



Our Heart Beats for a Healthy Mobility Ecosystem

Speech by Chairman of the Executive Board

Dr. Elmar Degenhart

Continental Aktiengesellschaft, Hannover

at the

Annual Shareholders' Meeting for fiscal 2019

on July 14, 2020, in Hanover



Sometimes it is the invisible things that trigger visible changes. That applies to viruses these days, as well as to this innovation here.

What am I holding here in my hands?

This is the heart of digital and connected mobility: a top-class computer. Soon, it will be found in all modern cars. And it is the beginning of the end of driving as we have known it for the past 120 years.

By 2022, just one of our customers alone will already have purchased more than 2.5 million of these computers from us.

Agile. Digital. Connected. That's what we are.

And that describes our pioneering technologies. They can be found in three out of four vehicles around the world. This is how we will overcome the crisis. With innovation. And with a clear plan. We are following this plan in a resolute and persistent manner. And with this plan, we stay competitive.

Ladies and gentlemen!

Welcome to our Annual Shareholders' Meeting.

Our first one online. Today we are not meeting face-to-face. So something is missing. But we can still meet online. Virus-free and without the risk of infection. And I'm pleased about that.



We are less than pleased with the economic environment. We are in the midst of an economic crisis. And it did not just start this year. This is reflected in the number of passenger cars and light commercial vehicles produced globally: at the very most, 70 million will roll off the lines by the end of 2020. Comparable slumps were last seen during the Great Depression of the 1930s. Never before has our entire industry been at a standstill around the world.

Today, we see that our industry is at the bottom of a slump. But for your Continental, that means we are looking up.

We have a clear crisis plan consisting of four points. And we have concentrated on them first. With all our energy.



Second topic: we are ensuring we have sufficient liquidity.

- With this in mind, we are cutting our costs.
- We are investing less. At least one fifth less, compared to last year.
- We are tapping financial sources. In May and June, we placed three bonds on the capital market. In total, more than €2.1 billion is flowing our way.
- And with our banks, we have expanded our credit facility by €3 billion.

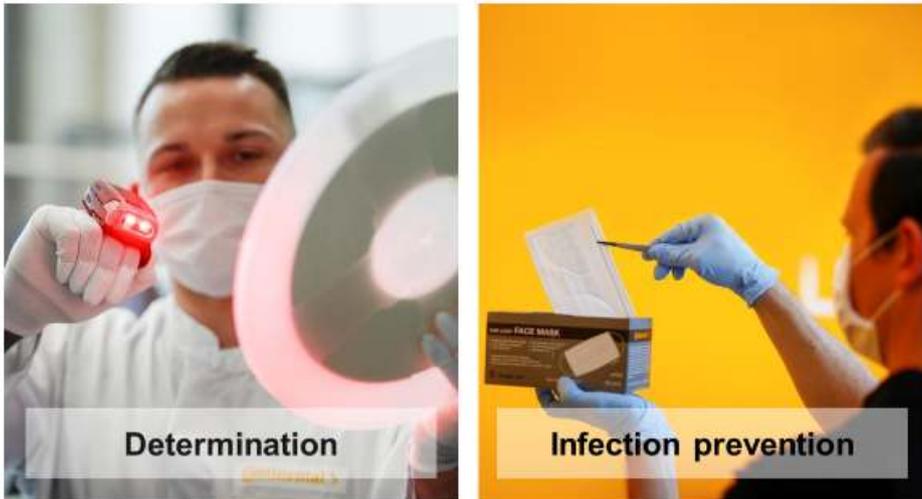
All of these are important steps. They give us more room to maneuver, which is crucial.

And for us, the justified expectations of all our stakeholders are just as important. We constantly strive to take all expectations into consideration.

That is why we are proposing a dividend of €3.00 per share to you today. We reduced it by €1.75 in response to the impact of the pandemic compared with the previous year. By doing so, we are taking into account the interests of your Continental. Those of today, and of tomorrow. And at the same time, we are thus acting in your interests.

