

Continental Media Webcast: Fiscal 2015

Comments of the Chairman of the Executive Board
of Continental Aktiengesellschaft,
Dr. Elmar Degenhart,
and the company's Chief Financial Officer,
Wolfgang Schäfer,
on the occasion of the
Continental Media Webcast: Fiscal 2015
on March 3, 2016

Check against delivery!

Please note that all data are preliminary figures
subject to approval and adoption by the Supervisory Board.

Wolfgang Schäfer, CFO of Continental AG:

Ladies and Gentlemen,

We are very pleased at the success achieved in fiscal 2015:

Overall, we comfortably achieved and in some cases even significantly exceeded our annual targets: Sales climbed by more than €4.7 billion to €39.2 billion in 2015. This represents growth of 14 percent.

Exchange rate effects and sales contributions from acquisitions contributed 10 percentage points to this growth. So in purely organic terms, we grew by 4 percent and thus outstripped market growth again.

EBIT rose by 23 percent year-on-year to €4.1 billion. This corresponds to an EBIT margin of 10.5 percent. By way of comparison, in 2014 the figure was 9.7 percent.

In the same period, adjusted EBIT rose by 15.3 percent to €4.5 billion. The adjusted EBIT margin thus amounts to 11.8 percent.

In 2015, we once again demonstrated our strong cash position: Compared with the previous year, free cash flow before acquisitions posted a significant increase of more than €500 million to €2.7 billion.

Even including acquisitions, free cash flow still came to €1.4 billion. This means that – in purely mathematical terms – cash outflows for acquisitions, primarily for Veyance Technologies and Elektrobit Automotive, totaled more than €1.2 billion.

We also increased our equity to €13.2 billion, its highest level to date.

Our automotive business developed positively overall. Market growth in Europe and the U.S.A. helped to compensate for slower growth in China and major recessions in Russia and Brazil. At €23.6 billion, our three Automotive divisions now contribute 60 percent of consolidated sales. Organic sales growth came to 5 percent. Production of passenger cars and light commercial vehicles only increased by just under 1 percent to around 89 million units in 2015. This saw us again achieve our target of increasing sales by 4 to 5 percent more than global automobile production.

The Tire and ContiTech divisions benefited from the continued weak development on the raw material markets in 2015. The positive impact from lower costs for raw materials totaled approximately €250 million in the past fiscal year.

The Tire division generated a 6.4 percent rise in sales to €10.4 billion and an adjusted EBIT margin of 20.4 percent. As such, this division contributes around half of adjusted consolidated EBIT.

Sales in the ContiTech division grew by 36.5 percent to €5.4 billion. This was chiefly due to the acquisition of Veyance Technologies. Not including this contribution, the division grew by almost 4 percent in organic terms. The slight decline in adjusted EBIT is attributable to the continuing weak situation in the mining business. On top of this, there has also been a significant downturn in business with the petrochemical industry.

On the whole, we have once again demonstrated our profitability and our strong capacity for growth in a challenging environment. We have achieved an impressive result with profit after taxes of €2.7 billion and €13.64 per share. This corresponds to growth of 15 percent. The Executive Board is therefore proposing another increase in the dividend to €3.75 per share. This corresponds to a total payout of €750 million and a dividend payout ratio of 27.5 percent.

All in all, we comfortably achieved and in some cases even significantly exceeded our annual targets.

We intend to continue our profitable growth in 2016:

The start we have made to this year in a difficult environment confirms our expectations for 2016. Market volatility may be increasing, but bolstered by our innovative electronics, sensor, and software solutions, and not least thanks to the strong growth in our Rubber Group, we expect to grow faster than the market again.

We currently anticipate only a moderate rise in global vehicle production of 1.5 percent to just under 90 million units. The weak development of the Russian and Brazilian markets will be more than offset again by growth in the vehicle markets in Europe and China.

For fiscal 2016, we expect a similarly high level of strong, organic growth as achieved in 2015. We anticipate organic growth of 5 percent to approximately €41 billion. We also expect to comfortably achieve an adjusted EBIT margin of over 10.5 percent again.

