a major obstacle here. They are roughly twice as high in Germany as they are in Poland, the Czech Republic or Romania.

It is already evident that, with today's electricity prices, it is not economically viable to manufacture battery cells in Germany.

Furthermore, without completely green sources of energy, electric cars will not make any meaningful contribution to protecting the environment.

Today's energy mix in Germany means that an electric car's carbon footprint is no better than that of a vehicle with a gasoline or diesel engine. Not worse, but not better.

Reducing emissions from cars will not help the environment that much if we do not reduce emissions from power stations as well.

The emission scheme for cars with combustion engines must be designed according to real driving profiles. This is why the emissions of cars must be measured under real driving conditions.

## **Enhanced traffic safety**

The next topic for the future is enhanced traffic safety.

There are still more than 1.2 million road traffic fatalities around the world each year.

For us it is simply unacceptable that 3,300 people lose their lives and 140,000 are injured on the roads every day.

It is time to put road accidents in a museum.

## **Electronic guardian angels**

The technology for doing so is already available and is now being fully integrated into cars.

It includes our advanced driver assistance systems and our tires, both of which can be found on millions of vehicles. Advanced driver assistance systems are like electronic guardian angels. They...

- ...keep the vehicle in the lane and on the road.
- ...monitor the blind spot.

- › ...brake autonomously or get help in emergencies.
- › ...detect the surrounding environment and any dangers.
- › ...park autonomously.

Advanced driver assistance systems of this kind are our strongest growth area. As early as this year, we will generate sales of more than €1 billion with them and the associated sensor systems.

By 2020, we expect sales to have exceeded the €2 billion mark, doubling again in just five years.

We are continually improving our technology with this in mind. Last fall we acquired the automotive operations of the sensor specialist ASC, based in California, U.S.A. ASC is a leading manufacturer of a specialized, highly integrated laser camera that can reliably and accurately record a vehicle's surroundings in 3D.

These kinds of laser sensors, together with cameras and radar sensors, are the ideal eyes for a car. They complement each other. They are always alert, no matter what the weather. Day and night. Just what is needed for automated driving.

A highly developed system in a car comprises as many as five radar sensors, up to five cameras, and a laser sensor. Plus two electronic units for processing the data.

This type of technology package will be available by roughly 2020.

Sensors, electronics, and control units for automated driving will be a key business in the future. By 2020, they will generate one in ten euros for the divisions in our Automotive Group, amounting to annual sales of more than €3 billion.

## **Central source of information: 2025AD.com**

Our new English-language Internet platform “2025AD.com” is THE central source of information for automated driving worldwide. From 2025, fully automated driving will be possible. We have set up two screens in the foyer outside to the left of the stage. Please have a look if you get the chance.

## **Tires and sensors**

In the future, sensors will be found increasingly throughout the car and today they are already used in tires:

- › One example is ContiPressureCheck, an automatic tire-pressure monitoring system, which saves time and money. Correct tire pressure lowers fuel consumption, reduces tire wear, and increases safety and reliability.

## **New top tire launched**

- › Another example is the new Continental SportContact 6, a high-tech tire that is just as innovative and valuable as state-of-the-art electronics. It constantly provides maximum grip and utmost steering precision – and it does so at top speeds and in any weather.

In the future, we will equip tires with sensors, which will enable the vehicle to feel the condition of the road directly.

And there's more. This data provides us with important information such as the vehicle's payload as well as tire grip and slip on any surface.

Tire sensors therefore complete our self-learning system for anticipatory, accident-free driving.

## **Interconnected mobility and urbanization**

The third challenge is that of urbanization and digitalization.

By 2050 more than two-thirds of the world's population will live in cities, which is also where most of the anticipated two billion vehicles will be found.

In the future, owning one's own vehicle will not be as important for many city dwellers as it is today. Instead they will be more likely to use shared mobility services (e.g. ride sharing and car sharing), rent a car on the spur of the moment, or take advantage of a fleet of small autonomous vehicles.

Cars will therefore be used almost around the clock. They will need to be emission-free and reliable. They will also have to adapt to the specific needs of their users, which is where connecting humans and vehicles will play a key role.

More digital services are the key to meeting these new requirements. Cars are therefore becoming part of the Internet, as is practically everything that turns and moves. Sharing data over the Internet will make mobility more efficient, more flexible and more convenient.

Today, some three billion people around the world use the Internet for three hours every day. That's nine billion hours a day spent sharing information and being entertained.

Today, 1.2 billion cars around the world are actually used for about just one hour day. In theory, that is 1.2 billion additional hours a day for using the Internet - provided of course you are allowed to do so while driving.

