Ideas
Unite.

Annual Report 2009

The whole is greater than the sum of its parts. This principle has existed since ancient times and still applies today. We follow this principle, linking our success elements in a wide variety of ways. Take our divisions, for example. Each and every one of them is a strong, innovative and extremely productive unit on its own. But only when they are put together as a high-performance team do they make up Continental, and thus one of the world's leading partners to the automotive and other key industries. This is made possible by cross-divisional exchange of knowledge, networked cooperation, and a focus on our shared vision of making individual mobility safer, more comfortable and more forward-looking in the interest of sustainability.

Continental Corporation

in € millions	2009	2008	Δ in %
Sales	20,095.7	24,238.7	-17.1
EBITDA	1,591.2	2,771.4	-42.6
in % of sales	7.9	11.4	
EBIT	-1,040.4	-296.2	-251.2
in % of sales	-5.2	-1.2	
Net income attributable to the shareholders of the parent	-1,649.2	-1,123.5	-46.8
Earnings per share (in €)	-9.76	-6.84	-42.7
Adjusted sales[1]	19,986.8	23,784.7	-16.0
Adjusted operating result (adjusted EBIT)[2]	1,165.8	1,747.0	-33.3
in % of adjusted sales	5.8	7.3	
Free cash flow	1,640.3	628.5	161.0
Net indebtedness	8,895.5	10,483.5	-15.1
Gearing ratio in %	219.0	189.6	
Total equity	4,061.7	5,529.9	-26.6
Equity ratio in %	17.6	22.4	
Number of employees at the end of the year[3]	134,434	139,155	-3.4
Dividend in €	—	—	
Share price (high) in €	42.82	86.62	
Share price (low) in €	11.35	27.00	

[1] Before changes in the scope of consolidation.
[2] Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.
[3] Excluding trainees.

Continental's Core Business Areas

Automotive Group

in € millions	2009	2008	Δ in %
Sales	12,042.4	14,900.0	-19.2
EBITDA	608.9	1,428.8	-57.4
in % of sales	5.1	9.6	
EBIT	-1,561.6	-1,205.8	-29.5
in % of sales	-13.0	-8.1	
Adjusted sales[1]	11,996.5	14,480.2	-17.2
Adjusted operating result (adjusted EBIT)[2]	192.0	824.6	-76.7
in % of adjusted sales	1.6	5.7	

[1] Before changes in the scope of consolidation.

[2] Before amortization of intangible assets from PPA, changes in the scope of consolidation, and special effects.

Rubber Group

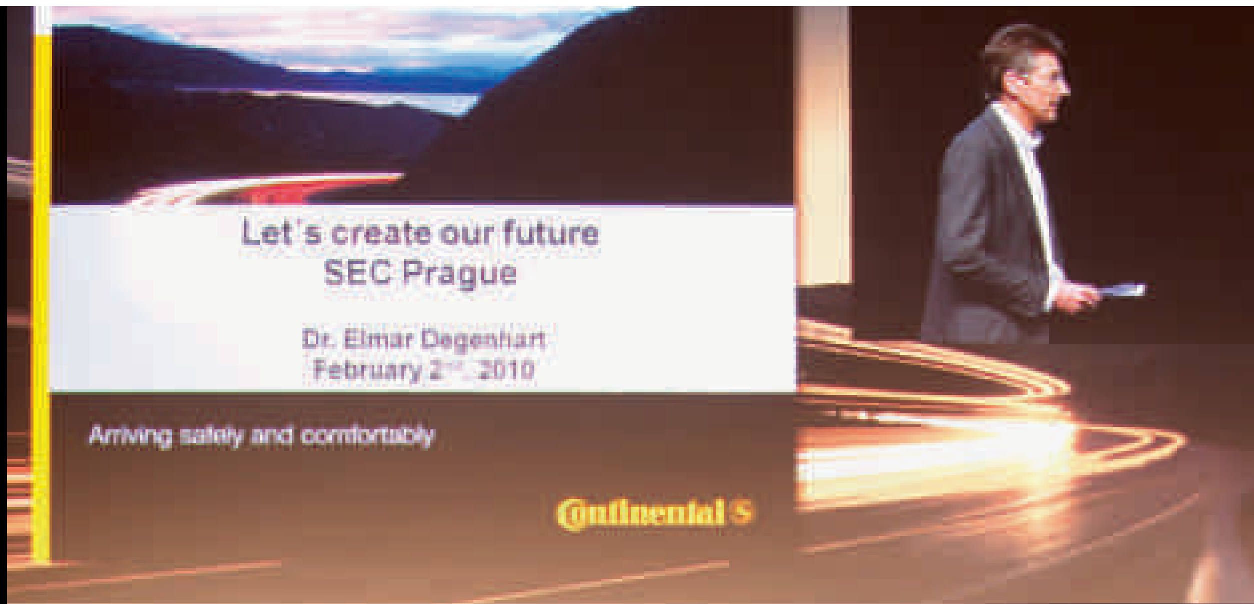
in € millions	2009	2008	Δ in %
Sales	8,068.3	9,353.9	-13.7
EBITDA	1,114.5	1,415.9	-21.3
in % of sales	13.8	15.1	
EBIT	655.7	984.9	-33.4
in % of sales	8.1	10.5	
Adjusted sales[1]	8,005.3	9,319.7	-14.1
Adjusted operating result (adjusted EBIT)[2]	1,035.5	997.7	3.8
in % of adjusted sales	12.9	10.7	

[1] Before changes in the scope of consolidation.

[2] Before amortization of intangible assets from PPA, changes in the scope of consolidation, and special effects.

Ideas Unite.

Annual Report 2009



Dr. Elmar Degenhart, Executive Board chairman, responsible for Corporate Quality, Environment and Communications, at the Senior Executives Convention in Prague, Czech Republic.

In 2009, new members joined the Executive Board, making the team complete. All together, they stand for 160 years of industrial experience and fresh ideas. The goal of the entire Continental team is to maximize the success of the company for all of its stakeholders. With that in mind, we want to substantiate and foster the faith our stakeholders have shown in us, particularly in the case of our customers. The key to our success is our high quality. To assure that quality and enhance it further, we initiated special programs in 2010. Because high quality is the basis for the growth we strive to achieve, quickly and above all profitably, and in line with the principles of sustainability. Our success is evident in the market – and that is why we give customers and quality top priority.

Customers and Quality Have Priority.

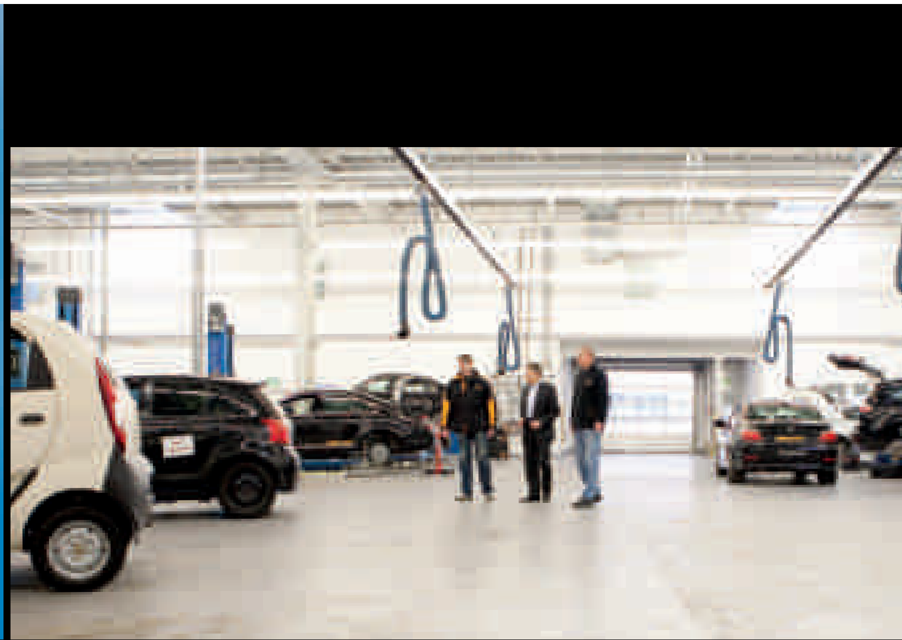
Wolfgang Schäfer, Executive Board member, responsible for Finance, Controlling, IT and Law, with his central functions team.

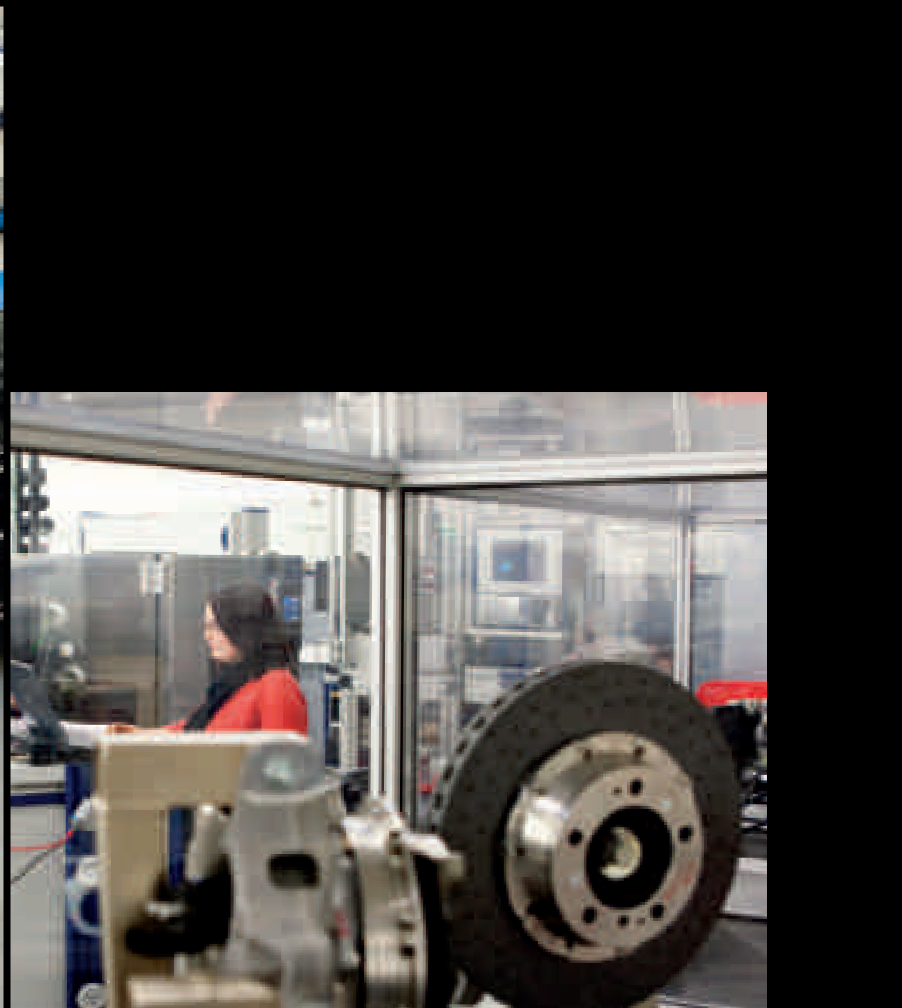
One of our major commitments is to maintain the confidence of our shareholders and investors in the company. The successful implementation of key elements of our refinancing package was a major step forward in this respect. The support of the banks and the great interest that new investors as well as smaller shareholders showed in the capital increase are for us explicit demonstrations of confidence in the solidity of our financial and capital structure as well as in Continental's opportunities for the future.

Safety for Everyone.

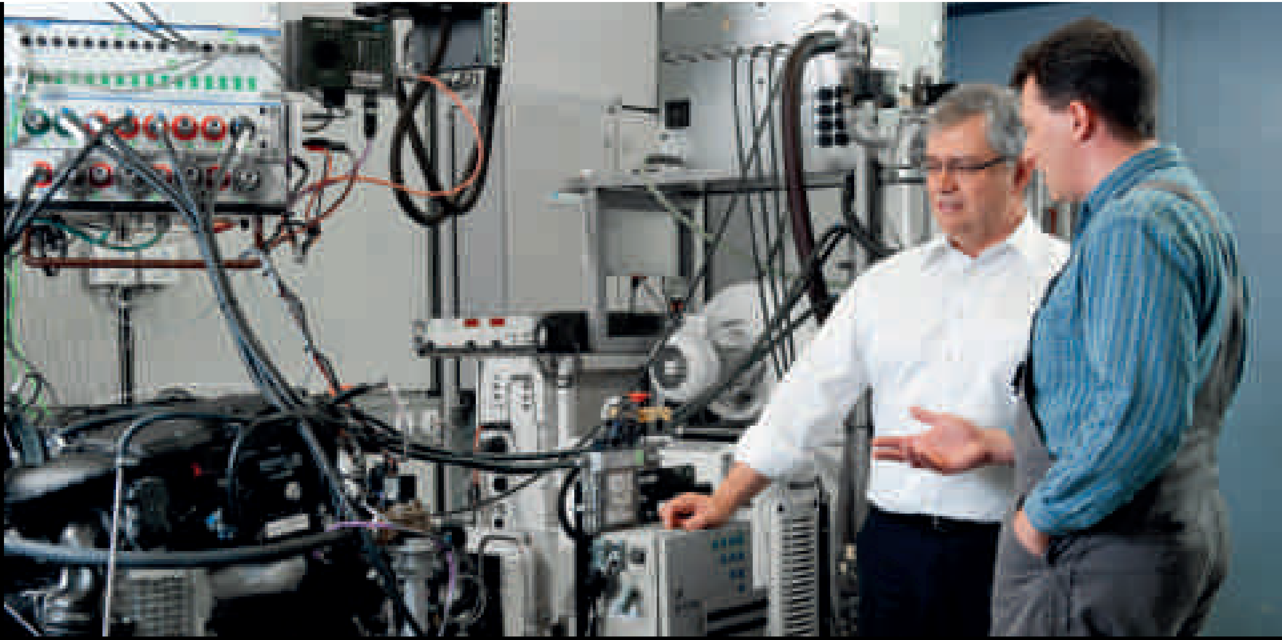
Dr. Ralf Cramer, Executive Board member, responsible for the Chassis & Safety division, with staff from the Advanced Engineering department.

The Chassis & Safety division focuses on components and complete systems for driving safety and dynamics. In future vehicles, electronic and hydraulic brake systems, driver assistance systems, sensors, airbag control units and chassis components will prevent even more accidents than they do already today, fending off risks to health and life. Here, we rely on the modularity and scalability of our products. Whether in





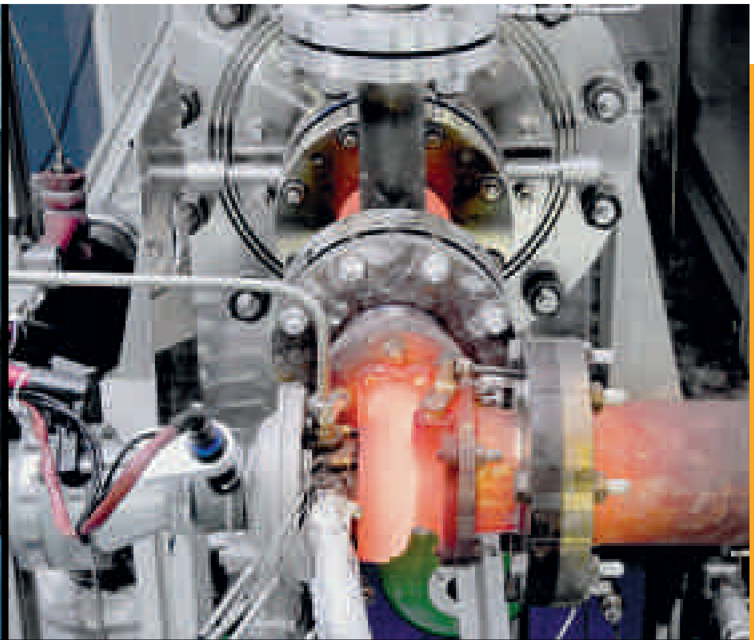
a compact car, a luxury limousine, or a commercial vehicle: Our products are designed such that a wide variety of vehicle types can be provided with the same high safety standards. This is the only way to enable safety for all road users – inside and outside of the vehicle. Safety must not be reserved for only a privileged few. It must be an affordable standard for everyone.



Maximum Efficiency.

José A. Avila, Executive Board member, responsible for the Powertrain division, with staff at the Regensburg plant.

Limited raw material reserves, increasing restrictions on pollutant emissions and an ever-greater environmental awareness will make tomorrow's vehicles more economical and eco-friendlier than ever before. It is thus the goal of the Powertrain division to make zero-emission, energy-efficient mobility a reality. We help car manufacturers implement their strategies to utilize and optimize the various potentials of the powertrain. We develop a wide variety of components and



systems for the powertrain – from injection systems, engine management and transmission control units, through to intelligent sensors and actuators that make the combustion engine much more efficient. Our technologies in hybrid and electric vehicles contribute to the sustainable reduction of CO_2 emissions. In this way, we are uniting the desire for individual mobility with the responsible use of scarce resources, now and in the future.

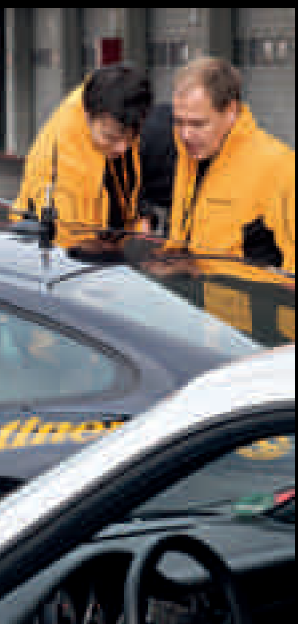
All You Need Do Is Drive.

The Interior division's key focus is information management in the vehicle, which is becoming more and more important as the requirements of drivers grow with respect to operation, function, and safety. We sort the flood of information that is constantly being shared by various electronic components, process and present it to drivers in a concise manner so that it can be comprehended quickly.

Helmut Matschi, Executive Board member, responsible for the Interior division, with research and development staff and at a presentation of the "Simplify your Drive" concept.

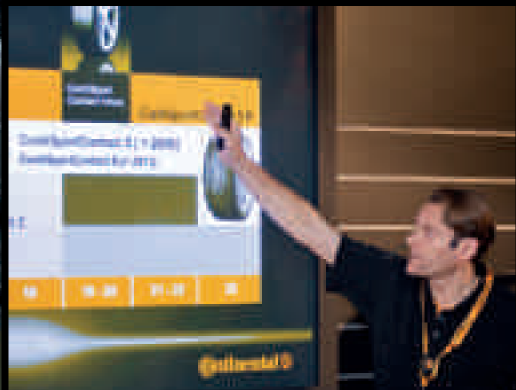
Here, we pay close attention to the wishes of the drivers, such as for different vehicle characteristics. With our "Simplify your Drive" operating and system concept, it is possible to choose between the Eco, Sport and Comfort profiles. In this way, drivers get as much individual convenience as possible, but only the information they actually require, so all they need do is drive.

Brand, Market and Opportunities.

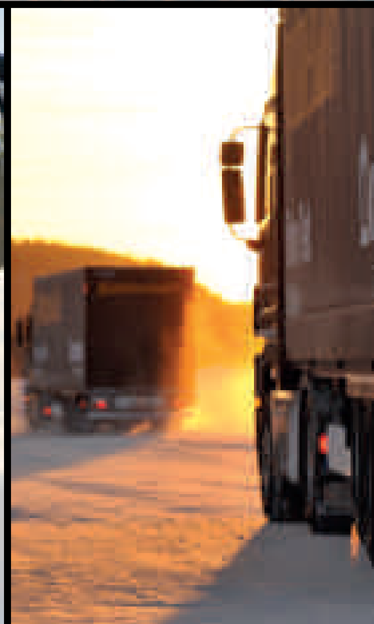


Nikolai Setzer, Executive Board member, responsible for the Passenger and Light Truck Tires division, at the launch of the new high-speed ContiSportContact™ 5 P tire in Portimão, Portugal.

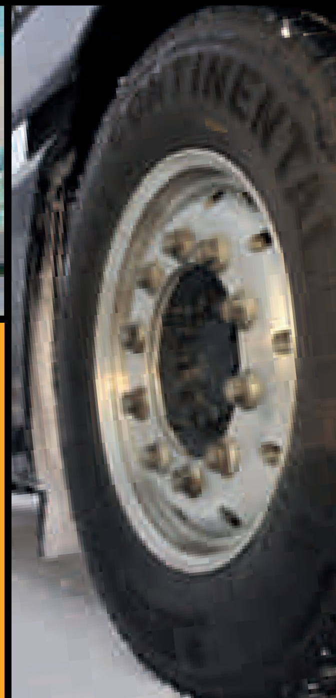
We have been developing and producing tires for cars since 1898. Today, Continental is the best known tire brand in Germany, and we are the market leader for OE tires in Europe. For more than 100 years, technological know-how and innovative prowess have been a part of the company's DNA. We are spurred on by our relentless desire to further develop the tire. Knowledge transfer within the corporation links high-tech brake systems expertise with tire development, as the maximum transmission



of forces and tracking precision are among the main demands on our products, in addition to optimum mileage performance. Outstanding customer satisfaction and a multitude of victories in international tire tests confirm time and again: Continental is a premium class tire with a special focus on features to maximize driving safety. Each and every day, our success continues to substantiate the positive features of our brand – and thus also our position in the global market.



For the customers of the Commercial Vehicle Tires division, efficiency has top priority. Accordingly, our formula for success is to harmonize product characteristics and tire services for each customer segment and each application, making it possible for companies to cut operating costs substantially – whether transporting goods, moving people, or working at construction sites. By reducing the rolling resistance and inspecting tires on a regular basis,



Less Is More.

Hans-Joachim Nikolin, Executive Board member, responsible for the Commercial Vehicle Tires division and Corporate Purchasing, at the launch of the new truck tire generation in Arvidsjaur, Sweden.

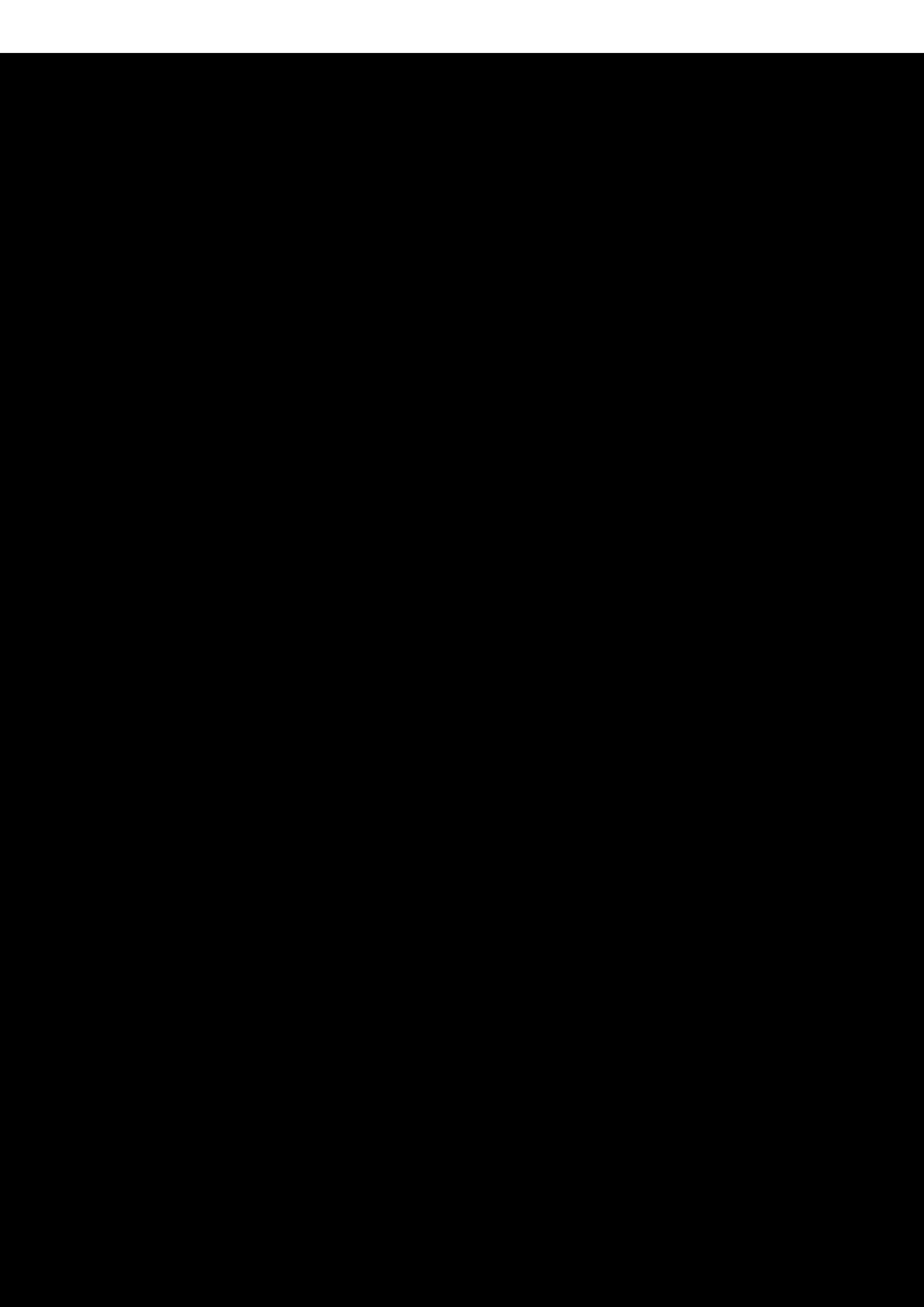
we optimize factors like fuel economy and the total mileage performance of the tire in its first and second lives (ContiLifeCycle). In view of the fact that some 75% of freight in Europe alone is transported on the road, we feel a commitment to sustainability: With innovative tire technologies and professional service, we make our contribution to reducing pollution levels. So that road transport is justifiable in the future as well, from both an ecological and economical point of view.

At ContiTech, we seek answers to the economic and social questions posed by the future – and we find them. The quality of people's lives as well as the idea of protecting nature and the environment guide us in our pursuits. That is why we develop products from the renewable material of the future: rubber. Furthermore, we lead the field in plastics technology. In many key industries, our actions have a positive effect on the environment, since when it comes to sustainability,

Renewable Material of the Future.

Heinz-Gerhard Wente, Executive Board member and director of labor relations, responsible for the ContiTech division and for Corporate Human Resources, in a wind turbine park and at the Senior Executives Convention in Prague, Czech Republic.

our expertise in materials and technology matches up perfectly with the needs of society. Robust bearing components for cost-efficient wind turbines or conveyor belts for the climate-friendly transportation of raw materials are just two examples. As an experienced partner to the automotive industry, we are also working on innovations for sustainable mobility, creating technical solutions with which clever ideas and forward-looking concepts for upcoming vehicle generations can be realized.



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Dear Shareholders,

As in 2008, the year 2009 also presented Continental with very difficult and challenging tasks. We had to overcome unsettled global financial markets and the automotive industry's worst crisis in decades, while also protecting the interests of all stakeholders of the company. In retrospect, we succeeded in this – although with far greater exertions than could have been foreseen a year ago.

My thanks go to over 130,000 employees for this success. Their great commitment was and is the reason why our company will ultimately emerge strengthened from the crisis as planned. The employees' commitment is particularly worthy of the highest respect because they themselves were affected directly or indirectly by the consequences of the sometimes painful cuts as part of restructuring and cost reduction programs. At the same time, we succeeded – despite the huge slump in sales as a result of the economic and financial crisis – in keeping operating earnings at a very respectable level in comparison to the competition and the industry. This is something we can all be proud of.

I would also like to thank my predecessor Dr. Karl-Thomas Neumann for his work and for his helpful support as I took up office.

2010 will be another year of major challenges. For instance, it remains to be seen how quickly and, above all, how stably the automotive markets perform. At the same time, the increase recorded in commodities prices is a considerable destabilizing factor – at the beginning of 2010, the tailwind from the second half of 2009 in particular changed back to a noticeable headwind, especially in the three Rubber Group divisions.

We will continue to carefully monitor any influences on our company and to act flexibly and rigorously as usual. We are also better equipped for this than was the case a year ago. The restructuring projects and efficiency programs initiated in late 2008 and in the first half of 2009 are increasingly showing a positive effect – although we bear in mind that the costs of some measures will still be incurred in 2010 and 2011. We also have an improved financial and capital structure, after having successfully implemented our refinancing package as announced in the first quarter of 2010.

The loan agreements renegotiated with our banks, which constitute the first component of the package, give us greater flexibility and leeway for our operating business. They also allow us to use the capital market to extend the maturity terms within which we must repay our liabilities. The capital increase of €1.1 billion – the second component of the package – is already contributing to reducing our loans and is thus improving our capital structure. In accomplishing this task, we also demonstrated that we have the interests of all stakeholders in mind and take them into account.

Yet another factor makes us optimistic for the challenges ahead: we have strengthened our Executive Board team. With their extensive experience on the Continental Executive Board, Dr. Hans-Joachim Nikolin (responsible for the Commercial Vehicle Tires division) and Heinz-Gerhard Wente (responsible for Human Resources and the ContiTech division) represent expertise and continuity. In the persons of Dr. Ralf Cramer (responsible for the Chassis & Safety division), Helmut Matschi (responsible for the Interior division) and Nikolai Setzer (responsible for the Passenger and Light Truck Tires division), top managers from the ranks of Continental who have performed excellent work for the company and know it thoroughly have moved up to the Executive Board. In José A. Avila (responsible for the Powertrain division) and Wolfgang Schäfer (responsible for Finance, Controlling, IT and Law), outstanding managers with excellent reputations at renowned automotive companies were appointed to the Executive Board. The Executive Board of Continental thus has a total of over 160 years experience in the automotive industry.

I was particularly pleased that we succeeded in gaining Prof. Wolfgang Reitzle, chairman of the Executive Board of Linde AG, as chairman of the Supervisory Board of Continental AG. The supervising body has therefore been headed since mid-October 2009 by an internationally-experienced manager and a proven expert in the automotive industry.

As you know, I myself was appointed chairman of the Executive Board of Continental AG on August 12, 2009. As such I returned to a company at which I had previously worked for five years – thus coming full circle. From my time as president of the Schaeffler Group's Automotive division, I also have a good knowledge of our major shareholder. My clear objective is to put to use the experience I have gained at both companies. "We want to create a new global champion in the automotive supplier business, with a home base in Germany." That is

what my predecessor Dr. Karl-Thomas Neumann announced here a year ago in his letter to you, the shareholders of Continental AG – and nothing has changed with respect to this goal.

Dear shareholders, in the past fiscal year we worked hard to ensure that your Continental AG will emerge strengthened from the crisis. We have created the organizational and financial basis, complemented by our company's continued excellent positioning in the industry megatrends: safety, environment, information – coupled with the market trend towards affordable cars. We have developed and launched a number of new products which underscore our position as a leading automotive supplier. For instance, the Chassis & Safety division has developed a new generation of electronic brake systems which can be scaled as desired at the customer's request. Our first turbocharger for internal combustion engines was brought to market maturity by the Powertrain division. The Interior division has introduced a systems architecture for the next generation of networked in-vehicle infotainment systems, which will allow drivers and passengers to personalize their cars via a secure and effective Internet hook-up. In March 2010 the Passenger and Light Truck Tires division launched the new high-performance ContiSportContact™ 5 P tire, a further development of the successful ContiSportContact™ 3. The Commercial Vehicle Tires division updated its product range to an unprecedented extent in 2009. The ContiTech division launched numerous innovations for the automotive industry and other key sectors, such as bearings for wind power plants and a new lightweight engine torque rod support for the Porsche Panamera.

Another positive aspect are the opportunities arising from Continental's cooperation and possible medium-term combination with the Schaeffler Group. We are confident that such a combination of the two companies can result in clear competitive advantages, particularly in the area of powertrain technology.

In addition, an absolute highlight is coming up in 2010 for our company's image and for further increases in its international profile: the 2010 FIFA World Cup South Africa™. As one of the six top sponsors, we are using this platform to significantly raise our brand awareness worldwide, as we succeeded in doing with our previous involvement in 2006 (FIFA) and 2008 (UEFA).

You can see that this year we again intend to and will take advantage of all available opportunities that open up positive future prospects for Continental. Continue to support us with your trust!

Sincerely,

Dr. Elmar Degenhart
Chairman of the Executive Board

Left to right:

Wolfgang Schäfer
Finance, Controlling, IT and Law

Helmut Matschi
Interior Division

Heinz-Gerhard Wente
ContiTech Division
Human Resources,
Director of Labor Relations

José A. Avila
Powertrain Division

Dr. Hans-Joachim Nikolin
Commercial Vehicle Tires Division
Corporate Purchasing

Dr. Elmar Degenhart
Chairman of the Executive Board
Corporate Communications
Corporate Quality and Environment

Nikolai Setzer
Passenger and Light Truck Tires Division

Dr. Ralf Cramer
Chassis & Safety Division

Members of the Executive Board

Dr. Elmar Degenhart
born in 1959 in Dossenheim, Baden-Württemberg, Germany
Chairman of the Executive Board
Corporate Communications
Corporate Quality and Environment
appointed until August 2014

José A. Avila
born in 1955 in Bogotá, Columbia
Powertrain Division
appointed until December 2014

Dr. Ralf Cramer
born in 1966 in Ludwigshafen, Rhineland-Palatinate, Germany
Chassis & Safety Division
appointed until August 2012

Helmut Matschi
born in 1963, in Viechtach, Bavaria, Germany
Interior Division
appointed until August 2012

Dr. Hans-Joachim Nikolin
born in 1956 in Eschweiler, North Rhine-Westphalia, Germany
Commercial Vehicle Tires Division
Corporate Purchasing
appointed until May 2014

Wolfgang Schäfer
born in 1959 in Hagen, North Rhine-Westphalia, Germany
Finance, Controlling, IT and Law
appointed until December 2014

Nikolai Setzer
born in 1971, in Groß-Gerau, Hesse, Germany
Passenger and Light Truck Tires Division
appointed until August 2012

Heinz-Gerhard Wente
born in 1951 in Nettelrede, Lower Saxony, Germany
ContiTech Division
Human Resources, Director of Labor Relations
appointed until May 2012

The Continental Share

Significant recovery follows drastic price decline.

Continental share listings
Continental AG's shares are listed on the German stock exchanges in Frankfurt, Hanover, Hamburg, and Stuttgart. In the U.S.A. they are traded as part of an American Depositary Receipt program on the Over-the-Counter market. They are not admitted for trading on a U.S. stock market.

The no-par value shares have a notional value of €2.56 per share.

Continental share data

Type of share	No-par value share
German securities code number	543900
ISIN numbers	DE0005439004 and DE000A0LR860
Reuters ticker symbol	CONG
Bloomberg ticker symbol	CON
Index membership	MDAX Prime All Share Prime Automobile
Number of outstanding shares at December 31, 2009 since January 14, 2010	 169,005,983 200,005,983

American Depositary Receipts data

Ratio	1:1
ISIN number	US2107712000
Reuters ticker symbol	CTTAY.PK
Bloomberg ticker symbol	CTTAY
ADR level	Level 1
Trading	OTC
Sponsor	Deutsche Bank Trust Company Americas

Development of the equity markets in the overall economic environment
The global stock markets were in a desolate situation at the beginning of the year under review as a result of the financial and economic crisis. To mitigate the consequences of the financial and economic crisis, economic stimulus programs were initiated or expanded by governments around the world, in addition to the ongoing stabilization of the financial system with guarantees, granting loans to and federal shareholdings in banks. Low raw materials prices led to very low inflation rates, allowing central banks to cut key interest rates worldwide: European Central Bank (ECB) to 1%; Federal Reserve Bank (FED) to 0–0.25%. Numerous central banks, including the FED and ECB, also resolved quantitative measures (the purchase of securities, among others) to inject additional liquidity into the economy. Against the background of this poor economic situation and the uncertainty regarding the effectiveness of monetary and fiscal measures, the DAX fell to 3,666 points and the Dow Jones EURO STOXX 50 to 1,810 points when they reached their troughs at the start of March 2009, thus losing 24% and 26% of their value respectively, as compared with the end of 2008. The cyclical automotive sector recorded a sharp drop in the demand for automobiles. The sales markets in North America, Europe and Japan were particularly hard hit by this. In the first quarter the number of newly registered vehicles fell by 21% worldwide. Automotive stocks thus also reached their lowest point at the beginning of March 2009, losing 27% as compared with the end of 2008.

While the end of the first quarter saw only little hope of an economic stabilization approaching soon, the economic stimuli already in place began to show initial signs of stabilizing the global economy over the course of the second quarter. This was supported by a large number of positive economic leading indicators that revived prices on the stock markets around the world. Financial stocks, and stocks from the chemical, steel, construction and automotive sectors powered the positive development of the overall market. New car registrations increased as a result of the car scrapping incentives introduced in numerous countries. In response to this increase, car manufacturers also upped their production significantly starting in the second quarter as compared with the first quarter of 2009. Against this background, Dow Jones EURO STOXX Automobiles & Parts reached a high for the year at the beginning of August at an index level of 255 points, corresponding to an increase of 28% as compared with the end of 2008. This is a recovery of

76% in terms of the low of March 2, 2009. Surprisingly good corporate earnings in the second quarter of 2009 and positive national economic data at the end of the second quarter and over the course of the third quarter of 2009 confirmed that the economies of the Eurozone and the U.S.A. had made it through the serious recession and are on the path to recovery.

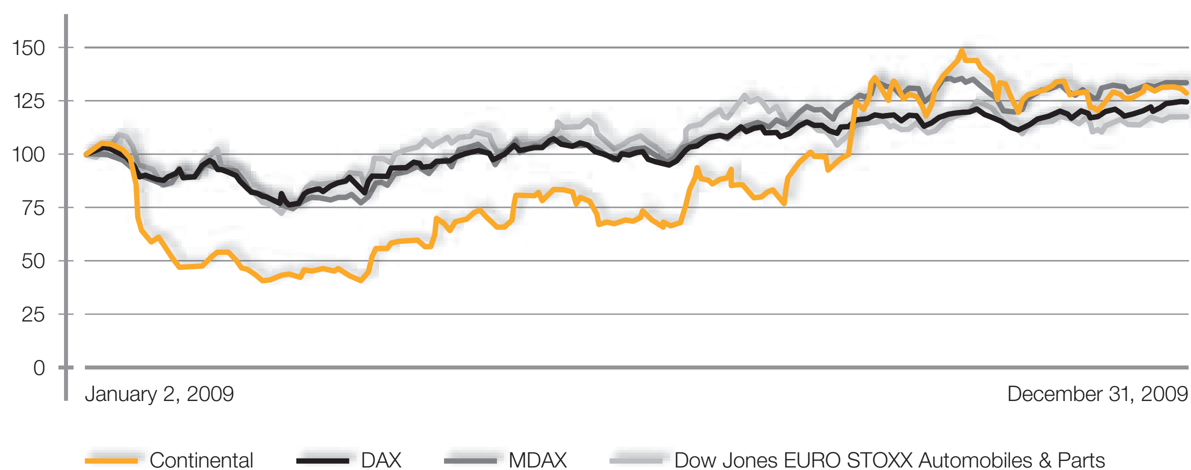
This boosted the positive development that had begun on the stock markets. The DAX, MDAX and Dow Jones EURO STOXX 50 each had new annual highs on October 14, 2009 of 5,854, 7,630 and 2,951 points respectively. Following this, largely positive economic data and the resulting increased discussion on exit strategies from ultra-expansive monetary and fiscal policy led to profit taking by investors. The emirate Dubai's financial problems came to light at the end of November, creating brief uncertainty on the capital market. In spite of that, the ECB raised its growth forecasts for the Eurozone for 2009 to 2011 and announced in this context that it is withdrawing its unconventional monetary measures but at the same time left the key interest rate at 1%. This sent the DAX on a year-end rally; it hit its 2009 peak of 6,012 points on December 29. The last time the DAX was at this level was mid-September 2008. The leading German index finished trading on December 31 at 5,957 points, corresponding to a jump of 24% as compared with the previous year. Development of the Dow Jones EURO STOXX 50 was similar, recovering by 21% in the year under review. The leading U.S. index, the Dow Jones Industrial, closed on December 31, 2009, at 10,428 points, representing an increase of 19% for the year as a whole.

Over the course of 2009, raw material prices, fostered by a continuing weak U.S. dollar, recovered substantially in advance of the recovery of the global economy. Prices for crude oil, rubber and various metals thus increased. This development, together with expectations that the expiration of the scrapping incentives would have decreasing positive effects on European passenger car demand, impacted automotive stocks more heavily than the regional leading indexes. The Dow Jones EURO STOXX Automobiles & Parts index shed additional profits from its high point in August until the end of the year to close the year under review on December 31, 2009, up by 17%. This is a decrease of 6.0% and 3 percentage points respectively as compared with the DAX and the Dow Jones EURO STOXX 50.

Continental share price recovers significantly

At the beginning of the year under review, Continental share price performance was affected initially by the conclusion of the takeover offer of Schaeffler KG on January 8, 2009, meaning that only roughly 11% of all Continental shares were in free float. In this situation, speculations on an upcoming capital increase, the supposed necessity for federal assistance, staff changes on the Executive Board and the Supervisory Board, and the dramatic downward trend in the automotive industry led

Share price performance vs. major stock indexes



to a disproportionately large price decrease in Continental shares to €11.35 as of March 30, 2009. This corresponded to a loss in value of approximately 61% in comparison to the closing price at the end of 2008. With the beginning of the economic stabilization and the recovery of the global stock markets, the performance of the Continental share also improved and exceeded the 2008 year-end share price of €28.88 again at the close of the third quarter. In addition, the appointment of Dr. Elmar Degenhart as Continental AG's new chairman of the Executive Board as well as the election of Prof. Wolfgang Reitzle as the new chairman of the Supervisory Board had a positive effect on stock performance. The Continental share reached its 2009 peak of €42.82 on October 14, 2009. Investor profit taking was observed after good operating results for the third quarter. Over the further course of the fourth quarter, the Continental share recovered again, benefiting from the announcement of the successful completion of the first part of the refinancing package for the €3.5 billion payment of tranche B of the VDO loan due in August 2010. The Continental share closed trading on December 30, 2009 at €37.67, representing a recovery of 232% over the year's low and an increase of 30% for the year as a whole. Compared with the DAX, MDAX and the European industrial index for the automotive sector, this figure is 7 percentage points above the DAX, 7 percentage points below the MDAX and 13 percentage points above the industrial index.

At the beginning of 2010, the price performance was marked by the capital increase, which received a very positive response from investors. Despite the issue of 31 million shares at a subscription ratio of 2:11, the price stabilized at over €40 after all shares were placed on January 28, 2010. During the further course of the first quarter, uncertainty over the stability of the European financial system returned as a result of speculations regarding the solvency of Greece, with a federal deficit that has grown to more than 13% of its gross domestic product. This uncertainty again led to substantial decreases in share prices on the global stock markets. The Continental share price also was not able to ward off this negative trend, falling below the €40 mark once again.

Capital increase

On January 6, 2010, the Executive Board of Continental AG resolved – with Supervisory Board approval – an increase in the share capital of €432,655,316.48 by a nominal amount of €79,360,000.00 to €512,015,316.48 by issuing 31,000,000 new shares from authorized capital (Authorized Capital 2007).

The capital increase was implemented by way of a rights offering to the shareholders of Continental AG. In an initial step, a bank consortium led by Deutsche Bank AG, Goldman Sachs International and J.P. Morgan Securities Ltd. placed 24.55 million shares with institutional investors in a private placement on January 6, 2010. An addi-

Key figures per share in €	**2009**	**2008**
Basic earnings	-9.76	-6.84
Diluted earnings	-9.76	-6.84
Free cash flow	9.71	3.83
Dividend	—	—
Dividend payout ratio (%)	**—**	**—**
Dividend yield (%)	—	—
Total equity (book value)	24.03	33.68
Share price at year-end	37.67	28.88
Average share price	25.47	62.06
Price-earnings ratio (P/E ratio)	—	—
High	42.82	86.62
Low	11.35	27.00
Average trading volume (XETRA)	**278,992**	**2,276,482**
Number of shares, average (in millions)	169.0	164.2
Number of shares at December 31 (in millions)	169.0	169.0

Continental share price performance and indexes	Dec. 31, 2009	Dec. 31, 2008	Δ %
Continental shares (in €)	37.67	28.88	30.4
DAX 30*	5,957.43	4,810.20	23.8
Dow Jones EURO STOXX 50**	2,964.96	2,447.62	21.1
Dow Jones Industrial Average**	10,428.05	8,776.39	18.8
DAX Prime Automobile*	542.70	508.42	6.7
Dow Jones Automobiles & Parts**	232.62	198.38	17.3
S&P Automobiles Industry Index**	77.74	36.24	114.5

*Performance index including dividends. **Price index excluding dividends.

Investments in Continental shares*

Initial investment	Jan. 1, 2000	Jan. 1, 2004	Jan. 1, 2009
Investment period in years	10	5	1
Portfolio growth in € at December 31, 2009	18,120.00	-9,060.00	8,790.00
Average dividends in investment period	7,740.00	6,800.00	—
Shareholder return p.a. in %**	8.79	-1.44	30.44
Average returns of comparable indexes in %			
DAX 30	-1.64	6.96	23.85
Dow Jones EURO STOXX 50	-4.91	0.09	21.14

*Number of shares: 1,000. **Assuming that the dividend is not reinvested.

tional 6.45 million shares were placed with institutional investors at a price of €40.00 on January 12 as part of an accelerated bookbuilt offering. As a result of the subscription rights exercised by the free float shareholders, 3.4 million fewer shares were allocated. The capital increase was accompanied by BNP Paribas, CALYON and HSBC Trinkaus, in addition to the institutes already mentioned.

Existing shareholders could exercise their subscription rights from January 12 to January 25, 2010, acquiring two shares for every eleven shares they possessed at the time. The rights trading of the subscription rights on the Frankfurt Stock Exchange took place from January 12, 2010, until (and including) January 21, 2010. The new shares have full dividend entitlement as of fiscal 2009.

On January 26, 2010, Continental announced that more than 99% of the free float shareholders had made use of their subscription rights and that the total gross proceeds amounted to €1.1 billion. The capital increase served to repay Continental AG's liabilities from the VDO loan.

The major shareholders of Continental AG, representing 88.9% of the share capital of the company before the capital increase (Schaeffler KG 49.9%, M.M.Warburg & CO KGaA 19.5%, B. Metzler seel. Sohn & Co. Holding AG 19.5%) had irrevocably undertaken vis-à-vis the bank consortium not to exercise their subscription rights and not to transfer such subscription rights to third parties. Upon the completion of the rights offering, these major shareholders were calculated to hold an aggregate of 75.1% of the increased share capital of Continental AG. The free float of the Continental share therefore increased to 24.9%.

Inclusion of the new shares in trading on the regulated market of the stock exchanges of Frankfurt, Hanover, Hamburg and Stuttgart began on January 14, 2010. The delivery and settlement of the new shares subscribed in the rights offering or otherwise not subscribed took place on January 28, 2010.

The free float market capitalization amounted to roughly €706 million on December 31, 2009. This puts the Continental share in 30th position among MDAX-listed stocks at the end of the year. It occupied 18th position in terms of turnover in XETRA trading. As a result of the capital increase, the free float market capitalization in

January 2010 increased to more than €2 billion and the Continental ranking rose to 8th place in the index ranking of Deutsche Börse within the MDAX.

Earnings per share

Earnings per share amounted to -€9.76 (PY: -€6.84). (Calculated by dividing the net income for the year attributed to the shareholders of Continental AG by the weighted average of the number of shares in circulation during the fiscal year.) An average of 169,005,983 shares were in circulation in the year under review.

Dividend suspended

In its annual financial statements, Continental AG recognized a loss of €993.7 million. The distribution of a dividend is thus out of the question.

Overview of the total shareholder return

Total shareholder return was 30.4% for fiscal 2009 (PY: -65.3%).

Rating; renegotiation of €13.5 billion VDO loan

Again in 2009, Continental remained in constant dialog with the leading rating agencies Moody's Investors Service (Moody's) and Standard & Poor's.

The leading rating agencies changed Continental AG's credit rating in the year under review as follows:

December 31, 2009	Rating	Outlook
Standard & Poor's	B+	CreditWatch negative
Moody's	B1	negative

December 31, 2008	Rating	Outlook
Standard & Poor's	BBB-	CreditWatch negative
Moody's	Ba1	negative

For financing reasons, Continental is sticking to its goal to improve its rating back to the higher credit category, which is characterized by low default rates and referred to as the Investment Grade category, in the medium term. The target minimum rating is BBB and Baa2.

The downgrading to the Sub-Investment Grade category, below BBB- and Baa3, hindered Continental's access to various financing instruments last year such as commercial paper, which nevertheless comprise only a very small portion of the Continental Corporation's overall financing.

The Continental Corporation's most important financing instrument remains the VDO loan agreement originally amounting to €13.5 billion, concluded in August and October 2007. The outstanding amount of €800 million under tranche A was repaid in full in August 2009. Continental began negotiations with the bank consortium in the fourth quarter of 2009 regarding the VDO loan originally amounting to €13.5 billion. In these negotiations, important changes were made to the existing VDO loan agreement. The company also agreed upon a forward start facility from its banks at the same time; the proposed amount of €2.5 billion was oversubscribed. The outstanding amount of €2.45 billion under tranche B remaining after the payment made with the cash provided by the capital increase is thus to be refinanced in August 2010 by utilizing the forward start facility in an amount of presumably €2.45 billion with a term until 2012.

In addition, Continental intends to examine further measures on the financial market, also in terms of optimizing the maturity structure of the external financing, and implementing such measures if needed. This includes the issue of a high-yield bond, which is to be implemented in the first half of 2010.

Extensive investor relations activities

After completion of the takeover offer on January 8, 2009, IR activities were resumed on the accustomed scale in March 2009 and ensured a transparent and continuous exchange of information with the capital market again in 2009. Institutional investors, private shareholders, and analysts were provided with up-to-date and comprehensive information about the company. The IR team held a large number of presentations, one-on-one and group discussions around the world. They were accompanied by presentations from the chairman of the Executive Board on a regular basis.

All published company information, forthcoming dates and contacts can be found on the investor relations pages at www.continental-ir.com. The investor relations team can be reached at ir@conti.de.

The information we provided on the Internet was used to a lesser extent than in 2008, the year in which an

extraordinarily high number of people accessing our site was recorded on account of the takeover offer. For instance, the number of visits to our IR web pages decreased by roughly 40% to approximately 196,000, and the number of downloads by 6% to just under 300,000.

Increase in attendance at the Annual Shareholders' Meeting

Around 71% of the common stock was represented at the Annual Shareholders' Meeting on April 23, 2009, an increase of 18 percentage points compared with the previous year. When voting on all of the seven agenda items, the Annual Shareholders' Meeting endorsed management's proposals by a large majority.

Shareholder structure

In accordance with statutory requirements, we have disclosed changes in our shareholder structure that were communicated to us in the course of 2009, in line with the provisions of the *Wertpapierhandelsgesetz* (German Securities Trading Act).

Due to the low number of freely tradable shares of approximately 11% of all outstanding Continental shares, we again did not implement any identification of outside shareholders in this year under review. Around 89% of the 169,005,983 outstanding Continental shares are distributed as follows: 49.90% Schaeffler KG, 19.50% M.M.Warburg & CO KGaA and 19.50% B. Metzler seel. Sohn & Co. Holding AG. The capital increase implemented in January 2010 led however to an increase of the shareholder base and an increase in the free float to 24.9%. Detailed information about shareholders holding more than 3% of Continental AG's shares as well as the changes during 2009 is provided under Note 39 to the consolidated financial statements.

Dear Shareholders,

In the past fiscal year, the Supervisory Board of Continental AG continued to perform its duties to monitor and advise the Executive Board in the management of the company incumbent to it under the law and the Articles of Incorporation with due care and dedication. The Supervisory Board was involved in decisions of fundamental importance to the company in accordance with the Articles of Incorporation, the Supervisory Board by-laws and statutory requirements.

The Executive Board supplied the Supervisory Board with regular, up-to-date, and comprehensive reports on strategy, developments, and key business transactions regarding both the company and the corporation, as well as on related opportunities and risks. In addition, the Supervisory Board, the Chairman's Committee and the Audit Committee informed themselves in detail about other matters relating to the company and discussed them at their meetings and separate sessions. The members of the Supervisory Board were also available for consultation by the Executive Board outside the meetings. Furthermore, the chairmen of the Supervisory Board and the Executive Board were in regular contact with one another and exchanged information and ideas. No conflicts of interest among the members of the Executive Board or the Supervisory Board were reported in the year under review.

In the year under review, the Supervisory Board held a total of four regular meetings as well as nine extraordinary meetings and telephone conferences. No member was absent from more than half of the meetings. The Chairman's Committee met 13 times. If the situation demanded, the Supervisory Board and the Chairman's Committee also passed resolutions by written procedure. Against the background of the global financial and economic crisis with its particular strain on the automotive industry and the tense earnings situation at Continental, the Audit Committee consulted with the Executive Board at least once a month starting at mid-year and met a total of twelve times in the year under review. The permanent committee required under Section 27 (3) of the *Mitbestimmungsgesetz* (German Co-determination Act) met one time on July 30, 2009, after the meeting of the Supervisory Board. The Nomination Committee became active for the first time in preparation of the election of the shareholder representatives on the Supervisory Board at the 2009 Annual Shareholders' Meeting and prepared a proposal for the plenary session. There

Prof. Dr. Wolfgang Reitzle
Chairman of the Supervisory Board

are no other committees. All committees report to the plenary session on a regular basis.

Changes in the Supervisory Board
As already announced in the 2008 Annual Report, Mr. Jan P. Oosterveld (on January 26, 2009), Mr. Fred Steingraber (on January 26, 2009), Prof. Jürgen Stockmar (on January 25, 2009) and Mr. Christian Streiff (on February 3, 2009) resigned from their positions as Supervisory Board members after the agreement with the Schaeffler Group regarding future cooperation on January 24, 2009. On February 5, 2009, Mrs. Maria-Elisabeth Schaeffler, Mr. Georg F. W. Schaeffler, Dr. Jürgen Geißinger and Mr. Rolf Koerfer were appointed as their successors by court order. Dr. Hubertus von Grünberg resigned from the Supervisory Board on March 6, 2009. The Supervisory Board elected Mr. Rolf Koerfer as its chairman on March 27, 2009.

The mandate of the Supervisory Board members in office up to that point expired at the end of the Annual Shareholders' Meeting on April 23, 2009. Dr. Manfred Bodin, Dr. Diethart Breipohl, Mr. Jörg Schustereit and Mr. Dieter Weniger left the Supervisory Board at this point. Dr. Gunter Dunkel, Dr. Klaus Mangold und Mr. Klaus Rosenfeld were newly elected as shareholder representatives, while Mr. Hans Fischl and Mr. Jörg Köhlinger were newly elected as employee representatives. Following the Annual Shareholders' Meeting, the constituent assembly of the Supervisory Board took place with the shareholder representatives elected by the Annual Shareholders' Meeting and the employee representatives

elected on March 24, 2009. The Supervisory Board reelected Mr. Rolf Koerfer as its chairman and Mr. Werner Bischoff as its vice chairman.

Dr. Michael Frenzel resigned from the Supervisory Board on September 15, 2009. The district court of Hanover appointed Prof. Wolfgang Reitzle as his successor on September 28, 2009. He was elected Supervisory Board chairman on October 19, 2009, after Mr. Koerfer stepped down on the same day. Mr. Koerfer remains a member of the Supervisory Board and the Chairman's Committee. The Supervisory Board would again like to thank all its departing members for their contributions to the success of the company. The Supervisory Board is of the opinion that it had a sufficient number of independent members at all times during the period under review. More information on the Supervisory Board members and its committees who were active in the year under review can be found starting on page 239.

At the request of Dr. Alan Hippe, vice chairman of the Executive Board, CFO and head of Continental AG's Rubber Group, the Supervisory Board released him from his duties as Executive Board member as of February 28, 2009, by mutual agreement. In an extraordinary meeting on August 12, 2009, the Supervisory Board of Continental AG resolved the following changes on the Executive Board: The chairman of the Executive Board at that time, Dr. Karl-Thomas Neumann, stepped down immediately from Continental's Executive Board. Dr. Elmar Degenhart was appointed the new chairman of the Executive Board on August 12, 2009. At the same time, he assumed duties as the head of the Powertrain division and CFO until December 31, 2009. In addition, three new members were appointed to the Executive Board: Dr. Ralf Cramer (Chassis & Safety division), Mr. Helmut Matschi (Interior division) and Mr. Nikolai Setzer (Passenger and Light Truck Tires division). On October 19, 2009, the Supervisory Board appointed two additional Executive Board members who took office on January 1, 2010: Mr. Wolfgang Schäfer (Finance, Controlling, Law and IT) and Mr. José A. Avila (Powertrain division). The Supervisory Board would like to thank Dr. Neumann and Dr. Hippe for their work.

In accordance with the *Gesetz über die Angemessenheit der Vorstandsvergütung* or *VorstAG* (Act on the Appropriate Remuneration of the Executive Board) that came into effect in August 2009, the determination of remuneration for the Executive Board is reserved for the plenary session of the Supervisory Board. In light of the appointment of the new Executive Board members, the Supervisory Board thoroughly reviewed and revised the structure of the Executive Board remuneration with the help of an independent advisor, discussing the issue extensively at two meetings. This is covered in detail in the Remuneration Report on page 21.

Key topics of the Supervisory Board meetings

After the completion of Schaeffler KG's takeover offer to the shareholders of Continental AG on January 8, 2009, and following the Supervisory Board's extraordinary meeting on January 24, 2009, Continental AG and the Schaeffler Group announced that, as already mentioned, they had come to an agreement for constructive cooperation, based upon the investment agreement of August 20, 2008. The Supervisory Board had several further in-depth discussions on questions relating to Schaeffler KG's 49.90% holding in Continental and a possible combination of the two companies.

Another key topic that the Supervisory Board and Audit Committee dealt with intensively were the loans taken out in 2007 for the acquisition of Siemens VDO, the repayment of the tranche of these loans due in August 2009, the refinancing of the tranche due in August 2010, and the compliance with other provisions contained in the VDO loan agreement, especially the limits it established for indebtedness. The Supervisory Board and particularly the Audit Committee regularly obtained reports on this development and the measures proposed in this regard, discussed them and adopted resolutions on them as required. These included the asset restructuring of the contractual trust arrangement in place for several subsidiaries in Germany combined with the acquisition of a 24.9% holding in ContiTech AG by Continental Pension Trust e.V. The Supervisory Board and the Audit Committee also closely accompanied the successful amendment of the conditions of the VDO loan agreement in December 2009 and the agreement of a forward start facility. On January 6, 2010, the Supervisory Board approved the Executive Board resolution to increase the common stock of the company by issuing 31 million shares at a subscription price of €35 per share.

At its meeting on July 30, 2009, the Supervisory Board adopted a list of certain legal transactions by the company that require its approval in addition to the matters included in the Articles of Incorporation. The Supervisory Board delegated the decision regarding the approval to

the Chairman's Committee. However, in individual cases, any member of the Chairman's Committee may demand that a matter again be presented to the plenary for resolution. Further matters of major importance for the company in which the Supervisory Board was involved in this way included the acquisition of minority interests in Phoenix Yule Ltd., India, the increase in the holding in the joint venture with the partner Nisshinbo in Japan and China, the collateralization of the European Investment Bank (EIB) loan, as well as the disposals of the Public Transport Solutions business, the holding in a joint venture in China, and a plant in the U.S.A.

As in the previous years, the Supervisory Board repeatedly discussed the company's strategic development and orientation in general, as well as the strategic planning of the divisions. One focus of all Supervisory Board plenary meetings and Audit Committee meetings was the ongoing, detailed information on sales, earnings, and employment developments at corporate and divisional level, as well as the company's financial position. The Executive Board explained in detail cases where the actual course of business deviated from plans and targets and the reasons for these deviations. It also discussed the measures that were introduced with the Supervisory Board and its committees. Subject of regular discussion in the plenary sessions and in the committees was of course the impact of the global financial and economic crisis, especially in the automotive industry, on Continental, but also the challenges in the Powertrain division and the avoidance of disadvantages from the insolvency of individual major customers in the U.S.A.

In connection with its issuance of the declaration in accordance with Section 161 of the *Aktiengesetz* (German Stock Corporation Act), the Supervisory Board deliberated and adopted most of the revisions to the German Corporate Governance Code as enacted in June 2009 by the Government Commission on the German Corporate Governance Code. Details of this can be found in our Corporate Governance Report starting on page 18.

Audit Committee

The Audit Committee is closely involved in matters regarding compliance and risk management. The Executive Board regularly reported to the committee with regard to significant events and internal auditing work. The head of internal auditing was also directly available to provide information to the Audit Committee and its chairman in consultation with the Executive Board. In addition, the other material risks covered by the risk management system were presented in the Audit Committee along with the corresponding measures resolved by the Executive Board. Furthermore, the Audit Committee obtained reports on the business development, the earnings and financial position of the company, as well as on the compliance with the covenants from the VDO loan agreement starting the middle of the year, and discussed these matters with the Executive Board. Before publication of the half-year and quarterly financial reports, the Audit Committee discussed and reviewed them, paying special attention to the results for the individual reporting periods as well as the outlook for the year as a whole. The Audit Committee also discussed the audit of the consolidated financial statements as of December 31, 2008, by Deutsche Prüfstelle für Rechnungslegung e.V. and its results in depth. At its meeting on December 15, 2009, the Supervisory Board discussed the financial and capital expenditure plans for fiscal 2010 and the long-term planning. It also approved the budget for 2010.

Annual financial statements and consolidated financial statements

KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, Germany, audited the annual financial statements for Continental AG as of December 31, 2009, prepared by the Executive Board in accordance with *HGB* requirements, the 2009 consolidated financial statements, and the combined management report for Continental AG and the corporation, including the bookkeeping and the accounting-related internal control system and risk management system. In addition, the Executive Board's report on relations to affiliated companies in accordance with Section 312 of the *Aktiengesetz* ("dependency report") was audited by KPMG. Continental AG's 2009 consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). An unqualified audit opinion was issued. With regard to the risk management system, the auditors determined that the Executive Board initiated the measures required under Section 91 (2) of the *Aktiengesetz* and that the company's risk management system is suited to recognize risks early on that could threaten the continued existence of the company.

The documents relating to the annual financial statements, including the dependency report, and the audit reports were discussed with the Executive Board and

the auditor in the Audit Committee meeting on February 18, 2010. They also were discussed at length at the plenary meeting of the Supervisory Board on March 5, 2010. The required documents were distributed on a timely basis prior to these meetings, allowing sufficient opportunity to review them. The auditors were present at the meetings. They reported on the key findings of the audit and were available to provide additional information to the Audit Committee and the Supervisory Board.

On the basis of its own examination of the annual financial statements, the consolidated financial statements, the management report for Continental AG and the corporation, and the dependency report including the final declaration of the Executive Board, as well as on the basis of the Audit Committee's report and recommendation, the Supervisory Board endorsed the results of the audit by the independent auditors. No objections were made. The Supervisory Board approved the annual financial statements and the consolidated annual financial statements. The annual financial statements for 2009 are thereby adopted.

The Supervisory Board would like to thank the Executive Board, all employees, and the employee representatives for their outstanding work during the past year. Despite major strains for the company and the individual employees in a difficult and still uncertain environment, they took on and overcame the various challenges.

Hanover, March 5, 2010

For the Supervisory Board

Sincerely,

Prof. Dr. Wolfgang Reitzle
Chairman

Members of the Supervisory Board

Prof. Dr. Ing. Wolfgang Reitzle
Chairman

Werner Bischoff*
Vice Chairman

Michael Deister*

Dr. Gunter Dunkel

Hans Fischl*

Dr. Jürgen Geißinger

Prof. Dr. Ing. E. h. Hans-Olaf Henkel

Michael Iglhaut*

Jörg Köhlinger*

Rolf Koerfer

Dr. Klaus Mangold

Hartmut Meine*

Dirk Nordmann*

Dr. Thorsten Reese*

Klaus Rosenfeld

Georg W. Schaeffler

Maria-Elisabeth Schaeffler

Jörg Schönfelder*

Dr. Bernd W. Voss

Erwin Wörle*

* Employee representative

Corporate Governance Report

The Corporate Governance Principles are an integral part of corporate management. They serve to foster the responsible, value-creation focused management of the corporation.

Our Corporate Governance Principles are a key ingredient of corporate management, which focuses on sustainably increasing the value of the company in the interest of all stakeholders. Corporate governance is the responsibility of the company's corporate bodies: the Shareholders' Meeting, the Supervisory Board, and the Executive Board, as specified by law and our Articles of Incorporation. Continental AG's Corporate Governance Principles are closely modeled on the German Corporate Governance Code and are published on the Internet at www.continental-corporation.com. Together with the Basics, which we have used to lay down our corporate goals and guidelines since 1989, and our Code of Conduct, these principles form a guideline for corporate management and control at Continental.

Corporate bodies

Shareholders exercise their rights, including their voting rights, in the Shareholders' Meeting. Each Continental AG share entitles the holder to one vote. There are no shares conferring multiple or preferential voting rights, nor do any limitations on voting rights exist.

The Executive Board has sole responsibility for the management of the company. This responsibility is shared by the members of the Executive Board. The chairman of the Executive Board is responsible for the company's overall management and business policy. He ensures consistent management by the Executive Board and coordinates the work of the members of the Executive Board.

The Supervisory Board appoints, supervises and advises the Executive Board. The Supervisory Board is directly involved in decisions of material importance to the company. As specified by law, the Articles of Incorporation and the Supervisory Board by-laws, certain corporate management matters require the approval of the Supervisory Board. The chairman of the Supervisory Board coordinates its work and represents its interests vis-à-vis third parties. He is in regular contact with the Executive Board, and in particular with its chairman, to discuss the company's strategy, business development and risk management.

The Supervisory Board and its committees

In accordance with the *Mitbestimmungsgesetz* (German Co-determination Act) and the company's Articles of Incorporation, the Supervisory Board comprises 20 members. Half the members of the Supervisory Board are elected by the shareholders in the Annual Shareholders' Meeting, while the other half are elected by the employees of Continental AG and its German subsidiaries. Both the shareholder representatives and the employee representatives have an equal duty to act in the interest of the company. The Supervisory Board's chairman represents the shareholders. He has the casting vote in the event of a tie. Further information on the members of the Supervisory Board is provided on pages 239 to 241 of this Annual Report.