Although the current environment is highly challenging with its fluctuating exchange rates and raw material prices, our strong financial basis enables us to continue to act tactically and powerfully.

Dr. Elmar Degenhart, CEO of Continental AG:

The Continental you see today is in great shape! This is helping us to play a major role in shaping the future of mobility.

The concept of mobility is currently being redefined. We are talking about zero-emission, accident-free, intelligent mobility. The tried-and-tested business model is thus being challenged by greater and new requirements, as well as new customers. Our development results are now expected to be market-ready faster than ever before, for example. Vehicles are expected to be even safer, cleaner, and – above all – fully interconnected. In a nutshell, more efficient and more sustainable mobility concepts are required.

As a technology company, we are making ground-breaking contributions in this respect. It is the increasing digitization of the technology used that holds the key.

Our electronics, sensor technology, and software are the key factors here. We already generate more than €14 billion with digitization technologies. This equates to 60 percent of our automotive sales, and this will continue to increase over the coming years.

Digitization technologies are helping us to achieve our vision of zero road traffic accidents. Above all, this requires perfect detection of vehicle surroundings.

A vehicle is only able to record its surroundings accurately, almost in real time, with the help of camera, radar, and laser systems. Using software, it is possible to derive a reliable driving strategy from this large quantity of collated information.

This is why we are continuing to advance our leading position in this important growth field. In the past year, this saw us among other things acquire the automotive business of specialist sensor company Advanced Scientific Concepts, Inc., or ASC for short, hailing from California, U.S.A. ASC is among the market and technology leaders in the field of Flash LIDAR technology.

This sensor system consists of two key components: a pulse laser as a transmission source, which works in a similar way to the flash on a camera, and a highly integrated receiver chip with a function similar to the sensor chip in a digital camera. The two components together form a simple yet highly efficient method allowing us to construct a highly accurate and distortion-free map of the surrounding environment. This is precisely what we require for automated driving functions and first-class advanced driver assistance systems.

As early as 2016, we will generate sales of more than €1 billion with driver assistance functions such as emergency brake assist and the sensor systems it requires. By 2018 their contribution to sales will have risen to €1.5 billion.

Advanced driver assistance systems form the basis for automated driving: By 2020, one in ten euros generated in our automotive business – amounting to more than €3 billion in total – will come from products that facilitate automated driving.

Digitization and connectivity of chassis systems and the vehicle drive are opening up an array of brand new ways of reducing fuel consumption, minimizing emissions, and also improving driving safety.

The electric drive system, which we are also developing in tandem, is benefiting from this optimized energy management. It is making drivers doubly safe in road traffic: safe range and safe driving.

Cars are becoming part of the Internet. This applies to practically everything that moves and turns. Over the next four or five years alone, an estimated 50 billion devices and machines and over 250 million vehicles will be interconnected. This results in considerable potential sales for the automotive industry. The estimated market volume for 2020 is approximately €57 billion.

We are a pioneer in this field with our cutting-edge technologies comprising electronics, sensor technology, and software. As a result, we are constantly growing faster than the market.

We are using these technologies to produce increasingly intelligent products across all areas of mobility, including when it comes to our ContiTech conveyor belts and our premium tires. Using integrated sensors, our products deliver critical data relating to safety, energy consumption, transport, and service requirements. With this data, we hope to expand our service business and increasingly become a provider of end-to-end service packages and preventive maintenance. We are thereby helping to make the connected industrial and automotive world more efficient and effective.

We are confident that vehicles will continue to drive on tires in the future. Tires will increasingly supply important information regarding safety and the vehicle, which will see them progressively become an integral part of the vehicle's integrated sensor network.

As a premium manufacturer with top marks, we are achieving very successful and above-average growth in the tire business. This is why we are significantly expanding our production capacities such as in the U.S.A., as we recently announced.

With our products, solutions, and services, we have firmly set our sights on profitable consolidated sales of more than €50 billion in 2020.

Our R&D expenditure, which continues to constitute around 6 percent of our annual sales, forms the basis for this.

As a technology company in great shape, we are successfully continuing our tradition of being agile, pioneering, and passionate for 144 years. That's Continental.