Young people, in particular, want more intelligent mobility. One that fits their lifestyle: seamlessly connected and totally secure. They ask themselves why their most expensive piece of technology is also the least connected.



Most people don't leave home without a smartphone. Unfortunately, this means they often use it while driving. Many accidents occur because a driver's attention has wandered.

Our automated driving features can help here. They assist drivers and intervene if necessary should the driver become distracted.

## **Holistic dialog between human and machine**

We develop self-learning systems for just such situations. We make them part of a holistic dialog between the human and the machine. By doing so, we are preparing the way for a completely new driving experience.

In the future, your Continental will make driving easier: cars and people will talk and listen to one another.

My car will call me by name.

It will learn and remember my habits and preferences.

It will become my attentive friend and protective companion.

As I approach my car in the parking lot on a winter evening, it's already thinking, "I bet Elmar wants to go home."

My friend is expecting me so it has already switched on the heater and warmed the car. It has de-iced the windows.

It has turned on my favorite radio station and determined the quickest route home.

Screens replace analog instruments inside the vehicle. On these screens I will see precisely the information I need at that moment: images of the road ahead and the vehicle's surroundings, as well as warnings and news.

The most important information will be displayed on the windshield in front of me. This involves the computer combining graphics and text on the traffic situation and what's happening on the road ahead. It draws the route on the road in front of my eyes.

My friend anticipates what's coming ahead. It slows down when approaching an intersection if the traffic light is about to turn red, eliminating unnecessary accelerating and braking.

My friend drives in an automated manner, steering me through heavy traffic so that I am relaxed on arrival. On long journeys, I can lean back and enjoy the ride.

If I take my eyes off the road at the wrong moment, it will warn me.

Its light strip in the vehicle interior draws my eyes back to the road.

I will always be able to hear and see what my friend can hear and see and what it is planning to do. This will strengthen my trust in my friend and its technology.

And there's more. If I touch an active button with my finger tips, I will feel a response.

We really get along well - interactively and as naturally as if two people were communicating with each other. And it will not be necessary to read an instruction manual first.

Our innovations support this new type of dialog.

- › Our camera in the vehicle interior keeps an eye on what the driver is doing. We are currently developing this camera hand in hand with carmakers.
- › As many as 170 sensors measure what the vehicle is doing.

- › Our electronic control systems – up to 100 of them – use this information to continually interpret the typical behavior of the vehicle and the driver in the future.
- › And as many as 160 electric motors and electromagnetic valves implement the control signals into actions.
- › Our new eHorizon system monitors the whole route all the way to the destination. It can see what's around the curve or corner. It provides data about things the driver cannot see such as the route and condition of the road ahead. My friend is able to do so because it communicates with other cars and with traffic control computers.

Vehicles ahead send data in almost real time, enabling them to warn other road users of sudden danger spots, road closures, or obstacles, for example.

- › Our software programs combine the information gathered and use it to make predictions. They calculate what will happen next and make provisions. Since our programs are constantly learning, predictions and control become increasingly precise.
- › Our new road database servers are the backbone of our mobility services. This is where we process the available information and play it back to the vehicles: for example, on a digital road map.

As you can see, connectivity and dialog will turn driving machines into intelligent driving companions.

## **Mobility services**

The network connecting everything with everything will expand drastically in the next five years.

More than 250 million vehicles alone will be able to communicate with each other and with their environment.

This will present opportunities when it comes to new mobility services. Demand will probably outstrip the sales volumes of the car market. Take, for example, new ride-sharing services or predictive maintenance for cars.

We will share in this growth. We are focusing on the intelligent transportation systems (ITS) market, primarily on the following areas:

- › Fleet management
- › Maintenance management
- › Road safety
- › Advanced traffic management
- › Intelligent payment systems

By 2020, we anticipate additional market potential of around €60 billion, and are aiming to tap into this potential in various areas of our organization. One such area is our new Intelligent Transportation Systems (ITS) business unit in Silicon Valley, which we set up in 2014.

Our mobility and transportation services are not just limited to cars. Take, for example, our conveyor belts for conveying raw materials.

## **Conveyor belts**

Built-in sensors make them intelligent, enabling them to provide key data concerning wear, energy consumption, and service requirements.

With these types of products, we intend to increase our role as a provider of end-to-end service packages and preventive maintenance.

## **Research and development**

We employ over 30,000 developers, including more than 13,000 software experts who are systematically researching and developing the technologies required for future mobility.

Each year, we spend over six percent of our sales on this.

That adds up to more than €2.4 billion – another peak figure.

There are only a few companies in our industry that operate at this high level.

## **Growing number of employees**

We are hiring new staff in a logical and value-adding way.