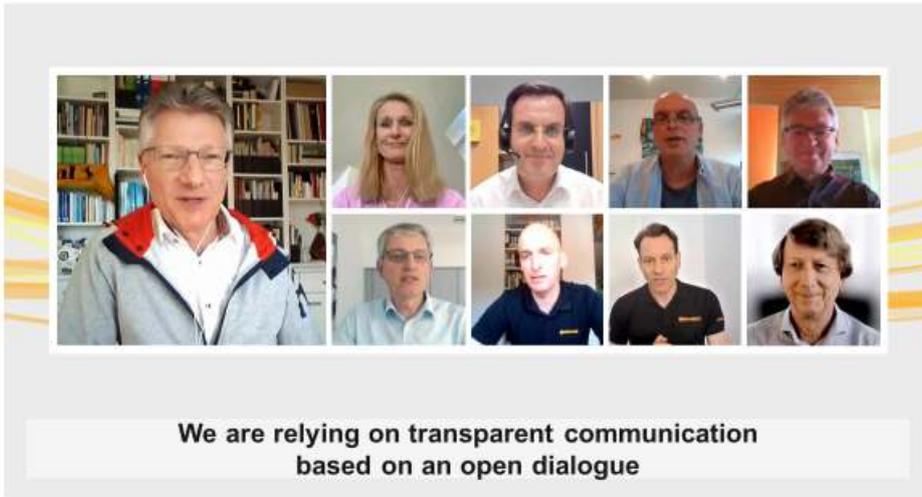
After all, you invest in your Continental. You are showing us your trust.

And we do everything so that it pays off for you in the long term. That is our clear goal.



Our third focus is: We are acting with speed and determination. Within a period of nearly two weeks, we temporarily shut down more than 100 factories. We did it around the world. In orchestration with 35 regional groups. It took just a few days, and then we had set up our crisis processes.

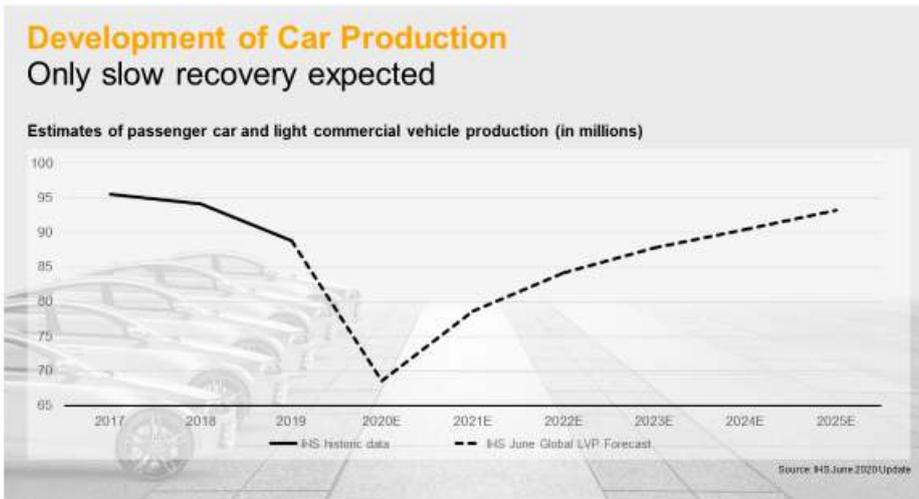
Our first question here was also: How are we going to protect our staff from the virus? After just ten days, we had created a complete concept for this. We are using it everywhere. **And we have shared it with our suppliers.** So everyone profits from it.



The fourth part of our crisis management is: **intensive communication**, which we do time and time again Within our company as well as publicly. For this, we even introduced our own crisis communications app. It was up and running in record time. With this app, we are able to reach our workforce everywhere – especially those in production.

Providing clear information fast: that is how my colleagues and I on the Executive Board are approaching this. We do this in interactive contact with our employees. We answer their questions. We stream it all on the company's intranet. Live and unfiltered. Since the outbreak of the pandemic, we have already held 25 of these digital meetings.

We have been guided here by one key principle: transparency. So we are being open. And we are honest. We explain how we see the situation. And we say what we expect.



And that is what I am doing today. And I want to make it clear that the production volume decreases in the automotive industry are without precedent. Since 2017, more than 25 percent fewer vehicles have rolled off the line. And there will not be a fast recovery, neither in Europe nor in North America.