The Supervisory Board has drawn up by-laws for itself, which supplement the law and the Articles of Incorporation with more detailed provisions including provisions on the duty of confidentiality, on handling conflicts of interest, and on the Executive Board's reporting obligations.

The Supervisory Board currently has four committees: the Chairman's Committee, the Audit Committee, the Nomination Committee, and the Mediation Committee, which is to be formed in line with Section 27 (3) of the *Mitbestimmungsgesetz*. The members of the committees are listed on page 241.

The Chairman's Committee is comprised of the Supervisory Board's chairman, vice chairman, and the two additional members of the Mediation Committee. One of the key responsibilities of the Chairman's Committee is preparing the appointment of Executive Board members and concluding, terminating, and amending their employment contracts and other agreements with them. However, this excludes the determination of remuneration for the Executive Board, for which the plenary session of the Supervisory Board is now solely responsible

in accordance with the *Gesetz über die Angemessenheit der Vorstandsvergütung* or *VorstAG* (Act on the Appropriate Remuneration of the Executive Board). Another key responsibility of the Chairman's Committee is deciding on the approval of certain transactions by the company as specified in the Supervisory Board by-laws. The Supervisory Board conferred these participation rights on the Chairman's Committee with the proviso that, in individual cases, each of its members may demand that a matter be submitted to the plenary session for decision.

The Audit Committee's tasks relate to the company's accounting, the audit of the financial statements, and compliance. In particular, the committee monitors the accounting process and the effectiveness of the internal controlling system, the risk management system and internal audit system, performs a preliminary examination of Continental AG's annual financial statements and the consolidated financial statements, and makes its recommendation to the plenary session of the Supervisory Board, which then passes resolutions pursuant to Section 171 of the *Aktiengesetz* (German Stock Corporation Act). Furthermore, the committee discusses the company's draft interim financial reports and is responsible for assuring the necessary independence of auditors, for engaging the auditors, for determining the focus of the audit as required, and for negotiating the fee. The committee also gives its recommendation for the Supervisory Board's proposal to the Shareholders' Meeting for the election of the auditor. The chairman of the Audit Committee, Dr. Bernd W. Voss, is independent and, as former CFO of Dresdner Bank, has special knowledge and experience in the application of accounting principles and internal control procedures. Previous members of the company's Executive Board and the chairman of the Supervisory Board may not act as chairman of the Audit Committee.

The Nomination Committee is responsible for nominating suitable candidates for the Supervisory Board to propose to the Annual Shareholders' Meeting for election. This committee consists entirely of shareholder representatives.

The committee, which is formed in line with Section 27 (3) of the *Mitbestimmungsgesetz*, is active according to Section 31 (3) Sentence 1 of the *Mitbestimmungsgesetz* only if a candidate for appointment to the Executive Board or a mutually accepted early release of an Executive Board member from his contract fails to achieve the statutory two-thirds majority upon first ballot. This committee must then attempt mediation before a new vote is taken.

The Supervisory Board's report on its work and the work of its committees in the past fiscal year can be found on pages 13 to 16.

The Executive Board

The Executive Board currently has eight members. Further information on the members and their responsibilities can be found on pages 237 and 238.

The responsibilities of the chairman and the other members of the Executive Board are governed by its by-laws. These regulate which key matters pertaining to the company and its subsidiaries require a decision to be made by the Executive Board. Article 14 of the Articles of Incorporation and the Supervisory Board by-laws require the consent of the Supervisory Board for significant measures carried out by management.

Accounting

Continental Corporation's accounting is prepared in accordance with International Financial Reporting Standards (IFRS). More detailed information on the IFRS is provided in this Annual Report under Note 2 to the consolidated financial statements. The annual financial statements of Continental AG are prepared in accordance with the accounting regulations of the *Handelsgesetzbuch* (German Commercial Code).

Risk management

Continental's risk situation is analyzed and managed with the help of a corporation-wide risk management system which serves to identify and evaluate developments that could endanger the continued existence of the company. Details can be found starting on page 105.

Transparent and prompt reporting

The company regularly reports equally to shareholders, analysts, shareholders' associations, the media, and interested members of the public on significant developments in the corporation and on its position. All shareholders thus have immediate access to all information which is also available to financial analysts and similar addressees. In particular, the Internet is utilized to guarantee the timely distribution of information. The dates of key periodic publications and events (annual

reports, interim reports, Annual Shareholders' Meetings, and press and analyst conferences) are announced in a timely manner in the company's financial calendar. The dates already set for 2010 and 2011 can be found on page 246 of this report and on the Internet at www.continental-corporation.com.

Continental AG's Corporate Governance Principles
The Government Commission on the German Corporate Governance Code again adopted a number of amendments to the Code in 2009, some of which were necessary as a result of amendments to legal provisions. The Supervisory Board and Executive Board discussed these proposals in detail and resolved to follow most of these amendments for Continental and to adjust Continental's Corporate Governance Principles accordingly.

Declaration in accordance with Section 161 of the *Aktiengesetz* and deviations from the German Corporate Governance Code
On October 19, 2009, the Executive Board and the Supervisory Board issued their annual declaration in accordance with Section 161 of the *Aktiengesetz*. This stated that the company has complied and will comply with the recommendations made by the Government Commission on the German Corporate Governance Code published by the German Federal Ministry of Justice in the official part of the electronic *Bundesanzeiger* (Federal Gazette), and indicated which recommendations have not been applied, as well as those that will continue not to be applied. The declaration was made permanently available to shareholders on Continental's website. Earlier declarations in accordance with Section 161 of the *Aktiengesetz* also can be found on the website.

In Continental AG's Corporate Governance Principles, the Executive Board and the Supervisory Board have undertaken to explain not only deviations from the recommendations made by the Code, but also any deviations from its suggestions.

a) Deviations from recommendations

The company cannot comply with the recommendation in Section 2.3.2 to send the convening notice to the annual general meeting and the documents relating thereto electronically to all domestic and foreign financial services providers, shareholders, and shareholders' associations. The shares of the company are bearer shares (Article 5 of the Articles of Association), which means that it is not feasible to identify all possible recipients.

Pursuant to Section 3.8 (2) of the Code, a D&O insurance policy taken out by the company for the members of the Supervisory Board shall provide for a deductible, which is in line with the provisions of Section 93 (2) Sentence 3 of the *Aktiengesetz* in the version of the *VorstAG* on the deductible for Executive Board members, i.e. of at least 10% of the loss up to at least one and a half times the fixed annual remuneration of the Supervisory Board member. Before the publication and effectiveness of the *VorstAG*, the company took out a D&O insurance policy for the members of the Executive Board, the Supervisory Board and senior executives which will remain valid until December 31, 2010, and provides for a lower deductible than stipulated by the *VorstAG*. Pursuant to Section 23 (1) of the *Einführungsgesetz zum Aktiengesetz* (Introductory Act to the German Stock Corporation Act) in the version of the *VorstAG*, the deductible for members of the Executive Board in such cases must be adjusted to the level prescribed by the *VorstAG* by July 1, 2010, at the latest. The company will therefore adjust the deductible both for members of the Executive Board and for members of the Supervisory Board to the provisions of the *VorstAG* by July 1, 2010, at the latest.

b) Deviations from suggestions

Section 2.3.4: To date, the company has not given shareholders the opportunity to follow the Annual Shareholders' Meeting using communication media such as the Internet. Although our Articles of Incorporation permit the use of electronic media to transmit some or all of the Annual Shareholders' Meeting, we do not think that the benefit to shareholders currently justifies the costs associated with such use. We therefore currently do not follow this suggestion.

Remuneration Report

In accordance with the *Aktiengesetz* (German Stock Corporation Act) in the version of the *Gesetz über die Angemessenheit der Vorstandsvergütung*, or *VorstAG* (German Act on the Appropriate Remuneration of the Executive Board), the specification of remuneration for the Executive Board is reserved for the plenary session of the Supervisory Board. With the support of an independent advisor, the Supervisory Board thoroughly reviewed and revised the structure of the Executive Board remuneration in light of the appointment of several new members to the Executive Board and, at the same time, the enactment of the *VorstAG*.

Remuneration system

Remuneration for Executive Board members consists of the following elements:

Each Executive Board member receives a fixed annual remuneration, which is paid in 12 monthly installments.

The Executive Board members also receive a variable remuneration which is tied to the achievement of certain performance targets that are agreed with each member at the beginning of each fiscal year. This variable remuneration component is capped at 150% of the fixed target bonus. To take account of extraordinary developments, the Supervisory Board may revise the achievement of the targets that form the basis for calculation of the variable remuneration retroactively by 20% upward or downward. 40% of the variable remuneration achieved in one fiscal year is paid out in the form of a lump sum as an annual bonus. The remaining 60% is converted into virtual shares of Continental AG. Following the expiration of a three-year holding period after the end of the fiscal year for which the variable remuneration is determined, the value of these virtual shares is paid out including the value of the dividends paid out during the holding period. Conversion of the variable remuneration into virtual shares and payment of the value after expiration of the holding period are carried out based upon the average share price for the three month period leading up to the Annual Shareholders' Meeting in the year of the conversion or in the year of the payment. However, the amount paid out after expiration of the holding period may not fall below 50% of the value upon conversion nor exceed it by more than threefold. The Supervisory Board may also revise the amount calculated in this way retroactively by 20% upward or downward to compensate for extraordinary developments in the share price. Furthermore, a special bonus may be agreed for particular projects in individual cases.

The employment contracts of Executive Board members Dr. Hans-Joachim Nikolin and Heinz-Gerhard Wente, who were appointed before 2009, have also been adjusted to the new structure with effect from January 1, 2010. In the employment contracts for the Executive Board entered into before the enactment of the *VorstAG*, the variable remuneration depended in part on the distributed dividends. Should the dividend amount increase significantly, the Chairman's Committee could alter the method of calculation. The bonus was also dependent on the achievement of certain individually agreed targets that related to key performance indicators of the respective Executive Board member's scope of duties. This variable remuneration component was limited to a maximum amount that was contingent upon the fixed annual remuneration.

Executive Board members also receive additional benefits, primarily the reimbursement of expenses, including payments – generally for a limited time – for a job-related second household or activities abroad on behalf of the company, the provision of a company car, and premiums for group accident and directors' and officers' (D&O) liability insurance. The D&O insurance policy provides for an appropriate deductible. The deductible shall be adjusted to the requirements of the *VorstAG* by July 1, 2010 at the latest. Members of the Executive Board must pay taxes on these additional benefits.

Continued remuneration payments have also been agreed for a certain period in the event of employment disability through no fault of the Executive Board member concerned.

All members of the Executive Board have been granted post-employment benefits that are paid starting at the age of 63 (but not before they leave the service of the company) or in the case of disability. Dr. Hans-Joachim Nikolin is entitled to post-employment benefits before the age of 63 if his employment contract should end prematurely before December 31, 2011, by mutual agreement. In each case, the maximum post-employment benefit amounts to 50% of the most recent fixed remuneration payment and 12% of the average variable remuneration achieved in the last five fiscal years. There is a basic rate for the post-employment benefits that is determined

individually. For each year of service, a member of the Executive Board attains a benefit entitlement amounting to 10% of the difference between the basic rate and his or her maximum post-employment benefit, until the full entitlement has been achieved after 10 years. An adjustment of the post-employment benefit after commencement of such benefit payments is carried out in accordance with Section 16 of the *Betriebsrentengesetz* or *BetrAVG* (German Occupational Pension Improvement Act). Any other income is offset from the post-employment benefit.

In the employment contracts it is agreed that, in the case of premature termination of Executive Board activity without justifiable grounds, payments to be agreed with the Executive Board member including the additional benefits shall not exceed the value of two annual salaries nor the value of compensation for the remaining term of the employment contract for the Executive Board member. No compensation agreements exist with members of the Executive Board in the event of a takeover bid for, or a change of control in the company. No payments were promised or granted in 2009 to members of the Executive Board by a third party with respect to their activities on the Executive Board.

Individual remuneration

The total remuneration of each individual member of the Executive Board for the fiscal year, broken down into fixed and variable components, and the individual pension expense in the previous fiscal year, as well as the value recorded in the consolidated annual financial statements pertaining to the stock options granted under stock option plans in previous fiscal years and redeemed in the past year, is disclosed in the following tables. In addition, an amount of €7.430 million was paid to Dr. Karl-Thomas Neumann for the premature termination of his employment relationship to settle existing claims from the remaining time of his appointment. Mr. Lerch receives compensation for the period of a restrictive covenant. In 2009, he was paid €0.687 million in this context. Further details of the stock option plans are given in Note 23 to the consolidated financial statements.

Remuneration of the Executive Board in 2009

in € thousands	Remuneration components					Pensions
	Fixed[1]	Variable	Long-term incentives[2]	Total	Share-based payment	Service cost 2009[4]
Dr. E. Degenhart (since August 12, 2009)	472	202	304	978	304[2]	265
Dr. K.-T. Neumann (until August 12, 2009)	453	–	–	453	363[3]	178
Dr. R. Cramer (since August 12, 2009)	233	140	210	583	210[2]	81
Dr. A. Hippe (until February 28, 2009)	112	36	–	148	96[3]	25
H. Matschi (since August 12, 2009)	239	140	210	589	210[2]	94
Dr. H.-J. Nikolin	460	0	–	460	542[3]	130
N. Setzer (since August 12, 2009)	238	140	210	588	210[2]	59
H.-G. Wente	459	119	–	578	313[3]	56
Total	**2,666**	**777**	**934**	**4,377**	**2,248**	**888**

[1] In addition to cash components, the fixed remuneration includes non-cash elements, such as company cars, insurance, and moving costs.

[2] Long-term term component of the variable remuneration which is converted into virtual shares of Continental AG in line with the new remuneration structure geared towards sustainable development of the company.

[3] The amount of personnel expenses carried in the consolidated financial statements (compensation cost) in 2009 for stock options granted and redeemed in previous fiscal years under the 2004 and 2008 stock option plans.

[4] The service cost component of pension expense for 2009 calculated in accordance with international accounting principles.

Remuneration of the Executive Board in 2008

in € thousands	Remuneration components				Stock options granted[3]		Pensions
	Fixed[1]	Variable	Long-term incentives[2]	Total	Quantity	Compensation cost[4]	Service cost 2008[5]
Dr. K.-T. Neumann	648	362	676	1,686	25,000	573	223
M. Wennemer (until August 31, 2008)	519	107	811	1,437	30,000	602	378
Dr. A. Hippe	630	278	676	1,584	25,000	625	133
G. Lerch (until September 29, 2008)	365	135	–	500	–	274	–
Dr. H.-J. Nikolin	483	5	540	1,028	20,000	602	137
Heinz-Gerhard Wente	484	98	540	1,122	20,000	260	60
W. L. Kozyra (deputy member) (until May 31, 2008)	193	239	443	875	16,400	165	59
Total	**3,322**	**1,224**	**3,686**	**8,232**	**136,400**	**3,101**	**990**

[1] In addition to cash components, the fixed remuneration includes non-cash elements, such as company cars, insurance, and moving costs.
[2] Market values of the stock options granted in 2008.
[3] The stock options granted in 2008 relate to the 2008 stock option plan.
[4] The amount of personnel expenses carried in the consolidated financial statements (compensation cost) in 2008 for the stock options granted under the stock option plans in 2008 or previous fiscal years.
[5] The service cost component of pension expense for 2008 calculated in accordance with international accounting principles.

2004 and 2008 stock option plans

	Number of subscription rights		Amounts paid out[1] (in € thousands)		
	Dec. 31, 2008	Dec. 31, 2009	2009	2010	2011
Dr. K.-T. Neumann (until August 12, 2009)	70,000	0	59	–	–
Dr. A. Hippe (until February 28, 2009)	85,000	0	100	–	–
Dr. H.-J. Nikolin	80,000	0	106	38	96
H.-G. Wente	45,800	0	76	12	96

[1] Subscription rights under the 2004 and 2008 stock option plans were converted into cash payment.

Remuneration of the Supervisory Board

Article 16 of the Articles of Incorporation regulates the remuneration paid to members of the Supervisory Board. It consists of a fixed and a variable component, the latter being contingent upon the net income per share in the most recent fiscal year. The chairman and vice chairman of the Supervisory Board and the chairs and members of committees qualify for higher remuneration. In addition, the members of the Supervisory Board are paid meeting-attendance fees and their expenses are reimbursed. The D&O insurance policy also covers members of the Supervisory Board. However, in line with their responsibilities, the appropriate deductible has been lower than that of the Executive Board to date. The deductible shall also be adjusted to the requirements of the *VorstAG* by July 1, 2010, at the latest.

Remuneration of individual Supervisory Board members in 2009 as provided for under these arrangements is presented in the table on the next page.

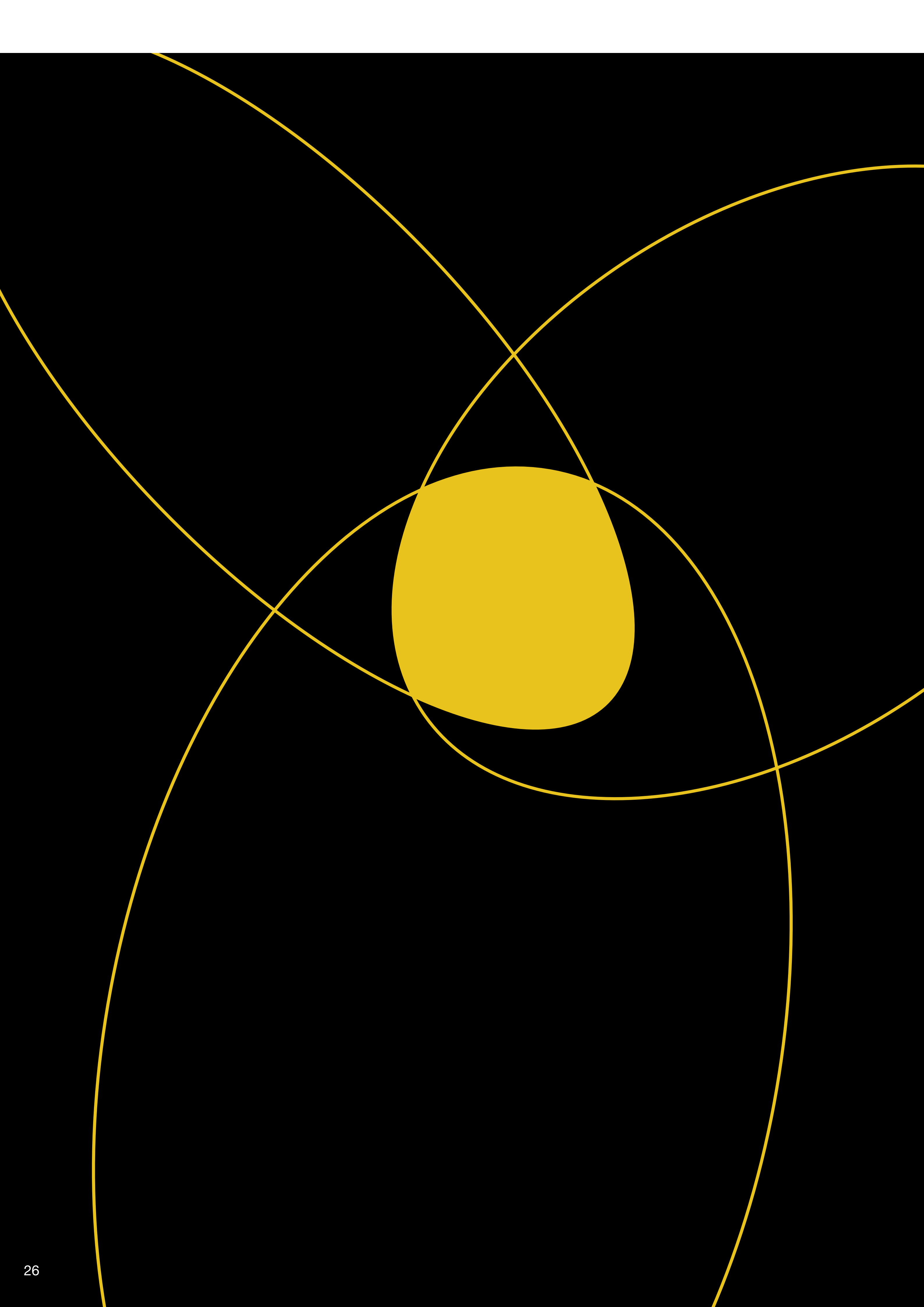
Shares held by Supervisory Board and Executive Board members; directors' dealings

As of December 31, 2009, shares representing 49.90% of the common stock of the company were attributable to two members of the Supervisory Board – Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler – held as specified in the notification of voting rights on January 13, 2009. As a result of the increase in the share capital of the company that went into effect on January 12, 2010, this holding decreased to a calculated 42.17%. As of February 8, 2010, the remaining members of the Supervisory Board held shares representing a total interest of less than 1% in the common stock of the company. As of February 8, 2010, the members of the Executive Board held shares also representing a total interest of less than 1% in the common stock of the company. In fiscal 2009, Continental AG received no notifications in line with Section 15 a of the *WpHG* regarding transactions with shares of the company or financial instruments related thereto, either from members of the Executive Board or from members of the Supervisory Board.

Remuneration of the Supervisory Board

in € thousands	Remuneration components			
	2009		2008	
	Fixed[1]	Variable	Fixed[1]	Variable
Prof. Dr.-Ing. Wolfgang Reitzle (since September 28, 2009)	19	–	–	–
Dr. Hubertus von Grünberg (until March 6, 2009)	17	–	88	–
Rolf Koerfer (since February 5, 2009)	73	–	–	–
Werner Bischoff	72	–	66	–
Dr. h.c. Manfred Bodin (until April 23, 2009)	14	–	45	–
Dr. Diethart Breipohl (until April 23, 2009)	21	–	66	–
Michael Deister	73	–	66	–
Dr. Gunter Dunkel (since April 23, 2009)	31	–	–	–
Hans Fischl (since April 23, 2009)	48	–	–	–
Dr. Michael Frenzel (until September 15, 2009)	31	–	44	–
Dr. Jürgen Geißinger (since February 5, 2009)	40	–	–	–
Prof. Dr.-Ing. E.h. Hans-Olaf Henkel	57	–	44	–
Michael Iglhaut	55	–	66	–
Jörg Köhlinger (since April 23, 2009)	32	–	–	–
Prof. Dr. Klaus Mangold (since April 23, 2009)	31	–	–	–
Hartmut Meine	48	–	45	–
Dirk Nordmann	48	–	44	–
Jan P. Oosterveld (until January 26, 2009)	4	–	44	–
Dr. Thorsten Reese	73	–	66	–
Klaus Rosenfeld (since April 23, 2009)	44	–	–	–
Georg F. W. Schaeffler (since February 5, 2009)	40	–	–	–
Maria-Elisabeth Schaeffler (since February 5, 2009)	55	–	–	–
Jörg Schönfelder	48	–	45	–
Jörg Schustereit (until April 23, 2009)	17	–	45	–
Fred G. Steingraber (until January 26, 2009)	5	–	44	–
Prof. Dipl.-Ing. Jürgen Stockmar (until January 25, 2009)	4	–	45	–
Christian Streiff (until February 3, 2009)	4	–	44	–
Dr. Bernd W. Voss	89	–	86	–
Dieter Weniger (until April 23, 2009)	16	–	45	–
Erwin Wörle	48	–	45	–
Total	**1,157**	**–**	**1,083**	**–**

[1] Including meeting-attendance fees.



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Overview

Our goal is to offer our customers the best possible products for vehicle safety, comfort and environmentally friendly technologies.

Founded in Hanover, Germany, in 1871, Continental can look back on a history of success. Over the years we have brought individual mobility to the road and initiated, advanced and collaborated on technological developments. Today we are among the five largest automotive suppliers in the world and the second largest in Europe. As a supplier of tires, brake control systems, driving dynamics control systems, airbag electronics, driver assistance systems, sensors, systems and components for the powertrain and chassis, instrumentation, infotainment solutions, vehicle electronics and technical elastomer products, we contribute towards enhanced driving safety and environmental protection. The ContiTech division is also an expert development partner for various other key industries.

In the Automotive Group and the Rubber Group, comprising a total of six divisions – Chassis & Safety, Powertrain, Interior, Passenger and Light Truck Tires, Commercial Vehicle Tires, ContiTech – approximately 134,000 employees in 39 countries work towards offering our customers the best possible products.

The success of our business units is reflected in leading competitive positions. For example, we are number one worldwide for driver assistance systems, hydraulic brake systems, fuel supply systems, airbag control units, air suspension systems for passenger vehicles, vehicle instrumentation, and telematics. We are number two for electronic brake systems and brake boosters. Passenger and light truck tires from Continental rank fourth worldwide and first in Europe. We are the European market leader for industrial tires and rank fourth for truck tires in Europe. ContiTech is the world leader in the markets for foils for vehicle interiors, conveyor belts, and air springs for rail vehicles, commercial vehicles and buses, as well as in other sectors.

Automotive Group:

- The **Chassis & Safety** division, with approximately 27,000 employees, focuses on maximizing driving safety for all markets and vehicle categories. The division bundles together far-reaching knowledge in the areas of brakes, chassis, driving dynamics, passive safety and sensors to arrive at individual mobility in which accidents and injury are eliminated to the greatest possible extent.

- The **Powertrain** division, which has around 24,000 employees, stands for innovative and efficient powertrain system solutions. The division aims to make future powertrain concepts more economical and eco-friendly as well as to bring zero-emission mobility within reach.

- The **Interior** division, with a staff of about 27,000, points the way to tomorrow's intelligent motoring. The focus here is on information management for a smooth flow of information between people, vehicles, portable devices and the environment.

Rubber Group:

- The guiding principle of the **Passenger and Light Truck Tires** division, which has roughly 27,000 employees, is to produce innovative premium products that ensure the necessary traction with the widest possible margin of safety and optimized energy efficiency. The division develops and manufactures tires for compact, standard-size and full-size cars, vans, motorcycles and bicycles.

- The expertise of the **Commercial Vehicle Tires** division with some 8,000 employees is proven every day around the world, on and off the road. The division's broad spectrum of truck, bus, industrial and off-the-road tires for a wide range of applications directly translates technological success into high mileage performance and low fuel consumption.

- The **ContiTech** division, with approximately 22,000 employees, is one of the world's largest specialists in rubber and plastics technology. The division gets high tech moving. It develops and produces functional parts, components, and systems for the automotive and many other industries.

Structure of the Corporation

The Continental Corporation is made up of the Automotive Group and the Rubber Group, each of which consists of three strong divisions.

Automotive Group

Sales: €12.0 billion
Employees: 78,030

Chassis & Safety

Sales: €4.4 billion
Employees: 27,148

- Electronic Brake Systems
- Hydraulic Brake Systems
- Sensorics
- Passive Safety & ADAS
- Chassis Components

Powertrain

Sales: €3.4 billion
Employees: 24,172

- Engine Systems
- Transmission
- Hybrid & Electric Vehicle
- Sensors & Actuators
- Fuel Supply

Interior

Sales: €4.4 billion
Employees: 26,710

- Instrumentation & Driver HMI
- Infotainment & Connectivity
- Body & Security
- Commercial Vehicles & Aftermarket

Rubber Group

Sales: €8.1 billion
Mitarbeiter: 56,183

Passenger and Light Truck Tires

Sales: €4.7 billion
Employees: 26,510

- Original Equipment
- Replacement Business, Europe & Africa
- Replacement Business, The Americas
- Replacement Business, Asia Pacific
- Two-Wheel Tires

Commercial Vehicle Tires

Sales: €1.1 billion
Employees: 7,594

- Truck Tires, Europe
- Truck Tires, The Americas
- Truck Tires, Asia Pacific
- Industrial Tires

ContiTech

Sales: €2.4 billion
Employees: 22,079

- Air Spring Systems
- Benecke-Kaliko Group
- Conveyor Belt Group
- Elastomer Coatings
- Fluid Technology
- Power Transmission Group
- Vibration Control

Business Activities, Organization and Locations

Our operating units stand for a high degree of innovativeness, an all-round customer focus, and uncompromising quality.

Chassis & Safety Division

The Chassis & Safety division develops and produces intelligent systems for an automotive future in which life is protected and injuries avoided. We integrate the entire spectrum of active and passive safety systems into our comprehensive ContiGuard® system. The product portfolio includes electronic and hydraulic brake control and dynamic driving control systems, driver assistance systems, airbag electronics, and electronic air suspension systems and sensors.

Chassis & Safety has 64 locations in 22 countries. In 2009, the approximately 27,000 employees generated sales of €4.4 billion. The division comprises five business units:

- Electronic Brake Systems
- Hydraulic Brake Systems
- Sensorics
- Passive Safety & Advanced Driver Assistance Systems (ADAS)
- Chassis Components

The products of the **Electronic Brake Systems** (EBS) business unit are characterized by a very high integration potential of functions and system components. EBS incorporates ABS (anti-lock brake system) and ESC systems (electronic stability control) with a wide range of added function and integration possibilities.

As one of the world's leading suppliers of foundation brakes and brake actuation systems, the **Hydraulic Brake Systems** (HBS) business unit is continuously developing innovations for traditional brake technology and optimized actuation systems for all vehicle categories. Its products range from disc brakes, hand brakes and drum brakes through actuation units to brake hoses and brake fluids. The new electric parking brakes (EPB) business area manufactures products such as cable pullers, duo-servo brakes and caliper-integrated solutions.

Sensors are of fundamental importance to the functions of electronic vehicle control. The fast and precise detection of rotational speeds, movements and forces which affect the vehicle is the **Sensorics** unit's core competence.

The **Passive Safety & Advanced Driver Assistance Systems** (ADAS) unit focuses on pioneering systems for driver assistance and safety electronics for a cross-linked proactive and reactive vehicle. Driver assistance systems with environment sensors – cameras, lasers or radar – offer a maximum of safety by looking ahead. If a danger is recognized, they immediately warn the driver and take defensive action if needed.

The **Chassis Components** unit develops steering and shock absorption systems. Chassis components assist the driver in keeping the vehicle under control in all driving situations. The business unit also offers intelligent cleaning systems for clean headlights and windshields in any weather.

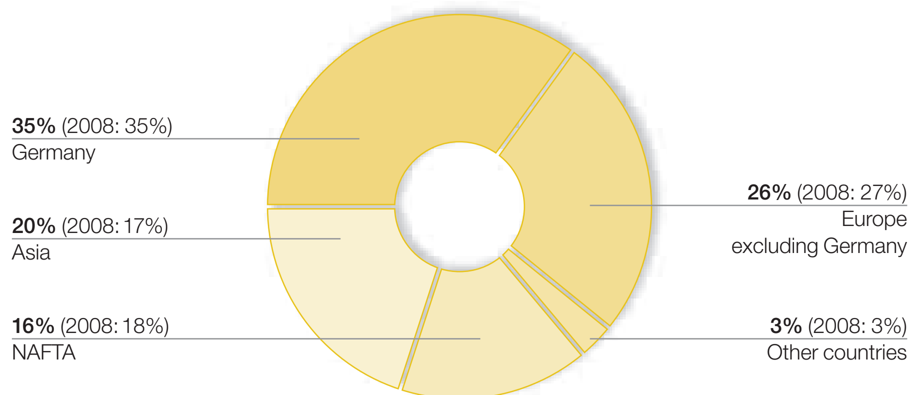
Market positions

The division is the world leader in driver assistance systems, hydraulic brake systems, foundation brakes, sensors, air suspension systems and airbag electronics, among other areas. We are number two for electronic brake systems.

Opportunities for growth

The greater use of safety and driver assistance systems is essential if the number of road accidents and the number of people killed or injured in road accidents are to be reduced. A first step in terms of legislation is the use of ESC in all new passenger vehicle models as required from the end of 2011. The EU also plans to stipulate that all new commercial vehicles of over 3.5 tonnes must be fitted with lane departure warning and automatic emergency braking systems as of November 1, 2013.

Chassis & Safety Division: Sales by regions
(at December 31, 2009)



Product highlights:

New generation of electronic brake systems
In 2011, Continental will launch a new, modularly designed generation of electronic brake systems in the form of the MK100. The MK100 can be scaled as desired depending on the functionality and performance requirements. The platform enables motorcycle ABS with or without the integral brake function through to sophisticated ESC high-end solutions as well as safety and assistance functions. These include roll-over protection, the stabilization system for trailers, the hill start assist or the intelligent cruise control. We have integrated the control electronics for regulating the electric parking brake into the electronic controller of the ESC system.

Extremely versatile mid-range radar
The 24-GHz mid-range radar generation can be applied for various driver assistance functions to the front, the rear and to the side. It facilitates lane changing by monitoring the adjacent traffic lanes. Pointing rearwards, the radar sensor is used for anticipatory rear-end collision sensing. By detecting objects to the side of the vehicle, it can assist the driver in making turns. The radar system monitors traffic ahead of the vehicle up to a distance of 150 m. It is thus well-suited for adaptive cruise control (ACC) in the city center, on country roads or on highways at speeds of up to 130 km/h.

Crash impact sound sensing optimizes protection in the vehicle
We have developed a crash impact sound sensor which deploys the airbag so precisely in an accident that the passengers receive optimal protection. The sensor recognizes accidents and their severity on the basis of the characteristic structure-borne sound resulting from the collision and can therefore differentiate between crash situations faster and more reliably. This also means that a faster decision is triggered to deploy the restraint systems in the case of severe accidents.

Mini speed sensor ready for production
The mini speed sensor, the latest generation of rotational speed sensors, is characterized by the fact that all of its functional components are integrated into a housing of just 3.2 mm. This results in much more flexibility where it is installed in the vehicle. The sensors provide brake systems, transmission control units and the electric power steering with data about the vehicle's status. Fuel consumption, wear and tear, and driving safety are thus improved significantly.

Innovative chassis electronics
The chassis & safety controller is a central control device which can process all data from various safety systems in one place. Innovative technologies further enhance its performance in a more compact design. In the accelerator force feedback pedal (AFFP®), a globally unique, production-ready safety technology was developed. In hazardous situations, the gas pedal provides a warning by vibrating and generating counterpressure. This prompts the driver to take his foot off the gas pedal and prepare to brake, thus saving CO_2 and fuel.

Powertrain Division

The objective of the Powertrain division is not only to make driving more affordable and environmentally friendly but also to make it as comfortable and as much fun as possible for the driver. The division deals with the integration of innovative and efficient system solutions relating to the powertrain in all vehicle categories. We offer our customers a broad portfolio of systems and components, from gasoline and diesel systems including sensors, actuators and tailor-made electronics, through to fuel supply systems, engine management and transmission control units, down to design solutions for hybrid and electric drives.

The Powertrain division has 58 production sites in 22 countries. In the year under review, its approximately 24,000 employees generated sales of €3.4 billion. The division is divided into five business units:

- Engine Systems
- Transmission
- Hybrid & Electric Vehicle
- Sensors & Actuators
- Fuel Supply

The **Engine Systems** business unit develops and manufactures system solutions for environmentally-friendly combustion engines. The product portfolio includes system and component solutions for gasoline and diesel engines, control units for engine management in commercial vehicles, as well as turbocharger and exhaust gas after-treatment technologies. Piezo technology, for example, helps to ensure compliance with the legal emission limits for nitrogen oxides and particulate matter (Euro 6 and US Tier 2) that will come into effect in 2014, and reduces the CO_2 emissions as compared to conventional diesel direct injection systems.

As a specialist in electronic control units for automatic transmissions, the **Transmission** business unit provides solutions for all types of transmission and all-wheel applications. Modern transmission electronics optimize driving comfort, save fuel and reduce vehicles' pollutant emissions. Products range from high-end systems to cost-effective solutions for growth markets.

With the potential to save fuel and cut emissions by 25% and more, plus a significant increase in torque, the hybrid drive is a major alternative to the pure combustion engine. The **Hybrid & Electric Vehicle** unit was the first European supplier to start production of hybrid systems in 2003 and offers a modular system which includes all basic electrical components of a hybrid drive.

Sensors and actuators help achieve reductions in emissions and fuel consumption while boosting the vehicle's performance, service life, comfort, and safety. Products from the **Sensors & Actuators** unit are found in all areas of the powertrain, from the air intake for combustion to the exhaust, as an individual solution or to support the system integration.

All technologies relevant to fuel management are developed and produced by the **Fuel Supply** unit. Its range of products includes fuel delivery units, fuel-level sensors, fuel pumps, valves, and integrated electronics. Due to their modular structure, the components can be adjusted flexibly to individual customer requirements and also allow for fast, inexpensive development of tailored complete systems with maximum functionality.

Market positions

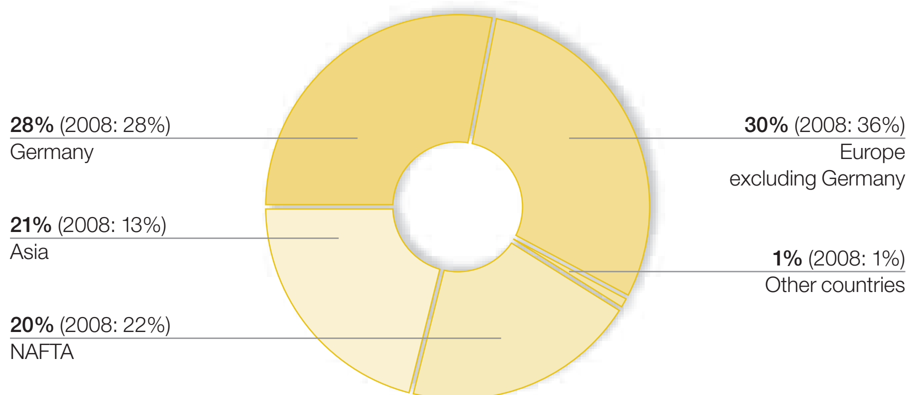
The Powertrain division is the world market leader in fuel supply systems, engine actuators, control units for automatic transmission, four-wheel and all-wheel applications as well as nitrogen oxide, flex fuel and knock sensors, among other areas. We are number two worldwide for gasoline and diesel injection systems.

Opportunities for growth

Stricter legislation on emissions – e.g. the goal of cutting CO_2 emissions on a sustained basis – and the limited supply of oil, as well as the demand for economical vehicles, require fast and effective action. It is indisputable that a mix of drive solutions will be necessary for this. The Powertrain division therefore aims to push forward increases in the efficiency of conventional combustion engines effectively in the short term, and the advancing electrification of the powertrain in the medium and long term.

We see particular opportunities for growth as a result of our system approach, which involves modular solution elements for current and future powertrain configurations. These solutions can be selected and combined based on the vehicle category and requirements profile: from gasoline direct injection with exhaust gas turbocharging for high-efficiency gasoline engines, and diesel engine technology for further optimization of combustion

Powertrain Division: Sales by regions
(at December 31, 2009)



systems through hybrid vehicles of all types down to all-electric vehicles. Further advances in the area of vehicle electronics will also have a considerable impact on reducing CO_2 emissions.

Product highlights:

First turbocharger for gasoline engines
After some three years of development, we have now brought our first turbocharger system for internal combustion engines to market maturity. The new turbocharger, which can be installed fully automatically and thus offers quality and cost benefits in production, is used in a gasoline engine of a European vehicle platform. The start of production is slated for 2011. Turbocharging of gasoline engines is becoming increasingly important, as it is the only way to downsize engines, a requirement for cutting fuel consumption.

Whereas diesel engines have been turbocharged for years, most gasoline engines have so far operated on the induction principle, i.e. the air required to combust the fuel in the cylinders is ducted into the engine from outside. In a turbocharger, a compressor forces the air into the combustion chambers at high pressure. In this way, significantly greater power can be achieved with engines of considerably smaller cubic capacity and, at the same time, consumption can be reduced.

In addition to light-weight design, hybrid drive or optimized injection systems, the automotive industry also places emphasis on downsizing combustion engines in order to achieve the ambitious goals in coming years with regard to reducing vehicles' consumption and the associated emission of carbon dioxide (CO_2).

Complete electric drive for mass-produced electric vehicles
We are developing and manufacturing the complete electric drive train, including the control systems, for a car maker's electric cars slated to be available in large numbers on the European market at the beginning of 2011. This includes, for instance, the development of low-cost drive components and complete systems for the electrification of the powertrain. Now ready for production, these allow for the speediest possible market penetration of the eco-friendly technology. Core components involved are the energy accumulator (battery), the power electronics and the electric motor.

Second-generation technology will already be used for the power electronics. This requires approximately 30% less space than its predecessor, thus making its integration into the vehicle much easier, and is also less expensive to produce. Continental is supplying a so-called externally excited synchronous motor as the electric motor in the package together with the speed-transforming transmission and motor management system. This type of motor offers a broad power range and high efficiency as well as better consumption values and a wider margin of safety.

Electric vehicles, and also hybrids, have considerable ecological benefits in densely populated areas, as it is precisely in areas subject to heavy traffic that it will be possible to effect a significant reduction not only in exhaust gases, but in noise as well.

Interior Division

The Interior division combines all activities relating to the presentation and management of information in the car. “Always On” is the electronics developers’ vision here: Drivers and their passengers should have access to all necessary information at all times and be able to stay connected with the outside world whilst drivers must retain complete control of the vehicle. Thanks to the ongoing integration of systems, the engineers at Interior ensure that costs are optimized constantly for all of their products.

Interior has production facilities at 60 locations in 22 countries. With approximately 27,000 employees, the division achieved sales of €4.4 billion in fiscal 2009, and comprises four business units:

- Instrumentation & Driver HMI
- Infotainment & Connectivity
- Body & Security
- Commercial Vehicles & Aftermarket

The objective of the **Instrumentation & Driver HMI** business unit is to keep drivers optimally informed in all driving situations with reliable, easy-to-read and multi-functional display instruments. The focus here is on prioritizing information, which is shown on different displays depending on the vehicle equipment and driving situation. The unit also develops display systems for the front passenger and rear-seat passengers. Another focal area is the production of new operating concepts and controls – for air conditioning systems, for instance.

The **Infotainment & Connectivity** unit is the expert for everything related to the networking of the vehicle with the outside world and the integration of mobile devices into the vehicle. It develops and produces infotainment systems for all vehicle categories. Products range from hands-free systems and telematics units through simple radios to multimedia systems with internet connection and touch-screen operation. In addition, the convenient connection of mobile devices and networking with the outside world are enabled. This results in solutions which encourage a safe and economical way of driving, so that the driver can concentrate fully on driving.

The **Body & Security** business unit develops and produces electronic systems for vehicle access, for rendering key-interlock systems reliable, and for providing basic and comfort functions in the vehicle. The range of products includes the necessary components for immobilizers, alarm systems and traditional radio-controlled locking systems, as well as modern keyless entry systems where the driver only needs to touch the door handle to unlock the door automatically.

The **Commercial Vehicles & Aftermarket** business unit bundles together diverse activities in the commercial and special vehicles area as well as other activities in the aftermarket business. Our global network of sales and service companies ensures proximity to the customer worldwide. This area includes products such as the digital tachograph, guidance and control systems for drive electronics and onboard electronics, as well as onboard units for toll charges. There is an extensive range of products for specialist and unaffiliated repair shops and independent parts dealerships, with VDO, ATE, Continental and Barum brand products. Furthermore, we also ensure that parts are available for the aftermarket once volume production of the vehicle is discontinued.

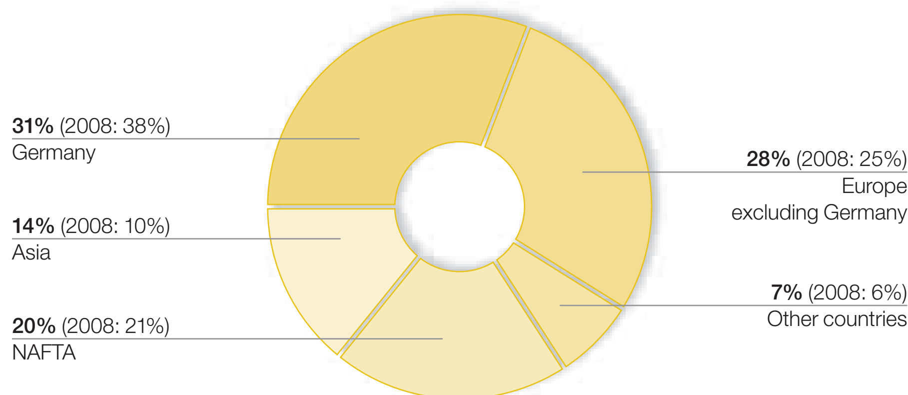
Market positions

For passenger cars, the division is number one worldwide for instrumentation, telematics systems, access systems and other areas, and number two for secondary displays and tire pressure monitoring systems. For commercial vehicles, we are the global market leader for tachographs, instrumentation and satellite-supported onboard units for toll charges.

Opportunities for growth

A manageable flow of information within a vehicle and between the vehicle and its environment are core tasks for future mobility. Thanks to our driver information systems and telematics systems, we are already contributing significantly towards making driving even more comfortable, safer, and environmentally friendly in the future. The systems are a central element for networking vehicles with one another and with the infrastructure. On average, drivers in the EU spend a quarter of their travel time in traffic jams. With the communication between vehicles and with a vehicle’s surroundings, traffic congestion in urban areas can be identified very early on and avoided, thus reducing CO_2 emissions.

Interior Division: Sales by regions
(at December 31, 2009)



Our products in the area of tire pressure monitoring and information systems also contribute towards reducing fuel consumption and thus also reducing CO_2 emissions. Major opportunities for growth for this area are increased further as a result of corresponding legislation in the U.S.A. and Europe.

The growing demand for affordable cars in newly industrializing countries and in established markets offers further potential for growth.

Product highlights:

The future of car mobility - AutoLinQ™
In early June 2009, we presented AutoLinQ™ in Detroit. AutoLinQ is a system architecture for next generation in-vehicle infotainment and connectivity systems that will enable drivers and passengers to personalize their car via a secure and effective internet connection. Here we will work closely with car makers and application developers to ensure that the information brought into the car is integrated in a sensible and convenient manner that is safe for the driver.

Networked information system for electric vehicle services platform
We have been awarded a contract by Better Place to develop high-performance networked infotainment systems (head units) for the Better Place electric vehicle services platform. Based on the Continental system, the Better Place software can inform the driver of an electric vehicle at all times when and where the car can be charged. The system also allows the driver to contact the Better Place network and to view constantly updated data on the vehicle's status.

The multimedia and telematics unit for electric vehicles is the central information system for the driver and, at the same time, the interface between the driver and the Better Place network.

"Simplify your Drive" simplifies vehicle operation
The new operating and system concept "Simplify your Drive" uses preconfigured vehicle profiles to simplify vehicle operation and helps save fuel consistently. At the press of a button, "Simplify your Drive" provides access to various vehicle characteristics. The more features modern cars have, the larger the number of individual configuration options. This makes it possible for vehicle manufacturers to implement this trend in practice. In the demonstration vehicle, three configurations were developed and implemented in different components of the car. Drivers will be able to switch easily between Eco, Sport and Comfort profiles in the vehicle.

Passenger and Light Truck Tires Division

Continental passenger and light truck tires stand for excellent transmission of forces and optimum tracking stability in all types of weather. The top priority of research and development work is improving safety-related properties – ultimately, the tires are the only connection between the vehicle and the road. By constantly decreasing rolling resistance, a steady reduction in CO_2 is achieved. The Passenger and Light Truck Tires division develops and manufactures passenger and light truck tires for compact, medium-size, and full-size cars as well as tires for SUVs, vans, light trucks, and RVs. This division produces tires under the brand names of Continental, Uniroyal (except in NAFTA, Columbia, and Peru), Semperit, Barum, General Tire, Viking, Gislaved, Mabor, Matador, Euzkadi, and Sime Tyres.

The Passenger and Light Truck Tires division also includes two-wheel (motorcycle and bicycle) business and retail tire companies with more than 2,200 specialty tire outlets and franchises in 13 countries.

The division has 25 production sites in 16 countries and a workforce of approximately 27,000. In 2009, sales amounted to €4.7 billion. A total of 99.2 million passenger and light truck tires were sold. The Passenger and Light Truck Tires division comprises five business units:

- Original Equipment
- Replacement Business, Europe & Africa
- Replacement Business, The Americas
- Replacement Business, Asia Pacific
- Two-Wheel Tires

The **Original Equipment** business unit represents global business with the automotive industry. Our success with car manufacturers is based on the close development partnership with international customers. Development teams created especially for each car manufacturer react fast and flexibly to the customers' specific requirements. Tire and vehicle details are linked with one another and optimized as early as the design stage. Continental brand products are marketed worldwide and General Tire brand products in NAFTA. The Original Equipment unit also includes systems for extended mobility, such as tires with runflat properties. **Replacement Business** is divided into the regions of **Europe & Africa**, **the Americas**, and **Asia Pacific**. In addition to the premium Continental brand and budget Barum brand, which are sold all over the world, it sells the following regional brands: Uniroyal, Semperit, General Tire, Viking, Gislaved, Mabor, Matador, Euzkadi, and Sime Tyres.

The **Two-Wheel Tires** unit produces bicycle tires (city, trekking, mountain bike and high-performance racing tires) as well as motorcycle tires (scooter, Enduro and high-performance 0-degree tires, some of which are approved for speeds up to 300 km/h) for the original equipment and replacement markets. Everyone from Tour de France pros to Harley Davidson bikers will find a Continental tire that matches their needs.

Market positions

Continental is the number four company worldwide for passenger and light truck tires, and the market leader in Europe. This applies both to the original equipment sector – in which almost every third vehicle in Europe rolls off the line on our tires – and also to winter tires and the tuning business.

Distribution of sales

22.5% of sales in the Passenger and Light Truck Tires division relates to business with vehicle manufacturers, and 77.5% relates to the replacement business.

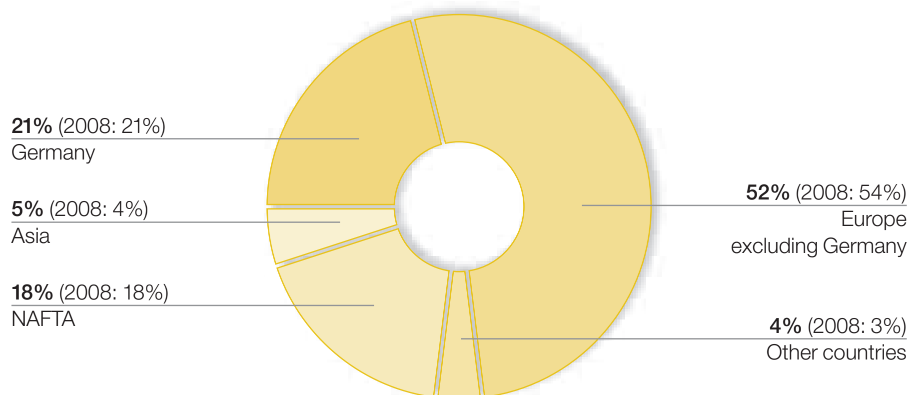
Opportunities for growth

In addition to our leading market positions in the original equipment business and in winter tires, we want to grow with new products in the coming years, particularly in the European UHP (ultra high performance) segment. We expect this segment for summer and winter tires with a size of more than 17 inches and approved for speeds of over 240 km/h to grow by more than 6% per year up until 2012. To exploit this momentum on the market, we developed the new ContiSportContact™ 5 P product line especially for this segment. The product line is positioned above the proven ContiSportContact™ 3 with sizes of 19 to 22 inches.

Despite the sharp market declines in the year under review, the Central and Eastern European markets continue to be of great long-term importance to us. In this context, we increased our holding in Continental Matador Rubber s.r.o., headquartered in Puchov, Slovakia, from 66% to 100% as planned.

Tire sales in Asia developed far more positively than anticipated in the year under review. We intend to continue this positive trend.

Passenger and Light Truck Tires Division: Sales by regions
(at December 31, 2009)



We expanded our market position, particularly in the replacement business, in North America against the negative market trend there, as well as in South America where we were highly successful. Whereas the update of our production portfolio contributed substantially to the growth in the U.S.A., we reinforced our position superbly in Latin America and particularly in the Andes region by obtaining the majority holding in the previously associated Compañía Ecuatoriana del Caucho (ERCO), which is headquartered in Cuenca, Ecuador.

Product highlights:

Continental tires with top marks

Continental winter tires again earned impressive top marks from the tire testing experts of leading editorial teams and automobile clubs. In the mid-size vehicle category, the ContiWinterContact™ TS 830 was unanimously singled out as best in tests conducted by ADAC (the German Automobile Club), the *Stiftung Warentest* consumer reporting institute, ÖAMTC (the Austrian Automobile, Motorcycle and Touring Club), and TCS (the Swiss Touring Club). The ContiWinterContact™ TS 830 was also awarded first place by trade journal *auto motor und sport* and was the only winter tire to receive a “highly recommended” rating. ADAC, ÖAMTC and TCS likewise assigned their best rating “highly recommended” to the ContiWinterContact™ TS 800, and *Stiftung Warentest* declared this compact-category tire as its test winner. The ContiWinterContact™ TS 830 P for vehicles with powerful engines was rated “exemplary” by trade journal *Autobild*.

In a comparison of braking results in the summer tire tests by 24 European trade journals published in 2009, premium Continental brand tires were well in the lead. In many comparisons of braking performance on wet and dry roads, Continental tires hold first place – a total of 25 times in 87 individual tests – receiving the best marks nearly twice as often as the two next-best competitors. The comparison looked at tests carried out on 14 tire sizes by trade magazines and consumer groups from ten European countries. Test vehicles included all-wheel, front-wheel and rear-wheel driven compact, mid-size and full-size cars.

ContiSportContact™ 5 P

The ContiSportContact™ 5 P with different tread patterns for the front and rear axles brings considerable acceleration, braking and handling benefits for vehicles with high-performance engines and rear-axle drive. At the beginning of March 2010, we presented the new ContiSportContact™ 5 P to our business partners and the international media, providing in-depth insights into the entirely new product development process. Thanks to the complex virtual development methods in this process, it was possible to save a great deal of time and achieve a much better level of grip. The new high-performance summer tire is specially designed for sports cars and tuning vehicles. Numerous automotive manufacturers such as Mercedes-Benz AMG and Audi, as well as the tuning companies ABT, Lorinser, AC Schnitzer and TechArt, have already approved the tire for their vehicles before its market launch in spring 2010. In spring 2011 the ContiSportContact™ 5 will then follow, replacing the proven ContiSportContact™ 3.

Commercial Vehicle Tires Division

Long tire life, reliable transmission of forces, and low fuel consumption provide for economical mobility in the areas of goods transportation, passenger transit and construction-site traffic: This is what the Commercial Vehicle Tires division's products stand for. The division produces truck, bus and industrial tires for various applications and service conditions. Continental premium brand tires are marketed worldwide. The Barum, Semperit, Uniroyal, and Matador brands are available in Europe as well. In America, the range is supplemented by the General Tire and Ameri*Steel brands, and in Mexico the Euzkadi brand. In Asia, Sime Tyres brand tires complete the product portfolio. The Industrial Tires business unit develops and produces tires of the Continental, Barum, Simex, General Tire and Novum brands.

We produce commercial vehicle tires at 14 locations in 9 countries. In the year under review, 5.1 million truck tires were sold. With four business units and approximately 8,000 employees, the division posted sales in 2009 amounting to €1.1 billion:

- Truck Tires, Europe
- Truck Tires, The Americas
- Truck Tires, Asia Pacific
- Industrial Tires

Continental **truck tires** are divided into the “Goods”, “People” and “Construction” segments depending on how they are used. The truck tires business is broken down into the regions of **Europe**, **the Americas** and **Asia Pacific**. We focus on customized tire concepts in all regions. Accordingly, we have the “right” tire for every purpose, one that is optimally attuned to the specific application conditions and thus enhances the safety, economy, and comfort of the vehicles.

Fleet operators benefit many times over from using Continental tires thanks to the tires' excellent mileage performance as well as the substantial improvement in fuel efficiency that results from the their low rolling resistance. Furthermore, by undergoing retreading as part of the ContiLifeCycle concept, the tires have more than one service life. In addition to the performance potential of new Continental tires, with the ContiRe and ContiTread retreads we provide an extensive package for optimizing fleet costs.

We also offer our fleet customers a comprehensive range of services, including services for cross-border transport. Under the name of Conti360° Fleet Services, the former “ContiTireManagement” was adjusted to suit the increased requirements of our European customers. The focuses of the new organization are standardization of the range of services across Europe and fast, optimum service. Conti360° Fleet Services stands for individually tailored tire management that ensures comprehensive cost management. Among other aspects, it includes the ongoing analysis of all data relevant to tires and service, determines the optimum tire change intervals, and integrates tire carcass management into the tire life cycles. In this way, we guarantee the lowest overall tire-related costs.

The ContiBreakDownService for quick assistance in the case of a tire failure is available throughout Europe every day of the year with a network of approximately 2,500 Conti360° partners in 24 European countries.

Continental **industrial tires** are used all over the globe, for example in snow and ice removal, in road maintenance, for stacking and lifting by fork-lift trucks and for transporting goods on a wide range of surface types. We have a diverse range of products, ranging from solid rubber tires for situations in which avoiding punctures and preventing repairs are the key criteria, to products with a light-colored tire tread.

Market positions

We are the number four company worldwide in the overall truck tire market. In Europe, we are number two in the original equipment business and number four in the overall truck tire market. We are Europe's market leader for industrial tires.

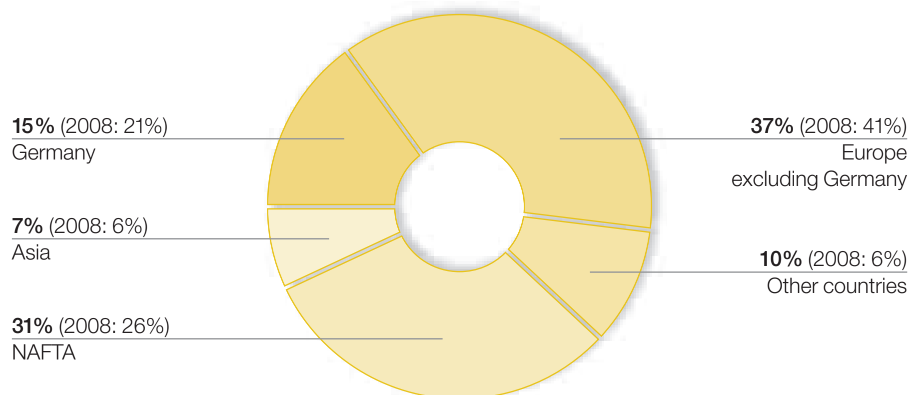
Distribution of sales to vehicle manufacturers and to the replacement business

14.8% of the Commercial Vehicle Tires division's sales relates to business with vehicle manufacturers and 85.2% to the replacement business.

Opportunities for growth

For us, key regions for future growth will be the Near and Middle East as well as Russia, in addition to Asia and Latin America. The new representative office in Dubai, the sales company in Argentina, as well as the cooperation with our Indian partner have gotten off to a good start.

Commercial Vehicle Tires Division: Sales by regions
(at December 31, 2009)



To expand our position on the growth market in Latin America, we obtained the majority holding in the Ecuadorian company ERCO, giving us a tire plant (for truck and passenger tires) and a tire retreading plant in Ecuador as well as a strong sales network in the Andes region.

We have made good progress in expanding our sales organization in NAFTA, where we anticipate further growth primarily in our business with fleet operators.

To strengthen our market position for industrial solid rubber tires in Asia, we took over 51% of the shares of EuRetec (Novum tire brand), Sri Lanka.

With the Continental, Barum and Novum brands, a multi-brand strategy for additional business was introduced in the industrial solid rubber tire segment.

Product highlights:

Extensive product campaign launched
In 2009 we launched our most extensive product campaign to date for truck tires, which aims to further increase our market share in the commercial vehicle business. In doing this, we have demonstrated our innovative strength even in difficult times, overhauling nearly our complete product range. The goal of the new tire generation for regional and long-distance use, which was developed from scratch, is to significantly reduce costs in the transportation business. The new tires are characterized by greater mileage performance, considerably lower fuel consumption and a substantial increase in safety.

The new truck tires are based on an innovative tire carcass technology which absorbs forces acting in transverse and radial directions and thereby reduces the movement at the base of the tire. This results in greater rolling stability and enhanced driving safety. In addition, all tires have the AirKeep® system, which keeps tire pressure at a constant level for up to 50% longer than previously.

New “ContiCostCalculator”
With the ContiCostCalculator, we allow for direct comparison of purchase and operating costs for commercial vehicle tires. The intelligent tire database helps to calculate and reduce a truck’s operating costs.

The calculator determines the optimum choice of tire based on a customer’s truck usage figures. The cost-saving potential in comparison to various tire models of comparable products is also determined and the cost effectiveness is calculated. For the overall calculation, the application takes into account not only the costs per kilometer and fuel consumption, but also additional income as a result of greater load capacity which is enabled by a lower tire weight.

ContiTech Division

As a technology partner and original equipment manufacturer, the ContiTech division develops and produces rubber- and plastics-based functional parts, components and systems for the automotive industry, machine and apparatus manufacturing, rail vehicles, printing, the building trade, mining, and the chemical and petrochemical industries as well as maritime navigation and aviation. Our products have many uses – they are flexible and thermally stable, formable, abrasion-resistant, reversible and eco-friendly. They lend themselves well to combinations with other materials such as glass, metal, and ceramics.

ContiTech has production facilities at 58 locations in 18 countries. Around 22,000 employees generated sales of €2.4 billion in 2009. ContiTech is divided into seven business units:

- Air Spring Systems
- Benecke-Kaliko Group
- Conveyor Belt Group
- Elastomer Coatings
- Fluid Technology
- Power Transmission Group
- Vibration Control

The **Air Spring Systems** business unit is one of the world's leading developers and manufacturers of components and complete systems for self-adjusting air suspension in commercial vehicles, buses, rail vehicles, stationary machines and foundation supports. Air actuators and rubber compensators are also manufactured for plant and machine engineering.

The **Benecke-Kaliko Group** specializes in the look and feel of automotive interiors. The technical and decorative surface materials, molded skins and cushioning products are used, for example, on instrument panels, door trim panels, sun visors or as leatherette for seats.

The **Conveyor Belt Group** is a leading development partner, manufacturer and systems supplier of steel cord and textile conveyor belts, service materials and special products. It supplies the worldwide mining industry with heavy-duty conveyor belts that are individually tailored to the job in question – for both surface and underground mining operations. In addition, the unit develops and produces conveyor belt solutions for diverse industrial applications.

The **Elastomer Coatings** unit supplies coated fabrics and diaphragm materials, printing blankets, diaphragms for motor vehicles and fabrics for liferafts. It also develops and produces coated fabrics such as those used in gas holders and fuel tanks.

Products of the **Fluid Technology** unit range from hose components to complex line systems for the automotive industry and many other sectors. Rubber, plastic, textiles, steel and aluminum are used in hoses, curved hoses, hose lines and tubing as well as their fitting components.

The **Power Transmission Group** develops and manufactures drive belts, matched components, and complete belt-drive systems for reliable power transmission in vehicles, machinery, and equipment.

The **Vibration Control** unit develops products and systems for the automotive industry for vibration control and noise optimization as well as sealing systems for chassis, steering and brake applications. In the industry market segment, this unit is an original equipment supplier for industrial and agricultural vehicles as well as for engine, machine and plant construction.

Market positions

At a global level, we are number one in highly developed technical products made of elastomers and plastic components. Specifically, the division is the world leader in products such as vehicle hoses and hose lines, foils and leatherette for vehicle interiors, conveyor belts and conveyor belt accessories for mining and industry as well as air springs for rail vehicles, commercial vehicles and buses.

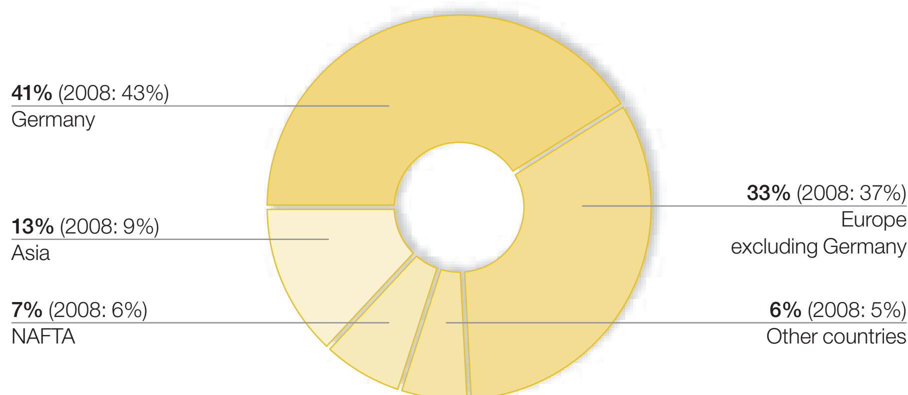
Distribution of sales

50.5% of sales in the ContiTech division relates to business with vehicle manufacturers, and 49.5% to business with other industries and the replacement market.

Opportunities for growth

In China, we have started production in a new plant in Changshu, 100 kilometers northwest of Shanghai, where the Vibration Control, Air Spring Systems and Fluid

ContiTech Division: Sales by regions
(at December 31, 2009)



Technology business units are to have a base by mid-2010. We are thus expanding our production in China significantly, and will invest approximately €40 million in the first expansion phase. By 2013 we intend to more than double our sales in China.

Additional production capacity in Brazil will help the Conveyor Belt Group increase growth. As part of its globalization strategy, the Benecke-Kaliko Group is expanding its market presence in North America. Vibration Control expects to have additional sales from its strong involvement in the global wind power industry.

Product highlights:

Eco-friendly bearing concepts for wind power plants
Employing corrosion-proof, flexible and durable metal-to-elastomer bonded products, ContiTech Vibration Control produces state-of-the-art bearing systems for wind power plants. These systems work to make the plants more cost-effective, efficient and eco-friendly. The high-quality bearings ensure better damping. Thanks to their durability, they reduce the servicing frequency – an important cost factor for operators, especially in the case of off-shore stations.

Printing blankets for climate protection
ContiTech Elastomer Coatings is the world's first manufacturer to have a carbon footprint drawn up for printing blankets. According to the certified findings of a scientific analysis (University of East Westphalia-Lippe), there are up to 70% fewer environmentally harmful CO_2 emissions in ContiTech printing blanket production compared to world-standard manufactured printing blankets. The remaining CO_2 emissions are offset by acquiring climate certificates used to support a reforestation project in Panama. ContiTech AG is thus the innovation leader for environmental and climate protection in the field of printing blankets and makes a significant contribution to climate-friendly printing.