Worldwide, more than 18,700 people joined our company in 2015, with some 10,000 coming from the acquisitions of Veyance (8,500) and Elektrobit (1,300). Over a quarter of our team works in Germany.

Diversity makes us strong, creative, and confident. We promote this diversity. To this end, we foster our corporate culture. Everybody benefits: the company, the employees, the customers, and society.

One of the goals we have set ourselves is to increase the proportion of women in management positions throughout the corporation to 16 percent by 2020.

Representation of women is an area where we see major room for improvement. This is why we have defined specific annual targets for our units. Over the next five years, progress will be reviewed by the Executive Board on a regular basis.

The proportion of women at management levels is currently 10.8 percent, an increase of over one percentage point in the last 15 months.

Furthermore, we are continually investing in the quality of our management personnel. We focus particularly on improving their leadership skills and networking behavior.

Last year more than 1,100 male employees took parental leave. That is 22 percent more than in the previous year.

### **Increase in employer attractiveness**

Our appeal as an employer is increasing significantly. In 2015, approximately 315,000 people applied to Continental worldwide. We received more than 100,000 applications in Germany alone, which is a third more than in 2014.

### **More trainees**

Continental is also the first choice as a training provider. Last year, we trained almost 2,100 (2,097) young people in Germany alone. That is 71 more young professionals than in the previous year.

This year we will be offering 690 positions in Germany alone for young people who want to start their careers. That is more than ever before in our company's history.

The high quality of our trainees is reflected in their excellent grades and the low dropout rate of just one out of 100. The industry average is 25 out of 100.

At Continental, practically minded individuals and lateral thinkers can go from career changers to career climbers. A specific program is primarily aimed at candidates with software and engineering skills.

This strategy is part of our new training course for automotive software developers.

Three-quarters of the 30 places on our course have been filled by people who didn't complete their degrees.

A few words about the integration of refugees from the Middle East. Together with the German Federal Employment Agency, we have set up a special entry program, which lasts between six and 12 months. After successfully completing this course, participants will be ready to take part in a training program at Continental, for which 50 places are available in Germany. What is important for us here is their long-term prospects and long-term employment.

In this way, we are fulfilling our responsibility for the economy and society.

### **Key figures for the first quarter 2016**

Now back to current business. The first quarter shows that we have had a good start to the year despite the difficult environment. This good start is thanks, in particular, to increasing tire sales and the stabilization of the industry business at ContiTech.

- › Sales in the first three months amounted to over €9.8 billion, a year-on-year increase of almost three percent.
- › Adjusted EBIT amounted to €1.1 billion, 8.4 percent more than in the first quarter of 2015.
- › The adjusted EBIT margin was 11.3 percent, exceeding the figure from the same period of the previous year of 10.6 percent.

We will publish our full key financial figures for the first quarter on May 4, 2016.

## Outlook for 2016

- › For the current year, we anticipate a moderate rise in global vehicle production of 1.5 percent to just under 90 million units. Car markets in Europe and China will grow, more than offsetting weak development of the markets in Russia and Brazil.
- › We expect global demand for replacement passenger and light truck tires to increase to more than 1.1 billion units, representing a rise of two percent.
- › We have estimated our organic sales growth at around five percent, which would amount to total sales of around €41 billion not taking into account fluctuations in exchange rates.
- › We expect the good development in the Rubber Group to continue throughout the year.
- › As anticipated, the Automotive Group's start to the year was slightly above the level of 2015 and above market growth. Start of production at some of our main customers was relatively sluggish at the beginning of the year, slowing our rapid growth.

Furthermore, project starts and exchange-rate effects had a negative impact on the Automotive Group compared to the previous year, but the Group is expected to gain momentum as the year goes on.

- › The large number of new orders during the first quarter is an indication to us that the Automotive Group will continue to grow steadily and profitably in the medium term.
- › We are therefore raising our forecast for the company's adjusted EBIT margin for the whole year from a minimum of 10.5 percent to around 11 percent.



Ladies and gentlemen,

Our current environment is still extremely challenging, and our industrial world is in a decisive phase of radical change.

The technological race to shape the future of mobility is more intense than ever before.

Your Continental has prepared well for this:

- › Financially, we have plenty of room to maneuver.
- › We are pursuing a clear growth strategy focusing on value creation.
- › We have geared our corporate culture toward pioneering innovations.
- › And we have a fantastic global team of highly skilled and extremely motivated employees.

We are therefore more determined than ever to systematically seize new opportunities.

So keep trusting our passion and performance with your investment.

Safe, clean, and intelligent mobility for everyone: this is your Continental team's driving force.

Start the future earlier with us.

We look forward to continuing our journey with you!