And let me be clear about another point: The number of cars being produced around the world is increasing, but slowly. **We will not achieve the level of 2017 until after 2025 at the earliest.**

That is reflected by the sales in our industry, which are falling drastically. Everything is suddenly in a downward spiral. And there is no upward trend in sight.

So the top priority must be to remain solvent. And that is why everyone is now adapting. Even faster than had ever been planned.

In the interests of truth and transparency, however: **The situation for suppliers was already very tense in March 2019.** Our figures clearly reflect that.

- Sales of about €44.5 billion. Adjusted, they were already 2.6 percent below the figure for 2018 in purely organic terms.
- An adjusted operating result of €3.2 billion. That was 900 million less than in the previous year.
- The adjusted EBIT margin fell from 9.3 percent to 7.4 percent.
- The EBIT was not positive for the first time in ten years. Instead, it was a negative €268 million.
- And it was the same with net income, at minus €1.2 billion. Above all, this was attributable to the goodwill of earlier acquisitions which had fallen as a result of the slump in car production. We had write-downs of about €2.5 billion for this.

Let me be clear: **We are not satisfied with our performance.**

We can do better. And we are doing just that!

The pandemic has also brought us setbacks. We have just finished the **second quarter**. It will be the weakest in the history of the automotive industry since 1945. Its losses are likely to be in the billions.

We now anticipate that **the third quarter will also be very difficult**. We do see production figures for cars rising, which indicates higher sales than in the second quarter. But they will be substantially lower than in the third quarter of 2019.

We still cannot make more precise forecasts for 2020 as a whole.



We can once again rely on one advantage this year. We are not as susceptible to the ups and downs of the automotive industry everywhere. For instance our Tires and ContiTech business areas. **They also serve other markets with different cycles.**

Their success is supporting us now. In Tires, we profit from our business with consumers. And ContiTech serves entirely different industries. The agricultural and food industries, for example. And rail transport and shipping. As well as household, garden, and recreation.

Ladies and gentlemen,

A winner delivers good results. Even when things are not going so well. And currently, things are not going well for our industry. We are, however, persistently maintaining our position: there among the global elite when it comes to the providers of top technologies and top software. This league is only for the most competitive and forward-looking teams.

Only such companies can provide value-creating jobs in the long term. And only then can they ensure income and prosperity.

What makes us such a winner? Above all, it is our mentality. We play to win. We are always looking for opportunities. We have a positive attitude. We like to change. And we concentrate on our plan.



Since 2019 we have been shaping our biggest transformation. We are realigning our operations. That goes for our technologies. As well as our organization. **We are thus following our strategy until 2029.**

Does the current crisis change anything in this regard? Clear answer: No. It does not. Quite the opposite.

We are working even harder now. Our plan has clear goals. We are focusing firmly on them. To achieve them, we are devoting all our energy. And a high level of concentration.

- We are expanding our portfolio where it is growing profitably. We are making it even more fit for the future.
- And we are shaping our production network accordingly. Worldwide.
- And we are speeding up our processes in even leaner structures.

Our restructuring plan is our path into the future. This is and remains our most important task.

We have already completed or initiated several key parts of this:

We have, to a great extent, separated our powertrain business. Vitesco Technologies will become an independent company. It has what it takes to make it on the market. A market that is experiencing strong growth while undergoing equally strong consolidation. We have postponed the planned spin-off to a later point in time, because in the current environment, the colleagues have no freedom to act in an entrepreneurial manner and make decisions.

But the course is set. The right time will come. We are well prepared. We are ready to get started.

And we are moving forward with determination. We are taking care of one task after the other.

- From 2024, we will no longer produce and develop high-pressure pumps for gasoline and diesel engines in Germany.
- From 2028, we will not make injectors for diesel and gasoline engines in Western Europe.
- In the USA, we will stop the production of injectors for gasoline engines in 2024.
- In Germany, the production of automotive displays and controls is no longer competitive. We will have phased it out by the end of 2025 for this reason.
- In the USA and Western Europe, we are closing two locations for hydraulic brake systems.
- We have restructured Automotive Technologies. Its share of electronics is the

largest in the industry. **This is where the engine room for intelligent mobility can be found.** This is where we develop key components for our software. We are doing it quickly. More flexibly than ever before. And with less expenditure than before.