Health-friendly interior trim materials
In developing automotive interiors, we attach special importance to manufacturing trim materials that are both climate-friendly and health-friendly due to the materials being largely free from emissions and allergens.

This is just what Acella® Eco, in particular, stands for. It is a new PVC leatherette from Benecke-Kaliko that offers a whole range of environmental advantages at once. It is largely free of contact allergens and complies with the stringent class 2 requirements of the Oeko-Tex 100 standard. That means that Acella® Eco is suitable for prolonged direct contact with human skin. The use of alternative flame retardants also eliminates the need to use heavy metals. Moreover, this new interior trim product is low in emissions because all the solvents and emission-related plasticizer systems have been restricted to the absolute necessary minimum. The resulting VOC (volatile organic compounds) figures are below the limits for automotive seating applications as prescribed by U.S. and European automotive manufacturers. The material is also extremely easy to keep clean thanks to its special coating.

Corporate Strategy

Our strategy is geared to developing products and services in line with the megatrends of the automotive industry.

Our strategy is geared to developing products and services in line with the key growth trends of the automotive industry. We want to have a leading position in every market we are in. Entrepreneurial action is embedded at all levels of our organization – right down to the smallest unit. To limit our dependence on the automotive sector, we aim to generate around 40% of our sales outside the automotive industry.

Key strategic components

Megatrend: safety
Safety is becoming a topic of increasing importance at a global level due to stricter legal requirements, drivers' growing demand for safety, and rising traffic volumes. Continental develops and manufactures key products, components and systems to make individual mobility safer.

The Chassis & Safety division aims to increase road safety, for example with the integrated and comprehensive safety concept ContiGuard®, which combines active and passive vehicle safety components to reduce both the likelihood of an accident and the effects of an accident on vehicle passengers and other road users. This also includes advanced driver assistance systems such as lane departure systems and adaptive cruise control systems as well as safety components from other divisions.

We already have leading market positions in technologies with direct and significant influence on reducing the number of fatal traffic accidents. These include driver assistance systems, airbag control devices and electronic brake systems such as ESC (electronic stability control). In the tire sectors, we are focusing on the safety features of precise transmission of forces, short braking distances, and maximum tracking stability.

Megatrend: environment
The need for environmentally-friendly technologies that focus on low fuel consumption and thus reduce CO_2 emissions is increasing rapidly, which makes it a key growth market in the automotive sector. The reasons behind this are increasingly stringent consumption and emission standards in industrialized countries – including the EU, the U.S.A. and Japan – as well as the sharp rise in fuel prices in recent years as a result of mounting oil prices. The Powertrain division is a world leader in developing environmentally-friendly technologies. Our piezo injection systems, for example, have set new standards for gasoline and diesel engines in terms of fuel economy and emission reduction. We are also concentrating on turbocharger solutions for gasoline and diesel engines that allow engines to be downsized, and we are focusing on hybrid drives for significantly lower fuel consumption and CO_2 emissions.

Other divisions also contribute to reducing emissions and fuel consumption: Chassis & Safety, for example, with its driver assistance systems, intelligent gas pedal, and regenerative braking; the Tire divisions with their rolling-resistance-optimized tires; and ContiTech with low-permeation hose lines and powertrain management components.

Megatrend: information
New technologies mean that data volumes and information exchange between vehicles, drivers and the outside environment are steadily increasing. This requires efficient and transparent information management to unburden drivers as much as possible and guide them quickly and safely through increasing volumes of traffic, which has given rise to a new, constantly evolving market for networked systems in infotainment and telematics. As market leader in the field of telematics, the Interior division develops solutions for providing drivers and passengers with all the information they need and keeping them in touch with the outside world. With these solutions, information can be comprehended quickly and presented in a concise manner. This division's products and services are also relevant to the environmental and safety megatrends, for example the intelligent networking of vehicles to avoid traffic jams.

Market trend: affordable cars
Recent years have seen steady growth in the market for affordable and low-cost cars, especially in the emerging markets. The affordable cars segment comprises passenger cars costing less than $10,000/€7,000. It in-

cludes models such as the Cherry QQ in China, the Tata Nano in India, and the Dacia Sandero in Eastern Europe. Market observers assume that in 2015, affordable cars will make up some 20% of the global production of vehicles under 6 tonnes (cars, station wagons, light commercial vehicles). These affordable cars are mainly manufactured and sold in the high-growth future markets of Asia, but also in Brazil and Eastern Europe.

We are very active in the affordable cars segment, making targeted investments in projects involving most of the key platforms. In the process, we develop solutions tailored to each market to cover different customer requirements. For example, in India, China and Romania, we produce components and systems which are tailored to specific needs there. We also invest in manufacturing facilities and research and development centers in high-growth emerging markets to address rising demand. Our high quality standards are in place for all products, regardless of where and for whom they are produced. This means that we can offer our products developed and manufactured in Asia to our European and American customers as well, who then benefit from low production costs.

Leading market positions

We want to be at least among the top three suppliers in every market we are in. Achieving a top position with manageable commercial risks in a foreseeable length of time is a central factor in the decision on whether or not to enter a market.

Balance of sales between the automotive industry and other sectors

We currently generate around 67% of our sales from vehicle manufacturers – primarily via business in the Automotive Group. The production of passenger cars and light and heavy trucks depends on factors such as economic conditions, consumer spending and consumer preferences. To cushion the negative effects of the cyclical automotive sector on our business, our goal remains to generate at least 40% of consolidated sales from outside the automotive industry, for example from the tire replacement market and ContiTech's various industries.

Possible combination between Continental and the Schaeffler Group

Together with our major shareholder, the Schaeffler Group, we aim to combine our activities in the medium term. The focus here is to create a company with a diversified product range that is a top supplier at global level, especially in the automotive business, and sets itself apart with its innovative strength, global orientation and the quality of its products.

This undertaking is based on the belief that significant competitive advantages can be obtained, especially from combining Continental's know-how in electronics with the Schaeffler Group's mechanical expertise. This applies in particular to the areas of engine and transmission technologies in connection with reducing the CO_2 emissions and fuel consumption of internal combustion engines, as well as to the electrification of the powertrain in the form of hybrid drives and fully electronic drives. Technological synergies also arise in the development of innovative chassis systems, for example.

Under the existing collaboration and in anticipation of a large-scale combination of the companies, various projects have been identified that promise significant synergies once they have been implemented. Specific cooperations already exist in procurement and in the turbocharger systems business. We are also working together closely in the fields of injector systems and transmission electronics. Additional projects are in the preparation or planning stages.

Combining the companies should also leverage synergy potential in sales and costs. Part of this is a result of the already resolved cooperation in procurement.

Continental and the Schaeffler Group have a mutual understanding that if an integrated group is formed, the parent company should be a listed corporation that is managed in a capital market-oriented manner in accordance with the current international corporate governance principles. The aim is to reduce debt at both companies and achieve an investment-grade rating for the new group in the medium term. The specific structure and timeline for combining activities has not yet been determined. Determining a transaction structure and timeline require legal, tax and financial analyses as well as in-depth evaluations, especially regarding the effects on Continental and its major shareholder Schaeffler. A possible combination of the two companies must also be coordinated with the financing banks.

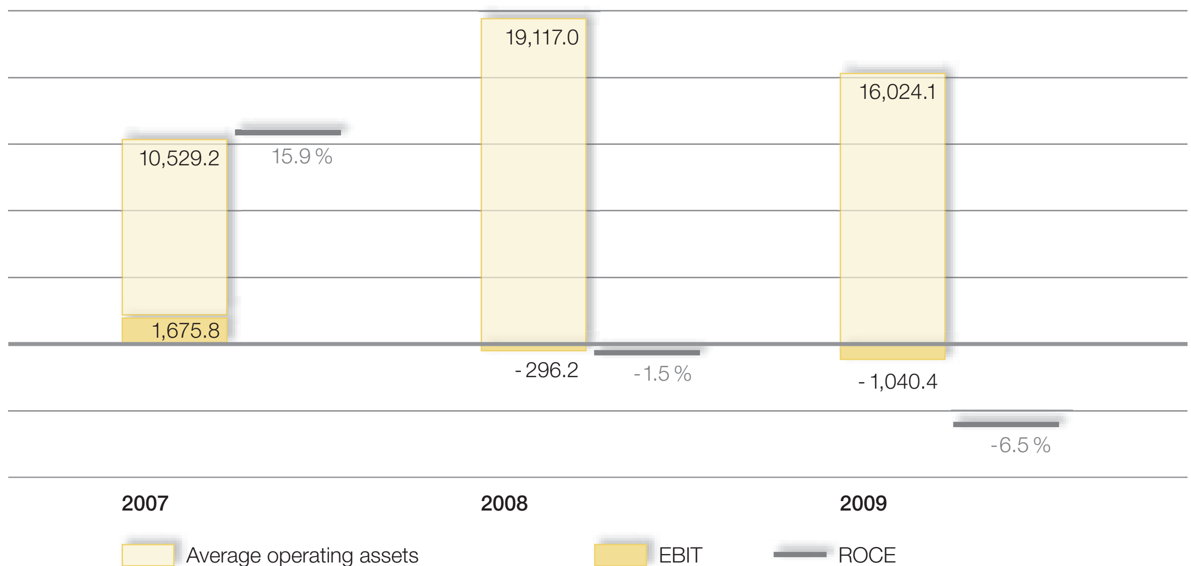
Value management
Continental uses the following key performance indicators at all management levels:

- the percentage return on capital employed (ROCE),
- the Continental Value Contribution (CVC) as the absolute amount of value achieved,
- and the change in absolute value over the previous year.

This change in the absolute contribution, measured by Delta CVC, allows us to monitor the extent to which management units generate value-creating growth or employ resources efficiently.

Continental states its return on capital employed in its annual reports in terms of EBIT as a percentage of average operating assets. The average operating assets consist of the average of all operating assets at the respective balance sheet dates for the four quarter-months.

Development of ROCE (in € millions)



Employees

We give high priority to recruiting young talent as well as to supporting and training our employees.

Finding employees worldwide who are suited to working at our company was once again one of the key tasks of the Human Resources department, even in the economically difficult year 2009, and we were able to gain young talent in widely varied ways.

Formula Student

Formula Student is an international design competition which was born in the U.S.A. 20 years ago and is now held across the globe. Students build a single-seat racecar for an imaginary company and compete against teams from all over the world. However, the competition is not won by the team with the fastest car, but rather by the team with the best overall performance comprising design, racing success, financial planning and marketing. The challenge for the teams thus consists of designing and constructing a prototype which has very good driving characteristics, is reasonably priced and easy to operate, and allows for the use of standard production parts. The “overall package” is judged by a jury of experts from the automotive and automotive supplier industries.

Of the approximately 200 teams, Continental supports 16 from seven countries (Austria, Germany, India, Japan, Russia, Switzerland, and the U.S.A.), not only by providing material sponsoring but also by helping the teams with know-how. Our purpose behind sponsoring the competition is to interest young engineers in our company and retain them for Continental. The competition gives the students the opportunity to demonstrate their theoretical knowledge in practice and to make contacts with potential employers.

New Jobs & Careers webpages

In 2009 we thoroughly revised our website in the area of jobs and careers (www.careers-continental.com). The pages now have more emotional appeal, are more informative and offer a variety of possibilities for interaction. Broken down according to the various target groups, it is primarily our employees who share their thoughts about Continental in numerous interviews. After all, they are the best judges of what the company represents and why Continental is a very good choice as an employer.

Ambassador Program

Since 2003 Continental employees from many different areas have demonstrated commitment as ambassadors for the company, in addition to their regular employment. The aim of the ambassador program is to make Continental known worldwide as an attractive employer and to explain its diverse opportunities for training and development to attract qualified new staff to the company and retain them. Using company presentations, research projects, lectures and workshops at universities and institutions of higher education, approximately 500 employees in 20 countries initiate and shape the dialog between science and business. Strategic partnerships are thus formed between Continental and various scientific institutions and educational establishments. Over 200 universities have already been acquired for cooperations.

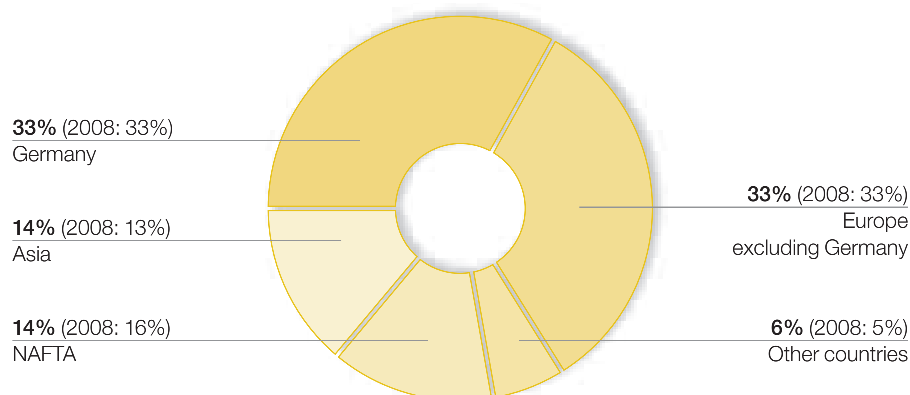
In 2009 we established an extensive database for our ambassador program. In this database, every employee can see which universities the company is already in contact with, who the corresponding ambassadors are, and what events or projects have been carried out so far or are planned. The new database has significant advantages: active Continental ambassadors can find one another more quickly to share experiences, new ambassadors can prepare for their work more precisely and benefit from others’ experiences, and it is much easier for potential ambassadors to join the ambassador program.

Number of trainees constant – despite economic crisis

Continental provides training in a total of around 20 commercial and technical programs. High-school graduates also have the opportunity to link theory and practice at one of our 17 dual courses of study.

Continental currently trains 1,831 young people (PY: 1,871) in Germany and 2,322 (PY: 2,380) worldwide.

Employees by regions
(at December 31, 2009)



New models for hiring trainee graduates

The unavoidable restructuring measures initiated in response to the difficult business environment led to heavy restrictions on hiring new recruits. Nevertheless, we were determined to see that our commercial and technical trainees were employed after completing their training, as well as graduates of the dual courses of study. Various measures were initiated to help the trainees join the company and prevent them from possibly becoming unemployed. Whilst the industrial business management assistants were offered the possibility of beginning a Bachelors program and 30% to 40% employment at Continental, Bachelor graduates could start 30% to 40% employment in conjunction with a Masters program.

A unique model was developed for the commercial trainees, since the areas where they were to continue their employment were hardest hit by reduced working hours and their chance of being hired was correspondingly low. The specialized graduates were offered a six- or twelve-month period of 50% employment. At the same time, their working hours were reduced. Over the duration of the contract they receive further qualification, exclusively through customized measures. This procedure presents advantages for both sides: Continental can initially retain the well-trained employees, whilst the specialists increase their value on the labor market with additional qualification and have the opportunity of permanent employment after the period of reduced working hours (*Kurzarbeit*) comes to an end.

Structure of the work force	Dec. 31, 2009	Dec. 31, 2008
Total number of employees	134,434	139,155
thereof permanent staff	127,321	134,914
outside Germany	84,249	89,923
in Germany	43,072	44,991
Trainees*	1,831	1,871
Percentage of female employees*	21.9	22.4
Years of service to the company	14.0	13.9
Average age of employees* in years	41.8	41.4

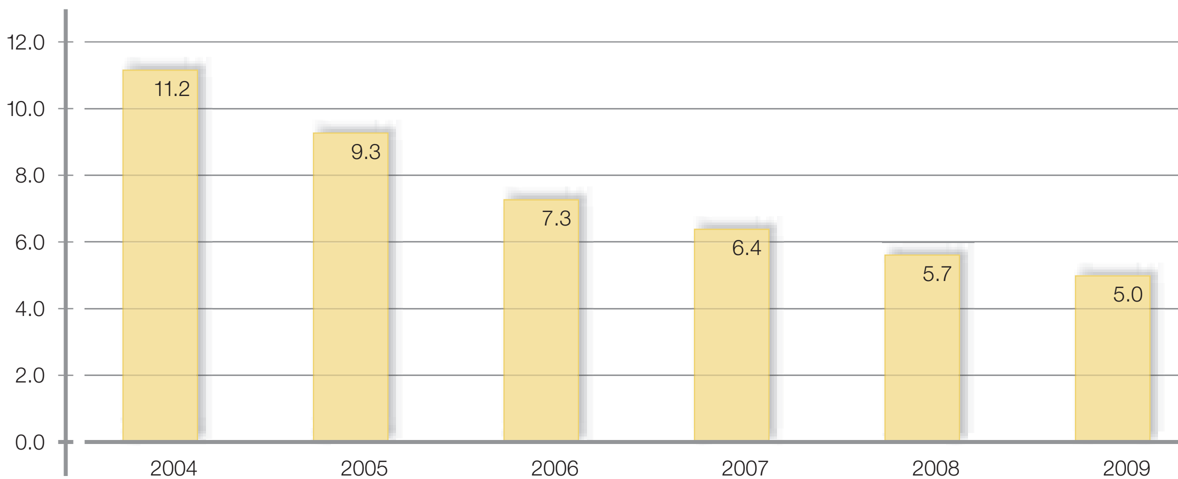
* in Germany

New mentoring program begun
To promote our ContiBachelor program, we initiated a new mentoring program in the year under review. For a period of about one year, experienced managers (mentors) become advisors for junior managers in matters regarding their personal and professional development. The program focuses on fostering professional development, recognizing hidden potential, introducing existing networks and sharing practical tips for daily working life. The aim of the mentoring program is to promote long-term careers within the company and to retain Conti-Bachelor graduates in the company.

Number of work-related accidents down substantially
A culture of safety which is an integral part of the corporate culture and actively practiced is a prerequisite for preventing work-related accidents and thus for protecting the health of our employees.

Analysis of occupational accidents in previous years shows that they are caused primarily by a lack of safety awareness and by unsafe conduct. Therefore, back in 2007 we began the "We Go For Zero" initiative for reducing the number of work-related accidents. This initiative focuses primarily on management- and conduct-related measures for greater responsibility and safety awareness among employees and managers. It involves measures such as employee workshops and management training sessions. Employees of external companies who are working in our plants on our behalf are also included in these activities. The "We Go For Zero" initiative produced very encouraging results again in the year under review, with the rate of work-related accidents resulting in lost working days falling to 5.0 (PY: 5.7), based on a million hours worked.

Accident rate at Continental*



*Work-related accidents with one or more days lost per million hours worked

Environment

In addition to numerous products and systems that also help protect the environment, Continental supports various global initiatives that fall under the main concept of “carbon”.

In addition to the contribution Continental makes to environmental protection through its products, we support several global initiatives and are undertaking preparations for their implementation.

Laws and initiatives

With the Kyoto Protocol of 1997, the UN’s climate change convention to protect the global environment began to take shape. In 2003, Europe undertook to reduce CO_2 emissions as part of the world’s largest emissions trading, whereby either technical measures to reduce emissions must be taken or, alternatively, freely tradable CO_2 certificates must be purchased.

An additional tool for reducing greenhouse gas emissions is carbon management.

Carbon management

Carbon management describes the approach of using financial resources efficiently where they can have the greatest ecological impact. This may occur as joint implementation or clean development mechanism (CDM), a system for environmentally sound development.

In joint implementation, an industrialized nation may acquire emission rights by means of emission-reducing measures in another country that is also subject to emissions trading. This allows countries with high specific costs to fulfill their obligations at a lower cost and more efficiently in countries where successes are more easily achieved.

CDM allows an industrialized country to fulfill its obligations in a developing country and receive emission trading credit for the emissions saved there.

Continental is prepared for carbon management. The success of both carbon management options depends largely on the price of the freely tradable CO_2 certificates. If the price increases in future as expected, carbon management will gain in importance.

Carbon Disclosure Project

The Carbon Disclosure Project (CDP) is based on an initiative of 475 institutional investors who manage assets of more than $55 trillion. It is a non-profit organization that aims to create more transparency regarding environmentally damaging emissions. Once a year, the CDP requests data and information on environmental protection from listed companies on behalf of its investors. This applies in particular to the management’s assessment of climate change and its effects on the company, the systematic recording of CO_2 emissions, and the management’s strategies for reducing these emissions.

We answered CDP’s extensive questionnaire for the first time in 2009 and thus laid the foundation for further information in the coming years. The data were not published initially in the first reporting year. This decision, which was also made by other companies, will be examined again in 2010.

Carbon footprint

The carbon footprint (CF) is the greenhouse gas potential of a country, company or the manufacture of a product. The results of the CF of products must be viewed rather critically since there are no binding methodological guidelines for its application. Two examples illustrate this: The CF of tires, if only manufacturing is considered, excludes around 90% of the CO_2 emissions in the use phase. In comparison, a cosmetic product creates hardly any emissions in the use phase, but instead in its raw material selection, manufacture and distribution.

In the product carbon footprint (PCF) all the greenhouse gas emissions over the entire product lifecycle are taken into account. The PCF allows customers to compare the “ecological footprint” of different products and make a purchase decision. All emissions that cause climate change are taken into account. However, PCF statements must also be viewed critically because they evaluate environmental protection considerations only

and completely exclude other important aspects such as product safety.

Continental has carried out exemplary life cycle assessments for various product lines in the field of passenger and truck tires, mobility systems, brakes and starter/generator combinations. These life cycle assessments are much more meaningful than the PCF statements, as additional environmentally relevant criteria are also assessed in addition to the greenhouse effect and the consumption of energy and resources.

Carbon Reduction Commitment

The Carbon Reduction Commitment (CRC) is an initiative of the British Department of Energy and Climate Change for larger organizations in the public and private sector that are not subject to the European emissions trading but still make an important contribution to national CO_2 emissions. This approach of combining all organizational units is new.

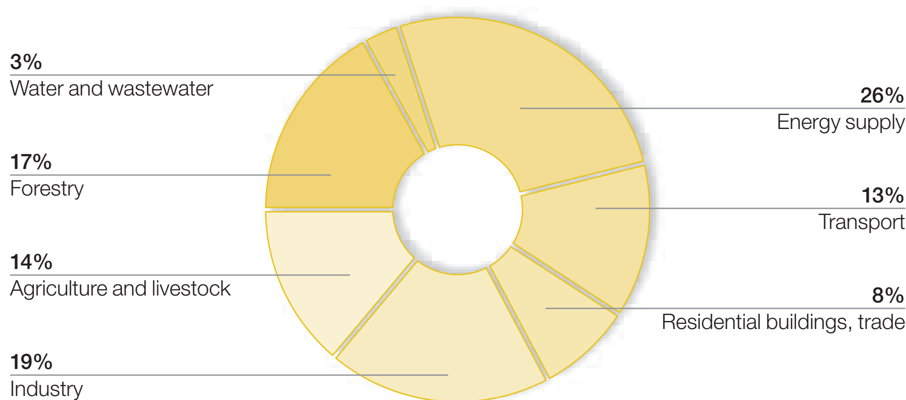
The organizations concerned must report their anticipated CO_2 emissions and may buy the corresponding emissions rights. The proceeds are distributed to the participants at the end of the fiscal year. The organizations who can prove the greatest reductions as compared with their reported figures receive the largest distribution amounts. Conversely, less successful CRC members receive only part of their contributions back. The aim of the CRC is to encourage the parties concerned to invest in measures to reduce CO_2 emissions.

It is expected that the British CRC system will be just the forerunner of comparable national initiatives in other EU member states. The goal of these initiatives will be to include those CO_2 emitters in the public and private sector who are not part of EU emissions trading.

Continental is preparing to identify the production sites concerned among the various legally independent units in order to fulfill the CRC requirements. The year 2010 will be used by the British Continental production sites for internal CRC organization and to gather experience with the CRC system.

The various activities described under the carbon concept are only part of the ideas and initiatives on environmental protection under discussion. However, it appears that the rule makers need to urgently better coordinate and organize the individual measures so that all parties involved concentrate on measures to protect the environment and the success of these measures.

Share of different sectors in total greenhouse gas emissions



Source: Intergovernmental Panel on Climate Change

Acting Responsibly

The well-being, competence and motivation of our employees have a big hand in enabling us to achieve our targets.

Program for demographic change
Our program for managing demographic change continues to be successful. Our activities focus on four topics: workplace design, maintaining employee health for a longer working life, targeted qualification measures, and motivation for a longer professional life.

In workplace design, we measure the "age stability" of our production jobs using an ergonomic assessment tool. Targeted measures are applied if there is a deviation from the specification of 30% age-stable jobs (the minimum figure we set for our production sites). This way, we create jobs for older workers by, for example, improving the workplace ergonomics as a preventative approach to keep our employees healthy.

A large number of activities to systematically promote health at the plants aim to prevent diseases that are expected to occur more frequently with age. These initiatives are intended primarily to encourage health-conscious behavior. Programs for cancer screening and exercise as well as vaccination campaigns are also offered.

Lifelong learning is particularly challenging in times of demographic change. The HR departments therefore work with the specialist departments to address further qualification for employees using targeted, individually tailored programs.

Our managers play an important role in maintaining and supporting employee health. They influence the design of the workplace and work environment as well as the working atmosphere. To maintain and increase the motivation and commitment among employees, we turn to our managers directly by means of workshops. For example, the seminar entitled "Healthy Leadership" includes topics such as learning, stress management, mental illness, dealing with restructuring and uncertainty, and appreciation as a driver for motivation.

Following positive experiences in Germany, we are now beginning to gradually roll out this multi-layered demographic program in countries with a similar age structure.

All of these measures aim to allow our older workers to contribute to their own personal success and the economic success of the company at their usual high performance level.

Luxembourg Declaration
In 2010 we will sign the Luxembourg Declaration on Workplace Health Promotion in the European Union, thus demonstrating that we share the principles contained in the declaration and implement occupational health and safety activities accordingly. The principles include:

- Corporate principles and guidelines which recognize that employees are a key success factor instead of a mere cost factor
- A corporate culture and corresponding leadership principles which include participation of the employees and encourage employees to take on responsibility
- A work organization which provides the employees with an appropriate balance between job demands on the one hand and their own skills on the other, as well as control over their own work and social support
- The incorporation of health promotion issues, particularly in human resources policy, but also in all other areas of the organization (integration)
- An integrated occupational health and safety service
- A high degree of staff involvement in health matters (participation)
- The systematic implementation of all measures and programs (project management)
- The combining of risk reduction with the strategy of the development of protection factors and health potentials (comprehensiveness)

The Luxembourg Declaration was adopted by all members of the European Network for Workplace Health

Promotion (ENWHP) in 1997 to promote health and occupational safety in the companies of member states and to encourage member states to attach greater importance to workplace health promotion.

Approximately 320,000 new ideas in 2009

Continental has actively practiced idea management since 1930. Nowadays, thousands of ideas are generated by employees and implemented within the corporation every year.

Over 120 locations worldwide across all divisions participate in idea management. Each year, the locations with the highest number of points – based on the key ratios of participation, the number of ideas implemented and predicted net savings – receive an award. In 2009, some 320,000 ideas were submitted, of which more than 270,000 were put into effect, saving the company approximately €98 million. This remarkable level of participation shows just how much potential there is in idea management and how important it is to foster the creativity and innovative power of employees. This also applies in particular to difficult economic times where the ideas of our employees help to improve workflows, processes and products as well as save costs. Not only does the company benefit, but the idea providers do as well, who are rewarded with various levels of premiums.

Education and qualification in Africa

Just under a year before the start of the 2010 FIFA World Cup South Africa™, we kicked off a special training program as the Official Sponsor of this outstanding sports event. From July 2009 to January 2010, Continental, in collaboration with an established tourism school in South Africa, trained 26 young, previously unemployed students from the Soweto area for their work in Continental's hospitality and back office team.

The training included seminars on geography and teamwork, as well as instruction in comprehensive computer skills, while also providing insight into the tourism industry and customer service. In addition, the program was rounded off by special English classes and information on FIFA, the 2010 FIFA World Cup, and the aims of Continental's communication and sponsoring activities. Upon completion of the course, the participants spend three months gaining practical experience in various companies within the tourism industry before beginning final preparations and special training for Continental's hospitality program in Johannesburg in May 2010.

In this way, we are giving 26 highly-motivated South Africans the opportunity to acquire new career prospects. At the same time, we are gaining a team of locals who can show our guests the country and the special attractions of South Africa authentically and enthusiastically. Assuming that participants complete the project successfully, their employment will be continued, a goal they all strive for.

As part of the "Africa is coming" initiative, a young engineer from Kenya is also supporting the global Continental World Cup project team in Hanover, Germany. The initiative was called to life by 19 German companies that have taken on the task of promoting young management talents in sub-Saharan Africa with further qualification and practical experience in German companies. The program is geared primarily towards candidates who already have completed their education and gathered several years of experience in business, or who already hold a management position in companies in their home countries.

In the program, the participants become familiar with working methods and processes in German companies. They broaden their specialist and managerial expertise, enhancing it with intercultural experience. The companies profit from the participants' technical know-how and broad knowledge of their native country. In this way, the firms can attain more specific access to Africa's business world, establish personal contacts, create networks and develop reliable partnerships.

Economic Climate

The following information on inflation and growth rates for 2009 reflects the estimates available at the time this Annual Report went to print.

Macroeconomic development

Global economy

According to the assessment of the IMF (International Monetary Fund), the global economy has passed through the serious recession and is on the road back to growth. The primary driving forces behind this trend reversal are the monetary and fiscal stimuli implemented speedily and on a massive scale by the governments and central banks of developed and emerging economies. These stabilized the banking system with guarantees and capital investments and thus ensured the supply of liquidity and credit, while at the same time stimulating demand together with support from government investment programs. Overall, these bundles of measures not only eliminated fears of a global depression, but also triggered the worldwide recovery sooner than expected. After the world's economy shrank 6.5% in the first three months of the year under review, the latest IMF estimates expect global economic activity to have increased already by 1.3% in the fourth quarter of 2009. Selected leading indicators, such as industrial production, retail sales, trade exports, and the Purchasing Manager's Index, had already indicated a recovery in the second half of 2009. The IMF therefore increased its forecast for global economic growth again by 0.3 percentage points to the current level of -0.8% for 2009. This is nonetheless the worst level since World War II and is also significantly lower than the IMF's forecast in January 2009, which still expected 0.5% growth in economic performance in 2009. Sharp drops in growth were seen in the developed economies, but also in countries such as Russia and the countries of Central and Eastern Europe. In contrast, economic growth in emerging economies increased by a total of 2.1%. Alongside India's growth contribution of 5.7%, this relates particularly to China's economy with growth of 8.7%, which was boosted by state intervention on a huge scale. For 2010, the IMF anticipates that the world's economic activity will rise by 3.9% starting from a low level. At 2.1%, the expected growth in the developed economies is again significantly lower than the 6.0% growth anticipated for emerging economies. Within both groups, expectations for growth vary considerably from country to country depending on the respective starting situation, the extent of the impact of the external shocks, and government intervention. Most raw material prices rose again sharply already as the global economy began to recover, despite high inventory levels. Therefore, only moderate price increases are expected in 2010. Because capacity utilization is still at a low level, the IMF anticipates an inflation rate averaging only 1.3% for the developed economies in 2010.

However, the positive development of economic growth in 2010 as described above also entails considerable risks stemming particularly from the substantial rise in government debts and the associated need to allow government stimulus measures to expire without extending them although a stable, self-sustaining upturn may not yet have been achieved and the financial system may not yet be strengthened sufficiently. For example, some countries within the Eurozone, including Germany, will fail to meet the EU's convergence criteria in 2009 and 2010 due to high state spending. The present situation in Greece and Portugal is particularly precarious, where the 2009 federal deficit ran at 13% and 9% respectively, according to information from the national governments. Spain and Ireland are also battling high single-digit figures. According to the European Commission, the federal deficit for the entire Eurozone is above 6% of the gross domestic product. At the same time, Dubai's financial problems showed that there are still significant systemic risks outside of Europe as well which could lead entire regions into financial difficulties. In addition, there are also concerns that rising unemployment, the deterioration in the real estate market in many regions, and the reduction in asset values could have a negative impact on propensity to consume and thus on economic growth. We can therefore assume that economic recovery in the developed economies will be sluggish in the coming quarters and will remain unstable.

Germany

Germany was hit particularly hard by the global recession in 2009 due to its dependency on exports. Primarily cyclical sectors such as machine construction and the automotive industry experienced sharp declines in de-

mand, especially in the first quarter. Whilst sales figures for cars increased considerably starting in the second quarter as a result of the government car scrapping incentive, the monthly order intake of machine construction companies remained lower than the previous year through the end of 2009. Low capacity utilization due to production cutbacks, as well as the lower average crude oil price in comparison to 2008, led to an annual inflation rate of just 0.4%. This was the lowest level since German reunification. The economic downturn has had less impact on the labor market than initially feared. Primarily thanks to the very widespread use of reduced working hour programs (*Kurzarbeit*), there was only a moderate rise in unemployment, which reached 3.4 million. The gross domestic product (GDP) sank 5.0% in 2009, according to initial calculations by the German Federal Statistical Office. The IMF forecasts a 1.5% increase in GDP for Germany in 2010.

Western Europe and the Eurozone

The European Union, characterized by close economic cooperation between the Western European industrialized countries, also experienced a significant decrease of 4.0% in economic performance in 2009 as a result of the financial crisis. Like Germany, Italy also had a substantial decrease in GDP of 4.8%. Furthermore, housing prices also plunged in certain European countries such as Spain and the UK, causing the propensity to consume in both these countries to decline rapidly, among other things. This was observed particularly in the sales figures for passenger vehicles, which fell by more than 50% without government incentives at the beginning of the year under review. Against the background of low inflation rates, the European Central Bank and the Bank of England reduced key interest rates significantly and took unconventional monetary measures, such as purchasing covered bonds denominated in euros, in order to ensure the supply of liquidity and credit. Several European governments supported banks of systemic importance with government loans and capital investments. The rapidly adopted fiscal measures to stimulate demand already began to take effect in the second quarter of 2009. Economic activity in Germany and France increased again from this point. According to the IMF's assessment, the normalization of global trade and the inventory cycle as well as robust domestic consumption in many EU countries will lead to a slight increase in economic performance of 1% in 2010.

Central and Eastern Europe

This region did not escape the effects of the global downturn. The Baltic region in particular was very hard hit, with economic performance here decreasing by more than 17% in 2009. Poland was the only country to achieve positive economic growth (up 1%). Thanks to the stabilization of the global economy, the downwards trend in Central and Eastern Europe also slowed. According to the most recent IMF forecasts, lower risk aversion on the part of key investors, increasing exports and the now only moderate stock reduction will lead to growth in economic activity of 2.0% in 2010 in Central and Eastern Europe too (2009: -4.3%). The region's high level of unemployment and weak private lending will, however, continue to be significant risks.

Russia

After years of economic growth, based primarily on high raw material prices and the associated high inflow of capital to Russia, the global recession led to substantially lower raw material prices and a sharp drop in economic activity which amounted to 10% in the first half of 2009. Parallel to this came dramatic depreciation of the ruble against the euro of almost 30% in the first quarter of 2009. Since the third quarter of the year under review, the downturn in Russia has slowed, meaning that – according to provisional calculations by the IMF – the economy shrank by 9.0% in 2009. Due to fiscal intervention by the Russian government, increased raw material prices and the global economic recovery, Russia is also expected to return to the road back to growth. The IMF forecasts a 3.6% increase in economic activity in 2010.

America

After the financial crisis reached its peak in the U.S.A. with the insolvency of Lehman Brothers in September 2008 and triggered the global recession, the U.S. Federal Reserve Bank reacted by fixing the key interest rate close to zero at between 0% and 0.25% in December 2008. Alongside this came quantitative measures for supplying additional liquidity and huge fiscal policy intervention by the U.S. government in order to stimulate domestic demand. According to the Federal Deposit Insurance Corporation (FDIC), since the start of the financial crisis in 2008, 182 financial institutes have been closed down in the U.S.A., 140 of which were closed in 2009 alone. For that reason, over the course of the year under review the U.S. financial system stabilized and the housing market appears to have bottomed out at a low level. After shrinking considerably in the first half of the

year, the U.S. economy also returned to growth in the second half. As a result of the rapid and very extensive intervention, the decline in economic performance in 2009 was 2.5% less extreme than had been feared at the beginning of the year. However, unemployment has risen significantly. It is expected to peak in the second half of 2010 at a level of 10%. This also represents one of the biggest risk factors for U.S. consumers' propensity to consume and thus for economic growth in 2010, since approximately 70% of economic performance in the U.S.A. is based on private consumption. The IMF is currently expecting the U.S. economy to grow by 2.7% in 2010.

Asia

Among the developed economies, Japan was the hardest hit by the global recession, with its economic activity falling by 5.3% in 2009. The low demand for investment goods such as cars and electronic devices, together with decreasing investment spending by emerging economies in Asia, caused exports to slump by almost 50% in the first three months of the year under review. The situation was aggravated further by stock reduction and hesitant domestic demand. Because interest rates had been low for years, interest rate cuts were also not possible. Therefore, one of the world's most extensive packages of fiscal measures was initiated to stimulate consumption and improve infrastructure. These measures amount to approximately 5% of the total gross domestic product in 2009 and 2010. On the basis of the global economic recovery and the increase in international trade, the IMF is expecting Japan's economic performance to grow by 1.7% in 2010.

China was also unable to shield its export-oriented economy completely from the global recession. Thanks to expansion of the money supply and a massive stimulus program to boost domestic demand, currently with a scope corresponding to approximately €400 billion, the country achieved strong growth of 8.7% in 2009 too, and has been functioning as a motor of the failing global economy since the second quarter of 2009. At the beginning of 2010, however, the Chinese government tightened the monetary reins so as to counteract risks of the economy overheating. The IMF expects China's economy to grow by 10% in 2010.

Industry development

The global business with automobile manufacturers is the most important market segment for our company as an international automotive supplier. However, the global original equipment market for commercial vehicles and the replacement markets for passenger, light truck, and commercial vehicle tires in Western and Central Europe and NAFTA are also significant. Within a macroeconomic setting, all market segments developed negatively during the year under review, with the level of declines differing from region to region.

Automobile production

The volume of vehicles produced worldwide is the key factor driving our original equipment business in the light vehicle segment (passenger cars, station wagons, and light commercial vehicles). The regions of Europe and North America, which account for 81% of sales, are decisive for Continental in this regard.

As early as the fourth quarter of 2008, the market was reporting high double-digit drops in new car registrations, which led to unprecedentedly high cuts in vehicle production. This trend intensified in the first quarter of 2009, as many automobile manufacturers were reducing inventories and some only resumed production in the spring.

As a result of the government incentives introduced in many countries, mostly in the form of tax benefits and car scrapping incentives, new passenger vehicle registrations increased considerably during the rest of the year. Whilst at the beginning of the year under review a global decline in new passenger vehicle registrations of 15% to 20% was anticipated, for the year as a whole there was only a slight decrease of 3%. In Western Europe, sales of new passenger vehicles rose about 1% to 13.6 million vehicles. Germany experienced the strongest growth here, with new car sales rising 23%. In France, too, sales were up 11%, driven by government incentive programs. The Italian market, which has also been receiving government support since February 2009, reached approximately the level of the previous year (down 0.2%). Although sales of new cars in Spain and the UK did increase significantly as a result of the introduction of scrapping programs in May, the number of new vehicles sold in 2009 as a whole was down 18% and 6% respectively year-on-year, driven by the substantial decrease at the beginning of the year. In the new

EU states, the effects of the recession on passenger vehicle sales were particularly obvious, with a 27% decline in new registrations.

New vehicle registrations in Japan and the U.S.A. remained lower than in the previous year, down 7% and 21% respectively, although considerable improvements were also discernible on the sales markets of these two regions in the second half of 2009. Overall, there was thus a year-on-year decrease in new vehicle registrations of 11% for the triad markets in 2009. Despite a sharp fall in sales of passenger vehicles in Russia in 2009 (down 49%), the BRIC countries saw an approximately 19% increase in new vehicle registrations as against 2008. Again, this was caused by government incentive programs, which led – particularly in China – to a real boom in new car sales in 2009 (up 47%). To stabilize demand for passenger vehicles, the Russian government is also now considering introducing a sales incentive in March 2010.

The significantly improved situation on the sales markets in the second half of the year had a positive impact on automotive production. In Europe, the 21% decrease for the year as a whole was less extreme than in the first half of the year (32% decrease). Thanks to the resumption of production at Chrysler in late June, the number of vehicles produced in North America did not fall as drastically year-on-year for 2009 as a whole (down 32%) as it did in the first six months (down 50%). In the same period in Japan, production cutbacks at 31% were also more moderate than the 44% in the first six months. For the regions of North America and Europe combined, there was a year-on-year decrease in vehicles produced of 25% for 2009, following 38% in the first six months. Thanks to the success of the car scrapping incentives in Europe, production cuts were much less substantial since the beginning of the second quarter than in the first quarter of 2009, particularly at the large scale manufacturers in Europe. A total of 58.8 million passenger cars were produced worldwide in 2009, equivalent to a decrease of 9.4 million vehicles, or 14%. The number of passenger vehicles produced in 2009 is thus at the upper end of market expectations at the beginning of the year under review. In contrast, the number of new vehicle registrations worldwide decreased by “only” approximately 1.9 million vehicles, meaning that inventories were reduced by some 7.5 million vehicles by the end of 2009, primarily in Europe and North America.

Production of light vehicles in millions of units**	**2009***	**2008**	**2007**	**2006**	**2005**
Western Europe	11.9	14.6	16.2	15.9	16.1
Eastern Europe	4.9	6.6	6.0	4.9	4.2
Total Europe	16.8	21.2	22.2	20.8	20.3
NAFTA	8.5	12.6	15.0	15.3	15.7
South America	3.6	3.8	3.6	3.0	2.8
Asia	28.2	28.7	27.7	25.6	23.2
Africa and Middle East	1.8	1.9	1.7	1.6	1.4
Total	**58.8**	**68.2**	**70.2**	**66.3**	**63.4**

Source: Global Insight *preliminary estimate **passenger cars, station wagons, and light commercial vehicles (<6t)

As a result of the substantial cuts in car production in the triad markets, Europe with 16.8 million produced vehicles did still make the largest contribution (28%) to the global car production, but with an output of 12.2 million cars, China took second place with a share of 21% of the world's production. Less than 15% of the 2009 global production was manufactured in North America. In 2005 its share was still 25%.

Commercial vehicle production

The negative trend in commercial vehicle production which had already emerged in the fourth quarter 2008 in all markets continued in 2009.

In the first half of the year, the number of trucks produced in Europe fell by 64% as against the same period of the previous year. This very tense situation did not change in the second half of the year either, meaning that for the year as a whole there was a 64% decrease in truck production to approximately 267,000 units. In North America, commercial vehicle production dropped 43% year-on-year in the first six months of 2009. In the second half of the year, the situation improved, but only insignificantly. For 2009 as a whole, there was thus a decrease of 41% to 210,000 units in North America, after truck production had already fallen 35% in 2007 and 16% in 2008. In Asia, too, commercial vehicle production was 12% lower in 2009. A total of approximately 1.2 million trucks were manufactured in this region. China was the only market in the world to report an increase in truck production in 2009. With roughly 801,000 units produced – equivalent to an 8% increase in 2009 – the country was the biggest producer of trucks worldwide, with a 43% share of global commercial vehicle production. Approximately 1.8 million trucks were produced globally in 2009. This is equivalent to a decrease of roughly 32% in comparison to the previous year and is thus again lower than the market expectations, which had already been reduced considerably at the beginning of the year under review.

Passenger tire replacement business

In the passenger tire replacement business, our most important markets are in Western and Central Europe, and in NAFTA. Both of these markets recorded decreases in sales as against the previous year. Overall there was a decrease of roughly 4.5%, which was less extreme than the fall in automobile production due to the lower level of fluctuation (cyclicality) in the sector. In contrast, the trend over time was similar across the regions.

In the first half of the year, the number of passenger tires sold in Europe fell by 11% as against the same period of the previous year. From October 2009, there was an increase in demand on the passenger tire replacement market for the first time after nine consecutive months of decreasing sales. This was caused not least by the high demand for winter tires due to the weather. Approximately 261 million replacement passenger tires were sold in Europe in the year as a whole. This is equivalent to a drop of roughly 6% year-on-year, which is only slightly more extreme than we had anticipated at the beginning of the 2009.

Production of heavy vehicles in thousands of units**	**2009***	**2008**	**2007**	**2006**	**2005**
Western Europe	196	548	532	480	460
Eastern Europe	71	197	188	140	130
Total Europe	267	745	720	620	590
NAFTA	210	353	421	650	590
South America	129	193	163	100	110
Asia	1,241	1,415	1,346	970	950
Total	**1,846**	**2,706**	**2,649**	**2,340**	**2,240**

Source: Global Insight *preliminary estimate **commercial vehicles (>6t)

At around 15%, the decline in NAFTA in the first half of 2009 was greater than in Europe. Due to the fact that the miles driven by U.S. residents have been increasing for the first time again since April 2009 after falling for 16 consecutive months, there was already a rise in replacement passenger tires sold in the third quarter of 2009. In 2009 as a whole, approximately 253 million replacement passenger tires were sold in North America, equivalent to a 3% decline in comparison to 2008. This was just slightly higher than our sales forecasts.

Truck tire replacement business

The volumes in the markets of Western and Central Europe and in NAFTA are also particularly important for our truck tire replacement business. In 2009, volume sold to the Western and Central European markets fell by 23% to 15.6 million units. The number of replacement truck tires sold in NAFTA decreased by 18% to 15.2 million units. The sales volume in both regions amounted to a total of 30.8 million replacement truck tires, thus falling roughly 21% year-on-year. We had expected a slight decrease in market volume.

Replacement sales of passenger, light truck and 4x4 tires

in millions of units	2009*	2008	2007	2006	2005
Western and Central Europe	260.9	276.8	288.7	287.1	273.8
NAFTA	252.9	261.3	275.9	264.9	274.0
Asia	206.4	210.8	205.6	196.9	184.6
Other markets	146.7	148.7	143.7	132.3	128.6
Total	**866.9**	**897.5**	**913.9**	**881.2**	**861.0**

Source: LMC World Tyre Forecast Service, 2009 *preliminary and own estimate

Replacement sales of truck tires

in millions of units	2009*	2008	2007	2006	2005
Western and Central Europe	15.6	20.3	20.6	19.9	19.3
NAFTA	15.2	18.6	20.6	20.9	21.5
Asia	59.2	59.4	57.9	52.8	49.9
Other markets	26.7	28.6	27.9	27.6	26.5
Total	**116.7**	**126.9**	**127.0**	**121.2**	**117.2**

Source: LMC World Tyre Forecast Service, 2009 *preliminary estimate

Markets for raw materials

Important raw materials for our production include metals such as copper, steel, nickel and aluminum. Oil-based raw materials and natural rubber are utilized in tire manufacturing. After prices for oil-based raw materials and some metals had dropped sharply at the end of 2008, there were initially further price decreases on the commodities markets at the beginning of 2009 due to the global recession. In the context of the stabilizing economic outlook over the course of the year, raw material prices increased again significantly until the end of the year under review.

The prices for aluminum ($2.3/kg; up 47%), copper ($7.1/kg; up 149%) and nickel ($18.8/kg; up 94%) saw drastic increases up until the end of 2009 in comparison with the 2008 year-end prices. Only the price for tempered steel ($0.5/kg; down 1.9%) closed trading for the year slightly below the 2008 year-end price. In terms of the average prices for the year, those of the metals specified above were between 25% and 50% lower than the average prices for 2008 and between 25% and 45% lower than the three-year average for the years 2006 to 2008.

Metals, which we only buy in a highly processed state, such as formed and machined parts, are another base material for production. The substantial decline in demand for raw materials in the first half of 2009 was in some cases passed on to Continental by the producers in the second half of the year in the form of price reductions for formed and machined parts.

Natural rubber, which is traded on the Singapore and Tokyo commodity exchanges, is an extremely important raw material for the Continental Corporation, particularly for the Tire divisions. Continental buys various types of natural rubber, primarily in Thailand, Malaysia, and Indonesia, where the trend in prices tends to be identical.

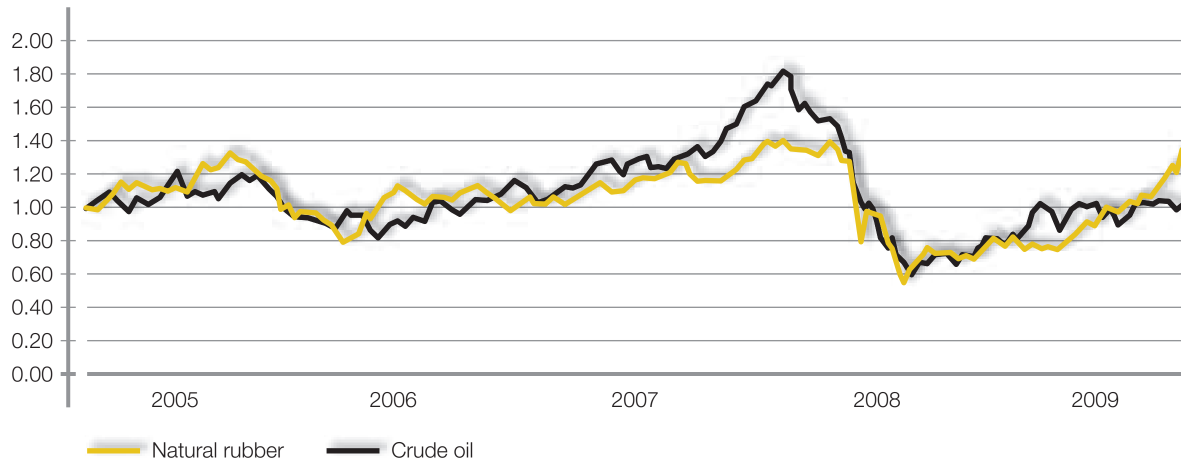
From the second half of 2008 on, the price of natural rubber decreased and was listed at $1,378.3 per ton on December 29, 2008, a 60% decrease as compared to its peak in July 2008. The price for natural rubber (TSR 20) subsequently rose steadily. At the end of December 2009, natural rubber (TSR 20) was priced at $2,889.4 per ton. This corresponds to a 110% increase for the year. From the second half of 2009 on, there were considerable price increases. In the fourth quarter alone, the price for this raw material rose by more than $700 per ton. The price for natural rubber (TSR 20) at year-end 2009 was thus approximately 9% higher than the average price in 2008 of $2,653.8 per ton and roughly 24% higher than the three-year average for 2006 to 2008 of $2,322.8 per ton.

In addition to natural rubber, which we use directly, crude oil is the most important base for many of the materials used in production, such as synthetic rubber, carbon black, and chemicals. In some cases, there are multi-stage production processes at our suppliers between the crude oil and the materials procured by Continental. The boom on the crude oil market since 2004 reached its peak on July 3, 2008, at a price of $145.7 per barrel for North Sea Brent oil. As a result of the financial crisis, prices also fell sharply on the crude oil market. As of December 31, 2008, the price for Brent was listed at only $41.8 per barrel. Since the beginning of the reporting year, however, the prices for crude oil have risen again considerably due to the expectation of a stabilizing global economy. At the end of 2009, North Sea Brent crude oil was being traded at $75.4 per barrel. This is equivalent to an increase of approximately $33.6 per barrel, or 80%, as against the end of 2008. However, on average the price for Brent crude oil fell by 38% in comparison to the average price for 2008 of $99.5 per barrel.

The price increases of the raw materials traded in U.S. dollars were strengthened slightly by the euro's decrease of approximately 5.2% on average against the U.S. dollar in the year under review.

Overall, however, the lower prices for natural and synthetic rubber in particular had a positive effect on our earnings.

Trends in prices



Earnings Position

- Sales down 17.1%
- Sales down 15.4% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT down 33.3%

Continental Corporation in € millions	2009	2008	Δ in %
Sales	20,095.7	24,238.7	-17.1
EBITDA	1,591.2	2,771.4	-42.6
in % of sales	7.9	11.4	
EBIT	-1,040.4	-296.2	-251.2
in % of sales	-5.2	-1.2	
Net income attributable to the shareholders of the parent	-1,649.2	-1,123.5	-46.8
Earnings per share (in €)	-9.76	-6.84	-42.7
Research and development expenses	1,356.3	1,498.2	-9.5
in % of sales	6.7	6.2	
Depreciation and amortization[1]	2,631.6	3,067.6	-14.2
thereof impairment	993.0	1,341.4	-26.0
Operating assets (at December 31)	14,582.7	17,286.1	-15.6
EBIT in % of operating assets (at December 31)	-7.1	-1.7	
Operating assets (average)	16,024.1	19,117.0	-16.2
EBIT in % of operating assets (average)	-6.5	-1.5	
Capital expenditure[2]	860.1	1,595.2	-46.1
in % of sales	4.3	6.6	
Number of employees at the end of the year[3]	134,434	139,155	-3.4
Adjusted sales[4]	19,986.8	23,784.7	-16.0
Adjusted operating result (adjusted EBIT)[5]	1,165.8	1,747.0	-33.3
in % of adjusted sales	5.8	7.3	

[1] Excluding write-downs of investments.
[2] Capital expenditure on property, plant, equipment and software.
[3] Excluding trainees.
[4] Before changes in the scope of consolidation.
[5] Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Sales down 17.1%
Consolidated sales in 2009 decreased by €4,143.0 million or 17.1% compared with the same period of the previous year to €20,095.7 million (PY: €24,238.7 million), resulting primarily from volume decreases brought on by the global economic crisis. Changes in the scope of consolidation had a positive impact, whilst exchange rate changes had the effect of reducing sales. Sales in the first three quarters of 2009 were lower than in the equivalent periods of the previous year. In the final quarter of 2009, they were up year-on-year, driven firstly by the very weak previous year but also by a consistent increase in 2009 throughout all four quarters.

Sales by region in 2009 saw the following changes from the previous year:

Sales by region in %	2009	2008
Germany	29	31
Europe excluding Germany	34	36
NAFTA	18	19
Asia	14	10
Other countries	5	4

Adjusted EBIT down 33.3%
The corporation's adjusted EBIT was down in 2009 compared with the same period of 2008 by €581.2 million, or 33.3%, to €1,165.8 million (PY: €1,747.0 million), equivalent to 5.8% (PY: 7.3%) of adjusted sales.

The adjusted EBIT rose in the fourth quarter of 2009 compared with the same period of last year by €259.5 million, or 106.3%, to €503.7 million (PY: €244.2 million), equivalent to 8.9% (PY: 4.8%) of adjusted sales. On a comparable basis, there was an adjusted EBIT of €413.4 million in the third quarter of 2009.

EBIT down 251.2%
EBIT was down €744.2 million year-on-year to -€1,040.4 million in 2009, a decrease of 251.2% (PY: -€296.2 million). Return on sales fell to -5.2% (PY: -1.2%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT in the year under review by €455.2 million (PY: €506.2 million). This amount includes impairments on intangible assets from PPA in the amount of €7.5 million in 2009 (PY: €54.3 million).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to -6.5% (PY: -1.5%).

Special effects in 2009
In the third quarter of 2009, the impairment test on goodwill, which was conducted in response to a triggering event, led to an impairment requirement of €875.8 million. €367.0 million of this related to the Chassis & Safety division, €447.4 million to the Powertrain division and €61.4 million to the Interior division.

The plant in Huntsville, U.S.A., is to be closed at the end of 2010. This decision was based upon the persistent unfavorable situation in the U.S. market as well as the overcapacities in production, research and development in North America. By closing Huntsville and consolidating production capacities as well as concentrating research and development activities, we expect to optimize regional production and reduce costs significantly. In 2009, the Powertrain and Interior divisions incurred restructuring expenses of €82.6 million.

In this same context, a decision was made to move the activities of several business units of the Powertrain and Interior divisions from the Deer Park, U.S.A., location to other locations. This led to restructuring expenses of €5.4 million.

Due to declining volumes and expiring customer orders, production capacity at the plant in Karben, Germany, had to be adjusted. This led to restructuring expenses of €31.9 million in the Chassis & Safety, Powertrain and Interior divisions.

As a result of the expiration of further customer orders and cost savings in the areas of research & development and administration, there were additional restructuring expenses of €31.4 million for the Interior division at the plant in Babenhausen, Germany, in the period under review.

At the plant in Wetzlar, Germany, there were additional restructuring expenses of €12.2 million for the Interior division, due to the expiration of research and development projects for which there are no follow-up orders.

The research and development location in Neubiberg, Germany, is to be closed. This led to restructuring expenses of €8.8 million in the Powertrain and Interior divisions.

The associate Hyundai Autonet Co. Ltd., Kyoungki-do, South Korea, of the Interior division was sold at a price of €126.6 million. The transaction resulted in recognition of impairment losses in the amount of €73.6 million.

In view of a probable disposal of two associated companies, impairment losses in the amounts of €43.6 million and €2.0 million were recognized in the Interior division.

As of October 31, 2009, the Public Transport Solutions business from the non-OE area was sold to the Trapeze ITS Group – predominantly as part of an asset deal – for a provisional negative purchase price of €11.7 million, stemming primarily from a decrease in working capital from the signing date to the closing date. The final purchase price determination is likely to be concluded in the second quarter of 2010. This sale led to expenses totaling €4.5 million for the Interior division in the year under review.

In the Chassis & Safety and Powertrain divisions in particular, unutilized provisions for severance payments of €5.3 million were reversed in 2009 as part of the winding up of restructuring activities at the plant in Dortmund, Germany, since parts of the production capacity could be transferred to the Interior division.

Production at the plant in Hiroshima, Japan, is to be relocated to Changshu, China. This resulted in restructuring expenses of €2.9 million in the Chassis & Safety division.

Due to the withdrawal of a customer order for the development and production of diesel injection systems at the plant in Blythewood, U.S.A., restructuring measures had to be introduced, which led to expenses in the amount of €44.7 million for the Powertrain division. This primarily relates to special write-downs on production lines and the settlement of supplier claims.

The plant in Blythewood, U.S.A., results from a joint venture with a U.S. engine manufacturer, which is also the plant's main customer. Due to declining capacity utilization, a decision was made at the end of 2008 to close the plant and to relocate production to Newport News, U.S.A. Continental had filed for damages for underutilization against the joint venture partner. As part of an agreement, the entire plant including the associated production was transferred to the joint venture partner instead of a relocation. This sale generated a gain of €10.5 million for the Powertrain division, taking into account all reciprocal claims and interests.

The relocation of the production remaining with Continental and the research and development activities to Newport News, U.S.A., resulted in further restructuring expenses in the amount of €4.2 million for the Powertrain division.

The necessary adjustment of production overcapacity in Europe to the current market conditions led to the discontinuation of passenger and light truck tire production in Clairoix, France. This resulted in restructuring expenses in the amount of €207.3 million in the period under review. These are countered by a positive effect on earnings of €11.4 million from lower pension obligations due to the resulting shortened employment periods for the employees.

Current production overcapacities in Europe mean a much reduced demand for primary materials as well. The closure of the compounding and rubberization activities in Traiskirchen, Austria, at the end of 2009 led to restructuring expenses of €12.9 million in the Passenger and Light Truck Tires division.

Measures introduced for the location in Hanover-Stöcken, Germany, led to restructuring expenses of €46.4 million in the Commercial Vehicle Tires division in the year under review.

The closure of the Conti Machinery plant in Puchov, Slovakia, led to restructuring expenses of €8.0 million in the Commercial Vehicle Tires division, including €1.1 million of impairment on intangible assets from the Matador purchase price allocation. In connection with this, there was also an impairment of an investment using the equity method in the amount of €0.8 million.

The sales declines resulting from the global economic crisis no longer make it possible to efficiently utilize the externally operated warehouse in Straubing, Germany, so the warehouse is to be closed down. The associated rental agreement is valid until 2016. At the end of 2009, it was assumed that the properties could not be subleased accordingly. A provision of €9.7 million was therefore recognized in the Commercial Vehicle Tires division.

The partial impairment of the Matador brand name, and an impairment on property, plant, and equipment in

Puchov, Slovakia, driven by significant sales declines, led to an impairment loss of €10.7 million for the Passenger and Light Truck Tires, and Commercial Vehicle Tires divisions, of which €4.0 million related to capitalized intangible assets from the Matador purchase price allocation.

The impairment test on customer relationships in other intangible assets led to an impairment requirement of €2.4 million with various customer groups for the Passenger and Light Truck Tires division.

The closure and transfer of Western European locations of the Fluid Technology business unit in the ContiTech division led to restructuring expenses of €33.4 million in 2009.

The antitrust proceedings initiated in 2007 against Dunlop Oil & Marine Ltd., UK, a subsidiary of ContiTech AG, in the area of offshore hoses, resulted in further expenses of €6.2 million in the year under review.

For the ContiTech division, the first consolidation of the conveyor belt company Kolubara Univerzal D.O.O., Serbia, led to a gain of €0.7 million from the negative balance.

In the corporation there were also smaller impairments on property, plant, and equipment, and intangible assets in the amount of €13.1 million, of which €9.7 million relates to the Automotive Group and €3.4 million to the Rubber Group.

In addition, the Automotive Group incurred expenses, chiefly from restructuring measures, totaling €25.4 million in the year under review. The Rubber Group incurred further expenses totaling €2.2 million in 2009, also primarily resulting from restructuring measures.

In 2009, the cost-cutting program initiated worldwide in response to the economic crisis led to expenses for severance payments totaling €116.7 million (Chassis & Safety €21.4 million, Powertrain €14.1 million, Interior €26.4 million, Passenger and Light Truck Tires €11.1 million, Commercial Vehicle Tires €5.3 million, ContiTech €30.1 million, Holding €8.3 million).

Owing to the higher expected cash flows for the VDO loan as a result of rising margins, the carrying amount was adjusted as expense in September and December 2009. At the end of 2009, the value of these adjustments totaled €64.5 million. This deferral will be amortized over the term of the loan and reduces expenses accordingly.

The total consolidated net expense from special effects amounted to €1,755.4 million in 2009. Adjusted for goodwill impairment of €875.8 million and for impairments on intangible assets from the purchase price allocation in the amount of €7.5 million, there was a negative impact of €872.1 million from special effects.

Special effects in 2008

In 2008, the annual impairment test on goodwill led to an impairment requirement of €1,230.0 million. €145.2 million of this related to the Chassis & Safety division, €609.6 million to the Powertrain division and €475.2 million to the Interior division.

The impairment test on customer relationships in other intangible assets led to an impairment requirement of €54.3 million with one customer. €21.7 million of this related to the Powertrain division and €32.6 million to the Interior division.

The relocation of production capacity from our Ebbw Vale plant in the UK to the plant in Zvolen, Slovakia that began in 2006 led to a further impairment of €0.5 million in the Chassis & Safety division in 2008.

A write-down of the carrying amount of a joint venture of the Chassis & Safety division on the expected liquidation proceeds led to an impairment of €2.4 million.

As part of winding up restructuring activities related to the automotive electronics business acquired from Motorola, there was a positive effect on EBIT of €4.3 million for the Powertrain and Interior divisions in 2008, which resulted from net restructuring expenses and from the reversal of unutilized provisions. This was more than offset by expenses of €6.0 million from the continuing integration of the automotive electronics business acquired from Motorola.

At the plant in Wetzlar, Germany, production for the Interior division was shut down due to a lack of orders. Research and development activities are to remain in Wetzlar. This led to restructuring expenses in the amount of €26.1 million in 2008.

At the plant in Babenhausen, Germany, two customer contracts are to expire in the Interior division and there are no successor products. This led to restructuring expenses of €40.7 million in 2008.

Also in the Interior division, the product portfolio was reviewed in conjunction with the acquisition of Siemens VDO and business sections in the non-OE sector were identified that are not part of our core business. The sale process was initiated for one of these business sections and led to recognition of impairment losses in the amount of €46.9 million in 2008.

Production at the plant in Rambouillet, France, is to be relocated. R&D activities as well as administration are to remain at the location. This led to restructuring expenses in the Interior division in the amount of €42.9 million in 2008.

Restructuring expenses of €4.4 million were incurred in the Interior division in 2008 for the research and development location in Munich, Germany.

The discontinuation of operations of the Interior division's aftermarket infotainment segment led to restructuring expenses in the amount of €9.4 million in 2008.

The sale of the parking systems business led to a gain of €6.2 million in the Interior division. The company incurred restructuring expenses of €0.5 million in this context.

Production at the Birmingham, U.K., location was closed down. Here the cockpit business of the Interior division was sold as of December 31, 2008, resulting in a €1.0 million gain, and restructuring expenses of €2.1 million were incurred. The relocation of further business activities of the Interior division led to restructuring expenses of €0.7 million. Restructuring expenses of €3.8 million resulted from the relocation of the fuel supply business in the Powertrain division to Dortmund, Germany, and Brandys, Czech Republic.

The impairment test on the carrying value of investments measured at equity in the Interior division led to two impairments of €35.0 million and €5.0 million in 2008.

In addition, there were further restructuring expenses amounting to €1.7 million for various sites of the Interior division.

The sensors business of the Chassis & Safety and Powertrain divisions at the Dortmund location in Germany will be closed due to reductions in volume and a lack of follow-up orders. This led to restructuring expenses in the amount of €15.6 million in 2008.

In connection with the transfer of the R&D activities of the Chassis & Safety and Powertrain divisions, restructuring expenses of €6.2 million were incurred at the Elkhart site in the U.S.A. in 2008.

The electric motors activities were sold – primarily under an asset deal – to the Brose Group with effect from April 1, 2008. This sale generated an overall gain of €2.0 million for the Powertrain division.

The Powertrain division's plant in Asnière, France, was closed down, resulting in restructuring expenses of €18.8 million in 2008.

The production of diesel injection systems at the plant in Blythewood, U.S.A., and the research and development activities at the plant in Columbia, U.S.A., will both be relocated to Newport News, U.S.A. This led to restructuring expenses of €10.5 million in 2008.

At the end of 2008, an agreement was reached with the union representatives of hourly workers at the Newport News plant, U.S.A., to freeze retirement payments for medical care at the current level. This resulted in a positive effect on earnings of €10.2 million.

One automobile manufacturer canceled an order at short notice due to financing difficulties. The contractual partner was an important customer of Continental. This turn of events affects the new Powertrain plant in Costa Rica because the first production of engine and transmission control units had been planned for this initial contract at the end of 2008. Continental submitted a claim for damages against the customer, and the company subsequently applied for Chapter 11 insolvency protection in the U.S.A. Conversely, Continental also canceled existing contracts with its suppliers and was subsequently also faced with claims for damages. A final agreement, however, could be reached with these parties, mainly under which Continental agreed to acquire the product-specific tooling already in place. The related tooling was written off in full, given there was no other application. In total, expenses of €12.4 million were incurred to settle the claims.