So that was a quick rundown of the situation.

But what do we gain from all that? A whole lot! **All in all, we will reduce gross costs by about €500 million. Every year.** We are making good progress. The full savings will be achieved by 2023.

We have already changed nearly 3,000 jobs around the world.



And to top it off, there is the coronavirus. The virus is exacerbating above all the economic downturn. That is why our industry is progressing more slowly.

And it has presented us with a second urgent task. I am talking about **our overarching financial structure. We are readjusting it.** Because our current cost structure no longer fits with the lower global vehicle production. For that reason, we are building ourselves a bridge over the coming years. A coronavirus bridge. It will

lead us back to success once again.

Here, we are reducing overcapacities and initiating further measures that have a quick effect.

- We are reducing investments.
- We are decreasing working capital.
- We are cutting labor and material costs.

To put things plainly, we are reducing even more costs now. **Several hundred million euros. This amount, however, is above and beyond what we had already decided. It will have an impact until 2022.**

Here we are already in close contact with representatives of our workforce. We will strive to agree upon mechanisms. And we are now trying to make progress quickly and effectively. It is possible, though, that we will have to make redundancies, despite all our efforts. This is, however, the last resort.

We will provide the details as soon as possible.

It is true! We are changing some more things now. But today we can already promise: We are staying true to our course. And that means we are making changes:

- In a balanced and fair manner.
- In line with our values.
- And such that the changes strengthen our innovative prowess.



To be competitive. To be fit for the future. Both of these are for long-term growth. And for that, we are developing top technologies.

Each day, an estimated one billion people trust us with their lives. They rely on us. Because with our technologies, they get to places safely, cleanly, comfortably and conveniently.

Our heart beats for a healthy mobility ecosystem. It is a system in which all three key requirements are balanced: ecologically, economically and socially.

- We are now paving the way for this. We are making people mobile. We are providing them with safety and enjoyment.
- We are helping to protect the environment and enhance climate neutrality.
- And we are doing all this at affordable prices. So that as many people as possible can contribute to the healthy ecosystem.

That is a huge task! And it starts with us. That is why we can say with clarity that

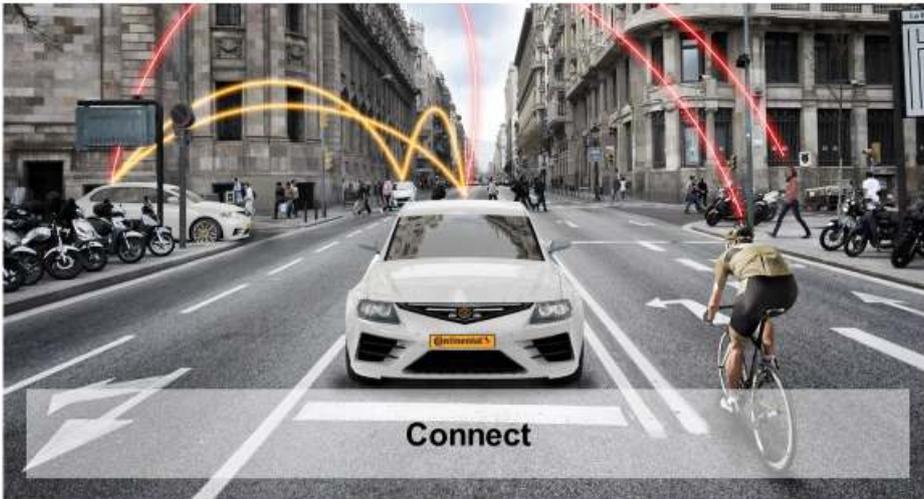
- As of this year, we will also be purchasing electricity only from verified renewable sources for all our plant locations worldwide.

- Our production processes will be carbon-neutral by 2040.
- And by 2050, we will also be carbon-free in all the stages of our value creation process.