From the winding-up of restructuring measures at the U.S. tire plants in Charlotte and Mayfield, there was a positive effect on EBIT of €0.3 million from the net expense balance, primarily as a result of scrapping unusable machinery and reversing unutilized provisions.

In 2008, property, plant, and equipment at the Mount Vernon plant in the U.S.A. was written down in the amount of €11.4 million due to the failure to achieve process efficiency and the related earnings situation. This requirement was due to capital expenditures made in 2008 which, under IFRS impairment principles, are not recognized at replacement cost but at the lower net realizable value.

In the Commercial Vehicle Tires division, the plant at Alor Gajah, Malaysia, was closed down, with some parts of production being relocated to Petaling Jaya, Malaysia. This led to restructuring expenses of €0.8 million.

In the ContiTech division there was an overall positive effect on EBIT of €0.9 million in 2008 resulting from various minor restructuring measures and from unutilized provisions, mainly for Roulunds, Denmark, and for ContiTech Schlauch, Northeim, Germany.

The sale of the Benecke-Kaliko unit's furniture covering business resulted in a gain of €4.7 million in the ContiTech division in 2008. This led to the reversal of unutilized provisions in the amount of €2.4 million.

The sale of Phoenix Dichtungstechnik GmbH led to a gain of €24.3 million in the ContiTech division.

The Italian company ContiTech Ages was sold at the end of 2004. Expenses of €3.3 million were incurred in connection with outstanding receivables, mainly due to the company's insolvency.

In 2007, the antitrust authorities of the European Union, the U.S.A., the UK, Australia, Brazil, Japan and Korea initiated investigations into alleged antitrust behavior – in particular price-fixing agreements by employees of Dunlop Oil & Marine Ltd., UK, a subsidiary of ContiTech AG, in the area of offshore hoses. In 2008 and on January 28, 2009, decisions made by certain authorities and other events led to expenses of €29.0 million.

Various smaller impairments in the amount of €7.2 million were incurred in the corporation.

The negative impact from special effects in 2008 totaled €1,571.3 million for the corporation. Adjusted for goodwill impairment of €1,230.0 million and for customer relationship impairment of €54.3 million, there was a negative impact of €287.0 million from special effects for the corporation.

Procurement

In 2009, the purchasing volume of the Continental Corporation decreased by 24% year-on-year to €11.7 billion (PY: €15.4 billion).

Alongside lower prices on the international commodities markets, the decline in production volume also played a decisive role. In addition, various cost reduction measures and lower investment activities were reflected in reduced spending for indirect materials and capital goods.

Research and development

Research and development expenses decreased by €141.9 million or 9.5% year-on-year to €1,356.3 million (PY: €1,498.2 million), or 6.7% of sales (PY: 6.2%). This is chiefly attributable to targeted savings in response to the economic crisis.

In the Chassis & Safety, Powertrain and Interior divisions, costs stemming from initial product development projects in the original equipment business are being capitalized. Costs are capitalized as of the point in time at which we have been nominated as a supplier by the original equipment manufacturer and have successfully fulfilled a specific pre-release stage. Capitalization ends with the approval for unlimited series production. The costs of customer-specific applications, pre-production prototypes, and testing for products already being sold, continue to be expensed as incurred. Capitalized development expenses are amortized over a useful life of three years, using the straight-line method. The assumed useful life reflects the time in which an economic benefit is likely to be achievable from these development projects.

The requirements for capitalizing intangible assets from development activities (IAS 38) were not met in the Passenger and Light Truck Tires, Commercial Vehicle Tires and ContiTech divisions in 2009 or in 2008.

Depreciation and amortization
Total depreciation and amortization decreased by €436.0 million to €2,631.6 million (PY: €3,067.6 million), corresponding to 13.1% (PY: 12.7%) of sales. In the year under review, impairment losses of €993.0 million (PY: €1,341.4 million) were recognized. Adjusted for goodwill impairment of €875.8 million (PY: €1,230.0 million), there are further impairment losses of €117.2 million for the 2009 fiscal year (PY: €111.4 million).

Net interest expense
At -€720.8 million, net interest expense rose by €14.1 million compared with the previous year (PY: -€706.7 million).

Interest expense, excluding the effects of foreign currency translation and changes in the fair value of derivative instruments described below, increased by €73.5 million compared with the previous year to -€768.6 million (PY: -€695.1 million).

The amount of interest expense, and thus the net interest amount, is chiefly attributable to the utilization of the VDO loan agreement of meanwhile €11.0 billion. In 2009, interest expense of €645.0 million (PY: €500.7 million) was incurred in this context. The reason for the increased expense as against the previous year is firstly the higher margin level of this loan in comparison to 2008, which was only partially offset by the significantly lower average market interest rate for the year in 2009. The higher margins resulted from the renegotiations of the framework conditions for this loan, concluded in January 2009, and from the downgrades of Continental AG's credit rating during 2009. Secondly, net interest income was also negatively impacted by additional expenses for financing in connection with the renegotiations of the framework conditions for the VDO loan agreement from January and December 2009.

Compared with the previous year, there was a significant positive effect on the net interest income for 2009 as a result of mainly non-cash exchange rate effects from financial receivables and liabilities accepted or issued in foreign currencies. These were partly offset by contrasting effects from changes in the fair value of derivative instruments arranged contractually for hedging purposes. In contrast to 2008, this resulted in a positive effect on net interest income of €17.5 million (PY: -€91.6 million).

In December 2009, important changes were made to the existing loan agreements as part of a refinancing package. This will lead to further slight increases in the margins for the VDO loan in 2010 in comparison to the previous conditions. In contrast, the capital increase successfully carried out in January 2010, from which the net proceeds of approximately €1.05 billion will be used for the partial repayment of tranche B of the above loan, will lead to a corresponding positive effect on net interest income in 2010.

Tax expense
Income tax changed by €229.3 million to bring in income of €154.3 million (PY: expense of €75.0 million). This is due primarily to the further decrease in the earnings before taxes. The goodwill impairment of €875.8 million in the year under review (PY: €1,230.0 million) did not lead to any tax gain. The tax gain rate before goodwill impairment was 17.4% (PY: tax expense rate of 33.0%).

The main effects on the tax rate resulted chiefly from the non-recognition of deferred tax assets due to insufficient probability of recoverability and the possible tax consequences of a harmful change of shareholder in Germany as defined under Section 8c (restriction on the use of loss and interest carryforwards) of the *Körperschaftssteuergesetz* (German Corporation Tax Law). As a result of the share acquisitions by Schaeffler KG in 2008 and 2009, which – according to the opinion of the finance authorities regarding Section 8c of the *Körperschaftssteuergesetz* and contrary to the evaluation of Continental of its tax situation – exceeded the limit of 25% in 2008 and 50% in 2009, €108.5 million in deferred tax assets on loss and interest carryforwards had to be written off in 2009.

Effects from impairment on investments and non-tax-deductible operating expenses continued to have a negative impact on the tax rate. There was a positive influence from foreign tax rate differences, as well as incentives and tax holidays.

Net income attributable to the shareholders of the parent
Net income attributable to the shareholders of the parent decreased by €525.7 million to -€1,649.2 million (PY: -€1,123.5 million). This corresponds to earnings per share of -€9.76 (PY: -€6.84).

Reconciliation of EBIT to net income in € millions	2009	2008	Δ in %
Chassis & Safety	-102.5	303.1	-133.8
Powertrain	-943.2	-1,046.2	9.8
Interior	-516.0	-462.6	-11.5
Passenger and Light Truck Tires	536.4	626.4	-14.4
Commercial Vehicle Tires	-50.1	29.5	-269.8
ContiTech	169.4	329.1	-48.5
Other/consolidation	-134.4	-75.5	
EBIT	**-1,040.4**	**-296.2**	**-251.2**
Net interest expense	-720.8	-706.7	-2.0
Earnings before income taxes	**-1,761.2**	**-1,002.9**	**-75.6**
Income taxes	154.3	-75.0	305.7
Net income	**-1,606.9**	**-1,077.9**	**-49.1**
Minority interests	-42.3	-45.6	7.2
Net income attributable to the shareholders of the parent	**-1,649.2**	**-1,123.5**	**-46.8**
Earnings per share (in €), undiluted	-9.76	-6.84	-42.7

Financial Position

Reconciliation of cash flow
Net cash flow from operating activities increased by €542.3 million year-on-year to €2,427.1 million, equivalent to 12.1% of sales (PY: 7.8%).

Free cash flow for the 2009 fiscal year stood at €1,640.3 million (PY: €628.5 million), representing an increase of €1,011.8 million over the previous year.

A decrease in working capital, which increased cash flow by €301.1 million compared to 2008, had a positive effect. This decrease in working capital, which has an effect on cash and cash equivalents, resulted primarily from the reduction of inventories compared with the previous year in the amount of €627.2 million as well as an increase in operating liabilities in the amount of €631.4 million. This was counteracted by a €957.5 million increase in operating receivables which has an effect on cash and cash equivalents. The refund of cumulative pension payments since mid 2006 amounting to €112.1 million from the related Contractual Trust Arrangements (CTA) existing for several subsidiaries had a positive effect on free cash flow, as did the purchase of ContiTech AG shares by Continental Pension Trust e.V. in the amount of 24.9% at a purchase price of €475.6 million. In this context, the status of the relevant CTAs' assets as qualifying plan assets was surrendered, leading to a further increase in free cash flow in the amount of €95.1 million.

In particular, interest payments totaling €757.2 million (PY: €598.5 million) resulting from the purchase price financing for the acquisition of Siemens VDO had a negative impact. Free cash flow was also impacted negatively by the squeeze-out compensation paid to minority shareholders of ContiTech AG on February 16, 2009, amounting to €37.2 million and by the acquisition of the remaining shares in the tire and conveyor belt business of the Matador Group as at July 1, 2009, in the amount of €46.8 million.

Total cash outflows amounting to €786.8 million (PY: €1,256.3 million) resulted from investment activities. Capital expenditure on property, plant, and equipment, and software in the amount of €859.4 million (PY: €1,595.2 million) led to a €735.8 million decrease in cash outflows as compared to 2008. The cash inflow from the sale of subsidiaries and business units was €206.2 million lower than in the previous year. The key reason for this decrease was that in 2009 there were no effects comparable to the sale of electric motors activities to the Brose Group in 2008, which led to cash inflows of €230.0 million. The sale of the associate Hyundai Autonet Co., Ltd. to Hyundai Mobis Co., Ltd. in June 2009 led to a cash inflow in the amount of €126.6 million.

Net indebtedness decreased by €1,588.0 million to €8,895.5 million as compared with €10,483.5 million at year-end 2008. At 219.0%, the gearing ratio is thus higher than the previous year's level (PY: 189.6%) despite the reduction in net indebtedness due to reduced equity in comparison to the end of the previous year. The decrease in net indebtedness is attributable to the very positive free cash flow in 2009. As already described, the main effects in 2009 included the decrease in working capital, the proceeds from the sale of the associate Hyundai Autonet Co., Ltd., and the measures regarding the Contractual Trust Arrangements (CTA) existing for several subsidiaries. The latter resulted in a positive effect totaling €682.8 million.

Capital expenditure (additions)
Additions to property, plant, and equipment, and software amounted to €860.1 million in 2009, including €0.7 million for capitalizing borrowing costs. Overall, there was a significant decrease of €735.1 million as against the previous year's level of €1,595.2 million, with all divisions contributing to this reduction. Capital expenditure amounted to 4.3% (PY: 6.6%) of sales.

Indebtedness
Gross indebtedness amounted to €10,712.5 million at the end of 2009 (PY: €12,117.3 million), a year-on-year decrease of €1,404.8 million.

The change in the total volume of bonds from €70.0 million at the end of 2008 to €5.2 million at the end of 2009 is attributable firstly to the repayment of the Continental Rubber of America bond due in the third quarter of 2009 in a nominal amount of €70.0 million, and secondly to the bonds assumed as a result of the acquisition of Compañía Ecuatoriana del Caucho S.A. (ERCO).

Liabilities to banks were €10,096.3 million on December 31, 2009, €1,303.0 million below the level of the previous year (€11,399.3 million). The VDO loan was utilized on December 31, 2009, by Continental AG and by Continental Rubber of America, Corp. (CRoA), Wilmington, U.S.A., and was valued at a total of €9,180.1

in € millions	Dec. 31, 2009	Dec. 31, 2008
Cash provided by operating activities	2,427.1	1,884.8
Cash used for investing activities	-786.8	-1,256.3
Cash flow before financing activities (free cash flow)	**1,640.3**	**628.5**
Dividends paid	—	-323.4
Dividends paid and repayment of capital to minority interests	-33.0	-43.9
Proceeds from the issuance of shares	—	1.0
Non-cash changes	-42.4	118.4
Other	14.1	18.0
Foreign exchange effects	9.0	-25.7
Change in net indebtedness	**1,588.0**	**372.9**

million (PY: €10,162.7 million) on the reporting date for 2009. For tranche C, due in August 2012, there were interest hedges at the end of 2009 amounting to €3,125.0 million. The resulting average fixed interest rate to be paid is 4.19% plus margin. With the repayment of tranche A due in August 2009 (nominal amount of €800.0 million), the total committed amount decreased from €11.8 billion to €11.0 billion. Due in particular to the higher expected cash flows for this loan as a result of rising margins, the carrying amount was adjusted as expense in September and December 2009. At the end of 2009, the value of these adjustments totaled €64.5 million. This deferral will be amortized over the term of the loan and reduces expenses accordingly.

For the loan issued by the European Investment Bank (EIB) for an original amount of €600.0 million, early partial repayments of €100.0 million each were undertaken in March and August 2009. The nominal amount of the EIB loan drawn thus decreased to €400.0 million at the end of 2009.

At €611.0 million, the various financial liabilities were down slightly by €37.0 million from €648.0 million in 2008. This is primarily due to reduced utilization of the factoring programs in comparison with the previous year. At €219.0 million, the figure at the end of 2009 was €32.0 million lower than the previous year's figure of €251.0 million. In addition, financial lease liabilities were down €22.2 million to €107.4 million (PY: €129.6 million). In contrast, the market value of the derivatives increased slightly from €199.5 million at December 31, 2008, to €205.1 million, and the volume of commercial papers issued, at €73.4 million, exceeded the previous year's level by €8.8 million (PY: €64.6 million).

At €1,817.0 million (PY: €1,633.8 million), cash and cash equivalents, derivative instruments and interest-bearing investments were up by €183.2 million.

Net indebtedness decreased by €1,588.0 million to €8,895.5 million as compared with €10,483.5 million at year-end 2008.

Effective indebtedness, i.e., including contingent liabilities on notes, was down €1,581.2 million to €8,909.2 million (PY: €10,490.4 million).

Financing

Due to the continuing deterioration of the economic situation in the final months of 2008, the need to adjust selected contractual terms for the VDO loan became apparent for the first time. Therefore, in December 2008, Continental proactively presented the banks with a concept to adjust the contractual terms to the changed economic environment. Almost all the banks involved agreed to Continental's proposals in January 2009. The renegotiations primarily resulted in the agreement of greater flexibility to be granted until the end of 2010 with regard to the ratio of net indebtedness to EBITDA and the increase in the margins in comparison to the previous conditions. In view of the changed situation for the company, modifications to the company's other obligations were also made in the agreement. Restrictions regarding future dividend payments were also agreed.

Although Continental reacted well to the effects of the global crisis and, in particular, succeeded in creating and maintaining liquidity, a further need for adjustment of the financial covenants associated with the VDO loan emerged at the end of 2009. The result of the renegotiations for the VDO loan, that were concluded successfully

in December 2009, is an agreement on increased flexibility with regard to the ratio of net indebtedness to EBITDA and the ratio of EBITDA to net interest income. In addition, a further margin increase in comparison to the previous conditions and a further reduction of the scope for dividend payments for the fiscal years 2009 and 2010 were agreed. The adjusted financial covenants also stipulate for the first time a limitation of the annual investment volume and the provision of an extensive collateral package by various companies in the Continental Corporation. The credit lines in the amount of €11.0 billion at year-end 2009, the breakdown and maturities of the individual tranches and their term from August 2010 to August 2012 are not affected by these modifications.

Another component of the refinancing package successfully concluded in December 2009 with the goal of improving the financial and capital structure was the agreement to refinance tranche B amounting to €3.5 billion that is due in August 2010 under the VDO loan agreement. The banks committed bindingly to a forward start facility (FSF) with a volume of €2.5 billion for this purpose. However, utilization of this facility was tied to a capital increase to be carried out by August 2010 with gross proceeds of at least €1.0 billion. In January 2010, the next step of the refinancing plan took place: a capital increase which met with great interest on the market. The net proceeds it generated in the amount of approximately €1.05 billion are to be used to repay tranche B. The key elements of the extensive refinancing plan have thus been very successfully implemented. With regard to optimizing the maturities profile and diversifying financial resources, Continental intends to examine further measures on the financial market and implement them if needed.

Renegotiations were concluded in November 2009 with the European Investment Bank (EIB) regarding the framework conditions for the loan it granted in the original amount of €600.0 million. These specify modifications to the level of the margins and the scope of collateralization of the loan, with both these aspects being tied to the rating of Continental AG. In addition to the partial repayments described above in the amount of €200.0 million in 2009, a further repayment of €100.0 million was made in January 2010.

As of December 31, 2009, Continental had liquidity of more than €3.9 billion in cash, cash equivalents and unutilized, committed credit lines.

In 2009, the agreed financial covenants were complied with as of the respective quarterly balance sheet date.

On average, based on quarter-end values, 36.4% of gross debt after hedging measures had fixed interest rates over the year.

Net Assets Position

Total assets

At €23,049.2 million (PY: €24,687.9 million), total assets were down €1,638.7 million, mainly due to the goodwill impairment, the decrease in inventories and the amortization of intangible assets, particularly from PPA.

Non-current assets

Non-current assets fell by €1,623.8 million to €14,724.6 million (PY: €16,348.4 million). This decrease is primarily a result of goodwill impairment of €875.8 million (PY: €1,230.0 million) and the amortization of intangible assets from PPA. At €5,536.6 million, goodwill was down €847.5 million from €6,384.1 million in 2008. This goodwill impairment was counteracted by positive currency exchange effects and additions to the companies consolidated. Other intangible assets fell by €454.0 million to €2,068.7 million (PY: €2,522.7 million). At €5,784.3 million, property, plant, and equipment was down €337.9 million from €6,122.2 million. The deferred tax assets included in other non-current assets increased by €337.6 million to €728.9 million (PY: €391.3 million). This is particularly due to the capitalization of loss carryforwards, also in connection with the limitation of interest deduction, tax step-ups in Germany and temporary losses at some foreign units.

Current assets

Current assets fell by €14.9 million to €8,324.6 million (PY: €8,339.5 million). The decline in inventories was counteracted in particular by increases in trade accounts receivable and cash and cash equivalents. Trade accounts receivable rose €360.6 million to €3,648.1 million (PY: €3,287.5 million). This was mainly due to increasing sales at the end of 2009 as compared to the same month of the previous year. Cash and cash equivalents increased by €143.4 million to €1,712.8 million (PY: 1,569.4 million), particularly due to working capital management and an associated decrease in inventories as well as inflows from operating business. Other current assets showed no material changes from the previous year.

Total equity

At €4,061.7 million, total equity was down €1,468.2 million from €5,529.9 million in the previous year. This decline was caused chiefly by the negative net income attributable to the shareholders of the parent totaling €1,649.2 million. This was counteracted by exchange rate effects of €138.4 million and contributions of shareholders of €23.7 million.

Non-current liabilities

At €7,897.1 million, non-current liabilities were down by €3,413.2 million from €11,310.3 million in the previous year. The non-current financial liabilities this includes decreased by €3,800.6 million to €5,967.7 million (PY: €9,768.3 million), particularly as a result of the reclassification of tranche B of the VDO loan due in August 2010 in a nominal amount of €3,500.0 million from non-current to current financial liabilities. In the context of temporary losses at some foreign units, deferred taxes decreased by €205.2 million to €196.5 million (PY: €401.7 million). This is counteracted by the increase in pension provisions by a total of €675.3 million from €669.7 million to €1,345.0 million, in particular from asset reclassification and restructuring within individual CTAs in Germany. Please also see the remarks under the “Financial Position” section.

Current liabilities

At €11,090.4 million, current liabilities increased by €3,242.7 million from €7,847.7 million in the previous year, mainly due to the reclassification of non-current financial liabilities. Trade accounts payable were up €349.7 million to €2,819.5 million (PY: €2,469.8 million) due to increased production volumes at the end of the year and optimized working capital management. The material changes in other current provisions and liabilities result from the increase in current provisions for other risks by €316.6 million to €1,342.9 million (PY: €1,026.3 million), particularly due to restructuring measures initiated, as well as the increase in current financial liabilities by €2,395.8 million to €4,744.8 million (PY: €2,349.0 million). This is chiefly attributable to the reclassification of non-current financial liabilities owing to their maturity in 2010, which is counteracted by repayments using cash and cash equivalents, including repayment of tranche A of the VDO loan in August 2009 (nominal amount of €800.0 million).

Consolidated balance sheets

Assets in € millions	Dec. 31, 2009	Dec. 31, 2008
Goodwill	5,536.6	6,384.1
Other intangible assets	2,068.7	2,522.7
Property, plant, and equipment	5,784.3	6,122.2
Investments in associates	398.0	718.3
Other long-term assets	937.0	601.1
Non-current assets	**14,724.6**	**16,348.4**
Inventories	2,076.0	2,570.5
Trade accounts receivable	3,648.1	3,287.5
Other short-term assets	887.7	912.1
Cash and cash equivalents	1,712.8	1,569.4
Current assets	**8,324.6**	**8,339.5**
Total assets	**23,049.2**	**24,687.9**

Total equity and liabilities in € millions	Dec. 31, 2009	Dec. 31, 2008
Total equity	**4,061.7**	**5,529.9**
Non-current liabilities	**7,897.1**	**11,310.3**
Trade accounts payable	2,819.5	2,469.8
Other short-term provisions and liabilities	8,270.9	5,377.9
Current liabilities	**11,090.4**	**7,847.7**
Total equity and liabilities	**23,049.2**	**24,687.9**
Net indebtedness	**8,895.5**	**10,483.5**
Gearing ratio in %	**219.0**	**189.6**

Operating assets

In comparison to the end of the previous fiscal year, operating assets decreased significantly at the corporate level, falling €2,703.4 million from €17,286.1 million at the end of 2008 to €14,582.7 million on December 31, 2009. The key factors behind this decrease were the impairment of €875.8 million, in particular on goodwill capitalized as part of the Siemens VDO acquisition, as well as scheduled and unscheduled amortization of intangible assets from PPA in the amount of €455.2 million. The sale of the associate Hyundai Autonet Co., Ltd. to Hyundai Mobis Co., Ltd. in June 2009 together with related impairment losses led to a decrease in operating assets of €200.2 million. The majority acquisition of the previously associated company Compañía Ecuatoriana del Caucho (ERCO) headquartered in Cuenca, Ecuador, led to the addition of €49.4 million to operating assets at the time of acquisition. There were smaller additions, particularly from the purchase of the companies Kolubara Univerzal D.O.O., Serbia, and Eu-Retec (Private) Ltd., Sri Lanka, and from the majority acquisition of the company Synerject LLC, U.S.A.

Total non-current assets within the operating assets amounted to €13,846.5 million, down €1,977.5 million from the previous year. This decrease resulted primarily from goodwill, which fell by €847.5 million to €5,536.6 million, from other intangible assets, which fell by €454.0 million to €2,068.7 million, and from property, plant, and equipment, which fell by €337.9 million to €5,784.3 million. In addition to the decrease in operating assets from the sale of Hyundai Autonet Co., Ltd. as described above, the decrease in the associated companies item by €320.3 million to €398.0 million also includes two impairments of €43.6 million and €2.0 million carried out as part of the anticipated disposal of two associated companies.

At the end of the year, working capital amounted to €2,918.3 million. Inventories amount to €2,076.0 million (PY: €2,570.5 million) and operating receivables to €3,661.8 million (PY: €3,294.4 million). Operating liabilities amounted to €2,819.5 million (PY: €2,469.8 million).

Exchange rate effects increased the corporation's total operating assets by €167.3 million in the fiscal year (PY: -€170.2 million).

The average operating assets decreased by €3,092.9 million to €16,024.1 million as compared with fiscal 2008 (€19,117.0 million).

Employees

The workforce of the Continental Corporation fell by 4,721 employees from 139,155 in 2008 to 134,434. Due to the decline in volume, further restructuring measures and portfolio streamlining were undertaken in the Automotive Group, which led to further reductions of the workforce. Staff was reduced in the Tire divisions as a result of capacity adjustments. At the same time, the first consolidation of ERCO (Passenger and Light Truck Tires and Commercial Vehicle Tires) led to an increase of 1,024 employees. At ContiTech, rationalization and order declines led to decreases in the workforce, with increases resulting from the expansion of certain business units, particularly Fluid Technology and the Conveyor Belt Group.

Employees by region in %	2009	2008
Germany	33	33
Europe excluding Germany	33	33
NAFTA	14	16
Asia	14	13
Other countries	6	5

Key Figures for the Automotive Group

Automotive Group in € millions	**2009**	**2008**	**Δ in %**
Sales	12,042.4	14,900.0	-19.2
EBITDA	608.9	1,428.8	-57.4
in % of sales	5.1	9.6	
EBIT	-1,561.6	-1,205.8	-29.5
in % of sales	-13.0	-8.1	
Research and development expenses	1,144.3	1,276.2	-10.3
in % of sales	9.5	8.6	
Depreciation and amortization[1]	2,170.5	2,634.6	-17.6
thereof impairment	949.0	1,327.5	-28.5
Operating assets (at December 31)	11,119.5	13,151.4	-15.5
EBIT in % of operating assets (at December 31)	-14.0	-9.2	
Operating assets (average)	12,015.9	14,734.3	-18.4
EBIT in % of operating assets (average)	-13.0	-8.2	
Capital expenditure[2]	538.1	1,095.6	-50.9
in % of sales	4.5	7.4	
Number of employees at the end of the year[3]	78,030	82,737	-5.7
Adjusted sales[4]	11,996.5	14,480.2	-17.2
Adjusted operating result (adjusted EBIT)[5]	192.0	824.6	-76.7
in % of adjusted sales	1.6	5.7	

[1] Excluding write-downs of investments.

[2] Capital expenditure on property, plant, equipment and software.

[3] Excluding trainees.

[4] Before changes in the scope of consolidation.

[5] Before amortization of intangible assets from PPA, changes in the scope of consolidation, and special effects.

Development in the Divisions: Chassis & Safety

- Sales down 14.8%
- Sales down 15.4% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT down 31.0%

Sales volume
Sales volumes in the Electronic Brake Systems business unit fell 11.8% to 12.7 million units in 2009 compared to 2008.

In the Hydraulic Brake Systems business unit, sales of brake boosters fell by 8.3% year-on-year to 11.9 million units. Sales of brake calipers in 2009 dropped by 17.7% year-on-year to 24.9 million units.

In our Passive Safety & Advanced Driver Assistance Systems business unit, sales of air bag control units were down by 11.4% to 11.5 million units compared with the previous year. In contrast, sales of driver assistance systems were up to 595,000 units, an increase of 99.0% in comparison to 2008.

Sales down 14.8%;
Sales down 15.4% before changes in the scope of consolidation and exchange rate effects
Sales of the Chassis & Safety division fell by 14.8% to €4,373.6 million in 2009 compared with 2008 (PY: €5,134.0 million). Before changes in the scope of consolidation and exchange rate effects, sales decreased by 15.4%, due primarily to significant production declines in North America and Europe.

Adjusted EBIT down 31.0%
The Chassis & Safety division's adjusted EBIT was down in 2009 compared with 2008 by €158.6 million, or 31.0%, to €353.4 million (PY: €512.0 million), equivalent to 8.1% (PY: 10.0%) of adjusted sales.

EBIT down 133.8%
Compared with the previous year, the Chassis & Safety division reported a decrease in EBIT of €405.6 million in 2009, or 133.8%, to -€102.5 million (PY: €303.1 million) in 2009. The return on sales fell to -2.3% (PY: 5.9%).

The amortization of intangible assets from PPA reduced EBIT by €53.0 million (PY: €52.5 million).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to -2.5% (PY: 6.7%).

Special effects in 2009
In the third quarter of 2009, the impairment test on goodwill, which was conducted in response to a triggering event, led to an impairment requirement of €367.0 million in the Chassis & Safety division.

In the Chassis & Safety division in particular, unutilized provisions for severance payments of €1.5 million were reversed in 2009 as part of the winding up of restructuring activities at the plant in Dortmund, Germany, since parts of the production could be transferred to the Interior division.

Due to declining volumes and expiring customer orders, production capacity at the plant in Karben, Germany, had to be adjusted. This resulted in restructuring expenses of €10.6 million in the Chassis & Safety division.

Production at the plant in Hiroshima, Japan, is to be relocated to Changshu, China. This resulted in restructuring expenses of €2.9 million in the Chassis & Safety division.

In 2009, the Chassis & Safety division incurred further expenses totaling €1.1 million, primarily from restructuring measures.

Smaller impairment losses of €1.4 million were recognized on property, plant, and equipment in the Chassis & Safety division.

The cost-cutting program initiated worldwide in response to the economic crisis led to expenses for severance payments of €21.4 million in the Chassis & Safety division.

For the Chassis & Safety division, the total net expense from special effects amounted to €402.9 million in 2009. Adjusted for goodwill impairment of €367.0 million, special effects impacted the Chassis & Safety division by a total of €35.9 million.

Special effects in 2008

The annual impairment test on goodwill led to an impairment requirement of €145.2 million for the Chassis & Safety division in the 2008 reporting period.

The relocation of production capacity from our Ebbw Vale plant in the UK to the plant in Zvolen, Slovakia, that began in 2006 led to a further impairment of €0.5 million in the Chassis & Safety division in 2008.

A write-down of the carrying amount of a joint venture of the Chassis & Safety division on the expected liquidation proceeds led to an impairment of €2.4 million.

The sensors business of the Chassis & Safety and Powertrain divisions at the Dortmund location in Germany will be closed due to reductions in volume and a lack of follow-up orders. This led to restructuring expenses in the Chassis & Safety division in the amount of €6.3 million in 2008.

Due to the transfer of R&D activities of the Chassis & Safety and Powertrain divisions at the Elkhart site in the U.S.A., restructuring expenses of €3.6 million were incurred by the Chassis & Safety division in 2008.

Various smaller impairments in the amount of €3.8 million were incurred in the Chassis & Safety division.

In 2008, the total adverse impact of special effects on the Chassis & Safety division amounted to €161.8 million. Adjusted for goodwill impairment of €145.2 million, special effects impacted the Chassis & Safety division by a total of €16.6 million.

Procurement

The sharp drop in demand for raw materials led to an improvement in the first half of 2009 in the prices we paid to our suppliers. At the same time, the decrease in volume in the first two quarters led to unutilized capacities and thus financial difficulties or insolvencies for some suppliers.

The purchasing volume for production materials of the Chassis & Safety division comprises 27% electronics, 21% electromechanics and 52% mechanics.

Research and development

Research and development expenses decreased by €42.8 million or 10.1% year-on-year to €380.8 million (PY: €423.6 million), or 8.7% (PY: 8.3%) of sales.

Depreciation and amortization

Total depreciation and amortization increased by €217.3 million compared with 2008 to €704.1 million (PY: €486.8 million), corresponding to 16.1% (PY: 9.5%) of sales. This included impairment losses totaling €370.4 million (PY: €150.6 million) in 2009.

Operating assets

Operating assets in the Chassis & Safety division amounted to €3,824.9 million, a €483.4 million decrease in comparison with the end of 2008 (PY: €4,308.3 million).

Non-current assets totaled €3,846.3 million (PY: €4,331.2 million), of which goodwill accounted for €2,299.5 million (PY: €2,665.5 million), intangible assets for €265.4 million (PY: €321.6 million) and property, plant, and equipment for €1,196.1 million (PY: €1,251.2 million). In the Chassis & Safety division, there were losses of €367.0 million from goodwill impairment in fiscal 2009, as well as €53.0 million from scheduled amortization of intangible assets from PPA. Current liabilities increased by €205.8 million to €1,059.5 million in comparison with the end of 2008.

At €375.5 million, working capital remained virtually unchanged against year-end 2008 (€376.4 million). Inventories amounted to €253.6 million (PY: €288.2 million), operating receivables €762.8 million (PY: €556.3 million) and operating liabilities €640.9 million (PY: €468.1 million).

Exchange rate effects increased total operating assets in the Chassis & Safety division by €18.0 million (PY: €6.1 million).

The average operating assets decreased by €460.4 million to €4,034.0 million as compared with fiscal 2008 (€4,494.4 million).

Chassis & Safety in € millions	2009	2008	Δ in %
Sales	4,373.6	5,134.0	-14.8
EBITDA	601.6	789.9	-23.8
in % of sales	13.8	15.4	
EBIT	-102.5	303.1	-133.8
in % of sales	-2.3	5.9	
Research and development expenses	380.8	423.6	-10.1
in % of sales	8.7	8.3	
Depreciation and amortization[1]	704.1	486.8	44.6
thereof impairment	370.4	150.6	145.9
Operating assets (at December 31)	3,824.9	4,308.3	-11.2
EBIT in % of operating assets (at December 31)	-2.7	7.0	
Operating assets (average)	4,034.0	4,494.4	-10.2
EBIT in % of operating assets (average)	-2.5	6.7	
Capital expenditure[2]	159.5	336.0	-52.5
in % of sales	3.6	6.5	
Number of employees at the end of the year[3]	27,148	26,680	1.8
Adjusted sales[4]	4,373.6	5,132.5	-14.8
Adjusted operating result (adjusted EBIT)[5]	353.4	512.0	-31.0
in % of adjusted sales	8.1	10.0	

[1] Excluding write-downs of investments.

[2] Capital expenditure on property, plant, equipment and software.

[3] Excluding trainees.

[4] Before changes in the scope of consolidation.

[5] Before amortization of intangible assets from PPA, changes in the scope of consolidation, and special effects.

Capital expenditure (additions)

Additions to the Chassis & Safety division decreased by €176.5 million year-on-year to €159.5 million (PY: €336.0 million). Capital expenditure amounted to 3.6% (PY: 6.5%) of sales.

Production capacities in all business units were systematically expanded for new products and production technologies. Investments were made in the expansion of a new plant in Changshu, China.

Employees

The number of employees in the Chassis & Safety division increased by 468 compared with the previous year to 27,148 (PY: 26,680). In all business units, job vacancies were not refilled and adjustment measures were implemented in response to the volume decrease. The growth is primarily attributable to the fact that capacities were expanded in best cost countries. In addition, capacities in CES (engineering services) were increased and 167 positions were reallocated to the Chassis & Safety division due to changes in the scope of consolidation. For production reasons, the number of temporary workers increased towards the end of 2009 as compared with the previous year.

Development in the Divisions: Powertrain

- Sales down 15.9%
- Sales down 10.8% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT down 15.4%

Sales volume
In the first half of 2009, the economic situation, especially in Europe and North America, led to sales volumes 20% to 40% below the levels in the first half of 2008. In North America, the situation was aggravated further by the production stop at Chrysler in May and June. The Engine Systems business unit was hit hardest by the severe slump in North America. Initial signs of an economic recovery meant sales levels in the third quarter were only slightly below the previous year's level. In the fourth quarter, the trend reversal caused sales to increase by 30% year-on-year.

Sales down 15.9%;
Sales down 10.8% before changes in the scope of consolidation and exchange rate effects
Sales of the Powertrain division fell by 15.9% to €3,399.2 million in 2009 compared with 2008 (€4,040.0 million). Before changes in the scope of consolidation and exchange rate effects, sales decreased by 10.8%, primarily as a result of volume declines.

Adjusted EBIT down 15.4%
The Powertrain division's adjusted EBIT was down in 2009 compared with 2008 by €29.1 million, or 15.4%, to -€218.0 million (PY: -€188.9 million), equivalent to -6.5% (PY: -5.0%) of adjusted sales.

EBIT up 9.8%
Compared with the previous year, the Powertrain division reported an increase in EBIT of €103.0 million, or 9.8%, to -€943.2 million (PY: -€1,046.2 million) in 2009. The return on sales fell to -27.7% (PY: -25.9%).

The amortization of intangible assets from PPA reduced EBIT by €175.3 million (PY: €195.9 million).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to -27.7% (PY: -22.7%).

Special effects in 2009
In the third quarter of 2009, the impairment test on goodwill, which was conducted in response to a triggering event, led to an impairment requirement of €447.4 million in the Powertrain division.

The plant in Huntsville, U.S.A., is to be closed at the end of 2010. This decision was based upon the persistent unfavorable situation in the U.S. market as well as the overcapacities in production, research and development in North America. By closing Huntsville and consolidating production capacities as well as concentrating research and development activities, we expect to optimize regional production and reduce costs significantly. In 2009, the Powertrain division incurred restructuring expenses of €25.1 million.

In this same context, a decision was made to move the activities of several business units of the Powertrain division from the Deer Park, U.S.A., location to other locations. This led to restructuring expenses of €3.5 million.

Due to the withdrawal of a customer order for the development and production of diesel injection systems at the U.S. plant in Blythewood, restructuring measures had to be introduced, which led to expenses in the amount of €44.7 million. This primarily relates to special write-downs on production lines and the settlement of supplier claims.

The plant in Blythewood, U.S.A., results from a joint venture with a U.S. engine manufacturer, which is also the plant's main customer. Due to declining capacity utilization, a decision was made at the end of 2008 to close the plant and to relocate production to Newport News, U.S.A. Continental had filed for damages for underutilization against the joint venture partner. As part of an agreement, the entire plant including the associated production was transferred to the joint venture partner instead of a relocation. This sale generated a

gain of €10.5 million for the Powertrain division, taking into account all reciprocal claims and interests.

The relocation of the production remaining with Continental and the research and development activities to Newport News, U.S.A., resulted in further restructuring expenses in the amount of €4.2 million for the Powertrain division.

In the Powertrain division in particular, unutilized provisions for severance payments of €3.8 million were reversed in 2009 as part of winding up restructuring activities at the plant in Dortmund, Germany, since parts of the production could be transferred to the Interior division.

Due to declining volumes and expiring customer orders, production capacity at the plant in Karben, Germany, had to be adjusted. This resulted in restructuring expenses of €2.9 million in the Powertrain division.

The research and development location in Neubiberg, Germany, is to be closed. This led to restructuring expenses of €0.8 million in the Powertrain division.

In 2009, the Powertrain division incurred further expenses totaling €17.3 million, primarily from restructuring measures.

Various smaller impairments in the amount of €2.4 million were incurred in the Powertrain division.

The cost-cutting program initiated worldwide in response to the economic crisis led to expenses for severance payments of €14.1 million in the Powertrain division.

For the Powertrain division, the total net expense from special effects in 2009 amounted to €548.1 million. Adjusted for goodwill impairment of €447.4 million, special effects impacted the Powertrain division by a total of €100.7 million.

Special effects in 2008

The annual impairment test on goodwill led to an impairment requirement of €609.6 million for the Powertrain division.

The impairment test on customer relationships in other intangible assets led to an impairment requirement of €21.7 million for one of the Powertrain division's customers.

Due to the winding-up of restructuring activities related to the automotive electronics business acquired from Motorola, there was a positive EBIT effect of €0.2 million for the Powertrain division in the reporting period resulting from net restructuring expenses and from the reversal of unutilized provisions. This was more than offset by expenses of €4.1 million from the ongoing integration of the automotive electronics business acquired from Motorola.

Production at the Birmingham, U.K., location was closed down. Restructuring expenses of €3.8 million resulted from the relocation of the fuel supply business in the Powertrain division to Dortmund, Germany, and Brandys, Czech Republic.

The sensors business of the Chassis & Safety and Powertrain divisions at the Dortmund location in Germany will be closed due to reductions in volume and a lack of follow-up orders. This led to restructuring expenses in the Powertrain division in the amount of €9.3 million in the period under review.

Due to the transfer of R&D activities of the Chassis & Safety and Powertrain divisions, restructuring expenses of €2.6 million were incurred at the Elkhart site in the U.S.A. for the Powertrain division in the period under review.

The electric motors activities were sold – primarily under an asset deal – to the Brose Group with effect from April 1, 2008. This sale generated an overall gain of €2.0 million for the Powertrain division.

The Powertrain division's plant in Asnière, France, was closed down, resulting in restructuring expenses of €18.8 million.

The production of diesel injection systems at the plant in Blythewood, U.S.A., and the research and development activities at the plant in Columbia, U.S.A., will both be relocated to Newport News, U.S.A. This resulted in restructuring expenses of €10.5 million.

Powertrain in € millions	2009	2008	Δ in %
Sales	3,399.2	4,040.0	-15.9
EBITDA	-13.3	81.6	-116.3
in % of sales	-0.4	2.0	
EBIT	-943.2	-1,046.2	9.8
in % of sales	-27.7	-25.9	
Research and development expenses	328.8	420.1	-21.7
in % of sales	9.7	10.4	
Depreciation and amortization[1]	929.9	1,127.8	-17.5
thereof impairment	488.0	653.3	-25.3
Operating assets (at December 31)	3,034.2	3,839.7	-21.0
EBIT in % of operating assets (at December 31)	-31.1	-27.2	
Operating assets (average)	3,401.8	4,610.8	-26.2
EBIT in % of operating assets (average)	-27.7	-22.7	
Capital expenditure[2]	247.2	494.4	-50.0
in % of sales	7.3	12.2	
Number of employees at the end of the year[3]	24,172	25,244	-4.2
Adjusted sales[4]	3,355.9	3,745.0	-10.4
Adjusted operating result (adjusted EBIT)[5]	-218.0	-188.9	-15.4
in % of adjusted sales	-6.5	-5.0	

[1] Excluding write-downs of investments.
[2] Capital expenditure on property, plant, equipment and software.
[3] Excluding trainees.
[4] Before changes in the scope of consolidation.
[5] Before amortization of intangible assets from PPA, changes in the scope of consolidation, and special effects.

At the end of 2008, an agreement was reached with the union representatives of hourly workers at the Newport News plant, U.S.A., to freeze retirement payments for medical care at the current level. This resulted in a positive effect on earnings of €10.2 million.

One automobile manufacturer canceled an order at short notice due to financing difficulties. The contractual partner was an important customer of Continental. This turn of events affected the new Powertrain plant in Costa Rica because the first production of engine and transmission control units had been planned for this initial contract at the end of 2008. Continental submitted a claim for damages against the customer, and the company subsequently applied for Chapter 11 insolvency protection in the U.S.A. Conversely, Continental also canceled existing contracts with its suppliers and was subsequently also faced with claims for damages. A final agreement, however, could be reached with these parties, mainly under which Continental agreed to acquire the product-specific tooling already in place. The related tooling was written off in full, given there was no other application. In total, expenses of €12.4 million were incurred to settle the claims.

Various smaller impairments in the amount of €0.5 million were incurred in the Powertrain division.

The total net expense from special effects in 2008 amounted to €680.9 million for the Powertrain division. Adjusted for goodwill impairment of €609.6 million and for customer relationship impairment of €21.7 million, there was an adverse impact of €49.6 million from special effects.

Procurement

Due to the decline in market demand, reference prices for steel and aluminum for suppliers gradually fell in the first half of the year. On the other hand, reduced demand and unutilized capacities led to financial difficulties or

insolvency for a number of suppliers. As part of the purchasing cooperation with the Schaeffler Group, conditions for steel prices were negotiated mutually for the first time in 2009.

The purchasing volume for production materials of the Powertrain division comprises 22% electronics, 23% electromechanics and 55% mechanics.

Research and development
Research and development expenses decreased by €91.3 million or 21.7% year-on-year to €328.8 million (PY: €420.1 million), or 9.7% (PY: 10.4%) of sales.

Depreciation and amortization
Total depreciation and amortization decreased by €197.9 million compared with fiscal 2008 to €929.9 million (PY: €1,127.8 million), corresponding to 27.4% (PY: 27.9%) of sales. This included impairment losses totaling €488.0 million (PY: €653.3 million) in 2009.

Operating assets
Operating assets in the Powertrain division amounted to €3,034.2 million, an €805.5 million decrease in comparison with the end of 2008 (PY: €3,839.7 million).

Non-current assets totaled €3,230.7 million (PY: €3,972.7 million), of which goodwill accounted for €976.0 million (PY: €1,402.6 million), intangible assets for €726.6 million (PY: €897.6 million) and property, plant, and equipment for €1,400.9 million (PY: €1,520.8 million). In the Powertrain division, there were losses of €447.4 million from goodwill impairment in fiscal 2009, as well as €175.3 million from scheduled amortization of intangible assets from PPA.

Working capital decreased by a total of €117.9 million to €224.5 million (PY: €342.4 million) at the end of the year. Inventories amounted to €209.4 million (PY: €278.7 million) and operating receivables to €611.2 million (PY: €575.3 million). Operating liabilities amounted to €596.1 million (PY: €511.6 million).

Exchange rate effects increased total operating assets in the Powertrain division by €6.8 million in the fiscal year (PY: -€4.8 million).

The average operating assets decreased by €1,209.0 million to €3,401.8 million as compared with fiscal 2008 (€4,610.8 million).

Capital expenditure (additions)
Additions to the Powertrain division decreased by €247.2 million to €247.2 million (PY: €494.4 million). Capital expenditure amounted to 7.3% (PY: 12.2%) of sales.

In the Engine Systems business unit, manufacturing capacity for engine injection systems was expanded in response to continued demand. Investments were made in the development of a new plant in Amata City, Thailand.

The Transmission business unit expanded its production of transmission control units.

Employees
The number of employees in the Powertrain division decreased by 1,072 compared with the previous year to 24,172 (PY: 25,244). In line with sales declines, the number of employees in the Engine Systems and Transmission business units decreased by 841 and in Fuel Supply by 484. The Hybrid Electric Vehicle unit added 237 staff due to new projects.

Development in the Divisions: Interior

- Sales down 25.5%
- Sales down 23.1% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT down 88.8%

Sales volume

In 2009, sales volumes for access control systems and body electronics in the Body & Security business unit fell to 47.5 million units, down 17.7% year-on-year.

In the Instrumentation & Driver HMI business unit, sales of instrument clusters fell by 9.2% year-on-year to 14.7 million units in 2009.

The dramatic downturn on the commercial vehicle market significantly reduced the sales of digital tachographs in the Commercial Vehicles & Aftermarket business unit by 53.8% year-on-year to 220,600 units.

In the Infotainment and Connectivity business unit, volume increases from new projects did not offset the sales downturn in most current projects, meaning an overall sales decrease in multimedia systems and wireless connectivity of 3.4% to 4.8 million units was recorded.

Sales down 25.5%;
Sales down 23.1% before changes in the scope of consolidation and exchange rate effects

Sales of the Interior division fell by 25.5% to €4,362.7 million in 2009 compared with 2008 (PY: €5,856.7 million). Before changes in the scope of consolidation and exchange rate effects, sales dropped by 23.1%, primarily as a result of reductions in global production of cars and commercial vehicles.

Adjusted EBIT down 88.8%

The Interior division's adjusted EBIT was down in 2009 compared with 2008 by €445.2 million, or 88.8%, to €56.4 million (PY: €501.6 million), equivalent to 1.3% (PY: 8.8%) of adjusted sales.

EBIT down 11.5%

Compared with the previous year, the Interior division reported a decrease in EBIT of €53.4 million, or 11.5%, to -€516.0 million (PY: -€462.6 million). The return on sales fell to -11.8% (PY: -7.9%).

The amortization of intangible assets from PPA reduced EBIT by €212.3 million in 2009 (PY: €251.2 million).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to -11.3% (PY: -8.2%).

Special effects in 2009

In the third quarter of 2009, the impairment test on goodwill, which was conducted in response to a triggering event, led to an impairment requirement of €61.4 million in the Interior division.

The associate Hyundai Autonet Co. Ltd., Kyoungki-do, South Korea, of the Interior division was sold at a price of €126.6 million. The transaction resulted in recognition of impairment losses in the amount of €73.6 million.

In view of a probable disposal of two associated companies, impairment losses in the amounts of €43.6 million and €2.0 million were recognized in the Interior division.

As of October 31, 2009, the Public Transport Solutions business from the non-OE area was sold to the Trapeze ITS Group – predominantly as part of an asset deal – for a provisional negative purchase price of €11.7 million, stemming primarily from a decrease in working capital from the signing date to the closing date. The final purchase price determination is likely to be concluded in the second quarter of 2010. This sale resulted in expenses totaling €4.5 million for the Interior division in 2009.

The research and development location in Neubiberg, Germany, is to be closed. This led to restructuring expenses of €8.0 million in the Interior division.

The plant in Huntsville, U.S.A., is to be closed at the end of 2010. This decision was based upon the persistent unfavorable situation in the U.S. market as well as the overcapacities in production, research and development in North America. By closing Huntsville and consolidating

production capacities as well as concentrating research and development activities, we expect to optimize regional production and reduce costs significantly. In 2009, the Interior division incurred restructuring expenses of €57.5 million.

In this same context, a decision was made to move the activities of several business units of the Interior division from the Deer Park, U.S.A., location to other locations. This led to restructuring expenses of €1.9 million.

At the plant in Wetzlar, Germany, there were additional restructuring expenses of €12.2 million for the Interior division in the period under review, driven by the expiration of research and development projects for which there are no follow-up orders.

As a result of the expiration of further customer orders and cost savings in the areas of research & development and administration, there were additional restructuring expenses of €31.4 million for the Interior division at the plant in Babenhausen, Germany, in the period under review.

Due to declining volumes and expiring customer orders, production capacity at the plant in Karben, Germany, had to be adjusted. This resulted in restructuring expenses of €18.4 million in the Interior division.

In 2009, the Interior division incurred further expenses totaling €7.0 million, primarily from restructuring measures.

Various smaller impairments totaling €5.9 million were incurred in 2009 in the Interior division.

The cost-cutting program initiated worldwide in response to the economic crisis led to expenses for severance payments of €26.4 million in the Interior division.

For the Interior division, the total net expense from special effects in 2009 amounted to €353.8 million. Adjusted for goodwill impairment of €61.4 million, special effects had an adverse impact totaling €292.4 million.

Special effects in 2008

The annual impairment test on goodwill led to an impairment requirement of €475.2 million for the Interior division.

The impairment test on customer relationships in other intangible assets led to an impairment requirement of €32.6 million for one of the Interior division's customers.

As part of winding up restructuring activities related to the automotive electronics business acquired from Motorola, there was a positive effect on EBIT of €4.1 million for the Interior division in the reporting period resulting from net restructuring expenses and from the reversal of unutilized provisions. This was partially offset by expenses of €1.9 million from the ongoing integration of the automotive electronics business acquired from Motorola.

At the plant in Wetzlar, Germany, production was shut down due to a lack of orders. Research and development activities are to remain in Wetzlar. This led to restructuring expenses of €26.1 million in 2008.

At the plant in Babenhausen, Germany, two customer contracts are expiring, and there are currently no successor products, which led to restructuring expenses of €40.7 million in 2008.

The product portfolio was reviewed in conjunction with the acquisition of Siemens VDO, and business sections in the non-OE sector were identified that are not part of our core business. The sale process was initiated for one of these business sections and led to recognition of impairment losses in the amount of €46.9 million.

Production at the plant in Rambouillet, France, is to be relocated. R&D activities as well as administration are to remain at the location. This led to restructuring expenses in the amount of €42.9 million in 2008.

Restructuring expenses of €4.4 million were incurred in 2008 for the research and development location in Munich, Germany.

The discontinuation of operations of the Interior division's Aftermarket Infotainment segment led to restructuring expenses in the amount of €9.4 million in 2008.

Interior in € millions	2009	2008	Δ in %
Sales	4,362.7	5,856.7	-25.5
EBITDA	20.4	557.3	-96.3
in % of sales	0.5	9.5	
EBIT	-516.0	-462.6	-11.5
in % of sales	-11.8	-7.9	
Research and development expenses	434.7	432.5	0.5
in % of sales	10.0	7.4	
Depreciation and amortization[1]	536.4	1,019.9	-47.4
thereof impairment	90.6	523.6	-82.7
Operating assets (at December 31)	4,260.3	5,003.4	-14.9
EBIT in % of operating assets (at December 31)	-12.1	-9.2	
Operating assets (average)	4,580.1	5,629.1	-18.6
EBIT in % of operating assets (average)	-11.3	-8.2	
Capital expenditure[2]	131.3	265.2	-50.5
in % of sales	3.0	4.5	
Number of employees at the end of the year[3]	26,710	30,813	-13.3
Adjusted sales[4]	4,360.1	5,717.5	-23.7
Adjusted operating result (adjusted EBIT)[5]	56.4	501.6	-88.8
in % of adjusted sales	1.3	8.8	

[1] Excluding write-downs of investments.
[2] Capital expenditure on property, plant, equipment and software.
[3] Excluding trainees.
[4] Before changes in the scope of consolidation.
[5] Before amortization of intangible assets from PPA, changes in the scope of consolidation, and special effects.

The sale of the parking systems business led to a gain of €6.2 million and restructuring expenses of €0.5 million in the Interior division.

Production at the Birmingham, U.K., location was closed down. Here the cockpit business of the Interior division was sold as of December 31, 2008. This led to income of €1.0 million. The company incurred restructuring expenses of €2.1 million in this context. The relocation of further business activities led to restructuring expenses of €0.7 million.

Impairment testing on the book values of equity-accounted shares in the Interior division led to two impairment requirements of €35.0 million and €5.0 million.

In addition, there were further restructuring expenses of €1.7 million for various sites of the Interior division in 2008.

Various smaller impairments in the amount of €2.6 million were incurred in the Interior division.

Special effects reduced earnings of the Interior division by a total of €716.4 million in 2008. Adjusted for goodwill impairment of €475.2 million and for customer relationship impairment of €32.6 million, there was a negative impact of €208.6 million from special effects for the Interior division.

Procurement

The procurement market of the Interior division was initially characterized by overcapacities of electronic and electromechanical components. Due to the steep jump in customer requirements, there were bottlenecks in the supply of electronic components in the second half of the year.

The purchasing volume of production materials of the Interior division comprises 33% electronics, 39% electromechanics and 28% mechanics.

Research and development

Research and development expenses rose by €2.2 million or 0.5% year-on-year to €434.7 million (PY: €432.5 million), or 10.0% (PY: 7.4%) of sales.

Depreciation and amortization

Total depreciation and amortization decreased by €483.5 million compared with fiscal 2008 to €536.4 million (PY: €1,019.9 million), corresponding to 12.3% (PY: 17.4%) of sales. This included impairment losses totaling €90.6 million (PY: €523.6 million) in 2009.

Operating assets

Operating assets in the Interior division amounted to €4,260.3 million, a €743.1 million decrease in comparison with the end of 2008 (PY: €5,003.4 million).

Non-current assets decreased by €699.9 million to €4,271.0 million (PY: €4,970.9 million), of which goodwill accounted for €2,164.0 million (PY: €2,222.0 million), intangible assets for €1,003.3 million (PY: €1,204.8 million) and property, plant, and equipment for €956.5 million (PY: €1,100.7 million). In the Interior division, there were losses of €61.4 million from goodwill impairment in fiscal 2009, as well as €212.3 million from scheduled amortization of intangible assets from PPA. The sale of the associate Hyundai Autonet Co., Ltd. to Hyundai Mobis Co., Ltd. in June 2009 together with related impairment losses led to a decrease in operating assets of €200.2 million. In addition, two impairment requirements of €43.6 million and €2.0 million carried out as part of the probable disposal of a company led to a decrease in operating assets.

Working capital at the year-end was €569.0 million (PY: € 570.9 million). Inventories amounted to €423.6 million (PY: €479.0 million) and operating receivables to €795.2 million (PY: €650.6 million). Operating liabilities amounted to €649.8 million (PY: €558.7 million).

Exchange rate effects increased total operating assets in the Interior division by €38.3 million in the fiscal year (PY: -€30.3 million).

The average operating assets decreased by €1,049.0 million to €4,580.1 million as compared with fiscal 2008 (€5,629.1 million).

Capital expenditure (additions)

Additions to the Interior division decreased by €133.9 million to €131.3 million (PY: €265.2 million). Capital expenditure amounted to 3.0% (PY: 4.5%) of sales.

Investment in the year under review focused primarily on targeted expansion of manufacturing capacity for the Body & Security and Instrumentation & Displays units. These investments relate in particular to manufacturing capacity at the German plants and in Brazil, Mexico, the Czech Republic and Romania.

Employees

The number of employees in the Interior division decreased by 4,103 to 26,710 (PY: 30,813). In the Body & Security business unit, the workforce declined by 1,063 employees due to adjustments in response to sales declines and location optimizations. Restructuring and portfolio streamlining led to a reduction in staff numbers of 1,639 in the Infotainment & Connectivity business unit. Due to capacity adjustments, productivity measures and portfolio streamlining, the workforce in the Commercial Vehicles & Aftermarket business unit was reduced by 905 employees. Productivity measures and adjustments due to the decline in sales led to a reduction of 496 employees in the Instrumentation & Driver HMI business unit.

Key Figures for the Rubber Group

Rubber Group in € millions	2009	2008	Δ in %
Sales	8,068.3	9,353.9	-13.7
EBITDA	1,114.5	1,415.9	-21.3
in % of sales	13.8	15.1	
EBIT	655.7	984.9	-33.4
in % of sales	8.1	10.5	
Research and development expenses	212.0	222.0	-4.5
in % of sales	2.6	2.4	
Depreciation and amortization[1]	458.8	431.0	6.5
thereof impairment	44.0	13.9	216.5
Operating assets (at December 31)	3,553.2	4,138.8	-14.1
EBIT in % of operating assets (at December 31)	18.5	23.8	
Operating assets (average)	3,989.8	4,369.5	-8.7
EBIT in % of operating assets (average)	16.4	22.5	
Capital expenditure[2]	321.7	499.1	-35.5
in % of sales	4.0	5.3	
Number of employees at the end of the year[3]	56,183	56,154	0.1
Adjusted sales[4]	8,005.3	9,319.7	-14.1
Adjusted operating result (adjusted EBIT)[5]	1,035.5	997.7	3.8
in % of adjusted sales	12.9	10.7	

[1] Excluding write-downs of investments.
[2] Capital expenditure on property, plant, equipment and software.
[3] Excluding trainees.
[4] Before changes in the scope of consolidation.
[5] Before amortization of intangible assets from PPA, changes in the scope of consolidation, and special effects.

Development in the Divisions: Passenger and Light Truck Tires

- Sales down 7.9%
- Sales down 7.2% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 20.0%

Sales volume

In 2009, volumes in the replacement business in Europe and Asia Pacific were down compared with 2008, while the replacement business in The Americas region generated volume increases in contrast to the market trend. Global sales volumes in the original equipment sector fell significantly compared with 2008, with volume decreases in NAFTA being greater than in Europe in line with declines in vehicle production.

Sales down 7.9%;
Sales down 7.2% before changes in the scope of consolidation and exchange rate effects

Sales in the Passenger and Light Truck Tires division fell by 7.9% to €4,696.4 million in 2009 compared with 2008 (PY: €5,100.3 million). Before changes in the scope of consolidation and exchange rate effects, sales decreased by 7.2%.

Adjusted EBIT up 20.0%

The Passenger and Light Truck Tires division's adjusted EBIT was up in 2009 compared with 2008 by €128.6 million, or 20.0%, to €772.7 million (PY: €644.1 million), equivalent to 16.6% (PY: 12.6%) of adjusted sales.

EBIT down 14.4%

Compared with 2008, the Passenger and Light Truck Tires division reported a decrease in EBIT of €90.0 million, or 14.4%, to €536.4 million (PY: €626.4 million) in 2009. The return on sales fell to 11.4% (PY: 12.3%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 22.8% (PY: 25.2%).

Average raw material prices were lower in 2009 as compared with 2008, positively impacting the Passenger and Light Truck Tires division by around €183 million in 2009.

Special effects in 2009

The necessary adjustment of production overcapacity in Europe to the current market conditions led to the discontinuation of passenger and light truck tire production in Clairoix, France. This resulted in restructuring expenses in the amount of €207.3 million in the period under review. These are countered by a positive effect on earnings of €11.4 million from lower pension obligations due to the resulting shortened employment periods for the employees.

Current production overcapacities in Europe mean a much reduced demand for primary materials as well. The closure of the compounding and rubberization activities in Traiskirchen, Austria, at the end of 2009 led to expenses of €12.9 million for restructuring in the Passenger and Light Truck Tires division.

The partial impairment of the Matador brand name, and an impairment on property, plant, and equipment in Puchov, Slovakia, driven by significant sales declines, led to an impairment loss of €9.1 million for the Passenger and Light Truck Tires division, of which €2.6 million related to capitalized intangible assets from the Matador purchase price allocation.

The impairment test on customer relationships in other intangible assets led to an impairment requirement of €2.4 million for various customer groups in the Passenger and Light Truck Tires division.

Impairment losses of €2.2 million were recognized on property, plant, and equipment in the Passenger and Light Truck Tires division.

Passenger and Light Truck Tires in € millions	2009	2008	Δ in %
Sales	4,696.4	5,100.3	-7.9
EBITDA	793.1	873.5	-9.2
in % of sales	16.9	17.1	
EBIT	536.4	626.4	-14.4
in % of sales	11.4	12.3	
Research and development expenses	113.5	119.5	-5.0
in % of sales	2.4	2.3	
Depreciation and amortization[1]	256.7	247.1	3.9
thereof impairment	24.6	13.1	87.8
Operating assets (at December 31)	2,012.1	2,323.3	-13.4
EBIT in % of operating assets (at December 31)	26.7	27.0	
Operating assets (average)	2,348.4	2,488.1	-5.6
EBIT in % of operating assets (average)	22.8	25.2	
Capital expenditure[2]	198.3	292.7	-32.3
in % of sales	4.2	5.7	
Number of employees at the end of the year[3]	26,510	26,227	1.1
Adjusted sales[4]	4,664.1	5,112.6	-8.8
Adjusted operating result (adjusted EBIT)[5]	772.7	644.1	20.0
in % of adjusted sales	16.6	12.6	

[1] Excluding write-downs of investments.
[2] Capital expenditure on property, plant, equipment and software.
[3] Excluding trainees.
[4] Before changes in the scope of consolidation.
[5] Before amortization of intangible assets fromn (PPA), changes in the scope of consolidation, and special effects.

In 2009, the Passenger and Light Truck Tires division incurred further expenses of €1.4 million, primarily from restructuring measures.

The cost-cutting program initiated worldwide in response to the economic crisis led to expenses for severance payments of €11.1 million in the Passenger and Light Truck Tires division in the period under review.

For the Passenger and Light Truck Tires division, the total net expense from special effects in 2009 amounted to €235.0 million. Adjusted for customer relationship impairment of €2.4 million and the impairment of intangible assets from the purchase price allocation in an amount of €2.6 million, there was a negative impact of €230.0 million from special effects.

Special effects in 2008

From the winding-up of restructuring measures at the U.S. tire plants in Charlotte and Mayfield, there was a positive effect on EBIT of €0.3 million from the net expense balance, primarily as a result of scrapping unusable machinery and reversing unutilized provisions.

Property, plant, and equipment at the Mount Vernon plant in the U.S.A. was written down in the amount of €11.4 million due to the failure to achieve process efficiency and the related earnings situation. This requirement was due to capital expenditures made in 2008 which, under IFRS impairment principles, are not recognized at replacement cost but at the lower net realizable value.

Various smaller impairments in the amount of €0.6 million were incurred in the Passenger and Light Truck Tires division.

Special effects in 2008 impacted the Passenger and Light Truck Tires division negatively by €11.7 million.

Procurement
Like 2008, 2009 was also characterized by extreme fluctuations on the commodities markets. While moderate purchase prices were recorded in the first few months, the second half of the year was again dominated by significant price increases. This is due to stabilizing demand, capacity adjustments at suppliers, and returning speculation on commodity markets. Natural rubber, synthetic rubbers and carbon black were especially hard hit by the volatility. Towards the end of 2009, the prices of natural rubber in particular again approached the same high levels of 2008.

Research and development
Research and development expenses decreased by €6.0 million or 5.0% year-on-year to €113.5 million (PY: €119.5 million), or 2.4% (PY: 2.3%) of sales.

Depreciation and amortization
Depreciation and amortization increased by €9.6 million as compared with fiscal 2008 to €256.7 million (PY: €247.1 million), corresponding to 5.5% (PY: 4.8%) of sales. This included impairment losses totaling €24.6 million (PY: €13.1 million) in 2009.

Operating assets
Operating assets in the Passenger and Light Truck Tires division decreased by €311.2 million to €2,012.1 million as compared with year-end 2008 (PY: €2,323.3 million).

The majority acquisition of the previously associated company Compañía Ecuatoriana del Caucho (ERCO) headquartered in Cuenca, Ecuador, led to the addition of €28.5 million to operating assets at the time of acquisition.

Non-current assets totaled €1,383.4 million, almost matching the previous year's level (PY: €1,386.8 million). Other current provisions rose by €174.3 million to €219.5 million (PY: €45.2 million), mainly due to provisions related to the closure of the passenger and light truck tire production at the plant in Clairoix, France, as well as the closure of the compounding and rubberization activities in Traiskirchen, Austria.

Working capital decreased by a total of €117.2 million to €1,132.9 million (PY: €1,250.1 million). Inventories were down by €196.0 million to €740.0 million (PY: €936.0 million). Exchange rate effects of €17.7 million partially offset this decrease in inventories. Changes in the scope of consolidation led to an addition to inventories of €11.2 million. Operating receivables were up by €47.7 million to €898.6 million (PY: €850.9 million), of which €15.6 million resulted from exchange rate effects and €7.1 million from changes in the scope of consolidation. Operating liabilities decreased by €31.1 million to €505.7 million (PY: €536.8 million). There were no material changes in exchange rates or in the scope of consolidation in this item.

Exchange rate effects increased total operating assets in the Passenger and Light Truck Tires division by €60.4 million (PY: -€82.5 million).

The average operating assets decreased by €139.7 million to €2,348.4 million as compared with fiscal 2008 (€2,488.1 million).

Capital expenditure (additions)
Additions to the Passenger and Light Truck Tires division decreased by €94.4 million year-on-year to €198.3 million (PY: €292.7 million). Capital expenditure amounted to 4.2% (PY: 5.7%) of sales.

Investments in the Passenger and Light Truck Tires division focused on the areas of quality assurance and cost reduction.

Employees
The number of employees in the Passenger and Light Truck Tires division increased by 283 compared with previous year to 26,510 (PY: 26,227). The changes in the scope of consolidation (including the addition of the company ERCO) led to an increase of 851 in the number of employees. This is in contrast to the reduction in the number of employees by 568, primarily in the production companies owing to adjustments to the downturn in sales and production volume.

Development in the Divisions: Commercial Vehicle Tires

- Sales down 24.1%
- Sales down 23.4% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT down 24.9%

Sales volume
The global economic crisis with its extreme market downturns in all regions pushed sales volumes below the previous year's level. In Europe, volumes for the replacement business as well as for the original equipment business were down substantially on those in the previous year. In Asia we also posted declines in sales. In The Americas region, sales volumes for the original equipment business remained well below the previous year's level, while those in the replacement business reached the previous year's level, thanks to good performance in South America in particular.

Sales down 24.1%;
Sales down 23.4% before changes in the scope of consolidation and exchange rate effects
Sales in the Commercial Vehicle Tires division fell by 24.1% to €1,065.6 million in 2009 compared with 2008 (PY: €1,404.2 million). Before changes in the scope of consolidation and exchange rate effects, sales dropped by 23.4%.

Adjusted EBIT down 24.9%
The Commercial Vehicle Tires division's adjusted EBIT was down in 2009 compared with 2008 by €6.8 million, or 24.9%, to €20.5 million (PY: €27.3 million), equivalent to 1.9% (PY: 2.0%) of adjusted sales.

EBIT down 269.8%
Compared with the previous year, the Commercial Vehicle Tires division reported a decrease in EBIT of €79.6 million, or 269.8%, to -€50.1 million (PY: €29.5 million) in 2009. The return on sales fell to -4.7% (PY: 2.1%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to -7.9% (PY: 3.8%).

The decrease in raw material prices had a positive impact of approximately €79 million on the Commercial Vehicle Tires division in 2009 compared with average prices for 2008.

Special effects in 2009
Measures introduced for the location in Hanover-Stöcken, Germany, led to restructuring expenses of €46.4 million in the Commercial Vehicle Tires division in 2009.

Unutilized provisions of €0.2 million were reversed in the Commercial Vehicle Tires division in the reporting period as part of the winding-up of restructuring activities in Alor Gajah, Malaysia.

The closure of the Conti Machinery plant in Puchov, Slovakia, led to restructuring expenses of €8.0 million, including €1.1 million in impairment on intangible assets from the Matador purchase price allocation. In connection with this, there was also an impairment of an at-equity investment in the amount of €0.8 million.

The sales declines resulting from the global economic crisis no longer make it possible to efficiently utilize the externally operated warehouse in Straubing, Germany, so the warehouse is to be closed down. The associated rental agreement is valid until 2016. At the end of 2009, it was assumed that the properties could not be subleased accordingly. A provision was therefore recognized in the amount of €9.7 million.

The partial impairment of the Matador brand name led to an impairment of €1.6 million for the division, of which €1.4 million related to capitalized intangible assets from the purchase price allocation.

Commercial Vehicle Tires in € millions	2009	2008	Δ in %
Sales	1,065.6	1,404.2	-24.1
EBITDA	47.5	112.4	-57.7
in % of sales	4.5	8.0	
EBIT	-50.1	29.5	-269.8
in % of sales	-4.7	2.1	
Research and development expenses	40.5	43.4	-6.7
in % of sales	3.8	3.1	
Depreciation and amortization[1]	97.6	82.9	17.7
thereof impairment	15.7	0.4	3,825.0
Operating assets (at December 31)	570.4	750.7	-24.0
EBIT in % of operating assets (at December 31)	-8.8	3.9	
Operating assets (average)	634.7	776.2	-18.2
EBIT in % of operating assets (average)	-7.9	3.8	
Capital expenditure[2]	40.5	95.6	-57.6
in % of sales	3.8	6.8	
Number of employees at the end of the year[3]	7,594	8,247	-7.9
Adjusted sales[4]	1,051.7	1,391.9	-24.4
Adjusted operating result (adjusted EBIT)[5]	20.5	27.3	-24.9
in % of adjusted sales	1.9	2.0	

[1] Excluding write-downs of investments.
[2] Capital expenditure on property, plant, equipment and software.
[3] Excluding trainees.
[4] Before changes in the scope of consolidation.
[5] Before amortization of intangible assets from PPA, changes in the scope of consolidation, and special effects.

Impairment losses of €0.4 million were recognized on property, plant, and equipment in the Commercial Vehicles Tires division.

The cost-cutting program initiated worldwide in response to the economic crisis led to expenses for severance payments of €5.3 million in the Commercial Vehicle Tires division in 2009.

For the Commercial Vehicle Tires division, the total net expense from special effects in 2009 amounted to €72.0 million. Adjusted for impairment of intangible assets from the purchase price allocation in an amount of €2.5 million, special effects had an adverse impact totaling €69.5 million.

Special effects in 2008

The plant at Alor Gajah, Malaysia, was closed, with some parts of production being relocated to Petaling Jaya, Malaysia. This led to restructuring expenses of €0.8 million.

In the Commercial Vehicle Tires division there was an impairment of €0.1 million.

Special effects reduced earnings of the Commercial Vehicle Tires division by a total of €0.9 million in 2008.

Procurement

Generally, the materials used for the products in the Commercial Vehicle Tires division are comparable with those used in the Passenger and Light Truck Tires division, so this division also experienced a positive effect from its purchasing activities in the first half of 2009 as a result of the collapsing markets at the end of 2008. After bottoming out towards the middle of the year, prices rose again due to stabilizing demand, capacity adjustments at suppliers, and returning speculation on the commodities markets.

Due to the sharp sales decrease in the commercial vehicle sector, procuring raw materials in a flexible manner

and optimizing the supply chain were significant challenges in 2009.

Research and development

Research and development expenses decreased by €2.9 million or 6.7% year-on-year to €40.5 million (PY: €43.4 million), or 3.8% (PY: 3.1%) of sales.

Depreciation and amortization

Depreciation and amortization increased by €14.7 million as compared with fiscal 2008 to €97.6 million (PY: €82.9 million), corresponding to 9.2% (PY: 5.9%) of sales. This included impairment losses totaling €15.7 million (PY: €0.4 million) in 2009.

Operating assets

Operating assets of the Commercial Vehicle Tires division decreased year-on-year by €180.3 million to €570.4 million (PY: €750.7 million).

The majority acquisition of the previously associated company Compañía Ecuatoriana del Caucho (ERCO) headquartered in Cuenca, Ecuador, led to the addition of €20.9 million to operating assets at the time of acquisition.

Non-current assets fell by €42.1 million to €436.2 million (PY: €478.3 million), due primarily to the decrease in property, plant, and equipment of €34.9 million to €420.0 million (PY: €454.9 million). Other current provisions rose by €25.0 million to €44.4 million (PY: €19.4 million). The increase is mainly due to measures introduced for the plant in Hanover-Stöcken, Germany.

Working capital decreased by €107.7 million to €251.4 million (PY: €359.1 million). Inventories were down €84.9 million to €156.0 million (PY: €240.9 million). Currency effects led to an increase of €7.0 million, changes in the scope of consolidation led to a rise of €8.0 million. Operating receivables decreased by €38.1 million to €254.7 million (PY: €292.8 million). Changes in the scope of consolidation led to an increase in receivables of €6.0 million, while exchange rate changes added another €6.3 million to this amount. Operating liabilities amounted to €159.3 million (PY: €174.6 million). There were no material changes in exchange rates or in the scope of consolidation in this item.

Exchange rate effects increased total operating assets in the Commercial Vehicle Tires division by €33.6 million in the fiscal year (PY: -€22.4 million).

The average operating assets decreased by €141.5 million to €634.7 million as compared with fiscal 2008 (€776.2 million).

Capital expenditure

Additions to the Commercial Vehicle Tires division decreased by €55.1 million year-on-year to €40.5 million (PY: €95.6 million). Capital expenditure amounted to 3.8% (PY: 6.8%) of sales.

Important additions were made in the Commercial Vehicle Tires division as a result of quality enhancement and manufacturing optimization for truck tire production at the plants in Puchov, Slovakia, and Mount Vernon, U.S.A.

Employees

The number of employees in the Commercial Vehicle Tires division decreased by 653 compared with the previous year to 7,594 (PY: 8,247).

There is an increase in the number of employees of 451 mainly due to the changes in the consolidation of the companies EU-Retec and ERCO.

This is in contrast to personnel adjustments of 1,104 employees due to the restructuring measures and adjustments introduced as a result of the sales decrease in the Commercial Vehicle Tires division.

Development in the Divisions: ContiTech

- Sales down 20.0%
- Sales down 17.8% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT down 25.8%

Sales down 20.0%;
Sales down 17.8% before changes in the scope of consolidation and exchange rate effects
In 2009, sales in the ContiTech division fell year-on-year by 20.0% to €2,406.1 million (PY: €3,007.0 million). Before changes in the scope of consolidation and exchange rate effects, sales dropped by 17.8%, primarily as a result of volume decreases. With a 23.1% drop in sales, the automotive OE operations in particular contributed to this decline. Sales in the industrial sector fell 18.8%. In contrast, sales to the automotive replacement market were up 7.2%.

Adjusted EBIT down 25.8%
The ContiTech division's adjusted EBIT was down in 2009 compared with 2008 by €84.1 million, or 25.8%, to €242.3 million (PY: €326.4 million), equivalent to 10.1% (PY: 11.0%) of adjusted sales.

EBIT down 48.5%
Year-on-year the ContiTech division reported a decrease in EBIT of €159.7 million, or 48.5%, to €169.4 million (PY: €329.1 million) in 2009. The return on sales fell to 7.0% (PY: 10.9%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 16.8% (PY: 29.8%).

The decrease in raw material prices had a positive impact of approximately €49 million on the ContiTech division in 2009 compared with average prices for 2008.

Special effects in 2009
The closure and transfer of Western European locations of the Fluid Technology business unit in the ContiTech division led to restructuring expenses of €33.4 million in 2009.

The antitrust proceedings initiated in 2007 against Dunlop Oil & Marine Ltd., UK, a subsidiary of ContiTech AG, in the area of offshore hoses, resulted in further expenses of €6.2 million in 2009.

For the ContiTech division, the first consolidation of the conveyor belt company Kolubara Univerzal D.O.O., Serbia, led to a gain of €0.7 million from the negative balance.

In the ContiTech division there were minor impairment losses on property, plant, and equipment totaling €0.8 million.

The cost-cutting program initiated worldwide in response to the economic crisis led to expenses for severance payments of €30.1 million in 2009.

The ContiTech division was negatively impacted by various minor restructuring measures in 2009 in the amount of €1.2 million. An unutilized provision from the sale of the Benecke-Kaliko business unit's furniture covering business led to the reversal of €0.2 million.

For the ContiTech division, the total net expense from special effects amounted to €70.8 million in 2009.

Special effects in 2008
In 2008 in the ContiTech division, there was an overall positive effect on EBIT of €0.9 million resulting from various minor restructuring measures and from unutilized provisions, mainly for Roulunds, Denmark, and for ContiTech Schlauch, Northeim, Germany.

The sale of the Benecke-Kaliko unit's furniture covering business resulted in a gain of €4.7 million. This led to the reversal of unutilized provisions in the amount of €2.4 million.

ContiTech in € millions	2009	2008	Δ in %
Sales	2,406.1	3,007.0	-20.0
EBITDA	274.0	430.1	-36.3
in % of sales	11.4	14.3	
EBIT	169.4	329.1	-48.5
in % of sales	7.0	10.9	
Research and development expenses	58.0	59.1	-1.9
in % of sales	2.4	2.0	
Depreciation and amortization[1]	104.6	101.0	3.6
thereof impairment	3.7	0.4	825.0
Operating assets (at December 31)	970.6	1,064.7	-8.8
EBIT in % of operating assets (at December 31)	17.5	30.9	
Operating assets (average)	1,006.7	1,105.2	-8.9
EBIT in % of operating assets (average)	16.8	29.8	
Capital expenditure[2]	82.8	110.8	-25.3
in % of sales	3.4	3.7	
Number of employees at the end of the year[3]	22,079	21,680	1.8
Adjusted sales[4]	2,389.3	2,972.8	-19.6
Adjusted operating result (adjusted EBIT)[5]	242.3	326.4	-25.8
in % of adjusted sales	10.1	11.0	

[1] Excluding write-downs of investments.
[2] Capital expenditure on property, plant, equipment and software.
[3] Excluding trainees.
[4] Before changes in the scope of consolidation.
[5] Before amortization of intangible assets from PPA, changes in the scope of consolidation, and special effects.

The sale of Phoenix Dichtungstechnik GmbH led to a gain of €24.3 million.

The Italian company ContiTech Ages was sold at the end of 2004. Expenses of €3.3 million were incurred in connection with outstanding receivables, mainly due to the company's insolvency.

In 2007, the antitrust authorities of the European Union, the U.S.A., the UK, Australia, Brazil, Japan and Korea initiated investigations into alleged antitrust behavior – in particular price-fixing agreements by employees of Dunlop Oil & Marine Ltd., UK, a subsidiary of ContiTech AG, in the area of offshore hoses. In 2008 and on January 28, 2009, decisions made by certain authorities and other events led to expenses of €29.0 million.

There was a positive balance of €0.4 million in the division due to impairment and a reversal of impairment loss.

In total, special effects in 2008 resulted in a gain of €0.4 million for the ContiTech division.

Procurement

An effective balance of central procurement for materials required in large amounts or materials required by several business units and flexible local procurement ensures optimum results in the procurement processes for the ContiTech division.

As in the case of the Tire divisions, ContiTech benefited in the first half of 2009 in particular from the lower raw material prices as compared with 2008. However, the fluctuations were less pronounced in view of the division's broad product and procurement portfolio.

Research and development

Research and development expenses decreased by €1.1 million or 1.9% year-on-year to €58.0 million (PY: €59.1 million), or 2.4% (PY: 2.0%) of sales.

Depreciation and amortization

Depreciation and amortization increased by €3.6 million compared with fiscal 2008 to €104.6 million (PY: €101.0 million), corresponding to 4.3% (PY: 3.4%) of sales. This included impairment losses totaling €3.7 million (PY: €0.4 million) in 2009.

Operating assets

At the end of 2009, operating assets in the ContiTech division amounted to €970.6 million, a €94.1 million decrease (PY: €1,064.7 million).

Non-current assets totaled €657.1 million, almost matching the previous year's level (PY: €669.2 million).

Working capital decreased compared with year-end 2008 by a total of €82.5 million to €421.4 million (PY: €503.9 million). Inventories were down by €54.5 million to €293.2 million (PY: €347.7 million), despite an increase from exchange rate effects of €3.5 million. Operating receivables decreased by €29.1 million to €373.2 million (PY: €402.3 million). Exchange rate effects led to an increase of €4.2 million. Operating liabilities decreased slightly by €1.1 million to €245.0 million (PY: €246.1 million). Exchange rate effects led to an increase of €1.8 million. There were no significant effects from changes in the scope of consolidation.

Exchange rate effects increased total operating assets in the ContiTech division by €11.1 million (PY: -€36.3 million).

The average operating assets decreased by €98.5 million to €1,006.7 million as compared with fiscal 2008 (€1,105.2 million).

Capital expenditure

Additions to the ContiTech division decreased by €28.0 million to €82.8 million (PY: €110.8 million). Capital expenditure amounted to 3.4% (PY: 3.7%) of sales.

In addition to rationalization and expansion investments in Germany, manufacturing capacity for the Fluid Technology business unit at the plant in Romania was further expanded. In Brazil, investments were made in the development of a new plant for conveyor belt systems. In the Air Spring Systems, Fluid Technology and Vibration Control business units, investments were made in China to expand manufacturing capacity for the Asian market.

Employees

The number of employees in the ContiTech division increased by 399 compared with the previous year to 22,079 (PY: 21,680). While rationalization and order declines caused staff reductions in many units, the expansion of production facilities at several business units in China, Brazil and Mexico had the opposite effect. In addition, 187 employees were added from the acquisition of the conveyor belt company Kolubara in Serbia.

Earnings, Financial and Net Assets Position of the Parent Company

In addition to the report on the overall development of the corporation, the following separately summarizes the financial performance and position of the parent company.

Unlike the consolidated financial statements, the stand-alone financial statements of Continental Aktiengesellschaft are prepared in accordance with the *Handelsgesetzbuch* (German Commercial Code) and *Aktiengesetz* (German Stock Corporation Act). The management report of Continental AG has been combined with the consolidated report of the Continental Corporation in accordance with Section 315 (3) of the *Handelsgesetzbuch*, since the future development and related risks and opportunities of the parent company, including its key research and development activities, are integrally combined with the corporation as a whole. Further, the following separate summary of the parent company's stand-alone results, net assets and financial position as part of the consolidated management report, provides the basis for understanding the Executive Board's proposal for the distribution of the parent company's net income.

Net assets and financial position of Continental Aktiengesellschaft	**Dec. 31, 2009**	**Dec. 31, 2008**
Assets in € millions		
Intangible assets	16.3	56.5
Property, plant, and equipment	3.5	189.6
Investments	11,108.9	10,815.6
Non-current assets	**11,128.7**	**11,061.7**
Inventories	0.8	232.5
Receivables and other assets	6,103.9	6,102.6
Short-term securities	332.3	315.0
Cash and cash equivalents	201.4	424.7
Current assets	**6,638.4**	**7,074.8**
Prepaid expenses and deferred income	**89.2**	**37.9**
	17,856.3	**18,174.4**
Shareholders' equity and liabilities in € millions		
Common stock	432.6	432.6
Capital reserves	3,144.6	3,120.9
Revenue reserves	54.7	54.7
Retained losses	-993.7	-339.7
Shareholders' equity	**2,638.2**	**3,268.5**
Provisions	**696.2**	**788.8**
Liabilities	**14,521.9**	**14,117.1**
	17,856.3	**18,174.4**
Gearing ratio in %	292.2	218.3
Equity ratio in %	14.8	18.0

Due to the carve-out of Continental AG's tire activities into a subsidiary, Continental AG's annual financial statements as of December 31, 2009 can be compared to those of the previous year to a very limited degree only. The following items on the balance sheet are especially affected by this: property, plant, and equipment, inventories, trade accounts receivable, provisions and trade accounts payable. In addition, comparing the income statement for fiscal 2009 with that of fiscal 2008 is possible only with the help of key figures, as sales, the cost of sales and other key operating expenses in connection with the tire business operations are included in the income statement only for the period from January 1 to July 31 2009. In contrast, the profit transfer from Continental Caoutchouc-Export-GmbH reported in the financial result of Continental AG includes earnings from Continental Reifen Deutschland GmbH in the amount of €37.8 million.

Total assets decreased year-on-year by €318.1 million to €17,856.3 million (PY: €18,174.4). The changes in the composition of the total assets as compared with the previous year are mainly due to the carve-out of Continental AG's tire activities into a subsidiary. For this reason alone, investments increased by €309.0 million due to the inclusion of intangible assets, property, plant, and equipment, inventories, and receivables while at the same time assuming provisions and liabilities attributed to the tire activities. Investments also increased by €15.1 million due to capital increases at other subsidiaries. After these measures, investments now amount to 62.2% of total assets, as compared with 59.5% in the previous year.

Receivables from affiliated companies increased in net terms by €239.4 million, while, in contrast, cash and cash equivalents fell by €223.3 million.

The increase in deferred income by €51.3 million to €89.2 million is mainly due to the adjustment of long-term financing agreements, which became necessary due to the economic climate.

On the liabilities side, liabilities to banks decreased by €1,749.5 million year-on-year, or -16.2%. Liabilities to affiliated companies were up €2,358.5 million, so that, in net terms, liabilities increased by €404.8 million.

Shareholders' equity decreased by a total of €630.3 million year-on-year to €2,638.2 million (PY: €3,268.5 million), mainly due to the net loss of €654.0 million for fiscal 2009. Capital reserves increased by €23.7 million as a result of other contributions from Schaeffler KG.

Sales were down by €1,401.6 million to €1,191.1 million (PY: €2,592.7 million), or -54.1% (PY: -2.4%), due to the carve-out of the tire activities and the deterioration of the economic climate. Thus sales reported for fiscal 2009 showed average prices moving up by 0.2% in the Passenger and Light Truck Tires division and decreasing by 0.1% in the Commercial Vehicle Tires division. Continental's share of OE business in Germany fell from 23.0% in the previous year to 17.6% in 2009, while its share of the replacement business in Germany and its share of the export business developed in the opposite direction, rising from 24.1% to 28.5% and from 52.9% to 53.9% respectively.

The cost of sales decreased by €1,205.0 million to €924.3 million (PY: €2,129.3 million) due to the carve-out of the tire activities. The gross margin on sales decreased by €196.6 million, or 42.4%, to €266.8 million (PY: €463.4 million), representing 22.4% of sales (PY: 17.9%).

As in the previous year, other operating income and other operating expenses particularly included expenses and income from corporate overheads or cost credits and charges from or for other subsidiaries.

Income from investments mainly consisted of profit transfer agreements. Profit transfers from Formpolster GmbH, Hanover, (€228.8 million) and Continental Automotive GmbH, Hanover (€77.3 million) were offset by losses absorbed from Continental Caoutchouc-Export-GmbH, Hanover, (€240.6 million) and UMG Beteiligungsgesellschaft mbH, Hanover (€91.6 million).

Deterioration of net interest expense by €49.2 million to -€509.5 million is due primarily to the higher margin level of the VDO loan agreement compared with the previous year. This was partly offset by the much lower market interest rates on average in 2009. The higher margins resulted from the renegotiations of the framework conditions for this loan, concluded in January 2009, and also from the downgrades of Continental AG's credit rating during the course of 2009. Net income from financial activities accounts for 91.0% of earnings before taxes (PY: 97.5%).

Tax expenses of €90.5 million arose from ongoing expense from fiscal 2009, as well as mainly due to taxes for fiscal 2008 (€58.3 million) from internal restructuring (carve-out of tire operations) in fiscal 2009. After taking into account this tax expense, Continental Aktiengesellschaft posted a net loss of €654.0 million (PY: net loss of €353.0 million). The after-tax return on sales was -54.9% (PY: -13.6%). The after-tax return on equity was -24.8% (PY: -10.8%).

After the inclusion of the retained losses brought forward from the previous year (€339.7 million), the retained losses for the year were €993.7 million.

In view of the retained losses for the year, payment of a dividend for fiscal 2009 is out of the question.

We are expecting fiscal 2010 to see a higher net income from financial activities as a result of noticeable sales growth within the corporation leading to an improvement in the operating results of the subsidiaries.

Statement of income of Continental Aktiengesellschaft in € millions	2009	2008
Sales	**1,191.1**	**2,592.7**
Cost of sales	924.3	2,129.3
Gross margin on sales	**266.8**	**463.4**
Selling expenses	91.3	210.0
General and administrative expenses	79.0	109.7
Other operating income	171.2	221.4
Other operating expenses	318.5	378.3
Net income from financial activities	-512.7	-517.9
Earnings before taxes	**-563.5**	**-531.1**
Income taxes	-90.5	178.1
Net loss for the year	**-654.0**	**-353.0**
Retained losses (PY: Retained earnings) brought forward from the previous year	-339.7	13.3
Retained losses	**-993.7**	**-339.7**

Report pursuant to Section 289 (4) and Section 315 (4) of the *Handelsgesetzbuch* (German Commercial Code)

1. The subscribed capital of the company amounted to €432,655,316.48 at the balance sheet date and was divided into 169,005,938 no-par-value bearer shares. Following the capital increase in January 2010, the subscribed capital increased to €512,015,316.48. It is divided into 200,005,983 no-par-value shares. These shares are, without exception, common shares; different classes of shares are not contemplated. Each share carries voting and dividend rights from the time it is issued. Each no-par-value share entitles the holder to one vote at the Annual Shareholders' Meeting (Article 20, Paragraph 1 of the Articles of Incorporation).

2. As part of Continental AG's investment agreement with Schaeffler KG, Mrs. Maria-Elisabeth Schaeffler and Mr. Georg Schaeffler concluded on August 20, 2008, the Schaeffler Group is required to limit its shareholding in Continental AG to a maximum of 49.99% of the voting capital stock until August 31, 2012, ("maximum shareholding"), unless the Executive Board of Continental AG agrees to a higher shareholding. In addition, as part of this agreement Schaeffler KG undertook, in the event it resells parcels of its maximum shareholding by August 31, 2012, to grant a pre-emptive right to a buyer nominated by the guarantor specified in the agreement, if the sale to such buyer is in the best interest of Continental AG and Schaeffler KG. According to Schaeffler KG, it resold Continental shares which, on conclusion of the takeover offer to the Continental AG shareholders, would have resulted in a holding exceeding the maximum shareholding, to financial institutions.

   As part of the company's capital increase in January 2010, Schaeffler KG undertook vis-à-vis the banks accompanying the capital increase neither to offer nor sell shares or rights that allow conversions in or subscriptions to shares of Continental for a period of twelve months after the new shares issued from the implementation of the capital increase are admitted to trading. This does not include OTC transactions, sales to companies affiliated with Schaeffler KG or sales as part of a public takeover offer, under the condition in each case that the respective buyer is subject to similar obligations. Another exception is the transfer of share ownership in the event the lienholder utilizes the lien on the shares. M.M.Warburg & CO KGaA, Hamburg, and B. Metzler seel. Sohn & Co. KGaA, Frankfurt am Main, are subject to similar selling restrictions for a period of six months after the new shares are admitted to trading.

   To the best of the Executive Board's knowledge, there are no other restrictions which apply to the voting rights or to the transfer of the shares, including those that are the result of agreements between shareholders.

3. For details of the direct equity interests exceeding ten percent of the voting rights (reported level of equity interest), please refer to the notice in accordance with the *Wertpapierhandelsgesetz* under Note 39 of the notes to the consolidated financial statements.

4. Shares with privileges that grant controlling powers do not exist.

5. The company is not aware of any employees with shareholdings not directly exercising control of voting rights.

6. Appointment and dismissal of the members of the Executive Board are carried out in accordance with Section 84 of the *Aktiengesetz* (German Stock Corporation Act) in conjunction with Section 31 of the *Mitbestimmungsgesetz* (German Co-determination Act). Accordingly, the Supervisory Board is responsible for the appointment and dismissal of a member of the Executive Board. It reaches its decisions with a majority of two-thirds of its members. If this majority is not reached, the so-called Mediation Committee must submit a nomination to the Supervisory Board for the appointment within one month following the voting. Other nominations may also be submitted to the Supervisory Board in addition to the Mediation Committee's nomination. A simple majority of the votes is sufficient when voting on these nominations submitted to the Supervisory Board. In the event that voting results in a tie, a new vote takes place where the chairman of the Supervisory Board has the casting vote in accordance with Section 31 (4) of the *Mitbestimmungsgesetz*.

   Amendments to the Articles of Incorporation are made by the Shareholders' Meeting. In Article 20, Paragraph 3 of the Articles of Incorporation, the Shareholders' Meeting has made use of the possibility granted in Section 179 (1), Sentence 2 of the *Ak-*

tiengesetz, to assign to the Supervisory Board the power to make amendments solely affecting the version of the Articles of Incorporation.

Resolutions of the Shareholders' Meeting to amend the Articles of Incorporation in accordance with Article 20, Paragraph 2 of the Articles of Incorporation shall be adopted by a simple majority as a rule and, insofar as a majority of the capital stock is required, by a simple majority of the capital stock represented unless otherwise required by mandatory law or by the Articles of Incorporation. The law prescribes a mandatory majority of three quarters of the capital stock represented when resolutions are made, for example, for amendments to the Articles of Incorporation involving substantial capital measures, such as resolutions concerning the creation of authorized or conditional capital.

7.1 The Executive Board may issue new shares only on the basis of resolutions by the Shareholders' Meeting.

a) In line with Article 4, Paragraph 2 of the Articles of Incorporation, the Executive Board is authorized, with the approval of the Supervisory Board, to increase the share capital by up to an amount of €66 million by issuing new shares until April 22, 2014.

b) In line with Article 4, Paragraph 3 of the Articles of Incorporation, the Executive Board is authorized, with the approval of the Supervisory Board, to increase the share capital by up to an amount of €70.6 million by issuing new shares until April 23, 2012.

c) On the basis of the resolution by the Annual Shareholders' Meeting on May 5, 2006, and the resolution amending this which was made by the Annual Shareholders' Meeting on April 25, 2008, the Executive Board is authorized – with the approval of the Supervisory Board – to issue bonds with warrants and/or convertible bonds up to a total amount of €4.5 billion until May 4, 2011, in accordance with the authorization resolutions cited. In this context the Annual Shareholders' Meeting approved conditional capital of up to €111.5 million. If the Executive Board issues bonds with warrants and/or convertible bonds on the basis of its authorization, new shares would be issued in accordance with the conditions of these bonds.

d) On the basis of the resolution by the Annual Shareholders' Meeting on April 25, 2008, the Executive board is authorized – with the approval of the Supervisory Board – to issue convertible bonds, bonds with warrants and/or income bonds up to a total nominal amount of €1.5 billion until May 4, 2011. In this context, the Annual Shareholders' Meeting approved conditional capital of €37.5 million. If the Executive Board issues convertible bonds, bonds with warrants and/or income bonds on the basis of this authorization, new shares would be issued in accordance with the conditions of these bonds.

e) On the basis of the resolution by the Annual Shareholders' Meeting on April 23, 2009, the Executive Board is authorized – with the approval of the Supervisory Board – to issue convertible bonds, bonds with warrants and/or income bonds as well as other financial instruments up to a total nominal amount of €0.85 billion until April 22, 2014. In this context, the Annual Shareholders' Meeting approved conditional capital of €43.5 million. If the Executive Board issues convertible bonds, bonds with warrants and/or income bonds or similar financial instruments on the basis of this authorization, new shares would be issued in accordance with the conditions of these bonds.

f) Finally, the Executive Board is entitled to issue new shares to the beneficiaries of the stock option plans of 2004 and 2008 adopted by the respective Shareholders' Meeting in accordance with the conditions of these stock option plans.

7.2 The Executive Board may only buy back shares under the conditions normalized in Section 71 of the *Aktiengesetz*. The Annual Shareholders' Meeting has not granted an authorization to the Executive Board under Section 71 (1) Number 8 of the *Aktiengesetz*.

8. The following material agreements are subject to a change of control at Continental AG:

The contract governing a syndicated loan in the amount of €13.5 billion – which was concluded in August 2007 in connection with the acquisition of Siemens VDO Automotive AG and was amended in the agreements of January 23, 2009 and December 18, 2009 – grants every creditor the right to prematurely terminate his share of the credit line and the loan granted as part thereof and to demand repayment of it, if a person or persons acting in concert acquire control of Continental AG and subsequent negotiations concerning a continuance of the loan have not led to an agreement. The €600.0 million loan agreement with the European Investment Bank also allows for the right of the bank, in cases where there is a "change of control event", to demand talks concerning the situation and, if the negotiation deadline expires with no result, to demand early repayment. The terms "control" and "change of control event" are defined as holding more than 50% of the voting rights and/or if Continental AG concludes a domination agreement as defined under Section 291 of the *Aktiengesetz* with Continental AG as the dominated company. Should a change of control occur, as outlined in the agreements described above and a contractual partner exercises his respective rights, it is possible that required follow-up financing may not be approved under the existing conditions, which could therefore lead to higher financing costs.

In 1996, Compagnie Financière Michelin and Continental AG founded the 50/50 joint venture MC Projects B.V. in the Netherlands, to which Michelin contributed the rights to the Uniroyal brand for Europe. MC Projects B. V. licenses these rights to Continental. According to the agreements in conjunction with this joint venture, this license can be terminated for cause, if a major competitor in the tire business acquires more than 50% of the voting rights of Continental. In this case Michelin also has the right to acquire a majority in MC Projects B.V. and to have MC Projects B.V. increase its minority stake in the manufacturing company of Barum Continental s. r. o. in Otrokovice, Czech Republic, to 51%. In the case of such a change of control and the exercise of these rights, there could be losses in sales of the Tire divisions and a reduction in the production capacity available to them.

9. No compensation agreements have been concluded between the company and the members of the Executive Board or employees providing for the case that a takeover bid takes place.

Remuneration of the Executive Board

The total remuneration of the members of the Executive Board comprises a number of remuneration components. Specifically, these components comprise the fixed salary, the bonus including components with a long-term incentive effect, as well as additional benefits, including post-employment benefits. Further details including the individual remuneration are specified in the Remuneration Report contained in the Corporate Governance Report starting on page 18. The Remuneration Report is a part of the Management Report.

Supplementary Report

As of February 8, 2010, there were no events or developments that could have materially affected the measurement and presentation of individual asset and liability items at December 31, 2009.

Capital increase
On January 6, 2010, the Executive Board of Continental AG resolved – with Supervisory Board approval – an increase in the share capital of €432,655,316.48 by a nominal amount of €79,360,000.00 to €512,015,316.48 by issuing 31,000,000 new shares from authorized capital (Authorized Capital 2007).

The capital increase was implemented by way of a rights offering to the shareholders of Continental AG. In an initial step, a bank consortium led by Deutsche Bank AG, Goldman Sachs International and J.P. Morgan Securities Ltd. placed 24.55 million shares with institutional investors in a private placement on January 6, 2010. An additional 6.45 million shares were placed with institutional investors at a price of €40.00 on January 12 as part of an accelerated bookbuilt offering. As a result of the subscription rights exercised by the free float shareholders, 3.4 million fewer shares were allocated. The capital increase was accompanied by BNP Paribas, CALYON and HSBC Trinkaus, in addition to the institutes already mentioned.

Existing shareholders could exercise their subscription rights from January 12 to January 25, 2010, acquiring two shares for every eleven shares they possessed at the time. The rights trading of the subscription rights on the Frankfurt Stock Exchange took place from January 12, 2010, until (and including) January 21, 2010. The new shares have full dividend entitlement as of fiscal 2009.

On January 26, 2010, Continental announced that more than 99% of the free float shareholders had made use of their subscription rights and that the total gross proceeds amounted to €1.1 billion. The capital increase served to repay Continental AG's liabilities from the VDO loan.

The major shareholders of Continental AG, representing 88.9% of the share capital of the company before the capital increase (Schaeffler KG 49.9%, M.M.Warburg & CO KGaA 19.5%, B. Metzler seel. Sohn & Co. Holding AG 19.5%) had irrevocably undertaken vis-à-vis the bank consortium not to exercise their subscription rights and not to transfer such subscription rights to third parties. Upon the completion of the rights offering, these major shareholders were calculated to hold an aggregate of 75.1% of the increased share capital of Continental AG. The free float of the Continental share therefore increased to 24.9%.

Inclusion of the new shares in trading on the regulated market of the stock exchanges of Frankfurt, Hanover, Hamburg and Stuttgart began on January 14, 2010. The delivery and settlement of the new shares subscribed in the rights offering or otherwise not subscribed took place on January 28, 2010.

Sale of VDO Automotive Huizhou Co. Ltd.
The participation in Siemens VDO Automotive Huizhou Co. Ltd. reported as assets held for sale were sold to Desay Industry Development Limited at the beginning of February 2010. Proceeds before withholding tax amounted to €27.4 million. The effects on the final purchase price settlement were insignificant.

Dependency Report

Final declaration from the Executive Board's report on relations with affiliated companies pursuant to Section 312 of the *Aktiengesetz* (*AktG* – German Stock Corporation Act)
In fiscal 2009, Continental AG was a dependent company of Schaeffler KG, Herzogenaurach, as defined under Section 312 *AktG*. In line with Section 312 (1) *AktG*, the Executive Board has prepared a report on relations with affiliated companies, which contains the following final declaration:

"We declare that the company received an appropriate consideration for each transaction listed in the report on relations with affiliated companies from January 1 to December 31 under the circumstances known at the time the transactions were made or the measures were taken. To the extent the company suffered any detriment thereby, the company was granted the right to an appropriate compensation before the end of the 2009 fiscal year. The company did not suffer any detriment because of taking or refraining from measures."

Corporate Governance Declaration pursuant to Section 289a of the German Commercial Code (*HGB*)

The Corporate Governance Declaration pursuant to Section 289a of the German Commercial Code (*HGB*) is available to our shareholders on our website at www.continental-corporation.com.

Risk Report

Continental's overall risk situation is analyzed and managed corporation-wide using the risk management system.

Continental is exposed to a number of different risks that could negatively impact business and, in extreme cases, endanger the company's existence. We accept calculable risks if the resulting opportunities lead us to expect to achieve a sustainable growth in value. There are currently no identifiable risks endangering the company that are likely to occur.

Risk management and internal control system

With the enactment of the *Bilanzrechtsmodernisierungsgesetz* (German Accounting Law Modernization Act), the key features of the internal control and risk management system must be described with regard to the accounting process for the first time for fiscal 2009 (Sections 289 (5) and 315 (2) of the German Commercial Code – *HGB*). All parts of the risk management system and internal control system which could have a material effect on the annual and consolidated financial statements must be included in the reporting.

A uniform corporation-wide risk management system is in place in order to ensure that risks are detected in time, their causes analyzed, and that the risks are assessed and avoided or at least minimized. It regulates the identification, recording, assessment, documentation, and reporting of risks and is integrated into the company's strategy, planning, and budgeting processes. By including risk management in the management and reporting systems, Continental ensures that risk management is an integral component of business processes in the corporation.

In order to operate successfully as a company in our complex business sector, Continental AG has also created an effective, integrated internal control system that encompasses all relevant business processes. The internal control system forms an integral part of the risk management system. A summary is therefore given below. The internal control system includes reports for the Supervisory Board, the Audit Committee, the Executive Board, and the Compliance & Risk Committee. In its scope and organizational structure, it is focused on company-specific needs.

Continental has held fast to its fundamental values and ethical standards such as integrity, honesty and compliance in its Code of Conduct, the BASICS and Corporate Governance Principles. Our corporate culture is based on these fundamental values. In addition, recent years have seen the implementation of various internal procedural guidelines and associated instruction letters, and a handbook on accounting and reporting has been written. These regulations, guidelines and instruction letters are intended to help avoid violating applicable legal provisions, while ensuring that these provisions are complied with in our operating activities.

Key elements of the control systems are the clear allocation of responsibilities and controls inherent in the system when preparing the financial statements. The dual control principle and segregation of functions are fundamental features of these controls. In addition, Continental's management ensures accounting that complies with the requirements of law via guidelines on the preparation of financial statements and on accounting, appropriate access authorizations for IT systems and regulations on the involvement of internal and external specialists.

The Executive Board is responsible for the risk management system and the internal control system, and the Supervisory Board and Audit Committee monitor and review their effectiveness.

The risk management and internal control systems include all subsidiaries that are essential to the consolidated financial statements with their relevant accounting processes.

Identifying and assessing risk

Responsibility for identifying and assessing key risks is distributed among various levels and organizational units within Continental AG.

For purposes of risk identification, assessment and reporting, the management of each unit of the corporation analyzes the material risks relating to that unit. Local management can utilize instruments for this, such as local operations management handbooks, centrally-

developed function-specific questionnaires or also the process and control descriptions of Compliance@ Continental Systems, which were developed for all major companies for implementing the requirements of the revised version of the 8th EU Directive. In line with this, the key business processes (purchase to pay, order to cash, HR, asset management and IT permissions) are controlled on a quarterly basis and reviewed with respect to their efficiency.

Corporate functions such as HR, Quality, Law, Purchasing or Systems & Standards also conduct additional audits with respect to the implementation of the relevant corporate guidelines and analyze the processes concerned in terms of efficiency and potential weak points. The aim here is to monitor compliance with the guidelines, identify potential risks in the processes and support standardization of the operating processes.

In addition to the risk assessments carried out by the local management and the corporate functions, the Internal Audit department also implements further reviews at Continental AG.

Continental AG has set up a Compliance & Anti-Corruption Hotline to give all employees the opportunity to report violations of the fundamental values and ethical standards such as integrity, honesty and compliance within the corporation. Information on any kind of potential violations, such as theft, bribery or antitrust behavior, but also accounting manipulation or violations of data protection, can be reported anonymously via the hotline. Tips received by the hotline are passed on to Corporate Auditing where they are examined and pursued accordingly.

The risks identified within the framework described above are categorized and evaluated according to specified criteria. Risks are normally assessed according to their negative impact on the unit's operating result.

The evaluation of risks and their impact on accounting takes into account the probability of their occurrence and their impact on sales, EBIT or total assets.

Risk reporting

As with risk assessment, reporting the identified and assessed risks is also allocated to various organizational levels.

Using an extensive risk inventory, the units report any changes to previously reported risks plus any new developments that could turn into material risks as part of their monthly reporting. Any new material risks arising between regular reporting dates have to be reported immediately. This also includes risks identified in the audits of the corporate functions. Furthermore, the central controlling function analyzes the key figures provided as part of this reporting at corporation and division level also so that the causes of potential risks can be identified early.

The effectiveness of the accounting-related internal control system is evaluated in major areas through effectiveness testing of the reporting units. The results of the effectiveness tests must be recorded in the Continental Corporation's reporting systems on a quarterly basis and are then evaluated by the corporation management. If weaknesses are identified, the corporation management initiates the necessary measures.

The Compliance & Risk Committee informs the Executive Board of Continental on a regular basis of existing risks, their assessment and the measures taken. In addition, there is reporting to the management levels below the Executive Board according to their area of responsibility. The Supervisory Board and the Audit Committee are also informed regularly of the major risks, weaknesses in the control system and measures taken. Furthermore, the auditors are to report to the Audit Committee of the Supervisory Board regarding any weaknesses in the accounting-related internal control system which the auditors identified as part of their audit activities.

Risk management

The responsible management initiates suitable countermeasures that are also documented in the reporting systems for each risk identified and assessed as material. The identified risks are monitored and consolidated at corporation level by the Compliance & Risk Committee, which reports regularly to the Executive Board and recommends additional actions where necessary. The Executive Board discusses and resolves these measures, and reports to the Supervisory Board's Audit Committee. The responsible bodies continually monitor the development of all identified risks and the progress of actions initiated. Regular audits of the risk management process by the internal auditors guarantee its efficiency and further development.

Material risks

Financial risks

Continental is exposed to a number of risks associated with the VDO loan agreement.
To finance the takeover of Siemens VDO Automotive AG ("Siemens VDO") in 2007, Continental and a banking syndicate consisting of 39 lenders entered into a syndicated credit facilities agreement for €13.5 billion, which was amended and restated most recently on December 18, 2009 ("VDO loan agreement"). Loans and credit lines provided as part of this agreement totaled €11.0 billion as of December 31, 2009. Among other obligations, the VDO loan agreement requires Continental to meet specific financial covenants, in particular a maximum leverage ratio (calculated as the ratio of Continental's consolidated net financial indebtedness to consolidated EBITDA) and a minimum interest cover ratio (calculated as the ratio of Continental's consolidated EBITDA to consolidated net interest). The maximum leverage ratio will gradually decrease from 4.75 for the testing period ending on December 31, 2009, to 3.00 for the testing period ending on June 30, 2012, and the minimum interest cover ratio shall not be below 2.25 for the testing periods ending until March 31, 2011, and not be below 2.50 for the testing periods ending thereafter. In view of the continued uncertain economic development and its possible further effects on Continental's business activities and earnings situation as well as the other market and operational risks described below, Continental may not be able to comply with the financial covenants described above. If Continental breaches any of these obligations, the lenders can accelerate the loans, and upon such acceleration the loans drawn under the VDO loan agreement will become immediately due and payable and/or any commitments will be canceled.

Tranche B of the VDO loan agreement in the aggregate amount of €3.5 billion will become due for repayment in August 2010. The company has already paid back part of this obligation from the issue proceeds in the amount of approximately €1.1 billion from the capital increase resolved in January 2010. In order to refinance the remaining amount of close to €2.5 billion, Continental has entered into a forward start facility with banks which are also lenders under the VDO loan agreement on December 18, 2009. In other words, the forward start facility is a loan that Continental can use if needed at the time tranche B becomes due at conditions that are already established.

The line of credit of the forward start facility amounts to a maximum of €2.5 billion. The terms and conditions are essentially the same as those of the VDO loan agreement.

In August 2012, tranche C of the syndicated facilities agreement in the aggregate amount of €5.0 billion and the outstanding amounts under the revolving facility from the VDO loan agreement in the aggregate amount of €2.5 billion as well as the amounts to be drawn under the forward start facility will become due for repayment. In view of the significant deterioration in Continental's credit rating since 2008 and the high risk premiums currently prevailing in the debt markets for non investment-grade issuers, Continental could fail to refinance the entire amount then due, with the result that it would be impossible for Continental to pay back the amount. In addition, any refinancing of these liabilities through further bank financing or in the capital markets (if possible at all) could lead to a material increase of Continental's net interest expense.

Furthermore, under the terms of the loan agreements, a prepayment event also occurs in the event of a change-of-control at Continental AG. Under the loan agreements, a change-of-control event occurs if a person or group of persons acting in concert (as defined in Section 2(5) of the German Takeover Code (*Wertpapiererwerbs- und Übernahmegesetz; WpÜG*)) acquires more than 50% of the voting rights of the company or acquires effective control of the company by means of a domination agreement (*Beherrschungsvertrag*) pursuant to Section 291 of the German Stock Corporation Act (*AktG*). Upon occurrence of such change-of-control event, each lender may demand repayment of its participation in all outstanding loans, plus interest, and all other amounts accrued under the loan agreements. A change-of-control could occur, in particular, if the shareholding of Schaeffler KG, Herzogenaurach, in the company's voting capital stock exceeds 50% due to Schaeffler acquiring further shares in the company or as a result of Schaeffler being regarded as acting in concert with other shareholders in the company, or if a domination agreement (*Beherrschungsvertrag*) pursuant to Section 291 of the German Stock Corporation Act (*AktG*) is concluded between Schaeffler and the company. The loans described here could become immediately due and payable also if other

financing agreements for financial indebtedness of an aggregate amount of more than €75.0 million lead to default.

Continental faces considerable liquidity risks due to its relatively high level of debt and the disruptions in the financial markets.

Continental faces considerable liquidity risks arising from the current economic crisis, tight credit markets and its existing financial liabilities. While Continental continues to hold relatively high levels of debt (net indebtedness amounting to €8,895.5 million as of December 31, 2009), tighter credit markets (including the market for high-yield bonds) have made it more difficult for the company to obtain financing on commercially reasonable terms. In addition, due to the rating downgrade of Continental's credit rating in June and August 2009, Continental may be unable to continue its factoring programs under which it factored invoices to banks in the past or to issue high-yield bonds.

Continental's cash from operating activities, current cash resources, existing sources of external financing and the proceeds from the offering from the capital increase could be insufficient to meet Continental's further capital needs. Furthermore, disruptions in the financial markets, including the insolvency or restructuring of a number of financial institutions, and the generally restricted availability of liquidity are adversely impacting the availability and cost of additional financing for Continental and could adversely affect the availability of financing already arranged or committed. Continental's liquidity could also be adversely impacted if its suppliers tighten terms of payment or if its customers were to extend their normal payment terms.

Continental's credit rating was downgraded several times in the recent past and could be subject to further downgrades.

In connection with the acquisition of Siemens VDO in 2007, Continental's net indebtedness increased significantly and, as a consequence, its equity-to-debt ratio decreased significantly. In the course of 2008 and 2009, Continental's equity ratio decreased further due to the effects of the financial crisis and the following economic downturn on Continental's business and results of operations as well as due to extraordinary goodwill impairments related to the Powertrain, Interior and Chassis & Safety divisions. These developments, as well as the uncertainty about the effects of the stake held by Schaeffler in Continental's capital on its strategy and credit quality, have caused the rating agencies covering Continental to downgrade its credit rating from BBB+ (Standard & Poor's) and Baa1 (Moody's), both with stable outlook, in June 2007, to "B+ Creditwatch Negative" (Standard & Poor's) and "B1 Negative Outlook" (Moody's) in August 2009. The downgrading of Continental's credit rating over the past years has made it more difficult for Continental to obtain financing on commercially reasonable terms. For example, due to the rating downgrade, Continental may be unable to continue its factoring programs under which it factored trade receivables to banks in the past. This may also make it impossible for Continental to issue high-yield debt. As it is uncertain whether the global economy and automotive production will rebound significantly in the short term, Continental's credit rating may be downgraded further. Any such downgrading could have adverse effects on Continental's opportunities for obtaining funding as well as the costs and related interest expenses. A further downgrading of Continental's credit rating could also adversely impact Continental's liquidity position if its suppliers change the terms of payment offered to Continental for this reason, for example by requesting payment in advance. Any such impact could be aggravated if credit insurers were to further restrict coverage for Continental's accounts payable. In addition, a further downgrading of Continental's credit rating could cause Continental's customers to extend their normal payment terms or even to terminate their supply relationships with Continental and to engage another supplier altogether.

Continental's other financing agreements contain, and future debt obligations are likely to contain, restrictive covenants and change-of-control provisions.

In addition to the risks related to the VDO loan agreement and the forward start facility, Continental is also subject to risks related to the other financing agreements of the company [in particular the loan from the European Investment Bank ("EIB"), which amounts to €400.0 million at the end of 2009, and a promissory note in the amount of €110.0 million]. These other financing agreements also contain numerous covenants that limit Continental's operations and require Continental to maintain specific financial ratios as well as change-of-control provisions. Under the terms of the EIB loan agreement, a change-of-control event also occurs if a person or group of persons acting in concert [as defined in Section 2(5) of the German Takeover Code (*Wertpapiererwerbs- und*

Übernahmegesetz)] acquires more than 50% of the voting rights of the company or acquires effective control of the company by means of a domination agreement (*Beherrschungsvertrag*) pursuant to Section 291 of the German Stock Corporation Act (*AktG*). In this case, EIB may request information on the change-of-control from the company. If EIB sees its interests affected by the change-of-control, it may demand repayment of the outstanding amount under the EIB loan plus interest within 30 days.

Any debt financing incurred by Continental in the future is likely to contain similar restrictive covenants and change-of-control provisions. If Continental fails to comply with any of these covenants or if a change-of-control occurs, and Continental is unable to obtain a waiver from the respective lenders, a default could result under the relevant debt instrument, which would then become immediately due and payable. In addition, EIB can declare its loan immediately due and payable if other financing agreements exceeding €40.0 million lead to default.

Continental is exposed to risks associated with interest rate changes and hedging.
Continental is exposed to risks associated with changes in variable interest rates, as a number of Continental's credit facilities (in particular the facilities granted under the VDO loan agreement) bear interest at a floating rate. Therefore, an increase or decrease in interest rates would affect Continental's current interest expenses and its future refinancing costs. These risks are monitored and evaluated as part of our interest rate management activities and managed by means of derivative interest rate hedging instruments. In 2008, Continental hedged a substantial part of tranche C of the VDO loan agreement due for maturity in August 2012 (altogether hedging a loan volume of €3.125 billion at an average rate of 4.19% plus margin) in order to mitigate Continental's exposure to fluctuating interest rates. However, the future use of derivative interest rate hedging instruments is generally dependent on the availability of adequate credit lines. Currently, the availability of additional credit lines is negatively affected by the disruptions in the financial markets, Continental's high level of financial indebtedness and the downgrading of its credit rating. As a result, Continental could be unable to use derivative financial instruments in the future and Continental's hedging strategy could therefore ultimately be negatively impacted. Moreover, any hedging transactions executed in the form of derivative financial instruments may result in losses, partly due to the considerable costs, in some cases, of such hedging instruments.

Risks related to the markets in which Continental operates

Continental is exposed to substantial risks in connection with the effects of the global economic downturn.
Continental generates a large percentage (approximately 67%) of its sales from OEMs. The remainder of Continental's sales is generated from the replacement or industrial markets, mainly in the replacement markets for passenger tires, light truck tires, van tires, and truck tires, and to a lesser extent in the non-automotive end-markets of the other divisions.

Since the beginning of the global economic crisis, automotive sales and production deteriorated substantially, resulting in a sharp decline in demand for Continental's products from its OEM customers. The economic downturn may become more severe or last longer than expected and as a consequence, automotive production could fall further or remain at the current low levels for an extended period. A continued weakness in or deterioration of the global automotive markets or consumer credit markets is likely to adversely affect Continental's sales and results of operations. Furthermore, Continental's five largest OEM customers (BMW, Ford, Daimler, VW and General Motors) generated approx. 40% of the Continental Corporation's sales in 2009. A combination of significantly lower global production levels, tightened liquidity and increased cost of capital have caused severe financial distress among a number of OEMs and have forced these companies to implement restructuring measures, including reorganization under bankruptcy laws. There can be no assurance that any of these restructuring measures will be successful. If one or more of Continental's OEM customers is lost or terminates a supply contract prematurely, the original investments made by Continental to provide such products or outstanding claims against such customer could be wholly or partially lost. In numerous markets important to Continental, governments introduced scrapping programs in 2009 [such as the Car Allowance Rebate System (CARS) in the United States and the Car Scrapping Bonus (*Umweltprämie*) in Germany] intended to provide economic incentives to car owners to trade in older vehicles and purchase new vehicles. These programs, which were

designed to stimulate the economy by boosting vehicle sales, have lapsed or will lapse in the near future. As these scrapping programs may have led to increased sales by bringing forward potential demand from later years rather than adding incremental demand in the relevant markets, vehicle sales may decline in the short term with likely negative consequences for production volumes on which Continental depends. Furthermore, the replacement markets for passenger tires, light truck tires and van tires have been affected by the global economic downturn, which has caused a decline in demand for Continental's passenger tires, light truck tires and van tires. Simultaneously, truck tire replacement demand declined sharply in Continental's main markets (Europe and NAFTA) as a consequence of lower freight volumes and reluctant spending by customers, which led to a sharp decline in demand for Continental's products. In addition, global production of trucks has collapsed as a result of the global recession, which has resulted in a sharp decline in demand for Continental's truck tires from OEM customers and also negatively affected sales in the ContiTech and Interior divisions. It is uncertain whether and to what extent the global production of trucks will rebound in the short term.

Continental operates in a cyclical industry.

Global production of vehicles and (as a result) sales to OEM customers (from whom Continental currently generates approximately 67% of its sales) are cyclical. They depend, among other things, on general economic conditions and consumer spending and preferences, which can be affected by a number of factors, including fuel costs and the availability of consumer financing. As the volume of automotive production fluctuates, the demand for Continental's products also fluctuates, as OEMs generally do not commit to purchasing minimum quantities from their suppliers or fix prices. It is difficult to predict future developments in the markets Continental serves, which creates problems in estimating the requirements for production capacity. Since its business is characterized by high fixed costs, Continental risks underutilization of its facilities (in particular, in the Automotive Group) or having insufficient capacity to meet customer demand if the markets in which Continental is active either grow or decline faster than Continental has anticipated. An underutilization of Continental's facilities could result in idle capacity costs, write-offs of inventories and losses on products due to falling average sale prices. Furthermore, falling production volumes produce declines in sales and margins, as well as earnings.

The automotive supply industry is characterized by intense competition, which could reduce Continental's sales or put continued pressure on its sales prices.

The automotive supply industry is highly competitive and has been characterized by rapid technological change, high capital expenditures, intense pricing pressure from major customers, periods of oversupply and continuous advancements in process technologies and manufacturing facilities. As OEMs are increasingly affected by innovation and cost-cutting pressures from competitors, they seek price reductions in both the initial bidding process and during the term of the contract with their suppliers. In particular, vehicle manufacturers expect lower prices from suppliers for the same, and in some cases even enhanced, functionality, as well as a consistently high product quality. Should Continental be unable to offset continued price reductions through improved operating efficiencies and reduced expenditures, price reductions could impact profit margins. Furthermore, Continental's existing competitors, in particular its competitors from Asia, may pursue an aggressive pricing policy and offer conditions to customers that are more favorable than Continental's. Furthermore, the markets in which Continental is active are characterized by a trend towards consolidation. Increased consolidation among Continental's competitors or between Continental's competitors and any of its OEM customers could allow competitors to further benefit from economies of scale, offer more comprehensive product portfolios and increase the size of their serviceable markets. This could require Continental to accept considerable reductions in its profit margins and the loss of market share due to price pressure. Furthermore, competitors may gain control over or influence on suppliers or customers of Continental by shareholdings in such companies, which could adversely affect Continental's supplier relationships.

Continental is exposed to fluctuations in prices of raw materials, electronic components and energy.

For the divisions of the Automotive Group, cost increases could result, in particular, from rising steel and electronic components prices, while the divisions of the Rubber Group are mainly affected by the development of oil and natural rubber prices. In the recent past, steel and electronic components prices, as well as oil and natural rubber prices have fluctuated on a worldwide basis. However, Continental does not actively hedge against the risk of rising prices of electronic components or raw materials by using derivative financial instruments.

Therefore, if Continental is not able to compensate for or pass on its increased costs to customers, such price increases could have a material adverse impact on Continental's results of operations.

As a manufacturer dependent on large quantities of energy for production purposes, Continental is also affected by changes in energy prices. If Continental is unable to compensate for or pass on its increased costs resulting from rising energy prices to customers, such price increases could have a material adverse impact on Continental's financial results.

Continental generates by far the greatest share of its total sales in Europe and, in particular, in Germany.

In 2009, Continental generated 63% of its total sales in Europe, of which 29% were generated in Germany. By comparison, 18% of Continental's total sales in 2009 were generated in NAFTA, 14% in Asia and 5% in other countries. As a consequence, in case of a prolonged economic downturn in Europe or in Germany, in particular, Continental's business and results of operations may be more affected than its competitors'. Furthermore, the automotive and tire markets in Europe and NAFTA are largely saturated. Continental aims to generate more sales in emerging markets, in particular in Asia, to mitigate the risks resulting from Continental's strong focus on Europe and Germany. A failure to diversify geographically could have a material adverse effect on Continental's business, financial condition and results of operations.

Continental is exposed to risks associated with the market trends and developments that could affect the vehicle mix sold by OEMs.

Continental currently generates approximately 67% of its sales from OEMs, mainly in its Automotive Group. Global production of vehicles and (as a result) sales to OEM customers are currently subject to a number of market trends and technical developments that may affect the vehicle mix sold by OEMs.

- Due to increasingly stringent consumption and emission standards throughout the industrial world, including the European Union (EU), the U.S.A. and Japan, as well as oil price fluctuations and the resulting significant increase in fuel costs, car manufacturers are increasingly forced to develop environmentally-friendly technologies aimed at lower fuel consumption and a reduction of CO_2 emissions. These developments have caused a trend towards vehicles with lower fuel consumption, in particular smaller cars, in these markets.

- Over the past years, the market segment of "affordable" cars (referring to favorably priced cars costing less than $10,000/€7,000) has been increasing steadily, in particular in emerging markets such as China, India, Brazil and Eastern Europe.

- Over the past decade, hybrid electric vehicles, combining a conventional internal combustion engine propulsion system with an electric propulsion system, have become increasingly popular. Their market share may increase further in the coming years. Furthermore, according to recent industry publications, a number of market participants are currently developing "pure-play" electric vehicles, using (only) one or more electric motors for propulsion. If the industry is able to develop functional electric vehicles that suit the consumer's taste, these might gain a material market share in the medium or long term.

As a consequence of the above-listed market trends and technical developments, the vehicle mix sold by Continental's customers has shifted significantly over the past two years and may further shift in the future.

Continental is exposed to risks associated with changes in currency exchange rates and hedging.

Continental operates worldwide and is therefore exposed to financial risks that arise from changes in exchange rates. Currency exchange fluctuations could cause losses if assets denominated in currencies with a falling exchange rate lose value, while at the same time liabilities denominated in currencies with a rising exchange rate appreciate. In addition, fluctuations in foreign exchange rates could enhance or minimize fluctuations in the prices of raw materials, since Continental purchases a considerable part of the raw materials which it sources in foreign currencies. As a result of these factors, fluctuations in exchange rates could affect Continental's results of operations. External and internal transactions involving the delivery of products and services to third parties and companies of the Continental Corporation result in cash inflows and outflows which are denominated in currencies other than the functional currency of the respective member of the Continental Corporation ("transaction risk"). Continental is particularly exposed to fluctuations in the U.S. dollar, the Czech koruna,

Chinese yuan, Romanian leu, and Hungarian forint. To the extent that cash outflows of the respective member of the Continental Corporation in any one foreign currency are not offset by cash flows resulting from operational business in such currency, the remaining net foreign currency exposure is hedged against on a case-by-case-basis by using appropriate derivative financial instruments, particularly currency forwards, currency swaps and currency options with a term of up to twelve months. Moreover, Continental is exposed to foreign exchange risks arising from external and internal loan agreements, which result from cash inflows and outflows in currencies which are denominated in currencies other than the functional currency of the respective member of the Continental Corporation. These foreign exchange risks are in general hedged against by using appropriate derivative financial instruments, particularly currency forwards/swaps and cross-currency interest-rate swaps.

Continental's hedging strategy could ultimately be unsuccessful. Moreover, any hedging transactions executed in the form of derivative financial instruments may result in losses, due to, in some cases, the considerable costs of such hedging instruments. Continental's net foreign investments are generally not hedged against exchange rate fluctuations. In addition, a number of Continental's consolidated companies report their results in currencies other than the euro, which requires Continental to convert the relevant items into euro when preparing Continental's consolidated financial statements ("translation risk"). Translation risks are generally not hedged.

Risks related to Continental's business operations

Continental is encountering significant challenges in its Powertrain division and it may not achieve a timely turnaround.

Continental is encountering significant challenges in its Powertrain division. In 2007, Continental acquired Siemens VDO from Siemens AG and established three new divisions, including the Powertrain division, mainly consisting of former Siemens VDO businesses. The Powertrain division was initially structured into seven business units (Gasoline Systems, Diesel Systems, Electronics, Transmission, Hybrid Electric Vehicle, Sensors, Actuators/Motor Drives and Fuel Supply) and a number of ancillary projects and businesses.

Continental has identified a number of problem areas within the Powertrain division, including a number of unprofitable long-term supply contracts, technical and quality problems involving product design, materials and mechanical parts, organizational problems and a high fixed cost base. Continental has initiated a turnaround program and several restructuring measures, involving among other things several changes at the division's management level and a reduction of the organizational structure to five business units (Engine Systems, Transmission, Fuel Supply, Hybrid Electric Vehicle and Sensors & Actuators). However, Continental has not yet succeeded in remedying all of the problems identified within the Powertrain division by implementing these measures. Especially, the technical and quality issues encountered by the Powertrain division have led in the past, and continue to lead, to cost-intensive application engineering. Moreover, the problems encountered by the Powertrain division were intensified due to the global recession and its consequences, since the Powertrain division's high fixed cost base prevented a quick adjustment of the cost structure to lower production volumes caused by the sharp decline in demand. The loss of key employees also played a role in this. The technical quality issues encountered by the Powertrain division with respect to product design, materials and mechanical parts could cause warranty or product liability claims which exceed customary standards by far and which may not be covered by Continental's insurance policies. Moreover, defective products could result in a loss of sales, contracts, customers or market acceptance. Furthermore, Continental could be forced to dedicate a considerable amount of additional management capacity to solve these problems. Any failure or delay in solving the operational issues at the Powertrain division could affect Continental's competitive position in a number of important and rapidly growing market segments, such as the market for efficient engine management systems for gasoline and diesel engines and the hybrid electric or the electric vehicle market. As a consequence, the goodwill recorded for the Powertrain division could be subject to further significant impairments in the future.

Continental is exposed to risks in connection with the sale and transfer of shares in ContiTech AG to Continental Pension Trust e.V.

On August 19, 2009, Continental AG, ContiTech Universe Verwaltungs-GmbH (a 100% subsidiary of the company; "ContiTech Universe"), ContiTech AG and Continental Pension Trust e.V. (the trustee of the con-

tractual trust arrangement (CTA) for Continental AG, Continental Reifen Deutschland GmbH and Continental Teves AG & Co. OHG) entered into an agreement concerning the sale and transfer of 22,148,273 shares (representing 24.9% of the capital stock of ContiTech AG) by ContiTech Universe to Continental Pension Trust against payment of a purchase price of €475.6 million. The purchase agreement includes, among other items, a number of regulations on the sale and transfer of shares in ContiTech AG. Under certain circumstances, these authorize the Continental Pension Trust (i) to obligate Conti Tech Universe to repurchase the ContiTech shares at a purchase price of at least €475.6 million, (ii) to sell its ContiTech shares to a third party, (iii) to sell its ContiTech shares to a third party which acquires the ContiTech shares held by ContiTech Universe, or (iv) to obligate ContiTech Universe to sell its ContiTech shares to a third party which acquires the ContiTech shares held by Continental Pension Trust.

Continental depends on its ability to develop and bring to the market innovative products in a timely manner, which includes securing sufficient funding for this purpose.

The future success of Continental depends on the company's ability to develop and bring to the market new and improved products in a timely manner. The automotive market, in particular, is characterized by a development towards higher performance and simultaneously more fuel-efficient, less polluting and quieter engines, growing demands by customers and stricter regulations with respect to engine efficiency and by the trend towards affordable cars and hybrid and electric vehicles. These new developments could entail technical challenges, the mastering of which could be very time-consuming for Continental. Consequently, Continental may be unable to develop innovative products and adapt them to market conditions quickly enough. Furthermore, developing new and improved products is very costly and therefore requires a substantial amount of funding. The general lack of liquidity caused by the disruptions in the financial markets, combined with Continental's high level of indebtedness and the downgrading of its credit rating, is adversely impacting the availability and cost of additional credit for Continental and could also limit the availability of credit already arranged or committed. Should Continental be unable to secure sufficient funding to finance its development activities, it could lose its competitive position in a number of important and rapidly growing sub-markets. Furthermore, Continental spends significant resources on research and development, especially in the divisions of its Automotive Group, but also in the Rubber Group. Over the past years, Continental's R&D expenses in relation to total sales accounted for more than 5%. If Continental devotes resources to the pursuit of new technologies and products that fail to be accepted in the marketplace or that fail to be commercially viable, all or part of these significant R&D expenses may be lost and Continental's business may suffer.

Continental depends on a limited number of key suppliers for certain products.