But what goes for our production process also applies to our products. In this way, we are growing profitably and sustainably in three technological areas:

- First: in the field of digitalization. It is making everything new. With it, we are changing our solutions and processes. And we are making the most of new business opportunities.
- Second: in the field of assisted and automated driving. And we will base autonomous driving on that.
- And third, in the field of emission-free driving.



Through **digitalization**, we are making the vehicle part of the internet. With telematics, electronics for the chassis and antennas. These are among our major strengths.

And now we are adding further strengths. **We are developing new architectures for the electronics in the car. And we are also paving the way for standardized operating systems.** You all know such systems from your cell phones. As a user, you use them to download your new programs. All of that without a cable. And that is the way it will be for the car as well. This business is growing rapidly.

Just as important is the protection against cyber-attacks, which cars, just like cellphones, need as well. And here too your Continental is playing a leading role!

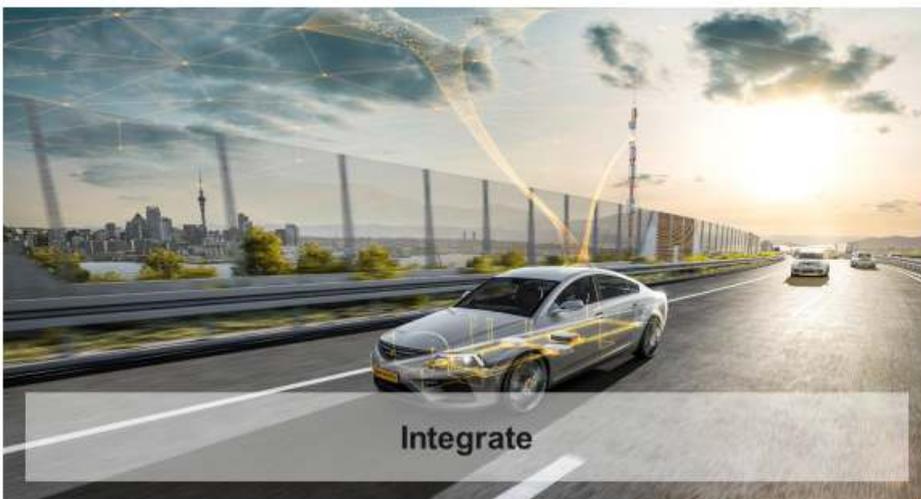
Is digitalization going to be worthwhile? Yes it is!

We are already achieving sales in the billions here. Trend: strongly rising.



And that is not all. And then we are also profiting from our **technologies for the human-machine interface**. Example: animated displays. These are new systems that graphically show information in the driver's field of vision. In the picture you can see a large-area display. It is three dimensional. And it can be operated intuitively.

And what's the benefit? We now already have hundreds of millions in sales each year. Trend: strongly rising here as well.



That is not all. The next major opportunity can be found here. In the innovation you have already seen: in this computer. It looks small. But when it comes to

performance, it is huge. Germany is looking for its next superstar? We have got it!
Here it is!

It is the digital heart of vehicles.

In the future, several of these hearts will be beating in the car. For example, one of them will control the car's motion. Another one will connect the car. Or help drive it. A third one will create a landscape with displays in the passenger compartment. The car will talk with people in an entirely new way and make driving a new enjoyable experience.

All of these things have a lot of potential. They will drive our profitable growth for many years. Especially the computer that is small in size but big in performance. We have already landed sales of more than €3 billion with it. That is calculated based upon the lifetime of the respective model lines. But that is just the start. By 2022 alone, we expect more than ten further projects.

And finally, a few words about the fourth field of application for digital technologies. I am talking about **new mobility services**. Here we are making the most of our decisive advantage. Because we are making nearly all of our products intelligent for this purpose. For instance, we are digitalizing tires and air-spring systems.



Our intelligent tires are rolling long distances. They roll quietly. And they save energy. They share their data with the cloud. And in doing so, they are constantly learning. In the future, they will adjust their inflation pressure to the road surface. They keep looking ahead to see what is coming. They can do it very well. Because the cloud gives them the data they need for it.

Tire data is already in great demand. We send it to vehicle fleet operators via our digital services. That boosts our business with them. Because we are making about one billion euros in sales each year with fleets. And there will be even more. Three times more by 2030.