Continental is subject to the risk of unavailability of certain raw materials and production materials. Although Continental's general policy is to source input products from a number of different suppliers, a single sourcing cannot always be avoided and, consequently, Continental is dependent on certain suppliers in the Rubber Group as well as with respect to certain products manufactured in the Automotive Group. Since Continental's procurement logistics are mostly organized on a just-in-time or just-in-sequence basis, supply delays, cancellations, strikes, insufficient quantities or inadequate quality can lead to interruptions in production and, therefore, have a negative impact on Continental's business operations in these areas. Continental tries to limit these risks by endeavoring to select suppliers carefully and monitoring them regularly. However, if one of Continental's suppliers is unable to meet its delivery obligations for any reason (for example, insolvency, destruction of production plants or refusal to perform following a change in control), Continental may be unable to source input products from other suppliers upon short notice at the required volume. The recent economic downturn has led to a significant deterioration of financial health among automotive suppliers and caused a rise in insolvencies, mainly amongst Tier 2 suppliers (suppliers that sell their products to Tier 1 suppliers) and Tier 3 suppliers (suppliers that sell their products to Tier 2 suppliers), whereas Tier 1 suppliers (suppliers that sell their products directly to OEMs) are not affected to the same extent. This could cause delays in delivery or finalization of Continental products or projects and could result in Continental having to purchase products or services from third parties at higher costs or even to financially support its own suppliers. Furthermore, in many cases OEM customers have approval rights with respect to the suppliers used by Continental, making it impossible for Continental to source input products from other suppliers upon short

notice if the relevant OEM customer has not already approved other suppliers at an earlier point in time. All of this could lead to order cancellations or even claims for damages. Furthermore, Continental's reputation amongst OEM customers could suffer, with the possible consequence that they select a different supplier.

Continental is exposed to warranty and product liability claims.

Continental is constantly subject to product liability lawsuits and other proceedings alleging violations of due care, violation of warranty obligations, material defects, and claims arising from breaches of contract, recall campaigns or fines imposed by governments. Any such lawsuits, proceedings and other claims could result in increased costs for Continental. Moreover, defective products could result in loss of sales and of customer and market acceptance. Such risks are insured up to levels considered economically reasonable by Continental, but its insurance coverage could prove insufficient in individual cases. Additionally, any defect in one of Continental's products (in particular tires and safety-related products) could also have a considerable adverse effect on the company's reputation and market perception. This could in turn have a significant negative impact on Continental's sales and results of operations. Moreover, vehicle manufacturers are increasingly requiring a contribution from their suppliers for potential product liability, warranty and recall claims. In addition, Continental has been subject to continuing efforts by its customers to change contract terms and conditions concerning warranty and recall participation. Furthermore, Continental manufactures many products pursuant to OEM customer specifications and quality requirements. If the products manufactured and delivered by Continental do not meet the requirements stipulated by its OEM customers at the agreed date of delivery, production of the relevant products is generally discontinued until the cause of the product defect has been identified and remedied. Furthermore, Continental's OEM customers could potentially claim damages, even if the cause of the defect is remedied at a later point in time. Besides this, failure to fulfill quality requirements could have an adverse effect on the market acceptance of Continental's other products and its market reputation in various market segments.

Continental's operations depend on qualified executives and key employees.

Continental's success depends on its Executive Board members and other qualified executives and employees in key functions. The loss of executives or key employees could have a material adverse effect on the market position and prospects of Continental. Considerable expertise could be lost or access thereto gained by competitors. Due to the intense competition in the automotive industry, there is a risk of losing qualified employees to competitors or being unable to find a sufficient number of appropriate new employees. There is no guarantee that Continental will be successful in retaining these executives and the employees in key positions or in attracting new employees with corresponding qualifications. Continental tries to retain the commitment of its qualified executives and key employees through performance-based remuneration systems. There is a risk that such employees leave Continental, especially in view of the uncertainty about the effects of the stake held by Schaeffler on the corporate strategy. Furthermore, the ongoing restructuring measures initiated by Continental could trigger above-average fluctuation.

Continental is exposed to risks in connection with its pension commitments.

Continental provides defined benefit pension plans in Germany, the U.S.A., the UK and certain other countries. As of December 31, 2009, the pension obligation amounted to €3,056.4 million. These existing obligations are financed predominantly through externally invested pension plan assets. In 2006, Continental established legally independent trust funds under contractual trust arrangements for the funding of pension obligations of certain subsidiaries in Germany. In 2007, Continental assumed additional pension trust arrangements in connection with the acquisition of Siemens VDO. As of December 31, 2009, Continental's net pension obligations (pension obligations less pension plan assets) amounted to €1,436.5 million.

Continental's externally invested pension plan assets are funded through externally managed funds and insurance companies. While Continental generally prescribes the investment strategies applied by these funds, it does not determine their individual investment alternatives. The assets are invested in different asset classes including equity, fixed-income securities, real estate and other investment vehicles. The values attributable to the externally invested pension plan assets are subject to fluctua-

tions in the capital markets that are beyond Continental's influence. Unfavorable developments in the capital markets could result in a substantial coverage shortfall for these pension obligations, resulting in a significant increase in Continental's net pension obligations.

Any such increase in Continental's net pension obligations could adversely affect Continental's financial condition due to an increased additional outflow of funds to finance the pension obligations. Also, Continental is exposed to risks associated with longevity and interest rate changes in connection with its pension commitments as an interest rate decrease could have an adverse effect on Continental's liabilities under these pension schemes. Furthermore, certain U.S.-based subsidiaries of Continental have entered into obligations to make contributions to healthcare costs of former employees and retirees. Accordingly, Continental is exposed to the risk that these costs will increase in the future.

Continental is exposed to risks in connection with its joint venture with Michelin and its interests in other joint ventures and other associated companies.

Continental and Compagnie Financière Michelin (Granges-Paccot, Switzerland) ("Michelin") each hold a 50% stake in MC Projects B.V. (Amsterdam, the Netherlands), a joint venture company, to which Michelin contributed the rights to the Uniroyal brand for Europe as well as for certain countries outside Europe. In turn, MC Projects B.V. licensed to Continental certain rights to use the Uniroyal brand on or in connection with tires in Europe and elsewhere. Under the terms of the agreement governing the joint venture, both the agreement and the Uniroyal license can be terminated if a major competitor in the tire business acquires more than 50% of the voting rights of Continental AG or of its tire business. Furthermore, in this case Michelin also has the right to acquire a majority in MC Projects B.V. and to have MC Projects B.V. increase its minority stake in the manufacturing company of Barum Continental spol. s. r. o. in Otrokovice, Czech Republic – Continental's largest tire plant in Europe – to 51%. These events could have an adverse effect on the business, financial condition and results of operations of Continental's Tire divisions. Furthermore, Continental conducts its business in part via other joint ventures and associated companies in which Continental holds an interest.

Continental's ability to fully exploit the strategic potential in markets in which it operates through joint ventures or associated companies would be impaired if it were unable to agree with its joint venture partners or other interest groups on a strategy and the implementation thereof. Moreover, Continental could be subjected to fiduciary obligations to its joint venture partners or other shareholders, which could prevent or impede its ability to unilaterally expand in a business area in which such a joint venture or associated company operates. Additionally, there is a risk that the transfer of know-how and/or trade secrets to partners in the context of joint ventures and other collaborations could result in a drain of expertise from Continental. In particular, after a potential separation from a joint venture or collaboration partner, there is no guarantee that the know-how and/or trade secrets transferred to such partner will not be used or disclosed to third parties, thereby adversely affecting Continental's competitive position.

Continental's operations rely on complex IT systems and networks.

Continental relies on centralized, standardized information technology systems and networks to support business processes, as well as internal and external communications. These systems and networks are potentially vulnerable to damage or interruption from a variety of sources. Although Continental has taken precautions to manage its risks related to system and network disruptions, an extended outage in a data center or telecommunications network or a similar event could lead to an extended unanticipated interruption of Continental's systems or networks. Furthermore, Continental has outsourced all of its SAP operations and certain other business critical systems to an external service provider, making it and thus Continental vulnerable to damage and loss caused by fire, natural hazards, terrorism, power failure, or other disturbance at such third party's facilities and networks.

Continental could be adversely affected by property loss and business interruption.

Damage and loss caused by fire, natural hazards, terrorism, power failure, or other disturbance at Continental's production facilities or within Continental's supply chain — with customers and with suppliers – can be severe. The risks arising from business interruption and loss of production are insured up to levels considered economically reasonable by Continental, but its insurance coverage could prove insufficient in individual cases. Further-

more, such events could injure or damage individuals, third party property or the environment, which could, among other things, lead to considerable financial costs for Continental.

Continental is exposed to risks from performance bonds that were granted to customers of its divested Public Transport Solutions business.
In the past, Continental has regularly granted performance bonds in connection with orders received from customers in its Public Transport Solutions business. On August 31, 2009, four subsidiaries of Continental AG, as sellers, entered into a framework agreement, which was closed on November 2, 2009, concerning the sale of the Public Transport Solutions business to subsidiaries of Trapeze Software Inc., Ontario, Canada ("Trapeze"). Under this framework agreement, Trapeze did not assume liability under any performance bonds issued by Continental to secure obligations under the contracts entered into with customers of the Public Transport Solutions business before or after the sale of the business.

Trapeze is obliged to indemnify Continental, should Continental make a payment in response to a performance bond. However, Continental's recourse is limited, unless the claim of the customer under the performance bond was made due to Trapeze's willful deceit or other intentional breach of the relevant customer contract. As a consequence, Continental may still be held liable under the performance bonds and has only limited recourse vis-à-vis Trapeze, although Continental can no longer influence the way in which the obligations towards the customer are fulfilled.

Legal, environmental and taxation risks

Continental could be held liable for soil, water or groundwater contamination or for risks related to hazardous materials.
Many of the sites at which Continental operates have been used for industrial purposes for many years, leading to risks of contamination and the resulting site restoration obligations. Moreover, Continental could be responsible for the remediation of areas adjacent to its sites if these areas were contaminated due to Continental's activities, that is, if Continental were to be found the polluter of these areas. Furthermore, soil, water and/or groundwater contamination has been discovered at a number of sites operated by Continental in the past, including Mayfield (Kentucky, U.S.A.), Adelheidsdorf (Germany), Culpeper (Virginia, U.S.A.), Gifhorn (Germany), Mechelen (Belgium) and Varzea Paulista (Brazil). For example, following the closure of the Mayfield plant in 2005, the competent environmental authority is seeking to establish new requirements, in particular the submittal of an appropriate remedial plan, which should include inter alia proposals for the groundwater sampling. The responsible authorities could assert claims against Continental, as the owner and/or tenant of the affected plots, for the examination or remediation of such soil and/or groundwater contamination, or order Continental to dispose of or treat contaminated soil excavated in the course of construction. Continental could also be sued for damages by the owner of plots leased by Continental or of other properties, if the authorities were to pursue claims against the relevant owner of the property and if Continental had caused the contamination.

On several of the sites where contamination has been discovered, remediation activities have already taken place upon order by or agreement with the competent authorities. Costs typically incurred in connection with such claims are generally difficult to predict. Moreover, if any contamination were to become a subject of public discussion, there is a risk that Continental's general reputation or its relations with its customers could be harmed.

Furthermore, at some of the sites at which Continental operates, hazardous materials were used in the past, such as asbestos-containing building materials used for heat insulation. The health and safety of third parties (for example former employees) may have been affected due to the use of such hazardous materials and Continental could therefore be exposed to related damage claims in the future.

Continental faces similar risks with respect to former sites which it has since sold. Even if Continental has contractually excluded or limited its liability vis-à-vis a purchaser, it could be held responsible for currently unknown contamination on properties which it previously owned or used. Likewise, there can be no assurance that environmentally hazardous substances will not pollute the environment or that Continental will not be called upon to remove such contamination.

Continental could become subject to additional burdensome environmental or safety regulations and additional regulations could adversely affect demand for Continental's products and services.
Continental, as a worldwide operating corporation, must observe a large number of different regulatory systems across the world that change frequently and are continuously evolving and becoming more stringent, in particular with respect to the environment, chemicals and hazardous materials, as well as health regulations. This applies further to air, water and soil pollution regulations and to waste legislation, all of which have recently become more stringent through new laws, particularly in the EU and the U.S.A. Moreover, Continental's sites and operations necessitate various permits and Continental has to comply with the requirements specified therein. In the past, adjusting to new requirements has necessitated significant investments and Continental assumes that further significant investments in this regard will be required in the future.

Furthermore, any additional regulations restricting or limiting car traffic with the aim of managing global warming (climate change) could lead to a material decrease in car sales and consequently adversely affect demand for Continental's products and services.

Continental could be unsuccessful in adequately protecting its intellectual property and technical expertise.
Continental's products and services are highly dependent upon its technological know-how and the scope and limitations of its proprietary rights therein. Continental has obtained or applied for a large number of patents and other industrial property rights that are of considerable importance to its business. The process of obtaining patent protection can be lengthy and expensive. Furthermore, patents may not be granted on currently pending or future applications or may not be of sufficient scope or strength to provide Continental with meaningful protection or commercial advantage. In addition, although there is a presumption that patents are valid, this does not necessarily mean that the patent concerned is effective or that possible patent claims can be enforced to the degree necessary or desired.

A major part of Continental's know-how and industrial secrets is not patented or cannot be protected through industrial property rights. Consequently, there is a risk that certain parts of Continental's know-how and trade secrets could be transferred to joint venture partners, collaboration partners, customers and suppliers, including Continental's machinery suppliers or plant vendors. This poses a risk that competitors will copy Continental's know-how without incurring any expenses of their own.

Furthermore, prior to the acquisition of Siemens VDO by Continental, Siemens AG (i) contributed to Siemens VDO industrial property rights, know-how and software that were exclusively attributed to the business unit "Siemens VDO Automotive", (ii) granted to Siemens VDO non-exclusive rights to use industrial property rights, know-how and software that were not exclusively attributed to the business unit "Siemens VDO Automotive" as of the contribution date, including certain industrial property rights of Siemens AG related to electric motors and voice recognition systems, and (iii) granted to Siemens VDO exclusive rights to use certain industrial property rights of Siemens AG related to the piezo fuel injection system. At the same time, Siemens AG retained non-exclusive, irrevocable, unrestricted, transferable and royalty-free rights to use such contributed industrial property rights, inventions on which such rights are based, know-how and software. As a consequence, Siemens AG may still use the industrial property rights, inventions on which such rights are based, know-how and software which were contributed to Siemens VDO, or for which non-exclusive rights of use were granted to Siemens VDO, to compete with Continental on the market or could license such industrial property to third parties, thereby materially adversely affecting Continental's competitive position.

Moreover, Continental has concluded a number of license, cross-license, collaboration and development agreements with its customers, competitors and other third parties under which Continental is granted rights to industrial property and/or know-how of such third parties. It is possible that license agreements could be terminated, inter alia, in the event of the licensing partner's insolvency or bankruptcy and/or in the event of a change-of-control in either party, leaving Continental with reduced access to intellectual property rights to commercialize its own technologies.

There is a risk that Continental could infringe on the industrial property rights of third parties.
There is a risk that Continental could infringe on industrial property rights of third parties, since its competitors, suppliers and customers also submit a large number of

inventions for industrial property protection. It is not always possible to determine with certainty whether there are effective and enforceable third-party industrial property rights to certain processes, methods or applications. Therefore, third parties could assert claims (including illegitimate ones) of alleged infringements on industrial property rights against Continental. As a result, Continental could be required to cease manufacturing, using or marketing the relevant technologies or products in certain countries or be forced to make changes to manufacturing processes and/or products. In addition, Continental could be liable to pay compensation for infringements or could be forced to purchase licenses to continue using technology from third parties.

Continental may be subject to fines and follow-on claims for damages in relation to the participation of the company's subsidiary Dunlop Oil & Marine Limited in the marine hoses cartel.

In 2007, the European Commission and the U.S. Department of Justice ("DoJ") initiated their investigations into antitrust behavior in the marine hose market. The European Commission found Continental AG, ContiTech AG and Dunlop Oil & Marine Limited ("DOM") liable – among other companies – for infringements of competition law. The proceedings of the European Commission and the DoJ against the company were completed in 2009. Following the initiation of the European Commission and the DoJ's investigations, additional investigations against DOM for the infringement of national competition law were opened in other jurisdictions (Brazil, Japan, Australia, Korea and Canada). Apart from the ongoing proceedings in Australia and in Brazil, all other proceedings have been concluded or in the case of Canada have not been pursued. In Brazil and in Australia, DOM may be subject to fines to be imposed by the national competition authorities in relation to the marine hose cartel. Further proceedings in relation to the marine hose cartel may be opened in other jurisdictions with the risk of fines for the infringement of competition law.

In addition, DOM may be subject to claims for damages by third parties resulting from the infringement of competition law as a result of the marine hose cartel. In the U.S.A., DOM agreed to a settlement of $6.5 million with the plaintiffs in a U.S. class-action lawsuit. The competent U.S. District Court for the Southern District of Florida approved this settlement on January 13, 2010. Unless individual members of the class have explicitly opted out of the settlement, no further civil actions can be filed in the U.S.A. in connection with this matter. Proceedings have also been issued by a customer in the English High Court and further claims could be asserted in the UK. There is also a risk of claims for damages in other jurisdictions (e.g. Japan, Korea, Australia and Brazil).

Continental may be subject to fines and follow-on claims for damages in relation to alleged anticompetitive behavior in Brazil.

In May 2005, the Brazilian competition authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Industria Automotiva ("CBIA") following an allegation of anticompetitive behavior in the area of commercialization of tachographs. CBIA denies the allegations. However, should the Brazilian competition authorities conclude that CBIA has contravened Brazilian competition law, fines may be imposed on CBIA of up to 30% of the company's gross turnover in the year preceding the commencement of the proceedings. Due to a lack of precedents, there is some uncertainty under Brazilian law whether the calculation of the fine is limited to Brazilian turnover only or whether worldwide turnover can be considered. Furthermore, third parties may claim damages from CBIA resulting from the infringement of Brazilian competition law.

Continental is exposed to risks arising from the pending review by the German Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung e.V.) of the consolidated financial statements and the management report for the corporation for fiscal 2008.

In May 2009, the German Financial Reporting Enforcement Panel ("FREP") (Deutsche Prüfstelle für Rechnungslegung e.V.) initiated a review of the consolidated and statutory financial statements and the management report for Continental AG and for the corporation (*Konzernlagebericht*) for fiscal 2008 pursuant to Section 342b(2) Sentence 3 No. 3 of the German Commercial Code (*HGB*). The review was initiated as a random sampling examination (*stichprobenartige Prüfung*). Whereas the FREP initially submitted to Continental questions in relation to seven aspects of the consolidated financial statements and the management report for Continental AG and for the corporation for fiscal 2008, Continental was able to answer most of these questions to the FREP's satisfaction. However, in a "preliminary statement" (vorläufige Feststellung) dated December 21, 2009, FREP held the view that two aspects of Continental's financial accounting and reporting

for the relevant period needed to be further clarified: The first aspect relates to the adequacy of certain assumptions underlying the impairment testing of goodwill as of December 31, 2008. In this regard, the FREP holds the view that the goodwill shown in the amount of €6,384.1 million has not been substantiated to its full extent by the impairment test. In the FREP's view further impairments of €1,370.0 million would have been necessary as per December 31, 2008. Secondly, the FREP has reservations about the adequacy of certain statements in the management report for the corporation with respect to the risk of a potential breach of the financial covenants under the VDO loan agreement in the course of 2009 and about the outlook given by Continental. Continental has stated its position regarding the FREP's preliminary statement and has provided further documents and explanations to demonstrate the correctness of its accounting and reporting in relation to these two aspects. At the time this management report was completed, the FREP had not yet issued a final statement.

If the FREP does not agree with Continental's opinion and instead comes to the conclusion that Continental's accounting and reporting for fiscal 2008 was erroneous with regard to one or both of these aspects, Continental will be given another opportunity to state its position. If Continental does not concur with the FREP's view, the FREP will inform the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) of this. BaFin will then initiate its own review of the relevant aspects. In the process Continental will have the right to provide documents, other evidence and explanations to support its accounting and reporting. If BaFin finally concludes that Continental's accounting and reporting was erroneous it will order the publication of the error(s), unless no public interest for publication exists or overwhelming company interest conflicts with its publication (Section 37q(2) of the German Securities Trading Act (*Wertpapierhandelsgesetz*)) – although this is rarely the case. Continental is entitled to appeal against BaFin's decision at the Higher Regional Court of Frankfurt am Main.

If Continental is ultimately not successful in these proceedings, a publication containing the results of the examination of the FREP concluding that these issues were treated incorrectly would be required. Continental could be obligated to adjust the specific accounting items identified by the FREP accordingly. Any necessary adjustments to the goodwill reported in the 2008 consolidated financial statements could be made in the first interim or consolidated financial statements which are prepared after the findings of the FREP have become definitive. Any such adjustment would have a negative effect on Continental's earnings situation reported for 2008. On the other hand, the earnings situation reported for the subsequent period would be positively impacted to the extent that an impairment amounting to €875.8 million was already recorded in 2009. However, if a necessary adjustment of goodwill were to constitute a fundamental error in terms of IAS 8 that would negate the overall fair presentation of the consolidated financial statements for fiscal 2008, a retroactive amendment of the prior year figures in Continental's consolidated financial statements for fiscal 2008 could be required.

A negative outcome of the proceedings could possibly represent a breach of contract according to the wording of the VDO loan agreement and the forward start facility, as the 2008 consolidated financial statements allegedly do not comply with the applicable accounting principles. In the company's view, this would not result in a termination right of the lenders. In its view, a negative outcome of the proceedings would not worsen the lenders' position and therefore should not lead to any termination right. However, it cannot be ruled out with certainty that the lenders may attempt to terminate the loan agreements. In addition, publishing the results of the FREP examination could have a negative impact on Continental's share price.

Continental might be exposed to tax risks regarding the loss of tax losses in connection with the change in the shareholder structure of the company.

Section 8c of the German Corporate Income Tax Act (*Körperschaftssteuergesetz – KStG*) provides for pro-rata elimination of loss carryforwards and current losses in cases where more than 25% and up to 50% of the shares in a company have been acquired within a five-year period by an individual purchaser. If more than 50% of the shares have been acquired by an individual shareholder, loss carryforwards and current losses are eliminated completely.

Continental could be subject to tax risks attributable to previous tax assessment periods.
Additional tax expenses could accrue at the level of the company or its subsidiaries in relation to previous tax assessment periods which have not been subject to a tax audit yet. The last completed tax audit for the company and its German subsidiaries in Germany related to assessment periods up to and including 2003. Currently, the company, along with its German subsidiaries, is subject to a routine tax audit by the German tax authorities for the assessment periods 2004 through 2007. Tax audits are also pending in foreign jurisdictions for essentially the same assessment periods. As a result of the aforementioned tax audits, a material increase in the company's or its subsidiaries' tax burden is currently not expected. It cannot however be ruled out that tax audits may lead to an additional tax burden.

Furthermore, Continental is exposed to risks in connection with the takeover of Siemens VDO in 2007 since the tax indemnity provided by the seller of Siemens VDO does not cover the entire tax exposure potentially materializing for pre-acquisition periods.

Continental is exposed to risks from legal disputes.
Companies from the Continental Corporation are involved in a number of legal and arbitration proceedings and could become involved in other such proceedings in future. These proceedings could involve substantial claims for damages or other payments, particularly in the U.S.A. Further information on legal disputes can be found in Note 33.

Report on Expected Developments

Economic conditions in the following two fiscal years.

Macroeconomic development
According to the most recent forecasts by the IMF (International Monetary Fund), the global economy will recover from the serious recession faster than previously expected. Following a decline in economic performance of 0.8% in 2009, the IMF is already anticipating a return to growth of 3.9% in 2010. According to IMF statements, the reason for the positive revision of expectations since October 2009 (up 0.8 percentage points) is the effect of the highly expansive monetary policy and the multi-billion investment programs which, based on initial estimates by the OECD, amount to approximately 2.5% of global GDP. Those countries classified as advanced economies by the IMF are expected to achieve growth again of 2.1% in 2010 (2009: decline of 3.2%), driven primarily by the U.S.A., for which 2.7% growth in GDP is forecast. For the emerging and developing economies, the IMF anticipates growth of 6.0% (2009: 2.1%).

However, government intervention on a massive scale has led to a huge increase in the state deficit in many economies, meaning that the scope for additional measures seems limited. In the Eurozone alone, data from the European Commission shows an increase in state deficits to over 6% of GDP in 2009. Furthermore, there are only just a few initial indications that this upturn can sustain itself if the measures described are not continued, particularly in the advanced economies. Other risks for the upturn in the advanced economies, according to the IMF, include a slow recovery in the housing market, continuing excessively high borrowing costs for the private sector, growing unemployment, and the increase in raw material prices. In contrast, concerns about rising inflation are largely limited to the emerging and developing economies. In the advanced economies, consumer prices are expected to increase by just 1.3%, which in the IMF's opinion should continue to allow for a low key interest rate.

For 2011, the IMF anticipates global economic growth of 4.3%.

Germany
In mid 2009, the German economy overcame its most severe recession since the end of World War II. There is continued optimism that the recovery will persist in the current year and that the upturn, which at present is still mostly due to impetus from monetary and fiscal policy, will become increasingly self-sustaining. This optimism is backed up by expansive monetary and fiscal policy, stabilization on the financial markets, the synchronous global economic upturn, low inflation, and improved sentiment amongst both companies and households. Leading economic institutes anticipate an increase in real GDP of between 1.2% and 1.6% in the current year, after economic activity shrank 5% in 2009. Private consumption could increase in 2010, since households are being given tax breaks by stimulus packages like the *Wachstumsbeschleunigungsgesetz* (Growth Acceleration Act). Also, inflation remains low, and employment levels are decreasing only slightly thanks to the continued widespread use of reduced working hours programs (*Kurzarbeit*). At present, the federal government expects the unemployment figure to rise by 322,000 to approximately 3.7 million. With exports picking up and profits rising, investment is also likely to kick off again despite the high underutilization of production capacity. For investment in equipment, a recently published analysis by Deutsche Bank forecasts a nearly 6% rise, following a decline of about one fifth in 2009. The flipside of the coin continues to be the increase in the state deficit, which is likely to grow to 5% of the GDP in 2010. In 2009, it was still just 3.3%. As a result of expiring fiscal effects and an expected more restrictive monetary policy, growth in 2011 may be lower than is expected for 2010.

Western Europe and the Eurozone
After the sharp drop in the European economy in 2009 (decrease of 3.9% in GDP), it has now gotten back on track for growth thanks to the extensive government intervention to support the banking system and the economy. The IMF anticipates a 1% increase in the GDP for 2010, with Germany being a major engine of growth. Nonetheless, there continues to be a great deal of concern that the financial system is still far from being stabilized. The reason for this concern is the latest surprisingly negative reports about the true extent of the mush-

rooming government debts in Greece, which amount to €330 billion according to recent calculations. The situation however in Ireland, Portugal, Spain and the UK also continues to be tense. The state deficit in all of these countries substantially exceeds the value of more than 6% of the GDP in 2009 as forecast by the OECD for the Eurozone. Starting in November 2009, the uncertainty regarding the stability of these countries again led to an enormous increase in spreads versus German or French treasury notes, for instance, also fueling fears regarding the stability of the European currency.

In view of the low inflation, it is not expected that the ECB will undertake significant changes in the interest rate in 2010. It appears to be more likely that the interest level will remain at the current low level of 1%, as the ECB has at its disposal other measures to counter budding inflation if required (e.g. restricted quantitive measures).

For 2011, the IMF anticipates that growth will be steady, with the GDP rising to 1.6% in the Eurozone.

Central and Eastern Europe

Due to in some cases considerable macroeconomic imbalances, Eastern Europe was hit particularly hard by the financial and economic crisis. Individual countries such as Latvia, Ukraine and Hungary had to ask for international financial aid to fend off a massive intensification of the crisis or even to prevent national bankruptcy. Poland, which was able to entirely avoid a recession, achieving growth of a good 1% in 2009, was one of the few positive exceptions in the region. At present, there are signs of stabilization and economic recovery in many of the region's countries. Last but not least, the economic revival in the Eurozone will help this stabilization continue in the coming year as well. After a slump of some 6.3% in 2009, growth in Eastern Europe at 1.8% will however still be modest. The macroeconomic disruptions in individual countries will continue to have an effect. For instance the Baltic states, after in part massive decreases in GDP of up to 18% in 2009, will again experience a slight decline this year. The Hungarian economy is likely to stagnate, after it fell by about 6.5% in 2009. Following this adjustment phase, however, the catching-up process will probably take hold once again, reducing the gap to the industrialized countries. It will not, however, reach the dynamic level it had before the crisis in view of the anticipated moderate credit expansion. In the medium term, economic growth of approximately 4% appears to be realistic. In comparison, average growth in the last five years exceeded 6%.

Russia

Russia continues to be heavily affected by the global economic and financial crisis. After GDP grew 5.6% in 2008, it plunged 9.0% in 2009. Despite this, prices increased at a rate of about 11% in 2009. There were substantial drops in production in key economic sectors. After years of budget surpluses, the decrease in the price of oil in the course of 2009 led once again to a deficit of about 7% in 2009. Added to this was a substantial decline in foreign investments, a considerable depreciation of the ruble against the euro as well as liquidity problems for the banking sector and the real economy. Nonetheless, Russia continues to be one of the world's largest energy producers and, with a quarter of the world's gas reserves (25%), about one fifth of global coal deposits (19%) and more than 6% of the world's oil reserves, it holds major resources. In view of this, the Russian economy was again able to stabilize starting around May 2009, after the price of oil recovered. Using western countries as a model, the Russian government plans to introduce a car scrapping incentive for old vehicles starting in March to stimulate passenger vehicle sales, which had suffered a heavy decline (down 50% in 2009). The IMF anticipates that Russia will experience growth of 3.6% in 2010 and 3.4% in 2011.

U.S.A.

Due to huge investment spending, the state deficit of the U.S.A. has risen to $1.3 trillion, equivalent to 9.2% of the gross domestic product in 2009. Unemployment is currently at 10%. As a result of this development, the government is planning sustained promotion of small and medium-sized enterprises in order to create jobs. For this reason, the likelihood that the state deficit will be reduced in 2010 is considered limited. According to statements by the U.S. Treasury Department, the deficit is expected to rise to 10.6% of GDP. However, it remains the declared goal to reduce the state deficit to 3% of GDP by 2015. Current forecasts for economic growth in the U.S.A. in 2010 range from 2.4% to 2.7%.

Asia

According to an analysis by DIHKJ (German Chamber of Industry and Commerce in Japan), Japan's economy has bottomed out. Growth in recent months has however been restrained. Impetus came primarily from exports to China and other Asian countries. In early

December 2009, the Japanese government adopted a new economic program which is also intended to stimulate domestic demand. Among other things, this program focuses on environmental protection measures and assistance for small and medium-sized enterprises. After the sharp drop in the Japanese economy (2009: GDP down 5.3%), the IMF forecasts growth of 1.7% in 2010. Risks for this forecast include the still high yen exchange rate, which threatens export activities; in addition, persistent deflation, a poor income and employment situation and continued weak investment propensity on the part of private companies could have a negative impact on domestic demand.

The short-term economic prospects for China remain positive. The fiscal and monetary stimuli introduced in December 2008, with a scope of approximately 13% of GDP in 2008 (4 trillion renminbi), have led to a massive revival of the economy. There has been sustained growth in fixed asset investments and industrial output since March 2009. In view of the strong growth in investment, at more than 40% in real terms, as well as the stability of consumer demand and the gradual revival of international demand, the strength of Chinese growth seems to be assured in 2010 as well. Nonetheless, there is some caution with regard to medium-term prospects. Among other things, the problem is seen in the risk that this growth spurt could flag without further stabilization of domestic or export demand. There are also fears of the economy overheating. The reserve bank recently raised the minimum reserve requirements by 50 basis points. Further measures such as an increase in the key interest rate are likely to follow soon. As a result, a noticeably more moderate development in lending is expected in 2010, after monetary policy in 2009 led to record growth in new loans. In addition, in the medium term a successive increase in the value of the renminbi to the U.S. dollar is expected, which would likely slacken the increase in prices, which was at 1.9% in December 2009. This appreciation of the currency will, however, reduce economic growth in the medium term. According to the IMF, economic growth is expected to be at 10% in 2010 and to decrease only slightly to 9.7% in 2011.

Industry development

Following the expiration of car scrapping incentives and other government incentives in many important vehicle markets, there is a risk – particularly in Europe – that the non-renewal of these programs could lead to a significant decline in new vehicle registrations in 2010. This is especially the case in Germany, where the car scrapping incentive with a total scope of €5 billion had the greatest effects on the market for new vehicle registrations. Despite the severe economic crisis, a total of more than 3.8 million new vehicles (up 23%) were registered. This number is roughly 550,000 units higher than the trend over the past six years. For this reason, the German Association of the Automotive Industry (VDA) is anticipating a decrease in new vehicle registrations of between 2.75 million and 3.0 million units in 2010. In France, Italy, Spain and the UK, similar sales incentives were initiated in 2009 with varying scopes to support new registrations of passenger vehicles. The greatest impact was seen in France, where new vehicle registrations rose 11% to 2.3 million units for the year as a whole, and in Italy, where they declined by just 0.2% to 2.2 million units. Here, too, national automotive associations are expecting new vehicle registration figures to fall in 2010, in some cases substantially. In Italy, where the government incentive is still in place until March 2010, an extension of the program is already being considered. When combined, the forecasts of the national automotive associations in Germany, France, Italy, Spain and the UK show a decline in new vehicle registrations in 2010 of more than 15% for these countries alone, which represent approximately 75% of new vehicle registrations recorded by the ACEA (European Automobile Manufacturers' Association, whose statistics comprise the EFTA 27 countries).

In the U.S.A., an increase in new vehicle registrations to between 11.5 million and 12.5 million vehicles is anticipated, following the 21% drop to 10.4 million vehicles in 2009. This expected range, equivalent to an increase of between 10% and 20% in 2010, was also confirmed by many U.S. car manufacturers and automotive suppliers at the Detroit Motor Show in January. In Japan, new vehicle registrations are expected to remain at the previous year's level. Overall, this results in a slight decrease in the number of newly registered vehicles in the triad markets (NAFTA, Europe and Japan), driven by the decline feared for Europe. In the BRIC countries (Brazil, Russia, India and China), further growth in new vehicle registrations of up to 15% is anticipated in 2010. According to the investment bank Goldman Sachs, new vehicle registrations in Russia in particular are likely to pick up by over 20% to 1.8 million vehicles following the 50% plunge in 2009.

Production of light vehicles** in millions of units	2009*	2010	2011
Western Europe	11.9	11.8	12.7
Eastern Europe	4.9	4.8	5.5
Total Europe	16.8	16.6	18.2
NAFTA	8.5	10.2	11.8
South America	3.6	3.8	4.0
Asia	28.2	30.6	33.3
Africa and Middle East	1.8	1.8	2.0
Total	**58.8**	**63.0**	**69.3**

Source: Global Insight *preliminary and own estimates **passenger cars, station wagons, and light commercial vehicles (<6t)

Production of heavy vehicles** in thousands of units	2009*	2010	2011
Western Europe	196	269	429
Eastern Europe	71	94	147
Total Europe	267	363	576
NAFTA	210	250	356
South America	129	141	167
Asia	1,241	1,356	1,529
Total	**1,846**	**2,110**	**2,628**

Source: Global Insight *preliminary estimates **commercial vehicles (>6t)

Replacement sales of passenger, light truck and 4x4 tires

in millions of units	2009*	2010	2011
Western and Central Europe	260.9	269.5	281.8
NAFTA	252.9	256.7	269.6
Asia	206.4	224.6	247.1
Other markets	146.7	154.6	164.6
Total	**866.9**	**905.4**	**963.0**

Source: LMC World Tyre Forecast, 2009 *preliminary and own estimates

Replacement sales of truck tires

in millions of units	2009*	2010	2011
Western and Central Europe	15.6	16.7	18.6
NAFTA	15.2	16.4	17.8
Asia	59.2	59.9	66.3
Other markets	26.7	28.2	30.6
Total	**116.7**	**121.2**	**133.2**

Source: LMC World Tyre Forecast, 2009 *preliminary estimates

Our key sales markets are the global business with vehicle manufacturers, and the replacement markets for passenger, light truck and commercial vehicle tires, particularly in Western and Central Europe as well as NAFTA. While the original equipment business with automobile manufacturers has a significant influence on the development of business within our Chassis & Safety, Powertrain, Interior and ContiTech divisions, the replacement markets for passenger and commercial vehicle tires are of great importance to the Tire divisions.

We expect output of light vehicles (passenger vehicles, station wagons, light commercial vehicles <6t) to increase by 7% to approximately 63 million units in 2010, with the biggest growth within the triad markets (NAFTA, Europe and Japan) occurring in North America. Here, following the 32% drop to 8.5 million units produced in 2009, output is expected to increase to more than 10 million vehicles. For Europe, in contrast, we anticipate stable development of production in 2010 as a result of the downwards trend in new vehicle registrations. Alongside the economic development in Europe, the decision regarding possible extension of incentive programs will also play a role in determining whether this level is reached. Extension of these programs in 2010 is also being discussed in France, as well as in Italy. In Asia, on the other hand, the strong development in 2009 is expected to continue in 2010. Overall, a 9% increase in production is anticipated in this region.

The positive development is also expected to continue in all regions in 2011.

The development of commercial vehicle markets is considered positive by leading forecast institutions (Global Insight, JD Power and Freight Transportation Research Associates) following the sharp drop in 2009. For instance, Global Insight expects the production of trucks in Europe to rise 36% to 363,000 units in 2010. However, it should not be overlooked that this volume still represents only around 50% of the units produced in Europe in 2008. For NAFTA, in contrast, where volume has sunk to less than a third of the starting level of 650,000 at its high in 2006, an increase of 19% to 250,000 units is expected in 2010. In Asia, growth of approximately 9% is anticipated, bringing this region almost to its 2008 level. According to Global Insight, production of heavy vehicles >6t is expected to grow 14% in 2010 and 25% in 2011 at a global level. We feel that this is a very optimistic forecast and anticipate growth rates in 2010 and 2011 to be substantially lower, especially in Europe. Furthermore, forecasts for the trailer market in Europe are lower than the forecasts for the commercial vehicle market. For instance, an increase

of only 16% in semi-trailer production is expected for Europe compared to 2009. According to estimates, this market also suffered a decline of more than 70% in the year under review. In NAFTA, Freight Transportation Research Associates is forecasting a 19% increase in trailer production to 89,000 units. This value would also fall more than 68% below the level in 2006. The trailer business is one of the Commercial Vehicle Tires division's key outlets.

The passenger tire replacement markets in Europe and NAFTA recovered significantly in the fourth quarter of 2009 in particular. We expect the recovery in these two markets to continue in 2010, with growth rates ranging from 1.5% to 9%, depending on the region. Asia will continue to be the main growth market. For Europe, the world's largest replacement tire market, we anticipate an increase in demand of more than 3% for 2010. We estimate that the market as a whole will grow 4% in 2010 and 6% in 2011.

External forecasts also see demand for commercial vehicle tires climbing approximately 4% in 2010, with the most substantial growth occurring in NAFTA where volume is expected to increase 8% to 16.4 million units after four years of declines. This is still, however, some 25% below the volume achieved in 2005. For Western and Central Europe, an increase of 7% to 16.7 million units is forecast, which is also about one fifth lower than the figure for 2008. In 2011, significant growth in all regions is expected, with the global market for truck tire replacement expanding by nearly 10%.

Markets for raw materials

The significant increase in prices on the commodities markets, which was already evident from mid-2009 and intensified again particularly in the fourth quarter of 2009, is not likely to continue in 2010 to the extent previously observed. However, if the global economy grows by 3.9% as forecast, another slight increase is to be expected in the current year. The IMF forecasts an oil price – made up of the average of various different quotations (UK Brent, Dubai, West Texas Intermediate) – of $76 per barrel for 2010 and $82 for 2011.

Outlook for the Continental Corporation

Expected development of business

We expect the global output of cars and light commercial vehicles to increase by around 7% in 2010 as compared with 2009, driven mainly by the Asian and U.S. markets with expected growth rates of 9% and 20% respectively. We anticipate that production figures for Europe, the most important regional sales market for Continental aside from North America, will merely remain stable in 2010, in contrast to the September 2009 market forecasts by Global Insight (+2%). The crucial factor in determining if our assessment is too optimistic is the extent to which government intervention in the form of car scrapping incentives in 2009 has led to an excessive level of car purchases being brought forward. Purchase incentives for more than 1.6 million new vehicles were offered and fully utilized in Germany, France and Italy alone in 2009.

Against this background, we expect a year-on-year sales increase in the **Automotive Group** of at least 5%. We also anticipate that the Automotive Group's adjusted EBIT will continue to stabilize on the back of a good second half of 2009 and will at least double compared with the figure for 2009 as a whole. Higher capacity utilization and a better assessment of the short-term development in production volumes overall should have a positive effect here. Another opportunity in 2010 is that the product mix will be less characterized by the small car segment. The successful implementation of the numerous restructuring programs introduced in 2009 is a further opportunity, although current calculations estimate that their full effect will not be felt until 2011. Challenges, on the other hand, constitute the successful implementation of the 2008 and 2009 restructuring programs, the fact that raw material prices have increased again significantly, and the expiration of reduced working hours programs (*Kurzarbeit*) and other savings measures implemented in the short term in 2009 that cannot be repeated. In addition, restructuring of the Powertrain division presents risks and opportunities that may have a long-lasting impact on the development of operating earnings in 2010. The aim of this division is to break even in terms of adjusted EBIT in 2011.

We also anticipate that the passenger and light truck tire replacement markets will recover in 2010 by between

2% and 4% in the European and North American regions. It is still difficult to determine sales opportunities in the truck tire original equipment and replacement markets, but many indicators here also suggest a recovery, albeit from a very low level. According to the most recent forecasts, the world economy will grow by up to 4% in 2010. However, Europe, the main sales market for ContiTech, is expected to grow by only 1%.

Against this background, the **Rubber Group**'s 2010 sales should be more than 5% above the 2009 level, while adjusted EBIT should remain around the same high level as 2009. One of our major challenges will be the raw material prices, which have again increased considerably since November 2009. Compared with 2009, additional expenses could add up to over €200 million at price levels for natural rubber of over $3 per kilogram and for oil of over $80 per barrel. As in previous years, we will attempt to compensate this potential negative impact with price increases, as well as by improving the product mix and cutting costs over the course of the year. The degree of success this will have in the current year is highly dependent on developments in the prices of raw materials during the rest of the year. Continuing underutilization of capacities, especially in truck tire production, poses an additional challenge that makes it even more difficult to offset the higher expenses on the raw materials side. Closing the passenger and light truck tire plant in Clairoix, France, reducing capacities of truck tire production in Hanover-Stöcken, Germany, and restructuring ContiTech sites in Spain, France, the UK, and Germany will not fully pay off until after 2012. However, opportunities are resulting from improving the cost structures earlier than planned. The comparatively long and harsh winter ensured excellent winter tire business last year (sell in) and allowed dealers to sell off their stocks (sell out) right into February 2010. These are very good conditions for the 2010/2011 winter tire season.

For these reasons, our expectations for the **corporation** are sales growth of at least 5% in 2010 and a significant year-on-year improvement in adjusted EBIT in 2010.

We anticipate that **special effects** will be considerably lower over the course of 2010 as compared with the previous year. However, the final decision on truck tire manufacturing at our site in Hanover-Stöcken, Germany, and our ongoing cost-cutting efforts may lead to special effects of about €100 million in 2010 as well.

Depreciation and amortization will remain stable in 2010. An amortization of intangible assets from purchase price allocation in the amount of approximately €450 million will also be incurred in 2010. Other depreciation and amortization will be around €1.2 billion. After goodwill adjustments of €875.8 million in 2009, no further amortization of goodwill is expected in 2010 from the current perspective.

Due to the renegotiation of the VDO loan agreement, **interest expense** will increase in 2010 despite the cash inflow of €1.05 billion from the capital increase. The VDO loan agreement in the original amount of €13.5 billion remains the corporation's most important financing instrument. Net interest expense may rise to as much as €800 million depending on the timing and scope of the issue of a high-yield bond planned for 2010.

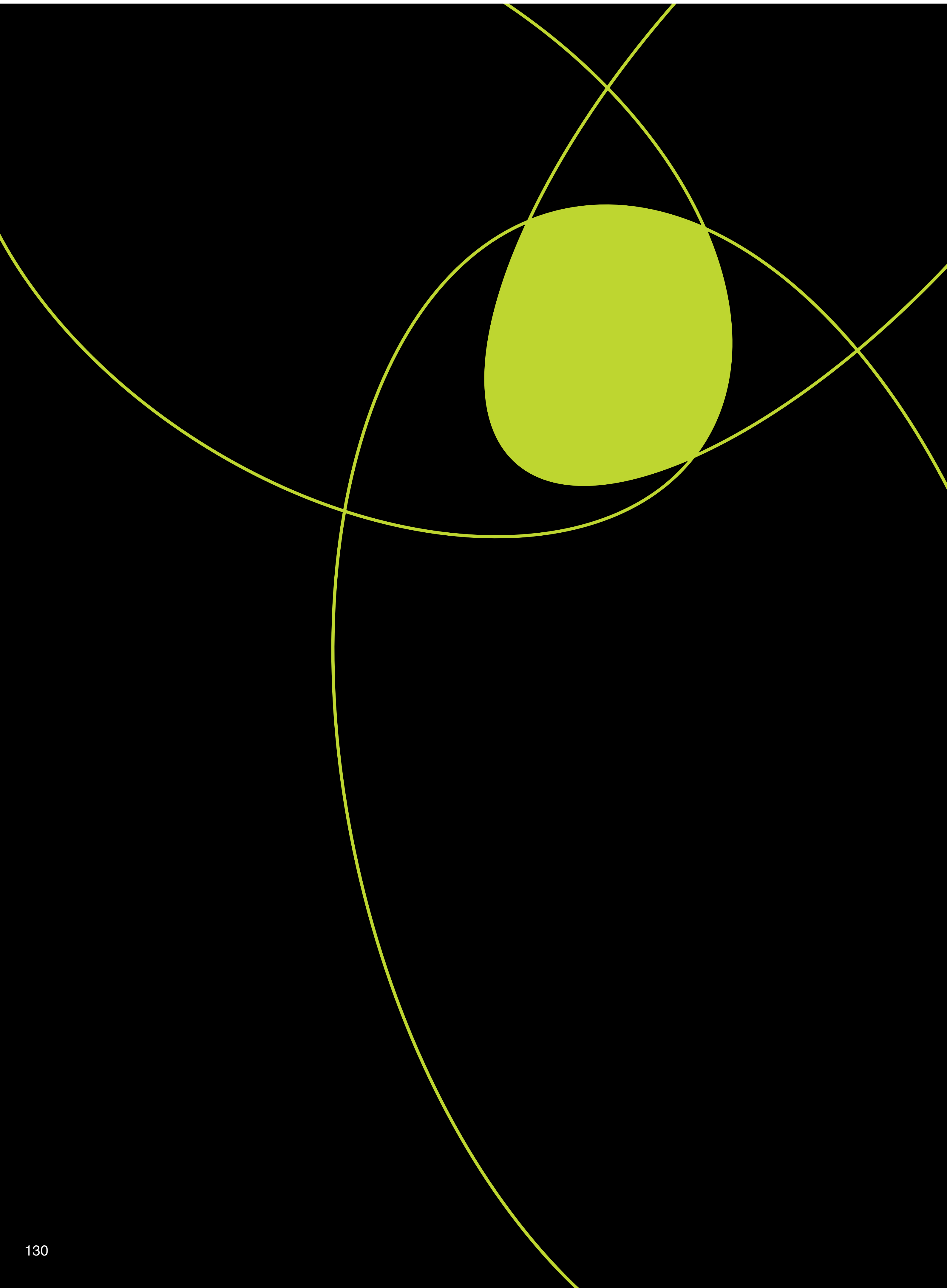
We estimate that **investments** will increase by up to €400 million in 2010 as compared with 2009. These investments will focus mainly on expanding our capacities in Asia and in Eastern Europe. In the Automotive Group, investments are being concentrated on the Chassis & Safety division and are geared towards industrializing the new MK 100 generation of electronic brakes. In the Powertrain division, we are preparing to introduce new injector systems that assist in complying with the Euro 6 standard while we continue to expand our capacities in the area of electronic drive systems.

Increasing investments, a rise in working capital thanks to an upturn in sales, and the cash outflows for the restructuring measures initiated in 2009 will significantly limit free cash flow in 2010. After repayment with the cash from the capital increase, **net indebtedness** is therefore not expected to decrease considerably in 2010. Thanks to the renegotiated financial covenants, from the current point of view there is no danger that they will be violated. According to the renegotiated covenants of December 2009, the ratio of net financial indebtedness to EBITDA may not exceed a factor of 4.25 at the end of 2010, as agreed in the VDO loan agreement. As things look now, tranche B of approximately €2.45 billion due in August 2010 will be paid by drawing down the forward start facility also concluded in December 2009 in the amount of up to €2.5 billion. No other significant amounts are due in 2010. In view of the net loss of the parent Continental AG for 2009, payment of a dividend is out of the question.

2010 began on a positive note and confirmed our previously stated assessment that business performance this year will be positive. Due to the previous year's low comparative figures, significant positive deviations from the previous year's key performance indicators in both groups may occur in first half of 2010. However, net indebtedness is expected to increase in the first half as a result of seasonal factors. Due to baseline effects, we expect lower growth rates for the key performance indicators in the second half of 2010 compared with the same period of 2009; indeed, the indicators may even be below the previous year's levels in some cases due to the trend in raw material costs. Continental will issue its report on first-quarter 2010 performance on May 4.

Forecasts for all key factors are also positive for **2011**: for example the latest estimates indicate that the global economy will continue to grow considerably in 2011 (IMF +4.3%), while forecasts by independent market observers also see further growth in the production volumes of all vehicle markets (+9% worldwide). If these forecasts are confirmed, we also anticipate that our sales will increase further and our EBIT will continue to improve in 2011. Free cash flow in 2011 will likewise be impacted by the cash outflow from the restructuring measures initiated in 2009, but should offer more flexibility than in 2010 to reduce debts further. From the present perspective, the financial covenants will not be violated in 2011 either. The ratio of net indebtedness to EBITDA may not exceed a factor of 3.50 at the end of 2011, as agreed in the VDO loan agreement. Other than the repayment of the promissory note in the amount of €110.0 million, no further amounts of borrowed funds will become due in 2011. No dividend is expected to be paid out in 2011 for the 2010 fiscal year either.

In August 2012, tranche C and the revolving facility under the VDO loan agreement as well as the amounts to be drawn under the forward start facility will become due for repayment. To balance out the debt maturity profile and diversify financing resources, Continental intends to issue a **high-yield bond** over the course of the first half of 2010. However, the exact date of the issue depends on the situation in the market, which can also mean the issue date will be later.



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Consolidated Financial Statements

Statement of the Executive Board

The Executive Board of Continental AG is responsible for the preparation, completeness, and integrity of the consolidated financial statements, the management report for the corporation and Continental AG, and the other information provided in the annual report. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and include any necessary and appropriate estimates. The management report for the corporation and Continental AG contains an analysis of the earnings, financial and net assets position of the corporation, as well as further information provided in accordance with the provisions of the *Handelsgesetzbuch* (German Commercial Code).

An effective internal management and control system is employed to ensure that the information used for the preparation of the consolidated financial statements, including the management report for the corporation and Continental AG and internal reporting, is reliable. This includes standardized guidelines at corporation level for accounting and risk management in accordance with Section 91 (2) of the *Aktiengesetz* (German Stock Corporation Act) and an integrated financial control concept as part of the corporation's value-oriented management, plus internal audits. The Executive Board is thus in a position to identify significant risks at an early stage and to take countermeasures.

The Audit Committee engaged KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, as the auditors for the 2009 financial year, pursuant to the resolution adopted by the Annual Shareholders' Meeting of Continental AG. KPMG audited the consolidated financial statements prepared in accordance with IFRS and the management report for the corporation and Continental AG. The auditors issued the report presented on the following page.

The consolidated financial statements, the management report for the corporation and Continental AG, the auditors' report, and the risk management system will be discussed in detail by the Audit Committee of the Supervisory Board together with the auditors. These documents relating to the annual financial statements and these reports will then be discussed with the entire Supervisory Board at the meeting of the Supervisory Board held to approve the financial statements.

Hanover, February 8, 2010

The Executive Board

Independent Auditor's Report

We have audited the consolidated financial statements prepared by the Continental Aktiengesellschaft, comprising the statement of comprehensive income, the balance sheet, cash flow statement, statement of changes in equity and the notes to the consolidated financial statements together with the management report for the group and the company for the business year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Article 315a paragraph 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Article 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a paragraph 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hanover, February 12, 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Bartels-Hetzler
Wirtschaftsprüfer

Dr. Thümler
Wirtschaftsprüfer

Consolidated Statements of Income and Comprehensive Income

in € millions	See Note	2009	2008
Sales		**20,095.7**	**24,238.7**
Cost of sales		-16,082.0	-19,484.7
Gross margin on sales		**4,013.7**	**4,754.0**
Research and development expenses		-1,356.3	-1,498.2
Selling and logistics expenses		-1,123.2	-1,180.0
Administrative expenses		-607.1	-770.1
Other income and expenses	6	-1,903.0	-1,627.1
At-equity share in earnings of associates	7	-73.2	16.4
Other income from investments	7	8.7	8.8
Earnings before interest and taxes		**-1,040.4**	**-296.2**
Interest income	8	30.3	80.0
Interest expense	8	-751.1	-786.7
Net interest expense		**-720.8**	**-706.7**
Earnings before taxes		**-1,761.2**	**-1,002.9**
Income tax expense	9	154.3	-75.0
Net income		**-1,606.9**	**-1,077.9**
Minority interests		-42.3	-45.6
Net income attributable to the shareholders of the parent		-1,649.2	-1,123.5
Undiluted earnings per share in €	**36**	**-9.76**	**-6.84**
Diluted earnings per share in €	**36**	**-9.76**	**-6.84**

See accompanying notes to the consolidated financial statements.

in € millions	2009	2008
Net income	**-1,606.9**	**-1,077.9**
Difference from currency translation[1]	132.1	-147.4
Adjustment to the fair value of securities available for sale	1.2	-1.5
Deferred taxes on securities available for sale	-0.2	0.0
Adjustment to the fair value of cash flow hedges	-33.1	-148.1
Deferred taxes on cash-flow hedges	9.5	46.5
Other comprehensive income	**109.5**	**-250.5**
Total comprehensive income	**-1,497.4**	**-1,328.4**
Attributable to minority interests	36.0	25.7
Attributable to the shareholders of the parent	-1,533.4	-1,354.1

[1] Including minority interests.

Consolidated Balance Sheets

Assets

in € millions	See Note	Dec. 31, 2009	Dec. 31, 2008
Goodwill	10	5,536.6	6,384.1
Other intangible assets	10	2,068.7	2,522.7
Property, plant, and equipment	11	5,784.3	6,122.2
Investment property	12	19.3	19.9
Investments in associates	13	398.0	718.3
Other investments	14	8.0	14.2
Deferred tax assets	15	728.9	391.3
Deferred pension charges	24	70.8	116.0
Long-term derivative instruments and interest-bearing investments	28	78.4	16.6
Other long-term financial assets	16	18.9	34.1
Other assets	17	12.7	9.0
Non-current assets		**14,724.6**	**16,348.4**
Inventories	18	2,076.0	2,570.5
Trade accounts receivable	19	3,648.1	3,287.5
Other short-term financial assets	16	184.9	126.8
Other assets	17	540.5	543.0
Income tax receivable	26	94.2	148.0
Short-term derivative instruments and interest-bearing investments	28	25.8	47.8
Cash and cash equivalents	20	1,712.8	1,569.4
Assets held for sale	21	42.3	46.5
Current assets		**8,324.6**	**8,339.5**
Total assets		**23,049.2**	**24,687.9**

Total Equity and Liabilities

in € millions	See Note	Dec. 31, 2009	Dec. 31, 2008
Common stock		432.6	432.6
Capital reserves		3,139.5	3,097.9
Retained earnings		636.4	2,217.2
Other comprehensive income		-435.9	-482.3
Equity attributable to the shareholders of the parent		**3,772.6**	**5,265.4**
Minority interests		289.1	264.5
Total equity	**22**	**4,061.7**	**5,529.9**
Provisions for pension liabilities and other post-employment benefits	24	1,345.0	669.7
Deferred tax liabilities	15	196.5	401.7
Long-term provisions for other risks	25	351.7	429.7
Long-term portion of indebtedness	27	5,967.7	9,768.3
Other long-term liabilities	31	36.2	40.9
Non-current liabilities		**7,897.1**	**11,310.3**
Trade accounts payable	30	2,819.5	2,469.8
Income tax payable	26	644.7	507.8
Short-term provisions for other risks	25	1,342.9	1,026.3
Indebtedness	27	4,744.8	2,349.0
Other short-term financial liabilities	29	880.3	889.2
Other liabilities	31	648.1	566.0
Liabilities held for sale	32	10.1	39.6
Current liabilities		**11,090.4**	**7,847.7**
Total equity and liabilities		**23,049.2**	**24,687.9**

Consolidated Cash Flow Statements

in € millions	2009	2008
EBIT	-1,040.4	-296.2
Interest paid	-757.2	-598.5
Interest received	30.5	79.3
Income tax paid	-204.8	-282.1
Dividends received	73.3	62.6
Depreciation, amortization and impairments	2,631.6	3,067.6
At-equity share in earnings of associates and accrued dividend income from other investments, incl. impairments	64.5	-25.2
Gains from the disposal of assets, subsidiaries and business units	-12.1	-43.3
Other non-cash items	64.5	0.0
Changes in		
inventories	549.8	-77.4
trade accounts receivable	-273.9	664.2
trade accounts payable	319.1	-312.3
pension and post-employment provisions	714.8	-4.9
other assets and liabilities	267.4	-349.0
Cash provided by operating activities	**2,427.1**	**1,884.8**
Proceeds on disposal of property, plant, equipment, and intangible assets	77.1	69.8
Capital expenditure on property, plant, equipment, and software	-859.4	-1,595.2
Capital expenditure on intangible assets from development projects and miscellaneous	-51.6	-26.0
Proceeds on disposal of subsidiaries and business units, incl. surrendered cash and cash equivalents	143.8	350.0
Acquisition of subsidiaries and business units, incl. acquired cash and cash equivalents	-97.8	-102.4
Interest-bearing advances	1.1	47.5
Cash used for investing activities	**-786.8**	**-1,256.3**
Cash flow before financing activities (free cash flow)	**1,640.3**	**628.5**
Changes in short-term debt	-1,169.1	-178.9
Proceeds from the issuance of long-term debt	40.6	175.0
Principal repayments on long-term debt	-378.3	-847.9
Proceeds from the issuance of shares	—	1.0
Shareholder contributions	23.7	—
Dividends paid and repayment of capital to minority interests	-33.0	-43.9
Dividends paid	—	-323.4
Cash used for financing activities	**-1,516.1**	**-1,218.1**
Change in cash and cash equivalents	**124.2**	**-589.6**
Cash and cash equivalents at January 1	1,569.4	2,199.4
Effect of exchange rate changes on cash and cash equivalents	19.2	-40.4
Cash and cash equivalents at December 31	**1,712.8**	**1,569.4**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Total Equity

in € millions	Number of shares[1] (thousands)	Common stock	Capital reserves	Retained earnings	Successive share purchases	Other comprehensive income – Difference from currency translation[2]	Other comprehensive income – Difference from financial instruments	Subtotal	Minority interests	Total
At January 1, 2008	**161,712**	**414.0**	**2,808.7**	**3,624.8**	**-35.6**	**-218.5**	**0.2**	**6,593.6**	**263.6**	**6,857.2**
Net income	—	—	—	-1,123.5	—	—	—	-1,123.5	45.6	**-1,077.9**
Comprehensive income	—	—	—	—	—	-127.5	-103.1	-230.6	-19.9	**-250.5**
Net profit for the period	**—**	**—**	**—**	**-1,123.5**	—	**-127.5**	**-103.1**	**-1,354.1**	**25.7**	**-1,328.4**
Dividends paid	—	—	—	-323.4	—	—	—	-323.4	-21.2	**-344.6**
Issuance of shares	7,294	18.6	328.5	—	—	—	—	347.1	—	**347.1**
Successive purchases[3]	—	—	—	—	2.2	—	—	2.2	-5.5	**-3.3**
Reclassification of equity component[4]	—	—	-39.3	39.3	—	—	—	—	—	**—**
Changes in minority interests[6]	—	—	—	—	—	—	—	—	1.9	**1.9**
At December 31, 2008	**169,006**	**432.6**	**3,097.9**	**2,217.2**	**-33.4**	**-346.0**	**-102.9**	**5,265.4**	**264.5**	**5,529.9**
Net income	—	—	—	-1,649.2	—	—	—	-1,649.2	42.3	**-1,606.9**
Comprehensive income	—	—	—	—	—	138.4	-22.6	115.8	-6.3	**109.5**
Net profit for the period	**—**	**—**	**—**	**-1,649.2**	**—**	**138.4**	**-22.6**	**-1,533.4**	**36.0**	**-1,497.4**
Dividends paid	—	—	—	—	—	—	—	—	-33.0	**-33.0**
Issuance of shares[5]	—	—	17.9	—	—	—	—	17.9	—	**17.9**
Successive purchases[3]	—	—	—	—	-1.0	—	—	-1.0	-9.1	**-10.1**
Changes in minority interests[6]	—	—	—	—	—	—	—	—	30.7	**30.7**
Switch to the euro in Slovakia	—	—	—	68.4	—	-68.4	—	—	—	**—**
Shareholder contributions[7]	—	—	23.7		—	—	—	23.7	—	**23.7**
At December 31, 2009	**169,006**	**432.6**	**3,139.5**	**636.4**	**-34.4**	**-276.0**	**-125.5**	**3,772.6**	**289.1**	**4,061.7**

See accompanying notes to the consolidated financial statements.

[1] Shares outstanding.

[2] Includes the shareholders' €0.3 million (PY: €0.0 million) portion of the foreign currency translation of companies consolidated according to the equity method.

[3] Successive acquisitions of shares of fully consolidated companies and companies consolidated according to the equity method.

[4] Reclassification of equity component on the conversion of convertible bonds.

[5] Includes the expenditure resulting from stock option plans, the compensation offer for granted and not yet exercised stock options, as well as the exercise in 2008 of rights derived from stock option plans, and conversions from the convertible bond.

[6] Changes in minority interests from consolidation changes or capital increases.

[7] See Note 39.

Notes to the Consolidated Financial Statements

1. Segment Reporting

Segment report by division for 2009

in € millions	Chassis & Safety	Powertrain	Interior	Passenger and Light Truck Tires
Sales to external customers	4,349.3	3,339.4	4,353.3	4,686.8
Intercompany sales	24.3	59.8	9.4	9.6
Sales (total)	**4,373.6**	**3,399.2**	**4,362.7**	**4,696.4**
EBIT (segment result)	-102.5	-943.2	-516.0	536.4
as % of sales	-2.3	-27.7	-11.8	11.4
– thereof at-equity share in earnings of associates	16.3	-1.5	-95.7	7.7
Capital expenditure[1]	159.5	247.2	131.3	198.3
as % of sales	3.6	7.3	3.0	4.2
Depreciation and amortization[2]	704.1	929.9	536.4	256.7
– thereof impairment	370.4	488.0	90.6	24.6
Significant non-cash expenses/income	-57.9	17.5	95.6	-18.4
Segment assets	4,923.2	4,151.8	5,597.8	3,084.0
– thereof investments in associates	81.4	109.3	133.2	65.0
Operating assets (at December 31)	3,824.9	3,034.2	4,260.3	2,012.1
ROCE in % (at December 31)	-2.7	-31.1	-12.1	26.7
Operating assets (average)	4,034.0	3,401.8	4,580.1	2,348.4
ROCE in % (average)	-2.5	-27.7	-11.3	22.8
Segment liabilities	1,098.3	1,117.6	1,337.5	1,071.9
Number of employees at December 31, 2009	27,148	24,172	26,710	26,510

in € millions	Commercial Vehicle Tires	ContiTech	Other/Con-solidation	Continental Corporation
Sales to external customers	1,000.0	2,366.9	—	20,095.7
Intercompany sales	65.6	39.2	-207.9	—
Sales (total)	**1,065.6**	**2,406.1**	**-207.9**	**20,095.7**
EBIT (segment result)	-50.1	169.4	-134.4	-1,040.4
as % of sales	-4.7	7.0	—	-5.2
– thereof at-equity share in earnings of associates	-0.7	0.2	0.5	-73.2
Capital expenditure[1]	40.5	82.8	0.5	860.1
as % of sales	3.8	3.4	—	4.3
Depreciation and amortization[2]	97.6	104.6	2.3	2,631.6
– thereof impairment	15.7	3.7	—	993.0
Significant non-cash expenses/income	7.4	-2.2	82.6	124.6
Segment assets	865.7	1,375.8	6.3	20,004.6
– thereof investments in associates	2.8	2.5	3.8	398.0
Operating assets (at December 31)	570.4	970.6	-89.8	14,582.7
ROCE in % (at December 31)	-8.8	17.5	—	-7.1
Operating assets (average)	634.7	1,006.7	18.4	16,024.1
ROCE in % (average)	-7.9	16.8	—	-6.5
Segment liabilities	295.3	405.2	96.1	5,421.9
Number of employees at December 31, 2009	7,594	22,079	221	134,434

See accompanying explanations in Note 35.

[1] Capital expenditure on property, plant, equipment, and software.

[2] Excluding write-downs of investments.