Our **electronic air-spring system is also intelligent**. We have expanded it with a kind of built-in scale, which constantly shows the load weight. It indicates if there is an overload. That helps the drivers. That helps the owners. Because the transport then complies with legal regulations. This makes traffic safer. And without overloads, trucks subject roads to less wear and tear.



Our “fleetmatch” app makes life easier for people who drive something, like a truck. Or who manage a whole fleet of trucks. In Germany, drivers use it to rate the loading docks. What is it like there? How long do you have to wait? Or how friendly is the personnel?

In all of these cases, software is the oxygen of the industry. It makes entirely new services possible. Our customers are really interested in such services. They are anticipating a market with sales of several billion euros. And that within just a few years.

A supplier of top technologies like us has a key role to play here. Because the fact is that suppliers now create around 90 percent of all programs for cars.

In the future, car manufacturers themselves will provide more of these programs. Is that going to take the opportunities away from us? No. We do not think so. Because we are at the same time expecting enormous profitable growth. The reason is that **there will be more and more functions in the vehicle. And value creation with computer programs will increase accordingly.** It is growing by double-digit percentages each year. And that is good for us.



But it gets even better. Because digitalization is one of the main driving forces when it comes to our production. Here, it is a matter of dealing with large amounts of data. And robotics. **We see the greatest potential for the coming years in this area.** Here we create top value.

At present we are using 1,600 cobots for this. They work hand in hand with their human colleagues.

And thanks to intelligent technology, we know where each component is in the process at any point in time. This makes us faster. And more efficient.



And now for our second area of growth. The business with systems for assisted and automated driving. Based on this, we will develop autonomous driving a bit at a time. We develop these technologies for zero traffic accidents and thus zero traffic fatalities.

This "Vision Zero" is already a real possibility. You are familiar with this from your car. I am talking about our intelligent systems that assist you when you drive. They help you when driving in traffic jams or through construction sites. But there are also those systems that assist us when cornering. Or take for instance intelligent cruise control.

Such technologies protect lives. In the car, your own life. And outside the car, the lives of others. That is why they are of interest to private customers. And fleet customers. Everyone wants them. **It is clear why the business is growing so fast.**

Faster than hardly any other area.

If you drive, you also have to brake. That is always the case! Our brake systems are fast, precise, and highly integrated. They are also extremely reliable. And obviously, they are there when they are really needed. This is how they support automated driving. Of course, that is crucial when it comes to brakes. By 2023, we will have sold nearly 40 million of these systems.

Or take for example our product range for passive safety and sensorics. It includes systems designed to protect passengers as well as sensors for a safe chassis. We are already selling more than 350 million of them each year.



And finally, there is our third growth area: technologies for clean vehicle drive systems. Of course! That belongs to e-mobility. **The “e” here does not stand just for electric. It also stands for emission-free.** Be it with a battery or a fuel cell: e-mobility is a growth market. And is thus a huge opportunity for Vitesco Technologies.

We have unified the right strengths here. Our strengths above all in electronics and mechatronics. But even more in the integration of systems. This is where we really take advantage of them.

By pooling them, we create top value. One example is our axle drive system. We install our inverter in it from the very start. A strong duo. An inverter converts direct current into alternating current. Demand for it alone is increasing with the growth of all-electric vehicles. But we are flexible. Because if plug-in hybrids become popular more quickly, the demand for our inverter will grow accordingly.

Is it worth it? By all means! And not only for this duo. Because for most of our product family, the market will grow by about 30 percent in the coming five years.



As you can see, both Continental and Vitesco Technologies are paving the way for profitable growth.

We are keeping our goals firmly in sight during the crisis.

And we rely on innovation. Early. Rigorously. And with determination.

That is why we are and remain pioneers.

We are creating a healthy ecosystem for the new mobility. Because it contributes to threefold climate protection: of the environment. Of the economy. Of society. All three of them need our protection.

We can do it. We are doing it. That fits in perfectly with our values, with which we are creating value.

That's what makes our heart beat.

And yours?

We appreciate it that you are supporting us!

Thank you!