Segment report by division for 2008

in € millions	Chassis & Safety	Powertrain	Interior	Passenger and Light Truck Tires
Sales to external customers	5,091.5	3,962.0	5,846.1	5,088.8
Intercompany sales	42.5	78.0	10.6	11.5
Sales (total)	**5,134.0**	**4,040.0**	**5,856.7**	**5,100.3**
EBIT (segment result)	303.1	-1,046.2	-462.6	626.4
as % of sales	5.9	-25.9	-7.9	12.3
– thereof at-equity share in earnings of associates	8.8	5.3	-12.1	8.7
Capital expenditure[1]	336.0	494.4	265.2	292.7
as % of sales	6.5	12.2	4.5	5.7
Depreciation and amortization[2]	486.8	1,127.8	1,019.9	247.1
– thereof impairment	150.6	653.3	523.6	13.1
Significant non-cash expenses/income	0.0	-27.2	39.8	-28.0
Segment assets	5,230.7	4,933.8	6,209.8	3,224.2
– thereof investments in associates	75.8	137.0	427.5	64.8
Operating assets (at December 31)	4,308.3	3,839.7	5,003.4	2,323.3
ROCE in % (at December 31)	7.0	-27.2	-9.2	27.0
Operating assets (average)	4,494.4	4,610.8	5,629.1	2,488.1
ROCE in % (average)	6.7	-22.7	-8.2	25.2
Segment liabilities	922.4	1,094.1	1,206.4	900.9
Number of employees at December 31, 2008	26,680	25,244	30,813	26,227

in € millions	Commercial Vehicle Tires	ContiTech	Other/Con-solidation	Continental Corporation
Sales to external customers	1,320.6	2,929.7	—	24,238.7
Intercompany sales	83.6	77.3	-303.5	—
Sales (total)	**1,404.2**	**3,007.0**	**-303.5**	**24,238.7**
EBIT (segment result)	29.5	329.1	-75.5	-296.2
as % of sales	2.1	10.9	—	-1.2
– thereof at-equity share in earnings of associates	0.4	0.2	5.1	16.4
Capital expenditure[1]	95.6	110.8	0.5	1,595.2
as % of sales	6.8	3.7	—	6.6
Depreciation and amortization[2]	82.9	101.0	2.1	3,067.6
– thereof impairment	0.4	0.4	—	1,341.4
Significant non-cash expenses/income	1.9	-23.8	-13.9	-51.2
Segment assets	1,033.0	1,464.2	-18.5	22,077.2
– thereof investments in associates	5.9	2.3	5.0	718.3
Operating assets (at December 31)	750.7	1,064.7	-4.0	17,286.1
ROCE in % (at December 31)	3.9	30.9	—	-1.7
Operating assets (average)	776.2	1,105.2	13.2	19,117.0
ROCE in % (average)	3.8	29.8	—	-1.5
Segment liabilities	282.3	399.5	-14.5	4,791.1
Number of employees at December 31, 2008	8,247	21,680	264	139,155

[1] Capital expenditure on property, plant, equipment, and software.

[2] Excluding write-downs of investments.

Reconciliation of EBIT to net income

in € millions	2009	2008
Chassis & Safety	-102.5	303.1
Powertrain	-943.2	-1,046.2
Interior	-516.0	-462.6
Passenger and Light Truck Tires	536.4	626.4
Commercial Vehicle Tires	-50.1	29.5
ContiTech	169.4	329.1
Other/consolidation	-134.4	-75.5
EBIT	**-1,040.4**	**-296.2**
Net interest expense	-720.8	-706.7
Earnings before income taxes	**-1,761.2**	**-1,002.9**
Income tax expense	154.3	-75.0
Net income	**-1,606.9**	**-1,077.9**
Minority interests	-42.3	-45.6
Net income attributable to the shareholders of the parent	**-1,649.2**	**-1,123.5**

Segment report by region

in € millions	Germany	Europe excluding Germany	NAFTA	Asia	Other countries	Continental Corporation
Sales to external customers 2009	**5,823.5**	**6,911.9**	**3,546.2**	**2,795.8**	**1,018.3**	**20,095.7**
Sales to external customers 2008	7,623.3	8,621.3	4,535.2	2,497.1	961.8	24,238.7
Capital expenditure 2009	**241.9**	**312.9**	**109.7**	**145.1**	**50.5**	**860.1**
Capital expenditure 2008	458.3	551.7	253.2	235.9	96.1	1,595.2
Segment assets at December 31, 2009	**10,390.7**	**4,303.0**	**2,916.9**	**1,558.9**	**835.1**	**20,004.6**
Segment assets at December 31, 2008	12,219.2	4,495.7	3,443.0	1,262.5	656.8	22,077.2
Number of employees at December 31, 2009	**44,290**	**43,817**	**18,747**	**19,586**	**7,994**	**134,434**
Number of employees at December 31, 2008	46,305	46,037	21,723	18,013	7,077	139,155

2. General Information and Accounting Principles

Continental Aktiengesellschaft, whose registered office is Vahrenwalder Strasse 9, Hanover, Germany, is the parent company of the Continental Corporation and a listed stock corporation. It is registered in the commercial register of the Hanover Local Court (HR B No. 3527). Continental AG is a supplier to the automotive industry, with worldwide operations. The areas of business and main activities in which Continental AG is engaged are

described in more detail in Note 35 on Segment Reporting. Upon resolution of the Executive Board of February 8, 2010, the consolidated financial statements of Continental AG for 2009 were approved and will be submitted to the electronic *Bundesanzeiger* (Federal Gazette) and published there.

The consolidated financial statements of Continental AG as of December 31, 2009, have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union, in accordance with EU Regulation (EC) No. 1606/2002 in conjunction with Section 315a (1) of the *Handelsgesetzbuch* (German Commercial Code). The term IFRS also includes the International Accounting Standards (IAS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). All International Financial Reporting Standards mandatory for fiscal 2009 have been applied, subject to recognition by the European Union.

The consolidated financial statements have been prepared on the basis of amortized historical cost, except for certain assets held for sale and derivative financial instruments, recognized at their fair value.

The annual financial statements of companies included in the corporation have been prepared using accounting principles consistently applied throughout the corporation, in accordance with IAS 27. In general, the balance sheet dates of the subsidiary financial statements are the same as the balance sheet date of the consolidated financial statements.

The consolidated financial statements have been prepared in euros. Unless otherwise stated, all amounts presented are in millions of euros. We point out that differences may arise as a result of the use of rounded amounts and percentages.

Consolidation principles

All major subsidiaries in which Continental AG directly or indirectly holds a majority of voting rights and has the possibility of control have been included in the consolidated financial statements and fully consolidated. In accordance with the provisions of SIC 12 (Consolidation – Special Purpose Entities), the consolidated financial statements must also include companies that can be controlled by Continental AG, despite a lack of majority voting rights, by other means such as agreements or guarantees. No companies were required to be included in the consolidated financial statements as a result of these provisions in either 2009 or 2008. The consolidation of subsidiaries is based on the purchase method, by offsetting the purchasing costs against the proportion of net assets attributed to the parent company at fair value at the date of acquisition. Intangible assets not previously recorded in the standalone financial statements of the acquired company are also entered at their fair value. Intangible assets identified in the course of a business combination, including for example brand names, patents, technology, customer relationships, and order backlogs, are recognized separately at the date of acquisition only if the requirements under IAS 38 for an intangible asset are met. As a rule, measurement at the time of acquisition is carried out only on a provisional basis. Increases or reductions of assets and liabilities that become necessary within twelve months after the acquisition are adjusted accordingly. These adjustments are presented in the notes to the financial statements. The ratios from the previous year are not subsequently changed.

Any positive remaining amount is capitalized as goodwill. In order to ensure the recoverability of goodwill arising from provisional measurement and the corresponding purchase price allocation, the provisional goodwill is allocated provisionally to the affected management units as of the balance sheet date. This provisional allocation can deviate significantly from the final allocation.

The shares in the net assets of subsidiaries that are not attributable to the corporation are shown under 'minority interests' as a separate component of total equity.

For the term during which Continental or any of its subsidiaries have made binding offers to minority shareholders to purchase their shares in subsidiaries, those minority interests are shown as financial liabilities and not as equity. These financial liabilities are recognized at fair value, which corresponds to the price offered. In the event that the offer was made simultaneously at the time of the business combination, then the fair value of the binding purchase offer is considered part of the total cost of acquisition. On the other hand, if that offer was made separately from the business combination, then any difference between the binding purchase offer and the carrying amount of the minority interests at the time that offer is made is recognized directly in equity.

In particular in Germany, offers to purchase minority interests are required by law in connection with management and profit and loss pooling agreements, in accordance with the redemption obligations under Section 305 of the *Aktiengesetz* (German Stock Corporation Act).

Once control has been obtained, any differences arising from successive purchases of shares from minority interests between the purchase price and the carrying amount of those minority interests are recognized directly in equity.

Where there are successive purchases of shares, at the point in time where control is obtained any difference between the carrying amount for shares previously held prior to obtaining control and the fair value is taken directly to equity. To the extent this difference reflects unrecognized fair values compared with the historical cost of the net assets of the associate, the difference is credited separately to a revaluation reserve within total equity.

Significant investments where Continental AG holds between 20.0% and 50.0% of the voting rights, thereby enabling it to exert significant influence on the associated companies, are in general accounted for using the equity method.

Companies that are dormant or have only a low level of business activity and therefore no significant impact on the net assets, financial position, and results of operations of the Continental Corporation are not included in the consolidated financial statements. Such companies are recognized in the consolidated financial statements at cost unless their fair value can be determined in accordance with IAS 39.

Associates are included using the equity method in which the carrying amount is adjusted to reflect the share in the associate's net equity. If the annual financial statements of the associates are not available, the proportionate share in earnings or losses is recognized as necessary based on estimated amounts. Goodwill arising from the first consolidation of associates is accounted for under the equity method. Goodwill is not amortized but in the case of the relevant indications is tested annually for impairment.

Intercompany amounts receivable and payable, as well as income and expenses, are eliminated on consolidation. Intercompany profits arising on the supply of goods and services, and dividend payments made within the corporation, are eliminated on consolidation. Deferred taxes related to the elimination of intercompany transactions are recognized at the effective income tax rate for the corporation.

Foreign currency translation

The assets and liabilities of foreign subsidiaries with a functional currency other than the euro are translated into euros at the year-end middle rates. The statement of income is translated at the exchange rates prevailing at the transaction dates. Differences resulting from currency translation are recognized in accumulated other comprehensive income until the disposal of the subsidiary, without recognizing deferred taxes.

In the stand-alone statements of Continental AG and its subsidiaries, amounts receivable and payable in foreign currencies are measured on recognition at the transaction rate and adjusted at the balance sheet date to the related spot rates. Gains and losses arising on foreign currency translation are recognized in the income statement, except for certain loans. Foreign currency adjustments relating to the translation of intercompany financing made in the functional currency of one of the parties, and for which repayment is not expected in the foreseeable future, are charged directly to other comprehensive income within total equity.

In accordance with IAS 21, any goodwill is recognized directly as an asset of the subsidiary acquired and therefore also translated for subsidiaries whose functional currencies are not the euro into euros at the balance sheet date using the middle rate. Differences resulting from foreign currency translation are recognized in accumulated other comprehensive income.

The following table summarizes the exchange rates used in currency translation that had a material effect on the consolidated financial statements:

Currencies		Closing rate		Average rate for the year	
1 € in		Dec. 31, 2009	Dec. 31, 2008	2009	2008
Brazil	BRL	2.51	3.37	2.85	2.67
Switzerland	CHF	1.48	1.50	1.51	1.59
China	CNY	9.84	9.81	9.52	10.23
Czech Republic	CZK	26.41	26.53	26.46	24.96
United Kingdom	GBP	0.89	0.98	0.89	0.80
Hungary	HUF	270.44	266.58	280.55	251.69
Japan	JPY	133.07	127.70	130.22	152.31
South Korea	KRW	1,680.02	1,813.69	1,773.59	1,604.59
Mexico	MXN	18.85	19.43	18.80	16.30
Malaysia	MYR	4.93	4.99	4.91	4.89
Philippines	PHP	66.56	67.80	66.32	65.16
Romania	RON	4.24	4.05	4.24	3.68
U.S.A.	USD	1.44	1.42	1.39	1.47
South Africa	ZAR	10.66	13.47	11.70	12.07

Revenue recognition

Only sales of products resulting from the ordinary business activities of the company are shown as revenue. Ancillary income or proceeds, such as from the sale of equipment or scrap, or rental and licensing income, are netted against the related expenses.

Revenues from made-to-order production – mostly for public transportation operators – are recognized using the percentage of completion method. The ratio of costs already incurred to the estimated total costs associated with the contract serves as the basis of calculation. Expected losses from these contracts are recognized in the reporting period in which the actual estimated total costs exceed the sales expected from the respective contract.

Product-related expenses

Costs for advertising, sales promotion, and other sales-related items are expensed as incurred. Provisions are recognized for probable warranty claims on sold products on the basis of past experience, as well as legal and contractual terms. Additional provisions may be recognized for specific known cases.

Research and development expenses

Research and development expenses comprise expenditure on research and development and expenses for customer-specific applications, prototypes, and testing. Advances and reimbursements from customers are netted against expenses at the time they are invoiced. In addition, the expenses are reduced by the amount relating to the application of research results to the development of new or substantially improved products, if the related activity fulfills the recognition criteria for internally generated intangible assets set out in IAS 38. This portion of the expenses is capitalized as an asset and amortized over a period of three years from the date that the developed products become marketable. However, expenses for customer-specific applications, preproduction prototypes, or tests for products already being sold (application engineering), generally do not qualify as development expenditure which may be recognized as an intangible asset. Furthermore, expenses incurred directly in connection with starting up new operations or launching new products or processes are charged immediately to income.

Only very few development projects fulfill the recognition criteria as intangible assets since our major medium- and longer-term projects are for supplying automobile manufacturers (original equipment business). New developments for the original equipment business are not marketable until Continental has been nominated as the supplier for the particular vehicle platform or model and, furthermore, has successfully fulfilled preproduction release stages. Moreover, these release stages serve as the prerequisite to demonstrate the technical feasibility of the product, especially given the high demands imposed on comfort and safety technology. Accordingly, devel-

opment costs are recognized as an asset only as of the date of nomination as supplier and fulfillment of a specific pre-production release stage. The development is considered to be completed once the final approval for the unlimited series production is granted.

Although suppliers are nominated by original equipment manufacturers with the general obligation to supply products over the entire life of the particular model or platform, these supply agreements constitute neither long-term contracts nor firm commitments, in particular because the original equipment manufacturers make no commitments in regard of the purchase quantities. For this reason, all pre-series production expenses – with the exception of the capitalized development costs described above – are recognized immediately in profit or loss.

Interest and investment income and expenses

Interest income and expenses are recognized for the period to which they relate; dividends receivable are recognized upon the legal entitlement to payment.

Earnings per share

Earnings per share are calculated on the basis of the weighted average number of shares outstanding. Treasury stock is deducted for the period it is held in treasury. Diluted earnings per share also include shares from the potential exercise of option or conversion rights. The corresponding expenses that would no longer be incurred after the conversion or exchange are eliminated.

Balance sheet classification

Assets and liabilities are shown as non-current assets and liabilities in the balance sheet if they have a remaining term of over one year and, conversely, as current assets and liabilities if the remaining term is shorter. Liabilities are treated as current if there is no unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. Provisions for pensions and other post-employment obligations as well as deferred tax assets and liabilities are generally shown as non-current. If assets and liabilities have both current and non-current portions, the amounts are classified separately.

Goodwill

Goodwill corresponds to the difference between the purchase cost and the fair value of the acquired assets and liabilities of a business combination. Goodwill is not subject to amortization; it is tested for impairment at least annually and, if necessary, written down to the extent impaired.

Intangible assets

Purchased intangible assets are carried at acquisition costs and internally generated intangible assets at their production costs, provided that the conditions for recognition of an internally generated intangible asset are met in accordance with IAS 38. If intangible assets have finite useful lives, they are amortized straight-line over a useful life of three to eight years. Intangible assets with indefinite useful lives are tested at least annually for impairment and, if necessary, written down to the extent impaired.

Property, plant, and equipment

Property, plant, and equipment is carried at cost less straight-line depreciation. Impairment losses are recognized through an additional write-down of the affected items. Investment grants are generally deducted from cost.

Construction cost consists of the direct costs and attributable material and manufacturing overheads, including depreciation.

Under certain conditions, portions of the borrowing costs were capitalized in the year under review for the first time as part of the acquisition cost. This also applies to investment property and intangible assets.

As soon as an asset is available for its intended use, subsequent cost is only capitalized to the extent the related modification changes the function of the asset or increases its economic value, and the cost can be clearly identified. All other subsequent expenditure is recorded as current period maintenance expense.

Property, plant, and equipment is broken down into the lowest level of the components that have significantly different useful lives and, to the extent integrated in other assets, when they are likely to be replaced or overhauled during the overall life of the related main asset. Maintenance and repair costs are recognized as an expense as incurred. The corporation has no property, plant, or equipment that by the nature of its operation and deployment can only be repaired and serviced in intervals over several years. The useful lives are up to 33 years for buildings and land improvements; up to twelve years

for technical equipment and machinery; and two to ten years for factory and office equipment.

Investment property

Land and buildings held for the purpose of generating rental income instead of production or administrative purposes are carried at depreciated cost. Depreciation is charged on a straight-line basis over the useful lives, which correspond to those for real estate in use by the company.

Leasing

Continental AG leases property, plant, and equipment, especially buildings. If the substantial risks and rewards from the use of the leased asset are controlled by Continental AG, the agreement is treated as a finance lease, and an asset and related financial liability are recognized. In the case of an operating lease, where the economic ownership remains with the lessor, only the lease payments are recognized as incurred and charged to income. Other arrangements, particularly service contracts, are also treated as leases to the extent they require the use of a particular asset to fulfill the arrangement and the arrangement conveys a right to control the use of the asset.

Impairment

The corporation immediately reviews intangible assets and property, plant, and equipment as well as investment property as soon as there is an indication of impairment by comparing the carrying amount with the recoverable amount. The recoverable amount corresponds to the higher of the fair value less costs to sell and the present value of the expected future cash flow from the continued use of the asset. If the carrying amount is higher than the recoverable amount, the difference is recognized as an impairment loss. If the circumstances for the prior recognition of an impairment no longer prevail, the impairment losses are reversed.

The annual impairment test for goodwill is made at the level of the strategic business units, which represent the relevant cash-generating units. Recoverability is tested by comparing the carrying amount of the business unit, including goodwill, with its recoverable amount on the basis of its discounted pre-tax cash flows representing the value in use. An impairment loss is recognized to the extent the carrying amount exceeds the recoverable amount for the business unit. Impairment losses for goodwill are not reversed in subsequent periods.

The expected cash flows for the business units are derived from the long-term plans that cover the following five years. The terminal cash flows are extrapolated using the expected growth rates for the individual business units for the subsequent periods. The plans are based in particular on assumptions for macroeconomic developments, as well as trends in sales prices, raw material prices, and exchange rates.

In the late summer of 2009, Continental AG created a top-down business plan for the coming five years as a means of strategic control. The comparison of this top-down business plan with the planning documents used as a basis for impairment testing as of December 31, 2008 revealed that expectations regarding the recovery of the economic environment, particularly those concerning sales and EBIT levels, were more pessimistic at the end of the planning horizon than they had been as of December 31, 2008. In Continental AG’s view, these substantive indications were considered to be a triggering event as defined under IAS 36, thus requiring the performance of an impairment test. The corresponding impairment test as of September 30, 2009, led to goodwill impairment in the amount of €875.8 million. An interest rate of 11.4% was used to discount the cash flow. A discount rate of 11.0% would have resulted in an impairment requirement of €562.7 million. Based on a discount rate of 12.0%, impairment would have been €1,374.6 million.

Annual impairment testing was performed as of December 31, 2009, on the basis of the five-year plan approved in the period under review in line with the procedure described above. The annual impairment test did not lead to any further impairment requirement as of the end of 2009 (PY: €1,230.0 million).

The average sustainable growth rate applied in the year under review was 0.92% (PY: 0.92%). The average growth rates used in the fiscal year were 0.50% (PY: 0.50%) for the Rubber Group and 1.16% (PY: 1.15%) for the Automotive Group. The sustainable growth rate for the cash generating units of the Interior and Chassis & Safety divisions in the year under review was 1.0% (PY: 1.0%), and 1.5% for units of the Powertrain division. For the cash generating units of the Passenger and Light Truck Tires, Commercial Vehicle Tires and ContiTech divisions, the sustainable growth rate was 0.5% (PY: 0.5%). These growth rates do not exceed the long-term

growth rates for the fields of business in which the cash generating units operate.

The interest rate used in fiscal 2009 to discount cash flows was 11.5% (PY: 11.5%). This interest rate used for discounting (pre-tax WACC) was determined on the basis of a target capital structure and debt rate of a peer group. A discount rate of 11.0% would not have resulted in an impairment requirement. Based on a discount rate of 12.0%, impairment would have been €13.1 million.

Assets held for sale and related liabilities
Individual non-current assets or a group of non-current assets and related liabilities are classified separately as held for sale in the balance sheet if their disposal has been committed and is probable. Assets held for sale are recognized at the lower of their carrying amount and their fair value less costs to sell, and are no longer depreciated once they are classified as held for sale.

Financial instruments
A financial instrument in accordance with IAS 32 is any contract that gives rise to a financial asset, a financial liability or an equity instrument. This includes non-derivative financial instruments such as trade accounts receivable and payable, securities and financial assets, and indebtedness and other financial liabilities. It also includes derivative financial instruments that are used to hedge against risks from changes in exchange rates and interest rates.

Non-derivative financial instruments
Non-derivative financial instruments are recognized at the settlement date, i.e., the date at which the asset is delivered to or by Continental. Non-derivative financial instruments are classified under one of the following four categories according to the purpose for which they are held. The classification is reviewed at each reporting date and affects whether the asset is reported as non-current or current as well as determining whether measurement is at cost or fair value.

- Changes in the fair value of financial assets at fair value through profit and loss – which are either designated as such (fair value option) on initial recognition or are classified as held for trading – are recognized immediately in the income statement. In addition, they are reported as current assets if they are either held for trading purposes or are expected to be realized within twelve months following the balance sheet date. The fair value option is not applied in the Continental Corporation.

- Held-to-maturity financial assets – which have fixed or determinable payments at the date of initial recognition as well as a fixed maturity and are intended to be held until that maturity – are recognized at amortized cost and reported as non-current or current assets in accordance with their term. Any impairment losses are charged directly to income. No financial assets are classified as held-to-maturity at present.

- Loans and receivables – which have fixed or determinable payments and are not quoted in an active market – are measured at amortized cost less any necessary impairment write-downs. They are reported in the balance sheet in accordance with their term as non-current or current assets.

- Available-for-sale financial assets – which were designated as available for sale and not assigned to the other categories at the date of initial recognition – are measured at fair value and reported as non-current or current assets according to the expected date of sale. Unrealized gains or losses are recognized in other comprehensive income, net of tax effects, until the date of derecognition. In the event of a significant or long-lasting decline in fair value to below cost, the loss is recognized immediately in profit or loss. Reversals of impairments of equity instruments are taken directly to equity. Where there is no price quoted in an active market and the fair value cannot be measured reliably, for example in the case of investments in unconsolidated affiliated companies or other equity investments, the assets are measured at cost.

Liabilities arising from non-derivative financial instruments may be recognized either at amortized cost or at fair value through profit and loss. Continental AG generally measures all financial liabilities at amortized cost, which comprises the remaining principal balance and issuing costs, net of any unamortized premium or discount. Liabilities from finance leases are shown at the present value of the remaining lease payments based on the implicit lease interest rate. Financial obligations with fixed or determinable payments that comprise neither indebtedness nor derivative financial liabilities and are not quoted in an active market are reported in the balance sheet under other financial liabilities in accordance with their term.

In the case of information reported in accordance with IFRS 7, classification takes place in line with the items disclosed in the balance sheet and/or the measurement category used in accordance with IAS 39.

Hybrid financial instruments

Financial instruments that have both a debt and an equity component are classified and measured separately by those components. Instruments under this heading include primarily bonds with warrants and convertible bonds. In the case of convertible bonds, the fair value of the share conversion rights is recognized separately in capital reserves at the date the bond is issued and therefore deducted from the indebtedness incurred through the bond proceeds. Fair values of conversion rights from bonds with below-market interest rates are calculated based on the present value of the difference between the coupon rate and the market rate of interest. The interest expense for the debt component is calculated over the term of the bond based on the market interest rate at the date of issue for a comparable bond without conversion rights. The difference between the deemed interest and the coupon rate is accrued over the term to the carrying amount of the bonded indebtedness. The issuing costs of the convertible bond are deducted directly from the carrying amount of the debt component. In the event of maturity or conversion, the equity component previously recognized in capital reserves at the date of issue is offset against the accumulated retained earnings in accordance with the option permitted by IAS 32.

Derivative financial instruments

Derivative financial instruments are used only for hedging of balance sheet items or forecasted cash flows, and are recognized at their fair values. The fair value generally corresponds to the market or exchange price. In the absence of an active market, the fair value is determined using financial models, for example by discounting expected future cash flows at the market rate of interest or by applying recognized option pricing models. Derivative financial instruments are recognized at the trading date, i.e., when the obligation to buy or sell the instrument is incurred.

Changes in the fair values of derivative financial instruments used for fair value hedging purposes (fair value hedges) to offset fluctuations in the market value of recognized assets or liabilities are charged to income together with thechanges in value of the hedged item. Changes in the fair values of derivative financial instruments used to hedge future cash flows (cash flow hedges) where effectiveness is demonstrated are recognized directly in equity until the associated hedged transaction is settled. If the criteria for hedge accounting are not met or the hedge becomes ineffective, the changes in fair value of the specific derivative financial instrument are recognized in income as incurred, independently of the hedged item. Once the forecasted transaction for which the cash flows have been hedged results in the recognition of a financial asset or a financial liability, any gains or losses previously deferred in equity are released to income at that time. If the transaction leads to the recognition of a non-financial asset, it is reflected by an increase or reduction in the cost of acquisition.

Amounts receivable

Amounts receivable are carried at their principal amount. Valuation allowances on special items are recognized in specific cases where default is known, or as a general allowance based on experience. Default risks leading to lower payment inflows usually manifest themselves in financial difficulties, non-fulfillment, probable insolvency or breach of contract.

Continental AG sells some of its trade accounts receivable under factoring programs with banks. The accounts receivable are still recognized in the balance sheet when the risks and rewards, in particular credit and default risk, have not been transferred. The repayment obligations from these sales are then shown as short-term indebtedness.

Inventories

Inventories are recognized at the lower of cost and net realizable value. Acquisition cost is generally determined using the weighted-average method. Production cost includes direct costs, production-related material costs, overheads, and depreciation. Inventory risks resulting from decreased marketability or excessive storage periods are accounted for with write-downs.

Other assets

Other assets are recognized at cost. Write-downs are recognized as appropriate to reflect any possible risk related to recoverability.

Accounting for income taxes

Income taxes are measured using the balance sheet liability method, in accordance with IAS 12. Tax expenses and refunds that relate to income are recognized as income taxes. Accordingly, late payment fines and interest arising from subsequently assessed taxes are reported as tax expenses as soon as it becomes probable that the recognition of a reduction in taxes will be rejected.

Current taxes owed on income are recognized as expenses when they are incurred.

These include deferred taxes for the expected tax payments and refunds from temporary differences between the carrying amounts in the consolidated financial statements and the related tax bases, as well as from the utilization of loss carryforwards. No deferred tax is recognized for non-tax-deductible goodwill. The deferred tax assets and liabilities are measured at the applicable tax rates related to the period when the temporary differences are expected to reverse. Changes in tax rates are recognized once the rate has been substantially enacted. Deferred tax assets are not recognized if it is not probable that they will be realized in the future.

Provisions for pension liabilities and other post-employment benefits

The retirement benefits offered by the corporation encompass both defined benefit and defined contribution plans.

Pension liabilities under defined benefit plans are actuarially measured pursuant to IAS 19, using the projected unit credit method that reflects salary, pension, and employee fluctuation trends. The discount rate to determine the present value is based on long-term loans in the respective capital market. Actuarial gains and losses that exceed the greater of 10% of the defined benefit obligation or 10% of the fair value of the plan assets at the start of the fiscal year are recognized in profit or loss over the expected average remaining service lives of the beneficiaries. Expenses for the interest cost on pension liabilities and income from the pension funds are not shown separately in net interest expenses, but are included in the compensation costs in the related cost categories as classified in the income statement.

Accordingly, the interest cost of other, similar long-term employee benefits is included in the compensation costs as part of the cost categories as classified in the income statement and not shown separately as net interest expense. Pension liabilities for some companies of the corporation are covered by pension funds. Furthermore, plan assets comprise all assets, as well as claims from insurance contracts, that are held exclusively towards payments to those entitled to pensions and are not available to meet the claims of other creditors. Pension obligations and plan assets are reported on a net basis in the balance sheet.

The other post-employment benefits also shown under the provision for pension and other post-employment liabilities relate to obligations to pay for health costs for retired workers in the U.S., Canada, and other countries.

Defined contribution plans represent retirement benefits where the company only contributes contractually fixed amounts for current service entitlements, which are generally invested by independent, external asset managers until the date of retirement of the employee. The fixed amounts are partly dependent on the level of the employee's own contribution. The company gives no guarantees of the value of the asset after the fixed contribution, either at the retirement date or beyond. The entitlement is therefore settled by the contributions paid in the year.

Provisions for other risks

Provisions are recognized when a legal or constructive obligation has arisen that is likely to result in a future cash outflow to third parties and the amount can be reliably determined or estimated. The provisions are recognized at the balance sheet date at the value at which the obligations could probably be settled or transferred to a third party. Non-current provisions such as litigation or environmental risks are discounted to their present value. The resulting periodic interest charge for the provisions is shown under net interest expenses including an effect from a change in interest.

Non-financial liabilities

Current liabilities are carried at their payable amount. Non-current non-financial liabilities are measured at amortized cost.

Stock option plans

The amount of personnel expenses recognized in respect of stock options is based on the fair value of the options at the date of grant, using the Monte Carlo simu-

lation model. The fair value of the option is recognized in capital reserves and in profit or loss over the vesting period.

Estimates

Proper and complete preparation of the consolidated financial statements requires management to make estimates and assumptions affecting the assets, liabilities, and disclosures in the notes, as well as the income and expenses for the period.

The most important estimates relate to the determination of the useful lives of intangible assets and property, plant, and equipment; the impairment testing of goodwill and non-current assets, in particular the underlying cash flow forecasts and discount rate; the recoverability of amounts receivable and other assets as well as income taxes receivable; the financial modeling parameters for stock option plans; the recognition and measurement of provisions, especially the actuarial parameters for pensions and other post-employment obligations; and the probabilities of claims and amounts of settlements for warranty, litigation or environmental risks.

The assumptions and estimates are based on the information currently available at the date of preparation of the consolidated financial statements. The underlying information is regularly reviewed and updated to reflect actual developments as necessary.

Consolidated cash flow statements

The statements of cash flows show the sources during the period that generated cash and cash equivalents as well as the application of cash and cash equivalents. Cash includes all liquid funds and demand deposits. Cash equivalents are short-term (maturing in less than three months), highly liquid financial investments that can be readily converted into known cash amounts and are subject to only minor fluctuations in value. Financial investments are considered to be cash equivalents only if they have a remaining term not exceeding three months.

3. New Accounting Pronouncements

In accordance with EU Regulation No. 1606/2002 in conjunction with Section 315a (I) of the *Handelsgesetzbuch*, Continental AG has prepared its consolidated financial statements in compliance with the IFRS as adopted by the European Union under the endorsement procedure. Thus IFRS are only required to be applied following endorsement of a new standard by the European Union.

The following amendments and interpretations issued in relation to published standards that were applicable to Continental AG became effective in 2009 and have been adopted accordingly:

IFRIC 13, *Customer Loyalty Programmes*, regulates the accounting treatment by entities granting award credits such as bonus points or air miles, to customers who buy other goods or services. The interpretation requires a portion of the revenue from the sale to be allocated to the award credits. This portion of the revenue may only be recognized in income when the obligation is met. The interpretation shall be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2008. IFRIC 13 had no effect on the consolidated financial statements of Continental AG.

IFRIC 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, specifies additional criteria for determining the limit in IAS 19 on the amount of a defined benefit surplus that can be recognized as an asset. Under it, a surplus must be unconditionally available for a refund or reduction in future contributions for an entity to recognize an asset. IFRIC 14 also aims to avoid the possibility of statutory minimum funding requirements being onerous for the entity. On the other hand, additional liabilities must be recognized if an entity has a statutory obligation to cover an existing shortfall for past service on the minimum funding basis. The interpretation applies to annual periods beginning on or after January 1, 2009. Its application had no significant effect on the Continental Corporation.

The amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity, or Associate*, allow entities to determine in the IFRS opening balance of the separate financial statements, the cost of an investment in a subsidiary, jointly controlled entity, or associate either by using the fair value or a previous GAAP carrying amount at the entity's date of transition to IFRS. These amendments to IFRS 1 and IAS 27 are to be applied for annual periods beginning on or after January 1, 2009. The changes had no significant effect on the consolidated financial statements of Continental AG.

The amendment to IFRS 2, *Share-based Payment – Vesting Conditions and Cancellations*, clarifies the definition and treatment of vesting conditions and non-vesting conditions within IFRS 2 and also provides guidance on the accounting treatment of cancellations by a party other than the entity. The amendment is to be applied to all share-based payments that are within the scope of IFRS 2 for annual periods beginning on or after January 1, 2009. The amendment had no significant effect on the consolidated financial statements of Continental AG.

The amendments to IFRS 7, *Financial Instruments: Disclosures*, and to IFRS 4, *Insurance Contracts – Improving Disclosures about Financial Instruments*, deal with enhanced disclosures about fair value measurements and liquidity risks. The amendments clarify that fair value disclosures are required for each class of financial instrument separately. Furthermore, a three-level hierarchy for fair value measurement disclosures and extensive disclosure requirements have been introduced. In addition, the amendments to IFRS 7 enhance and clarify the disclosure requirements on the nature and extent of liquidity risk related to financial instruments. The amendments require a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) and for derivative financial liabilities. The amendments are to be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2008. The amendments to IFRS 7 and IFRS 4 had no significant effect on the consolidated financial statements of Continental AG.

IFRS 8, *Operating Segments*, replaces the risks and rewards approach of IAS 14 to segment reporting by a management approach that identifies and reports segments based on information regularly made available to the chief operating decision maker for decision-making purposes. Therefore, the financial accounting approach

of IAS 14 for the measurement of segment information is also replaced by the management approach. The application of IFRS 8 is mandatory for annual periods beginning on or after January 1, 2009. The prescribed approach to identifying and reporting segments is consistent with the principles already applied by Continental AG.

IAS 1, *Presentation of Financial Statements* (revised 2007), requires all non-owner changes in equity to be presented separately from owner changes in equity. Non-owner changes in equity must either be presented using the single statement approach or the two statements approach. The latter option includes a separate income statement and a statement of comprehensive income. IAS 1 also changes the titles of financial statement components within IFRS affecting all existing standards and interpretations, but the new titles are not mandatory for use in financial statements. When an entity applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in the financial statements, the presentation of a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements is required. The revised IAS 1 also extends the disclosure requirements regarding the other comprehensive income. The revised IAS 1 replaces the current IAS 1 and will come into effect for annual periods beginning on or after January 1, 2009. The revised IAS 1 had no significant effect on the consolidated financial statements of Continental AG, with the exception of certain changes in disclosure and presentation.

IAS 23, *Borrowing Costs* (revised 2007), led to an adjustment of IAS 23 to the effect that funds that are borrowed specifically to acquire or produce a qualifying asset must be capitalized. The previous option to capitalize borrowing costs was eliminated. In this context, a qualifying asset is one for which a substantial period of time is necessary to get it ready for its intended use or sale. IAS 23 (revised 2007) is to be applied for annual periods beginning on or after January 1, 2009. The main qualifying assets concerned are planned new production facilities. Its application affected the accounting treatment of certain investment projects of the Continental Corporation in 2009.

The amendments to IAS 32, *Financial Instruments: Presentation,* and IAS 1, *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*, allow under certain criteria puttable instruments to be classified as equity. The amendments are to be applied for annual periods beginning on or after January 1, 2009. Their application had no effect on the consolidated financial statements of Continental AG.

The revision of the published amendments to IAS 39, *Financial Instruments: Recognition and Measurement*, and to IFRS 7, *Financial Instruments: Disclosures*, which allow reclassifications of certain financial instruments, clarifies the date of application. The amendments are to be applied retrospectively as of July 1, 2008. Reclassifications made in periods beginning on or after November 1, 2008, shall take effect only from the date when the reclassification is made. Reclassifications before November 1, 2008, can be carried out with effect from an earlier time, though not on a date before July 1, 2008. Its application had no effect on the consolidated financial statements of Continental AG.

The amendments to IFRIC 9, *Reassessment of Embedded Derivatives*, and IAS 39, *Financial Instruments: Recognition and Measurement – Embedded Derivatives*, clarify that, also in the case of a reclassification of a financial asset out of the ‘at fair value through profit or loss category’, a reassessment whether an embedded derivative needs to be separated from the host contract is required. The assessment is to be made on the basis of the circumstances that existed on the later date of when the entity first became a party to the contract, and a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract. If an entity is unable to measure separately the embedded derivative the entire hybrid (combined) contract remains in the category ‘at fair value through profit or loss’. These amendments are to be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2008. The amendments had no effect on the consolidated financial statements of Continental AG.

With the first Annual Improvement Project (May 2008) of the IASB, the following amendments became effective:

- The amendments to IAS 1, *Presentation of Financial Statements*, clarify the presentation of derivatives as current or non-current. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments had no significant

effect on the consolidated financial statements of Continental AG.

- The amendments to IAS 16, *Property, Plant and Equipment* (and amendments to IAS 7, *Statement of Cash Flows*), deal with sales of property, plant and equipment previously held for rental purposes. The amendments clarify that IFRS *5, Non-current Assets Held for Sale and Discontinued Operations*, does not apply in such cases. Such assets shall be transferred to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale are to be recognized as revenue. IAS 7 is amended to the effect that cash payments to manufacture or acquire such assets and cash receipts from rental and sale of such assets are to be included within operating activities. The term 'net selling price' has been replaced by the term 'fair value less cost to sell' in IAS 16. These amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments had no significant effect on the consolidated financial statements of Continental AG.

- The amendments to IAS 19, *Employee Benefits*, essentially clarify the definition of curtailments and negative past service cost, the definition of short-term and other long-term employee benefits, as well as the definition of 'return on plan assets' and the determination of the actual and expected return. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments had no significant effect on the consolidated financial statements of Continental AG.

- The amendments to IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, deal with the accounting treatment of government loans with a below-market rate of interest. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments had no effect on the consolidated financial statements of Continental AG.

- The amendment to IAS 23, *Borrowing Costs*, revises the wording of IAS 23 regarding the borrowing cost components in order to harmonize the calculation of borrowing costs in accordance with IAS 23 and IAS 39. The amendment is required to be applied for annual periods beginning on or after January 1, 2009. The amendment had no effect on the consolidated financial statements of Continental AG.

- The amendment to IAS 27, *Consolidated and Separate Financial Statements*, clarify ambiguities between IFRS 5 and IAS 39 in the measurement of investments in subsidiaries, jointly controlled entities, and associates held for sale in the separate financial statements of the parent. The amendment is required to be applied for annual periods beginning on or after January 1, 2009. The amendment had no significant effect on the consolidated financial statements of Continental AG.

- The amendments to IAS 28, *Investments in Associates*, clarify that any impairment loss after applying the equity method for the first time is not allocated against any goodwill or other assets included in the investments balance. Later reversals of impairment are to be recognized as an adjustment to the investments in the associate to the extent that the recoverable amount of the associate increases. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments had no significant effect on the consolidated financial statements of Continental AG.

- The amendments to IAS 28, *Investments in Associates* and IAS 31, *Interests in Joint Ventures*, (and consequential amendments to IAS 32, *Financial Instruments: Presentation*, and IFRS 7, *Financial instruments: Disclosures*), deal with certain investments in associates or interests in jointly controlled entities measured at fair value in accordance with IAS 39 which are outside the scope of IAS 28 und IAS 31. For such investments in associates and interests in jointly controlled entities, the amendments delete the general disclosure requirements of IAS 28 and IAS 31 and identify instead specific disclosures that should be made. IAS 32 and IFRS 7 were correspondingly amended. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments had no significant effect on the consolidated financial statements of Continental AG.

- The amendments to IAS 29, *Financial Reporting in Hyperinflationary Economies*, specify the description of the measurement basis in annual financial statements. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The

amendments had no significant effect on the consolidated financial statements of Continental AG.

- The amendment to IAS 36, *Impairment of Assets*, revises IAS 36 to the effect that in those cases where the fair value less cost to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those required for calculations based on the value in use should be made. The amendment is required to be applied for annual periods beginning on or after January 1, 2009. The amendment had no significant effect on the consolidated financial statements of Continental AG.

- The amendments to IAS 38, *Intangible Assets*, clarify the accounting of advertising and promotional activities and the unit of production method of amortization. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments had no significant effect on the consolidated financial statements of Continental AG.

- The amendments to IAS 39, *Financial Instruments: Recognition and Measurement*, clarify the reclassification of financial assets in or out of the 'at fair value through profit or loss' category, the applicable effective interest rate on cessation of fair value hedge accounting and also the designation of hedging instruments. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments had no significant effect on the consolidated financial statements of Continental AG.

- The amendments to IAS 40, *Investment Property*, clarify that property under construction or developed for future use as an investment property is classified from the very start as a financial investment and disclosed in accordance with IAS 40. Furthermore, the amendments give additional guidance in cases where the fair value cannot be measured reliably. The amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The first Annual Improvement Project (May 2008) has also resulted in smaller amendments (editorial changes, changes in wording) to IFRS 7, *Financial Instruments: Disclosures*; IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*; IAS 10, *Events After the Reporting Period*; IAS 18, *Revenue*; IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*; IAS 29, *Financial Reporting in Hyperinflationary Economies*; IAS 34, *Interim Financial Reporting*; IAS 40, *Investment Property*; and IAS 41, *Agriculture*. These amendments are required to be applied for annual periods beginning on or after January 1, 2009. The amendments had no significant effect on the consolidated financial statements of Continental AG, hence the individual amendments were not analyzed in detail.

The following interpretations and standards have already been endorsed by the EU but will not take effect until a later date:

- IFRIC 12, *Service Concession Arrangements*, provides guidance on the accounting by operators (licensees) for the rights and obligations arising from public-to-private service concession arrangements. The interpretation applies to agreements in which public infrastructure services are outsourced to private companies and in which

a) The grantor controls and regulates what services the operator (licensee) must provide with the infrastructure, to whom it must provide them, and at what price, and

b) The grantor controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the term of the arrangement (infrastructure that is used in a public-to-private service concession arrangement for its entire useful life is also within the scope of IFRIC 12, if the condition under a) is met).

IFRIC 12 is to be applied, at the latest, as from the commencement date of the first financial year starting after March 29, 2009. IFRIC 12 is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRIC 15, *Agreements for the Construction of Real Estate*, deals with the accounting for revenue and associated expenses by entities that undertake the construction of real estate. The interpretation clarifies the conditions to determine whether the agreement is within the scope of IAS 11, *Construction Contracts*, or IAS 18, *Revenue*. The interpretation also deals with the question

when revenue from the construction of real estate should be recognized. The interpretation is required to be applied for annual periods beginning on or after January 1, 2010. IFRIC 15 is not expected to have any effect on the future consolidated financial statements of Continental AG.

IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*, clarifies that only foreign exchange differences arising between the functional currency of the foreign operation and the functional currency of any parent entity may qualify for hedge accounting. IFRIC 16 also states that any entity within the group (except the foreign operation that itself is being hedged) can hold the hedging instrument in a hedge of a net investment in a foreign operation. When a foreign operation that was hedged is disposed of, the amount reclassified to profit or loss as a reclassification adjustment from the foreign currency translation reserve in respect of the hedging instrument is determined in accordance with IAS 39, *Financial instruments: Recognition and Measurement*, and the amount reclassified in respect of the net investment in that foreign operation is determined in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*. The interpretation is to be applied, at the latest, as from the commencement date of the first financial year starting after June 30, 2009. IFRIC 16 is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRIC 17, *Distributions of Non-cash Assets to Owners*, deals with the recognition and measurement of dividends payable and addresses also the question of how to account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable. The liability to pay a dividend shall be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. The dividend payable shall be measured at the fair value of the assets to be distributed. Subsequent adjustments at a later reporting date or at the date of settlement are to be recognized directly in equity. At the date of settlement, the difference between the carrying amount of the asset distributed and the carrying amount of the dividend payable is to be recognized in profit or loss. IFRIC 17 also amends IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, to the effect that in the future, assets classified as 'held for distribution to owners' will be in the scope of IFRS 5. The interpretation is required to be applied, at the latest, as from the commencement date of the first financial year starting after October 31, 2009. IFRIC 17 is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRIC 18, *Transfers of Assets from Customers*, specifies the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. In the scope of this interpretation are agreements in which an entity receives from a customer an item of property, plant and equipment (or cash from customers for the acquisition or construction of such items of property, plant and equipment) that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as electricity, gas or water), or to do both. IFRIC 18 is to be applied, at the latest, as from the commencement date of the first financial year starting after October 31, 2009. IFRIC 18 is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRS 1, *First-time Adoption of International Financial Reporting Standards* (revised 2008) amends IFRS 1 solely with regard to its formal structure by separating general and special rules of the standard. The revised version of IFRS 1 is to be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2009. It is not expected that the revised IFRS 1 will have any effect on the future consolidated financial statements of Continental AG.

IFRS 3, *Business Combinations* (revised 2008), was amended to take account of a number of issues relating to accounting for business combinations. The main amendments are as follows:

- All transaction costs, including costs directly attributable to the acquisition, must be expensed immediately instead of treating them as a component of the purchase price of the acquired entity;

- In future, an option will exist for all business combinations in which less than a 100% interest is acquired to recognize the non-controlling interests either including any goodwill attributable to them or, as previously, merely at the fair value of the non-controlling interest's proportionate share of the identifiable assets and liabilities;

- When determining the purchase price, contingent purchase price adjustments must now be included at their fair value at the acquisition date, regardless of the probability of their occurrence. Subsequent adjustments to the fair value of purchase price components classified as liabilities must generally be recognized in income in the period in which the adjustment is made;

- In the case of a business combination achieved in stages (step acquisition), the acquirer must in future recognize the differences between carrying value and fair value of the previously held stock at the time of acquisition in income;

- All contractual relationships existing at the acquiree at the acquisition date, with the exception of leases, must be reclassified or redesignated;

- A claim granted to the acquirer by the seller to indemnification in relation to a liability of the acquiree, e.g., in connection with tax risks or legal disputes, will in future lead to the recognition of an asset in the amount of the liability concerned. In subsequent periods, this asset must then be measured in the same way as the related liability.

These amendments to IFRS 3 are only required to be applied to business combinations taking place in annual periods beginning on or after July 1, 2009. Its application will start to affect the accounting treatment of acquisitions from 2010 onwards.

IAS 27, *Consolidated and Separate Financial Statements* (revised 2008), was amended to include the following clarifications:

- The ‘economic entity approach’ is required to be applied to all transactions involving non-controlling interests. Under it, purchases and disposals of investments in subsidiaries that do not result in a loss of control are accounted for as an equity transaction. Thus such transactions do not result in any change in the carrying amounts of the assets and liabilities reported in the balance sheet (including goodwill).

- By contrast, where a disposal of an investment leads to a loss of control, a disposal gain or loss is recognized in income. In future, the disposal gain or loss will also include the difference between the previous carrying amount and the fair value of such investments in the subsidiary that are retained after the loss of control.

- The current limitation on the loss attributable to non-controlling interests to the carrying amount of the non-controlling interests is eliminated, with the result that the carrying amount of non-controlling interests may be negative in future.

These amendments to IAS 27 are only required to be applied for annual periods starting on or after July 1, 2009, and will have an effect on future transactions from 2010 onwards.

The amendment to IAS 32, *Financial Instruments: Presentation – Classification of Rights Issues*, addresses the classification of rights, options or warrants to acquire a fixed number of the entity’s own equity instruments for a fixed amount of any currency. These rights are to be classified as equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class. The amendment is to be applied, at the latest, as from the commencement date of the first financial year starting after January 31, 2010. The amendment is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendment to IAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*, introduces additional application guidance in the context of hedge accounting regarding the designation of inflation in a financial hedged item and the designation of a one-sided risk in a hedged item. The amendment is to be applied for annual periods beginning on or after July 1, 2009. The amendment is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

With the first Annual Improvement Project (May 2008) of the IASB, the following amendments will become effective at a later date:

- The amendments to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, (and amendments to IFRS 1, *First-time Adoption of the International Financial Reporting Standards*), clarify that in cases in which an entity is committed to a sale plan involving loss of control of a subsidiary, all assets and liabilities of that subsidiary are to be classified as ‘held

for sale' in accordance with IFRS 5, provided that the requirements of IFRS 5 are fulfilled. The classification must be conducted regardless of whether a non-controlling interest after the sale will be retained. Correspondingly, IFRS 1 and the disclosure requirements regarding discontinued operations are amended. The amendments are required to be applied for annual periods beginning on or after July 1, 2009. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

Promulgated by the IASB in 2009, the following standard has become effective and is not subject to EU endorsement.

The standard *IFRS for Small and Medium-sized Entities* (IFRS for SMEs), which is a generally issued as a 'stand-alone' document, provides simplified and shortened accounting principles for small and medium-sized entities as opposed to those used under the 'full IFRS'. The standard is to be applied as of its publication date on July 9, 2009. EU endorsement of this standard is not necessary as the rules of the standard do not apply to listed companies. The standard will have no effect on the future consolidated financial statements of Continental AG.

The following amendment is still pending endorsement by the EU. However its effective date would have been within the reporting period:

Under the IASB's second Annual Improvement Project (April 2009), the following amendment would also have been effective:

The amendment to IAS 39, *Financial Instruments: Recognition and Measurement - Hedging Using Internal Contracts*, clarifies that hedge accounting should no longer be used for transactions between segments in the separate financial statements. This amendment (originally part of the 2007/2008 annual improvement project) is effective for annual periods beginning on or after January 1, 2009. The amendment is not expected to have any effect on the future consolidated financial statements of Continental AG.

The following standards and interpretations are not yet endorsed by the EU and will become effective at a later date:

The amendments to IFRIC 14, IAS 19—*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarify the accounting for situations in which prepayments were made and minimum funding requirements exist. The amendments require that the economic benefit of the entity's prepayments which reduce future contributions should be recognized as asset. The amendments to IFRC 14 shall be applied to annual periods beginning on or after January 1, 2011. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swaps). IFRIC 19 clarifies the accounting for such situations by the debtor (issuer of the equity instruments). According to that, the equity instruments issued for the purpose of extinguishing all or part of a financial liability are part of consideration paid. The equity instruments are to be measured at their fair value. If the fair value of the equity instrument cannot be reliably measured, the equity instrument is to be measured to reflect the fair value of the financial liability fully or partly extinguished. IFRIC 19 states that any difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the initial measurement amount of the equity instruments issued, is to be recognized in profit or loss. IFRIC 19 is to be applied to annual periods beginning on or after July 1, 2010. IFRIC 19 is not expected to have any effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*, provide additional exemptions from the generally mandatory full retrospective application of International Financial Reporting Standards. Oil and gas entities are relieved from the retrospective application of the IFRS for oil and gas assets if they previously followed the full cost method of accounting for oil and gas producing activities. Furthermore, if a first-time adopter made the same determination of

whether an arrangement contained a lease in accordance with previous GAAP as that required by IFRIC 4,, *Determining Whether an Arrangement Contains a Lease*, but at a date other than that required by IFRIC 4, the first-time adopter need not reassess that determination when it adopts IFRS. The amendments are to be applied to annual periods beginning on or after January 1, 2010. The amendments are not expected to have any effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 2, *Share-based Payment – Group Cash-settled Share-based Payment Transactions,* clarify the accounting for share-based payment transactions within the group. The entity which receives the goods or services (receiving entity) should generally account for a grant as cash-settled share-based payment transactions in accordance with the requirements of IFRS 2 unless the grant is settled with equity instruments of the receiving entity or unless the receiving entity is not obliged to settle the grant. The entity which is obliged to settle the share-based payment transaction (settling entity) accounts for the transaction depending on the nature of the settlement. If the share-based payment is settled with equity instruments, the grant is accounted for as an equity-settled share-based payment transaction. If the grant is settled in cash, it is accounted for in accordance with the IFRS 2 requirements for cash-settled share-based payment transactions. The amendments to IFRS 2 shall be applied to annual periods beginning on or after January 1, 2010. Under these IFRS 2 amendments, IFRIC 8, *Scope of IFRS 2*, and IFRIC 11, *IFRS 2–Group and Treasury Share Transactions*, are included in the standard with the simultaneous elimination of the two interpretations. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRS 9, *Financial Instruments*, revises the IAS 39 requirements for the classification and measurement of financial assets. The standard represents the completion of the first part of the project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 divides all financial assets currently in the scope of IAS 39 into two classifications: ‘measured at amortized cost’ and ‘measured at fair value’. A financial asset is measured at amortized cost if the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets which do not fulfill both conditions are measured at fair value. IFRS 9 states that only when an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. IFRS 9 restricts the option to designate a financial asset at fair value through profit or loss. An entity may designate if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an ‘accounting mismatch’). A further significant amendment of IFRS 9 is the introduction of an option that at initial recognition an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this IFRS that is not held for trading. If an entity makes this election, it must recognize in profit or loss dividends from that investment. IFRS 9 is to be applied to annual periods beginning on or after January 1, 2013. It is not expected that IFRS 9 will have any significant effect on the future consolidated financial statements of Continental AG.

IAS 24, *Related Party Disclosures*, (revised 2009) provides clarification of the existing IAS 24 rules. One of the main focuses is the revised definition of the term ‘related party’. Furthermore, the revised standard includes partial exemptions from the disclosure requirements of IAS 24 for government-related entities (entities that are controlled, jointly controlled or significantly influenced by a government). The revised IAS 24 is to be applied to annual periods beginning on or after January 1, 2011. It is not expected that the revised IAS 24 will have any significant effect on the future consolidated financial statements of Continental AG.

With the second Annual Improvement Project (April 2009) of the IASB, the following amendments will also become effective at a later date:

- The amendment to IFRS 2, *Share-based Payment,* clarifies that, besides business combinations as defined under IFRS 3, also the formation of a joint venture or a combination between entities or businesses under common control are excluded from the scope of IFRS 2, *Share-based Payment*. The amendment will become effective for annual periods beginning on or after July 1, 2009 (linked to the application of the revised IFRS 3). The amendment is not expected to

have any significant effect on the future consolidated financial statements of Continental AG.

- The amendment to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations,* specifies the disclosure requirements for such assets. The disclosure requirements of other IFRS do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations, unless the other IFRS require explicit disclosures for those assets or the disclosures relate to measurement of assets or liabilities of a disposal group outside IFRS 5 measurement requirements and such information is not presented in other parts of the financial statements. This amendment will become effective for annual periods beginning on or after January 1, 2010. The amendment is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendment to IFRS 8, *Operating Segments*, clarifies that the requirement to disclose the measure of segment assets is only necessary if that information is reported regularly to the chief operating decision maker. The amendment will become effective for annual periods beginning on or after January 1, 2010. The amendment is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendment to IAS 1, *Presentation of Financial Statements* (revised 2007), clarifies that the potential settlement of a liability by the issue of equity is not relevant for the current or non-current classification. The amendment will become effective for annual periods beginning on or after January 1, 2010. The amendment is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendment to IAS 7, *Statement of Cash Flows*, specifies that only expenditures which result in assets recognized in the balance sheet should be classified in the investing activities category. The amendment will become effective for annual periods beginning on or after January 1, 2010. The amendment is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendment to IAS 17, *Leases*, eliminates the special rules for the classification of land leases. Lease of land is to be classified as operating or finance lease in accordance with the general principles in IAS 17. The amendment will become effective for annual periods beginning on or after January 1, 2010. The amendment is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendment to the Appendix to IAS 18, *Revenue*, gives specific guidance on the appendix of IAS 18 which deals with principal and agent determination. The amendment is not applicable on a specific date as the appendix is not part of the standard. The amendment is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendment to IAS 36, *Impairment of Assets*, clarifies that a cash-generating unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and may be no larger than an operating segment as defined in IFRS 8, *Operating Segments*. The amendment will become effective for annual periods beginning on or after January 1, 2010. The amendment is not expected to have any effect on the future consolidated financial statements of Continental AG.

- The amendment to IAS 38, *Intangible Assets*, clarifies the accounting requirement of the revised IFRS 3 for intangible assets acquired in a business combination. The amendment will become effective for annual periods beginning on or after July 1, 2009 (linked to the application of the revised IFRS 3). Furthermore, IAS 38 has been amended to specify the fair value measurement (valuation techniques) for intangible assets acquired in a business combination and not traded in active markets. This amendment will become effective for annual periods beginning on or after July 1, 2009. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- IAS 39, *Financial Instruments: Recognition and Measurement*, was amended to clarify the accounting treatment of prepayment options. Prepayment options are to be considered as being closely related to the host

contract. Furthermore, the scope of exemption from IAS 39 has been amended. It was clarified that IAS 39 shall not be applied to forward contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction. IAS 39 was also amended to clarify cash flow hedges in that if a hedge of a forecast transaction subsequently results in the recognition of a financial asset or liability, the associated gains or losses are to be reclassified from equity to profit or loss in the same period (or periods) during which the hedged forecast cash flows affect profit or loss. The amendments will become effective for annual periods beginning on or after January 1, 2010. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendment to IFRIC 9, *Reassessment of Embedded Derivatives*, clarifies that IFRIC 9 may not be applied to embedded derivatives in contracts acquired in a business combination as defined in IFRS 3, *Business Combinations* (revised 2008), the formation of a joint venture as defined in IAS 31, *Interests in Joint Ventures*, or within the scope of a combination of entities or businesses under common control as defined in the revised IFRS 3. The amendment will become effective for annual periods beginning on or after July 1, 2009 (linked to application of the revised IFRS 3). The amendment is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendment to IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*, determines that any entity or entities within a group may hold the hedging instrument (including the foreign operation that itself is being hedged). The amendment will become effective for annual periods beginning on or after July 1, 2009. The amendment is not expected to have any significant effect on the future consolidated financial statements of Continental AG.

4. Companies Consolidated

In addition to the parent company, the consolidated financial statements include 355 (PY: 357) domestic and foreign companies in which Continental Aktiengesellschaft holds a direct or indirect interest of more than 20.0% of the voting rights. Of these, 310 (PY: 306) are fully consolidated and 45 (PY: 51) are carried at equity.

The number of companies consolidated decreased in total by two year-on-year. Two companies were acquired, nine companies were established and two previously unconsolidated units were consolidated for the first time. Four companies were also consolidated for the first time due to the acquisition of further shares. Three companies were sold and eight were liquidated. In addition, the companies consolidated were reduced by three companies as a result of mergers and five companies were deconsolidated.

Additions in 2009 to the companies consolidated chiefly relate to the acquisition of further shares of the company Synerject LLC, U.S.A., previously accounted for using the equity method, and its subsidiaries, as well as to the acquisition of Kolubara Univerzal D.O.O in Serbia and Eu-Retec in Sri Lanka. Reductions in the scope of consolidated companies relate primarily to deconsolidations and liquidations of insignificant companies. The effects of this are shown under Note 5.

More information on equity interests can be found in the list of the corporation's shareholdings, which is published with the consolidated financial statements in the electronic *Bundesanzeiger* (Federal Gazette).

Statutory exemption provisions applying to German companies

The statutory exemption provisions have been applied to the following German corporations or commercial partnerships pursuant to Section 264 (3) or 264b of the *Handelsgesetzbuch* (German Commercial Code):

ADC Automotive Distance Control Systems GmbH, Lindau; Alfred Teves Beteiligungs-GmbH, Frankfurt am Main; Babel Grundstücksverwaltungsgesellschaft mbH, Schwalbach am Taunus; Benecke-Kaliko Aktiengesellschaft, Hanover; Beneform GmbH, Peine; CAS München GmbH, Hanover; CAS-One Holdinggesellschaft mbH, Hanover; Conseo GmbH, Hamburg; Continental Automotive Grundstücksgesellschaft mbH, Frankfurt am Main; Continental Mechanical Components Germany GmbH, Roding; Continental Reifen Deutschland GmbH, Hanover; IDM GmbH Industriesensoren, Lindau; Conti Temic microelectronic GmbH, Nuremberg; Conti Versicherungsdienst Versicherungsvermittlungsgesellschaft mbH, Hanover; Continental Automotive GmbH, Hanover; Continental Caoutchouc-Export-GmbH, Hanover; Continental Engineering Services GmbH, Frankfurt am Main; Continental Engineering Services & Products GmbH, Ingolstadt; ContiTech AG, Hanover; ContiTech Antriebssysteme GmbH, Hanover; ContiTech Elastomer-Beschichtungen GmbH, Hanover; ContiTech Formpolster GmbH, Hanover; ContiTech Kühner Beteiligungsgesellschaft mbH, Hanover; ContiTech Luftfedersysteme GmbH, Hanover; ContiTech Schlauch GmbH, Hanover; ContiTech Techno-Chemie GmbH, Karben; ContiTech Transportbandsysteme GmbH, Hanover; ContiTech Verwaltungs-GmbH, Hanover; ContiTech Vibration Control GmbH, Hanover; ContiTech-Universe Verwaltungs-GmbH, Hanover; Correx Handelsgesellschaft für Kautschukprodukte mbH, Hanover; Eddelbüttel & Schneider GmbH, Hamburg; eStop GmbH, Schwalbach am Taunus; Formpolster GmbH, Hanover; GERAP Grundbesitz- und Verwaltungsgesellschaft mbH, Frankfurt am Main; Göppinger Kaliko GmbH, Eislingen; Max Kammerer GmbH, Frankfurt am Main; Metallgummi GmbH, Hamburg; ContiTech MGW GmbH, Hannoversch Münden; OTA Grundstücks- und Beteiligungsverwaltung GmbH, Frankfurt am Main; ContiTech Fluid Automotive GmbH, Hamburg; Phoenix Beteiligungsgesellschaft mbH, Hamburg; Phoenix Compounding Technology GmbH, Hamburg; Phoenix Conveyor Belt Systems Asia GmbH, Hamburg; Phoenix Conveyor Belt Systems GmbH, Hamburg; Phoenix Fluid Handling Industry GmbH, Hamburg; Phoenix Industrieanlagen Verwaltungs GmbH, Hamburg; Phoenix Sechste Verwaltungsgesellschaft mbH, Hamburg; Phoenix Siebte Verwaltungsgesellschaft mbH, Hamburg; Phoenix Vermögensverwaltungs-GmbH, Hamburg; REG-Reifen-Entsorgungsgesellschaft mbH, Hanover; Continental Safety Engineering International GmbH, Alzenau; Continental Mechatronic Verwaltungsgesellschaft mbH, Hanover; Continental Trading GmbH, Eschborn; Steinebronn Beteiligungs-GmbH, Oppenweiler; TEMIC Automotive Electric Motors GmbH, Berlin; UMG Beteiligungsgesellschaft mbH, Hanover; Vergölst GmbH, Bad Nauheim; Continental Automotive Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Frankfurt am Main; Continental

Teves AG & Co. oHG, Frankfurt am Main; ContiTech Kühner GmbH & Cie. KG, Oppenweiler; Phoenix Service GmbH & Co. KG, Hamburg; Union-Mittelland-Gummi-GmbH & Co. Grundbesitz KG, Hanover.

5. Acquisition and Sale of Companies and Business Units

Eu-Retec

In order to improve significantly the market position for industrial solid tires in the growth region of Asia as well as in the U.S. dollar zone, Continental Global Holding Netherland BV, Amsterdam, the Netherlands, purchased 51.0% of the shares of Eu-Retec (Private) Limited, which is headquartered in Kalutara, Sri Lanka.

The purchase agreement was signed on February 25, 2009.

The first consolidation was on March 1, 2009. The purchase price totaled €4.6 million plus transaction costs of €0.2 million. This amount is equivalent to the share of the purchase price which was settled with cash funds. No contingent liabilities were identified in the context of the acquisition process.

The acquired assets and liabilities were recognized in the following amounts:

Acquisition of Eu-Retec	Carrying amount immediately before acquisition	Fair value at date of first consolidation
Intangible assets	—	0.1
Property, plant, and equipment	1.3	2.4
Other long-term assets	0.0	0.0
Inventories	0.5	0.5
Accounts receivable	0.0	0.0
Other current assets	0.1	0.1
Cash and cash equivalents	1.0	1.0
Pension provisions	-0.1	-0.1
Net deferred taxes	—	-0.4
Trade accounts payable	-0.1	-0.1
Other current liabilities	-0.2	-0.2
Net assets	**2.5**	**3.3**
Minority interests	1.2	1.6
Purchased net assets	**1.3**	**1.7**
Purchase price		4.6
Transaction costs		0.2
Goodwill		**3.1**

This preliminary purchase price allocation resulted in goodwill of €3.1 million.

This goodwill reflects the strengthened market position of the Commercial Vehicle Tires division for industrial solid tires in the growth market of Asia, the synergies associated with production, and the access to natural rubber which is up to 5% cheaper as compared to the global market.

Purchased intangible assets include the technology for retreading industrial solid tires and brand names used by Eu-Retec.

Eu-Retec's products are sold in full to Continental Corporation sales companies, with the effect that the first consolidation did not lead to any direct increase in consolidated sales.

Since March 2009, Eu-Retec's business has contributed €0.3 million to net income attributable to the shareholders of the parent.

If this transaction had been completed on January 1, 2009, the Continental Corporation's reported sales for 2009 would not have increased, net income attributable to the shareholders of the parent would have been €0.2 million higher, and earnings per share would not have changed significantly.

Kolubara

On April 6, 2009, ContiTech Rubber Industrial Kft., Szeged, Hungary, acquired 70.0% of the shares in Kolubara Univerzal D.O.O, Veliki Crljeni, Serbia, at a purchase price of €11.0 million plus transaction costs of €0.3 million. This amount is equivalent to the share of the purchase price which was settled with cash funds. The relevant agreements were signed on September 11, 2008. The seller failed to fulfill a condition precedent to the purchase agreement until April 6, 2009. No contingent liabilities were identified in the context of the acquisition process. The acquired assets and liabilities were recognized in the following amounts:

Acquisition of Kolubara	Carrying amount immediately before acquisition	Fair value at date of first consolidation
Intangible assets	0.0	1.2
Property, plant, and equipment	5.0	6.5
Inventories	1.4	1.4
Accounts receivable	3.8	3.8
Other current assets	0.1	0.1
Cash and cash equivalents	6.7	6.7
Pension provisions	—	-0.2
Net deferred taxes	-0.2	-0.3
Indebtedness	—	—
Trade accounts payable	-0.4	-0.4
Other current liabilities	-0.3	-1.7
Net assets	**16.1**	**17.1**
Minority interests	4.8	5.1
Purchased net assets	**11.3**	**12.0**
Purchase price		11.0
Transaction costs		0.3
Negative balance		**-0.7**

This preliminary purchase price allocation resulted in a negative balance of €0.7 million, which was recognized in other operating income. Future reorganization measures for the plant, particularly in the workforce, influenced the purchase price. The transaction strengthens the position in the Eastern European market and allows for new markets to be opened up for the ContiTech division in neighboring countries. Since April, Kolubara's business has contributed €6.4 million to sales and -€0.1 million to net income attributable to the shareholders of the parent. If this transaction had been completed on January 1, 2009, the Continental Corporation's reported sales for 2009 would have been €1.4 million higher, net income attributable to the shareholders of the parent €0.0 million higher, and earnings per share would not have changed significantly.

Synerject

To strengthen the market position for injectors and injection systems in the non-automotive sector, Continental Automotive Systems US, Inc., Auburn Hills, U.S.A., purchased a further 8.0% of the shares of Synerject LLC, Delaware, U.S.A., and its subsidiaries, thus attaining the majority holding in the company which had previously been jointly managed. The purchase agreement was signed on March 18, 2009. The purchase price for the additional shares of the company amounted to €3.0 million. The purchase price was offset against a receivable from the joint venture partner in the same amount. No contingent liabilities were identified in the context of the acquisition process. The acquired assets and liabilities were recognized in the following amounts:

Acquisition of Synerject	Carrying amount immediately before acquisition	Fair value at date of first consolidation
Intangible assets	3.9	11.6
Property, plant, and equipment	4.2	4.3
Inventories	3.3	3.8
Accounts receivable	16.4	16.4
Other current assets	1.1	1.1
Cash and cash equivalents	1.9	1.9
Pension provisions	—	-0.1
Net deferred taxes	—	-2.8
Indebtedness	-4.2	-4.2
Trade accounts payable	-11.8	-11.8
Other current liabilities	-6.3	-6.3
Net assets	**8.5**	**13.9**
Minority interests	3.6	5.8
Purchased net assets, accumulated	**4.9**	**8.1**
Purchase price including shares previously held		28.0
Transaction costs		—
Goodwill		**19.9**

This preliminary purchase price allocation resulted in goodwill of €19.9 million. The goodwill reflects the strengthening of the international position for injectors and injection systems in the area of non-automotive original equipment manufacturers and the growth opportunities in the Asia region. The acquired intangible assets include technologies and customer relationships.

Since April 2009, Synerject’s business has contributed €43.3 million to sales and €2.4 million to net income attributable to the shareholders of the parent. If this transaction had been completed on January 1, 2009, the Continental Corporation’s reported sales for 2009 would have been €11.0 million higher, net income attributable to the shareholders of the parent €0.2 million lower, and earnings per share would not have changed significantly.

ERCO

On July 1, 2009, Continental Tire North America, Charlotte, U.S.A., acquired the majority holding in the previously associated Compañía Ecuatoriana del Caucho (ERCO), which is headquartered in Cuenca, Ecuador.

The company has been assigned to the Passenger and Light Truck Tires and Commercial Vehicle Tires divisions.

This purchase further boosts our market position for passenger, light truck and commercial vehicle tires in the growth region of Latin America. ERCO has a market share of 11% in the countries of Chile, Peru, Bolivia, Columbia, Venezuela and Ecuador. ERCO has experienced annual growth rates of 15% to 20% in recent years, whereas the market displayed growth of 7% to 8%.

The first consolidation was on July 1, 2009. The purchase price for the additional acquired shares of approximately 8.0% of the company amounted to a total of €1.4 million plus transaction costs of €0.0 million. This amount is equivalent to the share of the purchase price which was settled with cash funds. No contingent liabilities were identified in the context of the acquisition process.

The acquired assets and liabilities were recognized in the following amounts:

Acquisition of ERCO	**Carrying amount immediately before acquisition**	**Fair value at date of first consolidation**
Intangible assets	0.4	1.0
Property, plant, and equipment	15.0	25.4
Other long-term assets	0.5	0.5
Inventories	18.3	18.7
Accounts receivable	13.0	13.0
Other current assets	8.5	8.5
Cash and cash equivalents	0.2	0.2
Pension provisions	-3.1	-3.1
Net deferred taxes	—	-2.8
Indebtedness	-15.3	-15.5
Other long-term liabilities	-1.0	-1.0
Trade accounts payable	-8.3	-8.3
Other current liabilities	-9.0	-9.0
Net assets	**19.2**	**27.6**
Minority interests	9.6	13.8
Purchased net assets, accumulated	**9.6**	**13.8**
Purchase price including shares previously held		10.3
Transaction costs		0.0
Negative balance from at-equity-accounted shares at the acquisition date		-3.0
Negative balance		**-0.5**

This preliminary purchase price allocation resulted in a negative balance of €0.5 million, which was recognized in other operating income.

The negative balance is primarily due to hidden reserves in non-current assets which were disclosed as part of the purchase price allocation.

Purchased intangible assets primarily include brand names.

Since July 2009, ERCO's business has contributed €35.6 million to sales and €1.0 million to net income attributable to the shareholders of the parent. If this transaction had been completed on January 1, 2009, the

Continental Corporation's reported sales for 2009 would have been €37.7 million higher, net income attributable to the shareholders of the parent €0.1 million higher, and earnings per share would not have changed significantly.

Other acquisitions of minority interests

In April 2009, Continental Automotive GmbH, Hanover, acquired the 33.3% of residual shares in Continental Automotive Instruments Malaysia, Prai, Malaysia, previously in other ownership, at a purchase price of €2.1 million. The difference between the purchase price and the acquired minority interests amounted to €0.0 million and was recognized directly in equity.

In 2009, Continental Caoutchouc-Export AG, Hanover, acquired 10.1% of the shares in the subsidiary Oltas (Otomotiv Lastikeleri Tevesi A.S.), Istanbul, Turkey, first consolidated in 2008, in several steps for a total price of €0.6 million. The difference between the purchase price and the acquired minority interests in the amount of -€0.2 million was recognized directly in equity.

In December 2009, Phoenix B.V., Bleiswijk, the Netherlands, acquired the 26.0% of residual shares in Phoenix Yule Ltd., Calcutta, India, previously in other ownership, at a purchase price of €8.7 million. The difference between the purchase price and the acquired minority interests in the amount of -€2.0 million was recognized directly in equity.

In December 2009, at the demand of its minority shareholders, AVTOELEKTRONIKA-ELKAR (AVTEL), Kaluga, Russia, acquired their 49.0% stake at a purchase price of €4.6 million. The difference between the purchase price and the acquired minority interests in the amount of -€2.5 million was recognized directly in equity.

Effective July 1, 2009, the option to acquire the remaining shares in the tire and conveyor belt business of the Matador Group was exercised in the amount of €46.8 million. The purchase option was agreed upon in November 2007, when 51.0% of the shares in the Matador Group were purchased. Since that point in time, the shares held by minority shareholders have not been disclosed as minority interests but as financial liability instead.

In addition, the remaining minority interest in a tire sales company was acquired.

At the beginning of the year, the remaining shares held by minority shareholders (formerly Phoenix shareholders) of ContiTech AG were acquired. In this squeeze-out, €24.83 was paid for each of roughly 1.5 million ContiTech shares (approximately 1.7% of the shares), totaling €37.2 million.

The effects of these transactions on net income attributable to the shareholders of the parent are insignificant.

Disposals of companies and business units

As a result of the determination of the final purchase price in connection with the sale of the electric motor activities to the Brose Group, €11.6 million in outstanding purchase price claims were received in the first half of 2009. The final selling price totaled €241.6 million. This amount is equivalent to the share of the purchase price which was settled with cash funds.

The Public Transport Solutions business was identified in a portfolio review as a non-core business area. As of October 31, 2009, the business from the non-OE area was sold to the Trapeze ITS Group – predominantly as part of an asset deal – for a provisional negative purchase price of €11.7 million, stemming primarily from a decrease in working capital from the signing date to the closing date. The purchase price is equivalent to the share of the purchase price to be settled with cash funds. In 2009, the disposal resulted in total further expenses of €4.5 million (PY: €46.9 million) for the Interior division, as well as a decrease of €52.8 million in its assets held for sale and of €52.8 million in its liabilities held for sale. The business unit sold chiefly consists of methods for optimizing local transport in city centers. These support the transport sector with IT solutions which help to design and administrate the range of transport better and more effectively.

Due to declining capacity utilization, a decision was made at the end of 2008 to close the plant in Blythewood, U.S.A., and to relocate production to Newport News, U.S.A. The plant results from a joint venture with a U.S. engine manufacturer, which is also the plant's main customer. Continental had filed for damages for underutilization against the joint venture partner. Rather than a relocation, the entire plant including the associated production for this customer was sold to Navistar Inc. under an asset and share deal for proceeds of €21.5 million, effective as of October 31, 2009, in the context of an agreement. This amount is equivalent to the share

of the purchase price which was settled with cash funds. The decreases resulting from the disposal chiefly relate to assets from property, plant, and equipment, and from inventories as well as liabilities from current provisions and other liabilities. This sale generated a gain of €10.5 million for the Powertrain division, taking into account all reciprocal claims and interests.

Notes to the Consolidated Income Statements

6. Other Income and Expenses

in € millions	2009	2008
Other expenses	-1,974.3	-1,770.3
Other income	71.3	143.2
Other income and expenses	**-1,903.0**	**-1,627.1**

Expenses

The other expenses relate primarily to:

in € millions	2009	2008
Goodwill impairment	875.8	1,230.0
Restructuring measures without impairment	460.0	151.5
Impairment of property, plant, equipment, and intangible assets	117.2	111.4
Expenses for specified warranty risks	170.8	6.7
Litigation and environmental risks	15.4	18.8
Realized and unrealized foreign currency exchange losses	27.4	68.2
Losses on sale of property, plant, and equipment	6.4	15.6
Valuation allowances for doubtful accounts	33.9	34.4
Losses on sale of subsidiaries and business units	5.6	—
Expenses for termination benefits	116.7	53.3
Impairment of assets held for sale	0.0	46.9
Other	145.1	33.5
Other expenses	**1,974.3**	**1,770.3**

The impairment test on goodwill during the year as of September 30, 2009, which was performed due to a triggering event, led to an impairment requirement of €875.8 million. Of this, €367.0 million related to the Chassis & Safety division, €447.4 million to the Powertrain division and €61.4 million to the Interior division. The annual impairment test as of December 31, 2009, did not lead to any further impairment requirement (PY: €1,230.0 million). Please see Note 2.

The necessary adjustment of production overcapacity in Europe to the current market conditions led to the discontinuation of passenger and light truck tire production in Clairoix, France. This resulted in restructuring expenses and impairment losses in the amount of €207.3 million in the period under review.

Current production overcapacities in Europe mean a much reduced demand for primary materials as well. The closure of the compounding and rubberization activities in Traiskirchen, Austria, at the end of 2009 led to restructuring expenses and impairment losses of €12.9 million in the Passenger and Light Truck Tires division.

The plant in Huntsville, U.S.A., is to be closed at the end of 2010. This decision was based upon the persistent unfavorable situation in the U.S. market as well as the overcapacities in production, research and development in North America. By closing Huntsville and consolidating production capacities as well as concentrating research and development activities, we expect to optimize regional production and reduce costs significantly. In 2009, the Interior and Powertrain divisions incurred restructuring expenses and impairment losses of €82.6 million.

Measures introduced for the location in Hanover-Stöcken, Germany, led to restructuring expenses and impairment losses of €46.4 million in the Commercial Vehicle Tires division in 2009.

The closure and transfer of Western European locations of the Fluid Technology business unit in the ContiTech division led to restructuring expenses and impairment losses of €33.4 million in 2009.

Due to declining volumes and expiring customer orders, production capacity at the plant in Karben, Germany, had to be adjusted. This led to restructuring expenses of €31.9 million in the Chassis & Safety, Powertrain and Interior divisions.

As a result of the expiration of further customer orders and cost savings in the areas of research & development and administration, there were additional restructuring expenses of €31.4 million for the Interior division at the plant in Babenhausen, Germany, in the period under review.

At the plant in Wetzlar, Germany, there were additional restructuring expenses of €12.2 million for the Interior division in the period under review, driven by the expiration of research and development projects for which there are no follow-up orders.

The partial impairment of the Matador brand name, and an impairment on property, plant, and equipment in Puchov, Slovakia, driven by significant sales declines, led to expenses of €10.7 million for the Passenger and Light Truck Tires and Commercial Vehicle Tires divisions.

The global economic crisis and the associated sales declines no longer allow for efficient utilization of the externally operated warehouse in Straubing, Germany. The warehouse is to be closed down. The associated rental agreement is valid until 2016. At the end of 2009, it was assumed that the properties could not be subleased accordingly. A provision of €9.7 million was therefore recognized in the Commercial Vehicle Tires division.

The research and development location in Neubiberg, Germany, is to be closed. This led to restructuring expenses and impairment losses of €8.8 million in the Powertrain and Interior divisions.

The closure of the Conti Machinery location in Puchov, Slovakia, led to restructuring expenses and impairment losses of €8.0 million in the Commercial Vehicle Tires division.

In the year under review, a decision was made to move the activities of several business units of the Powertrain and Interior divisions from the Deer Park, U.S.A. location to other locations. This led to restructuring expenses of €5.4 million.

Production at the plant in Hiroshima, Japan, is to be relocated to Changshu, China. This resulted in restructuring expenses of €2.9 million in the Chassis & Safety division.

The impairment test on customer relationships in other intangible assets led to an impairment requirement of €2.4 million with various customer groups for the Passenger and Light Truck Tires division.

Due to the withdrawal of a customer order for the development and production of diesel injection systems at the plant in Blythewood, U.S.A., restructuring measures had to be introduced, which led to expenses in the amount of €44.7 million. This primarily relates to special write-downs on production lines and the settlement of supplier claims.

The impairment test on customer relationships in other intangible assets led to an impairment requirement of €54.3 million with one customer in the previous year. €21.7 million of this related to the Powertrain division and €32.6 million to the Interior division.

Production at the plant in Rambouillet, France, is to be relocated. Research and development activities as well as administration are to remain at the location. This led to restructuring expenses and impairment of property, plant, and equipment in the Interior division in the amount of €42.9 million in the previous year.

At the plant in Babenhausen, Germany, two customer contracts are to expire in the Interior division and there are no successor products. This led to restructuring expenses of €40.7 million in the previous year.

At the plant in Wetzlar, Germany, production for the Interior division was shut down due to a lack of orders. Research and development activities are to remain in Wetzlar. This led to restructuring expenses and impairment of property, plant, and equipment in the amount of €26.1 million in the previous year.

The Interior division decided to discontinue its business activities in the Aftermarket Infotainment segment. The company incurred restructuring expenses and impairment of property, plant, and equipment of €9.4 million in this context in the previous year.

Production at the Birmingham, U.K., location was closed down. Here the cockpit business of the Interior division was sold as of December 31, 2008. This led to income of €1.0 million in the previous year. The company incurred restructuring expenses and impairment losses of €2.1 million in this context in the previous year. The relocation of further business activities of the Interior division led to restructuring expenses and impairment losses of €0.7 million in the previous year. The relocation of the Powertrain division's fuel supply operations to Dortmund, Germany, and Brandys, Czech Republic, generated restructuring expenses and impairment losses of €3.8 million in the previous year.

The sensors business of the Chassis & Safety and Powertrain divisions at the Dortmund location in Germany will be closed due to reductions in volume and a lack of follow-up orders. This led to restructuring expenses and impairment of property, plant, and equipment in the amount of €15.6 million in the same period of the previous year.

In connection with the relocation of the Chassis & Safety and Powertrain divisions' research and development activities, restructuring expenses and impairment of property, plant, and equipment of €6.2 million were incurred at the Elkhart plant in the U.S.A. in the same period of the previous year.

The Powertrain division's plant in Asnière, France, is to be closed down. In this context, a restructuring provision of €15.8 million was created and impairment losses of €3.0 million were incurred in the previous year.

The production of diesel injection systems at the plant in Blythewood, U.S.A., and the research and development activities at the plant in Columbia, U.S.A., will both be relocated to Newport News, U.S.A. The company incurred restructuring expenses and impairment of property, plant, and equipment of €10.5 million in this context in the previous year.

One automobile manufacturer canceled an order at short notice due to financing difficulties. The contractual partner was an important customer of Continental. This turn of events affected the new Powertrain plant in Costa Rica because the first production of engine and transmission control units had been planned for this initial contract at the end of 2008. Continental submitted a claim for damages against the customer, and the company subsequently applied for Chapter 11 insolvency protection in the U.S.A. Conversely, Continental also canceled existing contracts with its suppliers and was subsequently also faced with claims for damages. A final agreement, however, could be reached with these parties, mainly under which Continental agreed to acquire the product-specific tooling already in place. The related tooling was written off in full, given there was no other application. In total, expenses of €12.4 million were incurred in the previous year to settle the claims. Due to the excellent basis that is offered by the production plant in Costa Rica, Continental is presently still reviewing options for transferring other products for NAFTA to ensure that this plant is efficiently utilized. There is still no need for any impairment in connection with this site.

Property, plant, and equipment at the Mount Vernon plant in the U.S.A. was written down in the amount of €11.4 million in the previous year due to the failure to achieve process efficiency and the related earnings situation. This requirement was due to capital expenditures made in 2008 which, under the impairment principles of IAS 36, are not recognized at replacement cost but at the lower net realizable value less costs to sell.

Please see Note 25 for information on expenses for specific warranty risks and expenses relating to litigation and environmental risks. The previous year has accordingly been presented comparably.

The antitrust proceedings initiated in 2007 against Dunlop Oil & Marine Ltd., UK, a subsidiary of ContiTech AG, in the area of offshore hoses, resulted in further expenses of €6.2 million in the period under review.

In the year under review, expenses of €27.4 million (PY: €68.2 million) were incurred as a result of foreign currency translations from operating receivables and liabilities in foreign currencies not classified as indebtedness.

During the period under review, losses arose from sales of assets of €6.4 million (PY: €15.6 million) and valuation allowances on receivables of €33.9 million (PY: €34.4 million).

The Italian company ContiTech Ages was sold at the end of 2004. Expenses of €3.3 million were incurred in the previous year in connection with outstanding receivables, mainly due to the company's insolvency.

As of October 31, 2009, the Public Transport Solutions business from the non-OE area was sold to the Trapeze ITS Group – predominantly as part of an asset deal – for a provisional negative purchase price of €11.7 million, stemming primarily from a decrease in working capital from the signing date to the closing date. The final purchase price determination is likely to be concluded in the second quarter of 2010. This sale incurred expenses totaling €4.5 million for the Interior division in 2009. In the previous year, there was impairment of assets held for sale in the amount of €46.9 million for this business unit.

The cost-cutting program initiated worldwide in response to the economic crisis led to expenses for severance payments of €116.7 million in 2009 (PY: €53.3 million). The expenses relate to various individual workforce adjustment measures which did not have the scope of a restructuring measure.

The cash outflow for the syndicated loan taken out to finance the acquisition of Siemens VDO will be higher as a result of increasing margins. The carrying amount was thus adjusted by €70.3 million as of September 30, 2009. This deferral will be amortized over the term of the loan and reduces expenses accordingly. At December 31, 2009, the adjustment of the carrying amount came to €64.5 million.

The 'Other' item also includes expenses for the scrapping of property, plant, and equipment at various locations and expenses from stock option plans. In the previous year, this item also included costs for the integration of the automotive electronics business acquired from Motorola.

Income

The other income relates to:

in € millions	2009	2008
Gain on the reversal of post-employment benefit obligations	11.4	10.2
Gain on sale of subsidiaries and business units	10.6	46.5
Gain on sale of property, plant, and equipment	13.5	12.4
Gain from reimbursement of customer tooling expenses	9.5	19.6
Other	26.3	54.5
Other income	**71.3**	**143.2**

The income of €11.4 million from the reversal of post-employment benefit obligations in the year under review relates to positive effects on earnings as a result of the early departure of employees from the company in the context of the closure of the plant at Clairoix, France.

In the previous year, an agreement was reached with the union representatives of hourly workers at the Newport News plant, U.S.A., to freeze retirement payments for medical care at the current level. As a consequence, €10.2 million of the reserved amounts was released in income in the previous year.

In the year under review, the amplified common rail business, which belonged to the Powertrain division, was sold to Navistar Inc. under an asset and share deal, effective as of October 31, 2009. This sale generated income of €10.5 million for the Powertrain division.

The sale of the parking assist systems business led to a gain of €6.2 million in the Interior division in the previous year. The sale of the cockpit business also resulted in a gain of €1.0 million in 2008.

The electric motors activities were sold – primarily under an asset deal – to the Brose Group with effect from April 1, 2008. This sale generated an overall gain of €2.0 million for the Powertrain division in the previous year.

The sale of the Benecke-Kaliko unit's furniture covering business resulted in a gain of €4.7 million in the ContiTech division in 2008. This led to the reversal of unuti-

lized restructuring provisions in the amount of €2.4 million in 2008.

The sale of Phoenix Dichtungstechnik GmbH led to a gain of €24.3 million in the ContiTech division in the previous year.

Income of €13.5 million (PY: €12.4 million) was generated from the sale of property, plant, and equipment during the period under review.

In 2009, reimbursements of €9.5 million (PY: €19.6 million) for customer tooling were received.

'Other' income includes income from license agreements. In addition, government grants amounting to €8.3 million (PY: €4.9 million) that were not intended for investments in non-current assets were recognized in income in the 'Other' item as well as in the fixed cost items. In the previous year, the 'Other' item included refund payments from customers for unused capacity.

The following total personnel expenses are included in the income statement:

in € millions	2009	2008
Wages and salaries	4,142.5	4,710.0
Social security contributions	862.6	885.5
Pension and post-employment benefit costs	194.7	150.8
Personnel expenses	**5,199.8**	**5,746.3**

The decrease in personnel expenses is particularly due to the workforce adjustment measures in the year under review. Please also see the remarks in the Management Report. The average number of employees in 2009 was 133,416 (PY: 148,379). At the end of the year, 134,434 employees (PY: 139,155) were employed at the Continental Corporation.

7. Income from Investments

in € millions	2009	2008
Share in earnings of associates	46.8	53.9
Write-downs of investments in associates	-120.0	-42.4
Write-ups of investments in associates	—	4.9
At-equity share in earnings of associates	**-73.2**	**16.4**
Income from other investments	9.1	8.8
Other investments and loans	-0.4	—
Other income from investments	**8.7**	**8.8**

Please see Note 13 for write-downs on investments in associates. Income from investments includes in particular the proportionate share of the profit or loss of companies accounted for using the equity method in the amount of €46.8 million (PY: €53.9 million).

8. Net Interest Expense

in € millions	2009	2008
Interest income	**30.3**	**80.0**
Interest and similar expense	-750.1	-673.1
Financial lease cost	-7.7	-4.4
Convertible bonds	—	-7.2
Gains/losses from foreign currency translation	22.9	-88.1
Losses from changes in the fair value of derivative instruments	-5.4	-3.5
Interest cost for long-term provisions and liabilities	-11.5	-10.4
Capitalized interest	0.7	—
Interest expense	**-751.1**	**-786.7**
Net interest expense	**-720.8**	**-706.7**

The slight decrease in net interest expense as against 2008 is particularly due to the higher margin level of the VDO loan in comparison to the previous year, which was only partially offset by the significantly lower average market interest rate for the year in 2009. In addition, net interest expense was also negatively impacted by additional expenses for financing in connection with the renegotiations of the conditions for the VDO loan in 2009.

A portion of the borrowing costs was capitalized in non-current assets as part of the acquisition cost in the context of the first-time mandatory adoption of IAS 23 (revised). This results in a gain of €0.7 million in net interest expense.

The gains from foreign currency translation resulted in particular from the appreciation of the Brazilian real against the euro and the U.S. dollar.

9. Income Tax Expense

The domestic and foreign income tax expense of the corporation was as follows:

in € millions	2009	2008
Current taxes (domestic)	-103.4	26.7
Current taxes (foreign)	-292.9	-357.7
Deferred taxes (domestic)	246.4	101.9
Deferred taxes (foreign)	304.2	154.1
Income tax expense	**154.3**	**-75.0**

The average domestic tax rate for 2009 was 30.0% (PY: 30.0%). This rate reflects a federal corporate tax rate of 15.0% (PY: 15.0%), a reunification surcharge of 5.5% (PY: 5.5%) and a municipal trade tax rate of 14.2% (PY: 14.2%).

The following table shows the reconciliation of the expected to the reported tax expense:

in € millions	2009	2008
Net income before tax	**-1,761.2**	**-1,002.9**
Non deductible goodwill impairment	-875.8	-1,230.0
Net income before tax and goodwill impairment	**-885.4**	**227.1**
Expected tax gain/expense at the domestic tax rate	265.6	-68.1
Foreign tax rate differences	84.0	85.5
Non-recognition of deferred tax assets unlikely to be realized	-178.9	-93.5
Effects from disposals and impairment of business units and holdings	-36.0	-11.2
Incentives and tax holidays	36.1	25.0
Non-deductible expenses	-37.7	-33.5
Taxes for previous years	22.1	29.9
Other	-0.9	-9.1
Reported tax gain/expense	**154.3**	**-75.0**
Effective tax rate in % before goodwill impairment	**17.4**	**33.0**

The reduction in the expected tax expense from the difference in foreign tax rates primarily reflects the increasing volume of our activities in Eastern Europe and China.

The effect of not recognizing deferred tax assets due to insufficient probability of recoverability is much higher than in the previous year. As a result of the share acquisitions by Schaeffler KG in 2008 and 2009, the time and scope of which, according to the opinion of the German financial authorities and contrary to the opinion of Continental, represent harmful share acquisitions pursuant to Section 8 c of the *Körperschaftssteuergesetz* (Germany Corporate Income Tax Act – *KStG*), valuation allowances of losses and interest carryforwards became necessary in the German tax group.

In 2009, tax reductions were claimed or expired from losses carried forward amounting to €424.4 million (PY: €40.5 million). The increase against the previous year resulted primarily from the utilization of loss carryforwards from 2008 and preceding years in the German tax group. This utilization became possible due to the internal restructuring (incorporation of tires) in the context of the carve-out of the tire activities. As in the previous year, there was no change to the tax expense, since

deferred tax assets had already been recognized on the balance sheet for this purpose.

The impairment of investments primarily includes the non-tax impairment of the investment carrying value of at-equity investments of the Interior division.

The tax effects from government incentives and tax holidays rose slightly against the previous year. A reduction due to expiring subsidies in Eastern Europe was counteracted in particular by increased benefits in Asia due to the first-time qualification for incentives and higher benefits owing to research and development activities in Western Europe.

The non-deductible expenses have remained virtually unchanged from the previous year's level. Non-allowable withholding taxes of the German tax group are reported in this item. In 2009, taxes for previous years relate to the settlement of outstanding tax obligations from previous years.

The 'Other' item includes the lack of trade tax relief from interest expenses and other local minimum taxes as well as offsetting effects from the negative balance for ERCO and Kolubara.

Notes to the Consolidated Balance Sheets

10. Goodwill and Other Intangible Assets

in € millions	Goodwill	Internally generated intangible assets	Purchased intangible assets	Advances to suppliers	Total other intangible assets
At January 1, 2008					
Cost	**7,900.7**	25.3	3,376.0	18.9	**3,420.2**
Accumulated amortization	**-305.9**	-16.4	-423.1	—	**-439.5**
Book value	**7,594.8**	**8.9**	**2,952.9**	**18.9**	**2,980.7**
Net change in 2008					
Book value	**7,594.8**	8.9	2,952.9	18.9	**2,980.7**
Foreign currency translation	**16.8**	0.0	25.6	0.1	**25.7**
Additions	**—**	26.0	68.6	6.9	**101.5**
Additions from first consolidation of subsidiaries	**2.5**	—	9.0	—	**9.0**
Reclassification to assets held for sale	**—**	—	-21.7	—	**-21.7**
Restatements from assets held for sale	**—**	—	3.4	—	**3.4**
Transfers	**—**	—	4.9	-4.9	**—**
Disposals	**—**	—	-1.9	-2.2	**-4.1**
Amortization	**—**	-2.8	-512.5	—	**-515.3**
Impairment write-downs	**-1,230.0**	-1.5	-55.0	—	**-56.5**
Book value	**6,384.1**	**30.6**	**2,473.3**	**18.8**	**2,522.7**
At December 31, 2008					
Cost	**7,921.6**	51.2	3,454.8	18.8	**3,524.8**
Accumulated amortization	**-1,537.5**	-20.6	-981.5	—	**-1,002.1**
Book value	**6,384.1**	**30.6**	**2,473.3**	**18.8**	**2,522.7**
Net change in 2009					
Book value	**6,384.1**	30.6	2,473.3	18.8	**2,522.7**
Foreign currency translation	**15.3**	0.1	-6.5	-0.1	**-6.5**
Additions	**—**	49.0	22.6	5.4	**77.0**
Additions from first consolidation of subsidiaries	**23.0**	—	13.6	—	**13.6**
Reclassification to assets held for sale	**—**	—	-0.3	—	**-0.3**
Transfers	**—**	0.5	12.0	-12.5	**—**
Disposals	**-10.0**[1]	0.0	-0.6	-0.1	**-0.7**
Amortization	**—**	-21.0	-506.4	—	**-527.4**
Impairment write-downs	**-875.8**	-0.1	-9.6	—	**-9.7**
Book value	**5,536.6**	**59.1**	**1,998.1**	**11.5**	**2,068.7**
At December 31, 2009					
Cost	**7,949.4**	99.7	3,468.7	11.5	**3,579.9**
Accumulated amortization	**-2,412.8**	-40.6	-1,470.6	—	**-1,511.2**
Book value	**5,536.6**	**59.1**	**1,998.1**	**11.5**	**2,068.7**

[1] The disposals of goodwill include later adjustments to the purchase price.

The acquisition of Eu-Retec and of further shares in Synerject in 2009 results in an addition to goodwill totaling €23.0 million.

The remaining carrying amount of goodwill relates principally to the acquisition of Siemens VDO (2007), AP Italia (2007), the Thermopol Group (2007), the automotive electronics business from Motorola (2006), Continental Teves (1998), Continental Temic (2001), and Phoenix AG (2004). The goodwill and the other intangible assets were allocated to the corporation's divisions as follows:

	Goodwill		Other intangible assets	
in € millions	**Dec. 31, 2009**	**Dec. 31, 2008**	**Dec. 31, 2009**	**Dec. 31, 2008**
Chassis & Safety	2,299.5	2,665.6	265.4	321.6
Powertrain	976.0	1,402.6	726.6	897.6
Interior	2,164.0	2,222.0	1,003.3	1,204.8
Passenger and Light Truck Tires	16.3	16.1	36.9	55.1
Commercial Vehicle Tires	6.1	3.0	6.1	12.9
ContiTech	74.7	74.8	23.3	27.8
Other/consolidation	—	—	7.1	2.9
Continental Corporation	**5,536.6**	**6,384.1**	**2,068.7**	**2,522.7**

The impairment test on goodwill during the year as of September 30, 2009, which was performed due to a triggering event, led to an impairment requirement of €875.8 million. Of this, €61.4 million related to the Interior division, €367.0 million to the Chassis & Safety division and €447.4 million to the Powertrain division. Amortization expense was recognized in other income and expenses. The annual impairment test as of December 31, 2009, did not lead to any further impairment requirement (PY: €1,230.0 million). The impairment test on customer relationships, technologies, patents and brand names in other intangible assets led to an impairment requirement of €8.2 million. €5.5 million of this related to the Passenger and Light Truck Tires division and €2.7 million to the Commercial Vehicle Tires division. The company also incurred impairment of software of €1.4 million. Amortization expense was recognized in other income and expenses.

Additions to purchased intangible assets from the first consolidation of subsidiaries related mainly to customer relationships and technology-based assets from the acquisitions during the fiscal year. The other additions mainly related to software.

Amounts shown under internally generated intangible assets represent capitalized development costs. Of the total amount of development costs incurred in 2009, €49.0 million (PY: €26.0 million) met the criteria for recognition as an asset.

Of the €527.4 million (PY: €515.3 million) amortization expense incurred for intangible assets, €421.9 million (PY: €412.2 million) was included in cost of sales and €105.5 million (PY: €103.1 million) was included in administrative expenses in the consolidated income statements.

The purchased intangible assets include carrying amounts of €80.6 million (PY: €85.5 million) that are not amortized. These relate in particular to the brand name of VDO in the amount of €71.4 million, the brand name of Phoenix in the amount of €4.2 million, and the brand name of Matador in the amount of €3.1 million. The remaining purchased intangible assets mainly comprise the carrying amount of software amounting to €67.4 million (PY: €84.5 million), which is depreciated on a straight-line basis.

For disclosures on impairments, please see Note 6.

11. Property, Plant, and Equipment

in € millions	Land, land rights and buildings[1]	Technical equipment and machinery	Other equipment, factory and office equipment	Advances to suppliers and assets under construction	Total
At January 1, 2008					
Cost	2,392.1	7,819.4	1,181.9	681.1	**12,074.5**
Accumulated depreciation	-784.1	-4,503.1	-809.7	-7.0	**-6,103.9**
Book value	**1,608.0**	**3,316.3**	**372.2**	**674.1**	**5,970.6**
thereof finance leases	49.0	46.4	1.5	—	**96.9**
Net change in 2008					
Book value	1,608.0	3,316.3	372.2	674.1	**5,970.6**
Foreign currency translation	-32.9	-76.6	-9.5	-22.2	**-141.2**
Additions	105.4	621.7	94.6	729.4	**1,551.1**
Additions from first consolidation of subsidiaries	0.8	8.2	0.8	0.7	**10.5**
Amounts disposed of through disposal of subsidiaries	-0.1	-16.6	-2.5	-0.1	**-19.3**
Reclassification to/from assets held for sale[2]	25.2	25.8	4.9	12.2	**68.1**
Transfers	72.5	482.4	23.1	-568.8	**9.2**
Disposals	-7.7	-39.7	-6.0	-7.9	**-61.3**
Depreciation	-99.7	-974.0	-136.8	-0.1	**-1,210.6**
Impairment write-downs	-11.3	-42.8	-0.4	-0.4	**-54.9**
Book value	**1,660.2**	**3,304.7**	**340.4**	**816.9**	**6,122.2**
At December 31, 2008					
Cost	2,529.7	8,517.8	1,233.4	822.7	**13,103.6**
Accumulated depreciation	-869.5	-5,213.1	-893.0	-5.8	**-6,981.4**
Book value	**1,660.2**	**3,304.7**	**340.4**	**816.9**	**6,122.2**
thereof finance leases	63.0	41.4	0.4	—	**104.8**
Net change in 2009					
Book value	1,660.2	3,304.7	340.4	816.9	**6,122.2**
Foreign currency translation	23.9	62.0	8.9	12.0	**106.8**
Additions[3]	49.4	309.1	51.7	424.5	**834.7**
Additions from first consolidation of subsidiaries	8.5	20.4	3.7	6.4	**39.0**
Amounts disposed of through disposal of subsidiaries	-6.3	-17.8	-0.1	-0.6	**-24.8**
Reclassification to/from assets held for sale[2]	2.6	-0.2	-2.3	-2.0	**-1.9**
Transfers	128.7	446.1	49.8	-629.6	**-5.0**
Disposals	-4.7	-46.7	-4.7	-12.8	**-68.9**
Depreciation	-102.6	-879.1	-128.7	0.0	**-1,110.4**
Impairment write-downs	-5.3	-76.1	-5.8	-20.2	**-107.4**
Book value	**1,754.4**	**3,122.4**	**312.9**	**594.6**	**5,784.3**
At December 31, 2009					
Cost	2,768.3	8,984.5	1,315.6	619.7	**13,688.1**
Accumulated depreciation	-1,013.9	-5,862.1	-1,002.7	-25.1	**-7,903.8**
Book value	**1,754.4**	**3,122.4**	**312.9**	**594.6**	**5,784.3**
thereof finance leases	53.6	35.1	0.2	—	**88.9**

[1] Investment property is presented separately under Note 12.

[2] Reclassifications to assets held for sale amount to -€4.9 million (PY: -€13.5 million); reclassifications from assets held for sale amount to €3.0 million (PY: €81.6 million).

[3] The additions include €0.7 million of capitalized interest.

The additions to property, plant, and equipment from changes in the consolidated companies were mainly the result of the first-time consolidation of Synerject LLC, previously accounted for using the equity method, and its subsidiaries, and other acquisitions of the fiscal year; see Note 5.

Investment in the reporting period in the Interior division focused primarily on optimizing manufacturing capacity for Body & Security and Instrumentation & Displays. These investments relate in particular to manufacturing capacity at the German plants and in Brazil, Mexico, the Czech Republic and Romania. In all business units of the Chassis & Safety division, production capacity for new products and production technologies was established systematically in low-wage countries. Investments were made in the expansion of a new plant in Changshu, China. In the Powertrain division, manufacturing capacity was established, particularly for engine injection systems and for transmission control units. Investments were made in the establishment of a new plant in Amata City, Thailand. Investments in the Passenger and Light Truck Tires division focused on the areas of quality assurance and cost reduction. In addition, manufacturing capacity was optimized systematically in Slovakia, the Czech Republic, Portugal and Romania. Important additions were made in the Commercial Vehicle Tires division as a result of quality enhancement and manufacturing optimization for truck tire production at the plants in Puchov, Slovakia, and Mount Vernon, U.S.A. In addition to rationalization and expansion investments in Germany, ContiTech further expanded manufacturing capacity for the Fluid Technology business unit at the plant in Romania. In Brazil, investments were made in the construction of a new plant for conveyor belt systems. In the Air Spring Systems, Fluid Technology and Vibration Control business units, investments were made in China in manufacturing capacity for the Asian market. Expansions were also undertaken in San Luis Potosí, Mexico, for the North American market.

For disclosures on impairments, please see Note 6.

Government investment grants amounting to €5.3 million (PY: €4.3 million) were deducted directly from the acquisition costs.

In the context of the first-time mandatory adoption of the revised IAS 23, €0.7 million was capitalized as borrowing costs. The weighted capitalization rate amounts to 2.2%.

The reclassifications to assets held for sale related mainly to property, plant, and equipment, and to minor activities held for sale. The reversal relates to the reclassification of a property.

Property, plant, and equipment includes buildings, technical equipment, and other facilities which can be assigned to the corporation as the beneficial owner on the basis of the lease agreement terms. These relate primarily to administration buildings and manufacturing systems. The leases have an average term of 20 years for buildings and 5 to 10 years for technical equipment and are based on interest rates of between 5.5% and 8.7%. There are no renewal or purchase options in most of the contracts.

12. Investment Property

The corporation's land and buildings accounted for as investment property changed as follows in the year under review:

in € millions	2009	2008
Cost at January 1	30.4	39.7
Accumulated depreciation at January 1	-10.5	-10.2
Net change		
Book value at January 1	**19.9**	**29.5**
Foreign currency translation	0.0	-0.1
Disposals	-4.7	—
Repostings	5.0	-9.2
Depreciation	-0.8	-0.3
Impairment write-downs	-0.1	—
Book value at December 31	**19.3**	**19.9**
Cost at December 31	33.0	30.4
Accumulated depreciation at December 31	-13.7	-10.5

The fair value – determined using the gross rental method – of land and buildings accounted for as investment property at December 31, 2009, amounted to €24.3 million (PY: €33.5 million). Rental income in 2009 was €3.7 million (PY: €4.1 million) and the related maintenance costs were €1.3 million (PY: €3.0 million).

The disposals relate to the sale of land and buildings to third parties. The reclassifications relate to individual real estate no longer used by the corporation but held for the purpose of generating rental income.

13. Investments in Associates

in € millions	2009	2008
At January 1	**718.3**	**766.4**
Additions	0.4	8.7
Disposals	-126.6	-50.8
Changes in the consolidation method, and transfers	-59.4	10.8
Share of earnings	46.8	53.9
Write-downs	-120.0	-42.4
Dividends received	-59.4	-53.8
Foreign exchange effects	-2.1	-0.2
At December 31	**398.0**	**718.3**

€126.6 million of the disposals relates to the sale of the joint venture Hyundai Autonet Co. Ltd., Kyoungki-do, South Korea.

The sale of this joint venture of the Interior division resulted in an impairment requirement of €73.6 million.

€23.9 million of the changes in the companies consolidated relates to Synerject LLC, Wilmington, Delaware, U.S.A., and €9.0 million relates to Compañía Ecuatoriana del Caucho S.A. (ERCO), Cuenca, Ecuador.

€26.5 million of the reclassifications to assets held for sale relates to Siemens VDO Automotive Huizhou Co. Ltd., Huizhou, China. In this connection, there was impairment of €43.6 million on this investment of the Interior division.

The impairment test on the book value of the joint venture Optrex in the Interior division led to impairment requirements of €2.0 million.

The principal investments in associates for the automotive divisions relate to S-Y-Systems Technologies Europe GmbH, Regensburg; Emitec GmbH, Lohmar; Shanghai Automotive Brake Systems Co. Ltd., Shanghai, China; SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, and IAV GmbH Ingenieurgesellschaft Auto und Verkehr, Berlin; and for tire activities, MC Projects B.V., Amsterdam, the Netherlands.

The unaudited key figures taken from the last available annual financial statements of these principal associates are summarized as follows (amounts are stated at 100%; reference amounts from the previous year are also shown):

- Sales: €4,369.2 million (PY: €4,825.0 million)
- Profit for the year: €102.0 million (PY: €129.6 million)
- Total assets: €1,217.4 million (PY: €1,608.9 million)
- Liabilities: €807.9 million (PY: €957.1 million).

14. Other Investments

in € millions	Shares in affiliated companies	Other investments	Total
At January 1, 2008	**6.1**	**18.0**	**24.1**
Foreign currency translation	-0.2	-0.1	**-0.3**
Additions	0.0	2.5	**2.5**
Disposals	0.0	-7.5	**-7.5**
Changes in the consolidation method, and transfers	1.3	-10.8	**-9.5**
Write-ups	—	4.9	**4.9**
At December 31, 2008	**7.2**	**7.0**	**14.2**
Foreign currency translation	0.0	0.0	**0.0**
Disposals	-5.8	0.0	**-5.8**
Impairment write-downs	-0.4	0.0	**-0.4**
At December 31, 2009	**1.0**	**7.0**	**8.0**

Other investments are carried at cost as their fair value cannot be determined reliably, since there are no listings for these shares on the capital markets. €4.7 million of the disposals relates to the liquidation of Phoenix Rubber Products Sdn. Bhd., Malaysia, and €1.1 million relates to Phoenix France S.à.r.l., France. The impairment test on the book value of two sales companies in the tires sector led to impairment requirements of €0.4 million.

15. Deferred Taxes

Deferred tax assets and liabilities are composed of the following items:

in € millions	Dec. 31, 2009	Dec. 31, 2008
Intangible assets	-53.8	-611.2
Property, plant, and equipment	-75.1	-107.1
Inventories	52.9	26.7
Other assets	-5.0	-24.2
Pension obligations less deferred charges	73.2	97.5
Other provisions	176.4	126.7
Indebtedness	122.2	69.6
Other differences	7.9	55.7
Allowable tax credits	28.2	29.4
Tax losses carried forward and limitation of interest deduction	205.5	326.5
Net deferred taxes	**532.4**	**-10.4**
Deferred tax assets	728.9	391.3
Deferred tax liabilities	196.5	401.7

Deferred taxes are measured in accordance with IAS 12 at the tax rate applicable for the periods in which they are expected to be realized. Since 2008, a limit on the deductible interest that can be carried forward has applied in Germany; the amount deductible under the tax law is limited to 30% of the taxable income before depreciation and amortization, and before interest.

The composition of the deferred taxes was affected in the year under review primarily by the tax disclosure of hidden reserves in the context of the carve-out of the tire activities in Germany. This led, among other things, to a transfer of deferred taxes from tax losses carried forward and limitation of interest deduction to intangible assets. This effect resulted from the retroactive tax effect from the carve-out of the tire activities after 2008. Furthermore, due to the restructuring in the context of the carve-out of the tire activities in the U.S.A., existing deferred tax liabilities from the VDO purchase price allocation were offset against deferred tax assets, in particular from current losses. The remaining tax assets were not capitalized since the utilization is currently considered not to be sufficiently probable.

In 2009, total net deferred tax assets amounting to €515.8 million (PY: €251.0 million) were recognized by certain subsidiaries that comprised current losses, interest capable of being carried forward, and other net recoverable temporary differences. Taking into account realizable tax strategies and on the assumption that future taxable income is sufficiently probable, it is expected that these net deferred tax assets can be realized.

As of December 31, 2009, the corporate tax losses carried forward amounted to €2,380.5 million (PY: €1,975.3 million). A large part of the corporation's existing tax losses carried forward relate to foreign subsidiaries and are mostly limited in the period they can be carried forward.

Deferred tax assets of €584.8 million (PY: €534.3 million) were written off in the corporation since their utilization is currently considered not to be sufficiently probable. Of these assets, €402.8 million (PY: €328.3 million) relates to tax losses carried forward, in particular in the U.S.A. and Mexico. Furthermore, deferred taxes from tax losses carried forward and limitation of interest deduction from 2008 were written off in an amount of €108.5 million for the German tax group, since according to the opinion of the German fiscal authorities – contrary to the opinion of Continental – a change of shareholder had already occurred in 2008 which led to a pro-rata elimination of existing tax losses carried forward, and in 2009 the full elimination of remaining interest carryforwards from 2008 due to further share acquisitions.

As of December 31, 2009, the limitation of deductible interest in Germany amounted to €260.1 million (PY: €383.2 million).

The cumulative amount of deferred taxes for items taken directly to total equity increased from €47.0 million in the previous year to €56.3 million.

The deferred tax liabilities from retained earnings of foreign companies amount to a total of €58.7 million (PY: €59.3 million). Since it is not expected that amounts will be remitted to the parent company in the short or medium term, the corresponding deferred tax liabilities were not taken into account.

The valuation differences from assets or liabilities held for sale are included in the 'Other assets' and 'Other differences' items.

16. Other Financial Assets

in € millions	Dec. 31, 2009		Dec. 31, 2008	
	Maturity		Maturity	
	up to 1year	over 1year	up to 1year	over 1year
Amounts receivable from related parties	45.0	—	25.3	—
Loans to third parties	—	18.9	—	33.6
Amounts receivable from employees	20.8	—	15.6	—
Amounts receivable from suppliers	2.2	—	2.5	—
Amounts receivable for customer tooling	67.5	—	54.4	—
Other amounts receivable	49.4	—	29.0	0.5
Other financial assets	**184.9**	**18.9**	**126.8**	**34.1**

The receivables from related parties relate particularly to receivables from operating service business with associates.

Loans to third parties mainly comprise tenants' loans on individual properties and include loans to customers with various maturities. Some of the loans have been granted at below-market interest rates, some at variable interest rates.

Amounts receivable from employees relate mainly to preliminary payments for hourly wages and for other advances.

The receivables from the sale of customer tooling relate to costs that have not yet been invoiced.

The other amounts receivable include guarantee deposits and purchase price adjustments from the acquisition of Siemens VDO.

The carrying amounts of the other financial assets correspond essentially to their fair values. Valuation allowances amounting to €0.8 million (PY: €2.5 million) were recognized for the probable default risk on other assets.

17. Other Assets

in € millions	Dec. 31, 2009		Dec. 31, 2008	
	With a term of		With a term of	
	up to 1 year	over 1 year	up to 1 year	over 1 year
Tax refund claims (incl. VAT and other taxes)	299.2	—	300.4	—
Prepaid expenses	51.7	—	54.3	—
Others	189.6	12.7	188.3	9.0
Other assets	**540.5**	**12.7**	**543.0**	**9.0**

The tax refund claims result primarily from sales tax receivables from the purchase of production materials.

The 'Other' item includes deferred costs in connection with the capital increase carried out by Continental AG in January 2010. These are to be offset against the capital reserves in 2010. It also includes deferred bank fees from the forward start facility.

Valuation allowances amounting to €0.1 million (PY: €0.4 million) were recognized for the probable default risk on other assets.

18. Inventories

in € millions	Dec. 31, 2009	Dec. 31, 2008
Raw materials and supplies	757.2	901.6
Work in progress	248.5	306.8
Finished goods and merchandise	1,079.7	1,376.9
Advances to suppliers	10.8	11.7
Advances from customers	-20.2	-26.5
Inventories	**2,076.0**	**2,570.5**

Valuation allowances recognized for inventories in the year under review amounted to €56.8 million (PY: €38.7 million). Inventories include amounts written down (gross inventories) of €245.5 million (PY: €188.7 million).

19. Trade Accounts Receivable

in € millions	Dec. 31, 2009	Dec. 31, 2008
Trade accounts receivable	3,789.4	3,428.7
Allowances for doubtful accounts	-141.3	-141.2
Trade accounts receivable	**3,648.1**	**3,287.5**

The carrying amounts of the trade accounts receivable, net of allowances for doubtful accounts, correspond to their fair values.

The provision for risks is calculated on the basis of corporation-wide standards. Customer relationships are analyzed at regular intervals. Individual valuation allowances are distinguished from general portfolio allowances for financial instruments measured at amortized cost. Trade accounts receivable for which individual valuation allowances must be recognized are not taken into account in calculating the general portfolio allowance.

The allowance for doubtful accounts essentially includes estimates and assessments of individual receivables based on the creditworthiness of the respective customer, current economic developments, and the analysis of historical losses on receivables. The creditworthiness of a customer is assessed on the basis of its payment history and its ability to repay.

Individual allowances are recognized if the customer displays significant financial difficulties or there is a high probability of insolvency.

Accordingly, the individual valuation allowances and general portfolio allowances for trade accounts receivable developed as follows in the year under review:

in € millions	2009	2008
At January 1, 2009	**141.2**	**115.5**
Addition	55.7	47.1
Utilization	-36.0	-4.2
Reversals	-21.8	-12.7
Foreign currency translation	2.2	-4.5
At December 31, 2009	**141.3**	**141.2**

As of December 31, 2009, receivables did not include any amount (PY: €28.8 million) from percentage of completion. In the previous year, these were mainly attributable to the automotive companies of the former Siemens VDO and to the Matador Group. Furthermore, the receivables did not include any advance payments received from customers (PY: €48.2 million). In 2009, the accumulated costs and profits of construction contracts in process on the balance sheet date amounted to -€1.1 million (PY: €72.7 million). Sales from construction contracts were recognized in the amount of €66.5 million (PY: €98.1 million) in the period under review. The decrease results primarily from the sale of the Public Transport Solutions business unit as of October 31, 2009.

Several factoring programs are used in the Continental Corporation. The accounts receivable sold are still recognized in the balance sheet, because the associated risks and rewards, in particular credit and default risk, have not been completely transferred. All trade accounts receivable have a maturity of less than one year.

In December 2008, Continental AG, Hanover, concluded a new factoring program with Skandifinanz Bank AG at a volume of €50.0 million, and from March 1, 2009, €150.0 million, on a revolving basis. The program, which was originally due to expire in December 2009, was extended until March 23, 2010. At the end of 2009, €124.2 million in receivables (PY: €25.5 million) had been sold as part of this program, against liabilities of €149.6 million (PY: €34.3 million). The amount of receivables has been reduced by the already posted payments of €25.4 million (PY: €8.8 million). Cash and cash equivalents amounting to €29.0 million (PY: €2.3 million) have been deposited as collateral for any unserviced claims of Skandifinanz Bank AG. The figures for the previous year have been amended accordingly.

In October 2009, a new factoring program with a volume of $125.0 million was concluded in the U.S.A. with Wachovia Bank National Association; this program can be used by Continental Tire North America, Inc., U.S.A., and Continental Teves, Inc., U.S.A. The program matures on October 29, 2010, with an extension option for

one year by Wachovia Bank National Association. At December 31, 2009, the volume of accounts receivable sold amounted to €69.4 million, while liabilities associated with the accounts receivable sold amounted to €69.4 million. Further accounts receivable in the amount of €187.5 million were also deposited as collateral.

The asset-backed securitization program arranged by West LB in July 2004 with Continental AG, Hanover, Continental Teves AG & Co. oHG, Frankfurt am Main, and Conti Temic microelectronic GmbH, Nuremberg, with a volume of €350.0 million, expired in July 2009. In the previous year, the relevant companies had sold accounts receivable amounting to €156.0 million under the terms of the program. The liabilities associated with the accounts receivable sold amounted to €216.6 million. In contrast to the portfolio of receivables sold, the liabilities were not reduced by the receivables already settled as of the balance sheet date. Payments totaling €116.2 million were recorded.

In the year under review, the program of Tikka OY, Finland, was terminated (PY: €0.1 million).

In 2009, the contractual terms of trade accounts receivable with a carrying amount of €1.8 million (PY: €2.2 million) were renegotiated, since they would otherwise be overdue. This essentially involved extending the payment date. No valuation allowances were recognized for these accounts receivable.

The trade accounts receivable are broken down into the following maturity periods:

in € millions		thereof:		overdue in the following maturity periods				
Dec. 31, 2009	Carrying amount	not overdue	less than 15 days	15–29 days	30–59 days	60–89 days	90–119 days	more than 120 days
Trade accounts receivable[1]	2,864.6	2,487.2	199.3	62.9	56.7	20.0	11.7	26.8
Dec. 31, 2008								
Trade accounts receivable	3,428.7	2,771.1	287.3	92.9	96.3	32.6	32.1	116.4

[1] The difference of €924.8 million in 2009 versus the first table in this Note results from receivables amounting to €938.5 million for which individual valuation allowances are recognized, and which – contrary to the 2009 fiscal year – were not included in the determination of the maturity periods in 2008, as well as from notes payable amounting to €13.7 million.

Based on the customers' payment history and analysis of their creditworthiness, the Continental Corporation expects that the overdue accounts receivable not written down will be settled in full and no valuation allowance will be required.

At December 31, 2009, trade accounts receivable totaling €391.6 million (PY: nil) were assigned as collateral for a Continental AG loan with the European Investment Bank by four Continental Corporation subsidiaries. The necessity to collateralize the loan results from the deterioration of the Continental Corporation's rating. At the time of the most recent reporting on assigned accounts receivable, these amounted to €572.9 million. The difference results from payments up until December 31, 2009, which were not offset by new accounts receivable.

20. Cash and Cash Equivalents

Cash includes all liquid funds and demand deposits. Cash equivalents are short-term, highly liquid financial investments that can be readily converted into known cash amounts and are subject to only minor fluctuations in value.

For information on the interest rate risk and the sensitivity analysis for financial assets and liabilities, please see Note 28.

21. Assets Held for Sale

in € millions	Dec. 31, 2009	Dec. 31, 2008
Business units held for sale	38.2	41.7
Property, plant, and equipment held for sale	4.1	4.8
Assets held for sale	**42.3**	**46.5**

The assets held for sale relate in particular to minor business operations of the ContiTech division which are not part of the Continental Corporation's core business, and to the investment in Siemens VDO Automotive Huizhou Co. Ltd., Huizhou, China, Interior division. The disposal process has been initiated for both activities. In the previous year, the assets held for sale chiefly consisted of business operations in the non-OE sector of the Interior and ContiTech divisions. In 2009, the Interior division's Public Transport Solutions business was sold to the Trapeze ITS Group.

Assets held for sale are measured at the lower of their carrying amount prior to classification of the group of assets as held for sale and the fair value less costs to sell. In this context there was a disposal loss of €4.5 million (PY: €46.9 million) for the sold Public Transport Solutions business; this loss is reported under other operating expenses.

The assets of the assets and business units held for sale after impairment losses comprise:

in € millions	Dec. 31, 2009	Dec. 31, 2008
Non-current assets	3.9	5.9
Other investments	26.5	—
Inventories	2.0	22.7
Trade accounts receivable	2.1	12.2
Other current assets	3.7	0.9
Cash and cash equivalents	0.0	0.0
Assets held for sale	**38.2**	**41.7**

An overview of liabilities related to the assets held for sale can be found under Note 32.

22. Total Equity

Number of shares outstanding	2009	2008
At January 1	169,005,983	161,712,083
Change due to conversions and exercise of options	—	7,293,900
Capital increase against cash contributions	—	—
At December 31	**169,005,983**	**169,005,983**

The subscribed capital was unchanged from the previous year's level.

The common stock of the company therefore amounted to €432,655,316.48 at the balance sheet date (PY: €432,655,316.48) and is composed of 169,005,983 (PY: 169,005,983) no-par-value shares with a notional value of €2.56 per share.

Authorized capital stock of €150.0 million for the issuance of new shares against cash and/or non-cash contributions is still available to the company as at the balance sheet date until April 23, 2012, from the authorization amount of €187.5 million adopted originally on April 24, 2007, following a capital increase from authorized capital in 2007.

As a result of the resolution adopted at the Annual Shareholders' Meeting on April 23, 2009, the company has additional authorized capital stock of €66.0 million for the issuance of new shares against cash and/or non-cash contributions until April 22, 2014.

A total of 1,381,840 subscription rights were issued under the stock option plan adopted in 1999 for members of the Executive Board and senior executives. Each option entitled the option holder to subscribe for one share. All outstanding subscription rights were fully exercised by December 31, 2008. Following the resolution adopted at the Annual Shareholders' Meeting on April 23, 2009, the conditional capital was canceled, as subscription rights issued on the basis of the 1999 stock option plan can no longer be exercised.

The Annual Shareholders' Meeting on May 14, 2004, approved the 2004 stock option plan for members of the Executive Board and senior executives. The 2004 stock option plan authorized the Executive Board to grant, in line with the plan's more detailed specifications, a total of 3,936,000 subscription rights until May 13, 2009, each of which entitles the option holder to subscribe for one share. No subscription rights were issued (PY: none) or exercised (PY: 47,250) in 2009. 49,900 subscription rights expired (PY: 459,230).

The 2008 stock option plan adopted at the Annual Shareholders' Meeting on April 25, 2008, authorizes the issuance of up to 7,800,000 subscription rights to the Executive Board and senior executives until April 24, 2013. No subscription rights were issued in 2009 (PY: 1,369,250), while 39,850 expired (PY: 145,750).

In December 2008, a compensation offer for granted and not yet exercised subscription rights was submitted to the senior executives of the corporation to whom stock options were granted from the stock option plans of 2004 and 2008. By December 31, 2009, a large portion of the stock option plan beneficiaries had taken up the offer. 1,769,300 subscription rights were redeemed in the fiscal year.

In accordance with Article 4(4) of the Articles of Association, the capital stock has been conditionally increased by up to €111.5 million for conversion and/or option rights granted until May 4, 2011, on the basis of the authorization of May 5, 2007.

According to Article 4(5) of the Articles of Association, the capital stock has also been conditionally increased by up to €3.8 million to grant stock options as part of the 2004 stock option plan.

The conditional capital II of €37.5 million in line with Article 4(6) of the Articles of Association serves to grant new shares to the holders of convertible bonds and/or bonds with warrants, participation rights or income bonds, where they are issued by May 4, 2011, on the basis of the authorization granted by the Annual Shareholders' Meeting on April 25, 2008.

According to Article 4(7) of the Articles of Association, the capital stock has been conditionally increased by a further €20.0 million to grant subscription rights derived from the 2008 stock option plan.

The conditional capital III of €43.5 million in line with Article 4(8) of the Articles of Association, which was adopted at the Annual Shareholders' Meeting on April 23, 2009, serves to grant new shares to the holders of convertible bonds and/or bonds with warrants, participation rights and/or income bonds which are issued by April 22, 2014, on the basis of the authorization granted by the Annual Shareholders' Meeting on April 23, 2009.

in € thousands	2009	2008
Conditional capital at January 1	170,654	**176,581**
Additions	43,500	57,468
Reductions	—	-37,500
Exercised conversion and subscription rights	—	-18,672
Expiration of subscription rights granted	-230	-2,313
Redemption of subscription rights granted	-4,530	-2,663
Conditional capital at December 31	**209,394**	**170,654**

Under the *Aktiengesetz* (German Stock Corporation Act), the dividends distributable to the shareholders are based solely on Continental AG's net retained earnings as at December 31, 2009, as reported in the annual financial statements prepared in accordance with the German Commercial Code. Since Continental AG recognized a loss in its annual financial statements as of December 31, 2009, no dividend will be distributed for fiscal 2009. No dividend was distributed in 2009 for fiscal 2008 either.

23. Share-Based Payment

The equity instruments made available for share-based payment programs are disclosed in Note 22 on Total Equity.

The expenses from the stock option plans are recognized in personnel expenses and reported in other expenses. These amounted to €21.1 million in the year under review (PY: €20.1 million).

1999 variable stock option plan

With the approval of the Annual Shareholders' Meeting on June 1, 1999, Continental AG adopted a variable stock option plan (1999 stock option plan), which granted up to 1.6 million stock options to senior executives and the Executive Board. Each option granted under this plan carries the right to subscribe for one share. These stock options may be exercised after a vesting period of three years, starting from the date on which the Executive Board (or the Supervisory Board, as appropriate) granted the options. Once vested, the options can be exercised, i.e., the corresponding number of Continental AG shares can be acquired, within certain exercise windows during the following two years.

The Continental AG variable stock option plans include a performance target as a prerequisite for the exercise of stock options. These subscription rights may only be exercised if the average market price of Continental shares in the Xetra closing auction on the Frankfurt Stock Exchange during the ten trading days prior to an exercise window is at least 15% (exercise hurdle) above the average closing price during the ten trading days prior to the issue date.

The exercise price varies in accordance with an outperformance and a performance discount. The outperformance discount is calculated on the basis of the performance of Continental's shares in comparison with the

performance of the MDAX. The performance discount is calculated as a function of the relative change in the corporation's EBIT margin.

The value of the issued stock options is determined using the so-called Monte Carlo simulation model. This model ensures realistic allowances for the effects of the performance target as well as the performance and outperformance discount. Specifically, the model simulates the change of Continental shares against the MDAX to reflect the outperformance. The assessment model also takes into account assumptions regarding fluctuation.

The adjustment of the exercise price by the outperformance of Continental shares against the MDAX is a market condition under IFRS and is included only in the measurement at the issue date. The adjustment of the exercise price to the change in the return on sales (EBIT as % of sales) of the Continental Corporation is a performance condition under IFRS and, accordingly, is not used for the measurement at the grant date. No corresponding discount is applied for measurement at the grant date. The update parameters applied to measurement dates after the issue date are based on current estimates available from independent analysts, while maintaining the other parameters.

The model used also takes into account the possibility of an early exercise of the options in all cases where the adjusted exercise price falls below 50% of the reference price and the performance target is achieved during the exercise window. Further, the model assumes that, as experience has shown, option holders who have left the corporation exercise the option immediately after the vesting period.

The expected dividends recognized in the model for each year of the options' duration are based on published estimates by independent analysts.

The volatilities and correlation reflect historical trends, based on the closing prices for the Continental share and the MDAX Index at each balance sheet date corresponding to a period equivalent to the remaining duration of the option rights.

Stock option plan 1999	2009		2008	
in € millions	Number of subscription rights	Average exercise price[1]	Number of subscription rights	Average exercise price[1]
	1,000 units	€/unit	1,000 units	€/unit
Outstanding at January 1	—	—	10.0	21.14
Exercised	—	—	10.0	21.14
Expired	—	—	—	—
Outstanding at December 31	—	—	—	—
Exercisable on December 31	—	—	—	—

[1] With the exception of the stock options exercisable on December 31, the average exercise hurdle is given.

The last 10,000 stock options of the 1999 stock option plan were exercised in the previous year.

2004 variable stock option plan

Continental AG introduced a variable stock option plan (2004 stock option plan) with the approval of the Annual Shareholders' Meeting on May 14, 2004. This plan replaced the 1999 stock option plan. The plan corresponds to the stock option plan developed in 1999 in terms of its main features and makes it possible to issue up to 3.9 million stock options.

The value of the issued stock options is determined using the Monte Carlo simulation model, which is explained in detail in the description of the 1999 stock option plan. The difference lies in the fact that, when calculating the exercise price, an allowance is possible if Continental's stock underperforms against the reference price, and that performance against the stock market index to which the Continental share belongs at the beginning of an exercise window is used as a basis to determine the outperformance. In addition, a ceiling has been imposed on the achievable capital gain.

Stock option plan 2004	2009		2008	
in € millions	Number of subscription rights	Average exercise price[1]	Number of subscription rights	Average exercise price[1]
	1,000 units	€/unit	1,000 units	€/unit
Outstanding at January 1	1,844.5	95.13	2,351.0	93.24
Exercised[2]	—	—	47.3	43.10
Granted	—	—	—	—
Expired	49.9	102.51	459.2	90.81
Outstanding at December 31[3]	1,767.6	95.72	1,844.5	95.13
Exercisable on December 31[4]	1,083.5	81.24	511.4	76.47

[1] With the exception of the stock options exercisable on December 31, the average exercise hurdle is given.
[2] In 2008 the average exercise price was €19.75 following deduction of the performance and outperformance discounts.
[3] Outstanding subscription rights at December 31: in the period under review 1,143,300 subscription rights are assigned to the compensation offer (PY: 548,800) and can no longer be exercised.
[4] The previous year was determined based on the respective exercise price.

No more stock options will be issued from the 2004 stock option plan when the 2008 stock option plan comes into effect.

The weighted average remaining option duration is 1 year and 6 months (PY: 2 years and 6 months). The maximum remaining duration of the 2004 stock option plan is 2 years and 6 months.

No stock options were exercised in the period under review. For stock options from the 2004 stock option plan outstanding at the end of the prior-year reporting period from the 2004 tranche, the exercise price ranged between €18.74 and €25.11. For the 2005 tranche of the 2004 stock option plan, the range was between €79.41 and €79.65.

2008 variable stock option plan

With the approval of the Annual Shareholders' Meeting on April 25, 2008, Continental AG adopted another variable stock option plan (2008 stock option plan) for senior executives and the Executive Board, to take account of the new management structure after the acquisition of Siemens VDO. The plan corresponds to the stock option plan developed in 2004 in terms of its main features and thus also to the 1999 stock option plan, with the exception of a few differences.

Each stock option granted as part of the stock option plan carries the right to subscribe for one share. In total, up to 7.8 million stock options can be issued as part of the 2008 stock option plan. The issue of the stock options of a tranche takes place on the eleventh working day following the publication of the interim report for the first quarter of the relevant year (issue date). The stock options can be exercised only after a three-year period has elapsed since the issue date (vesting period) and then within a further period of two years commencing immediately upon expiration of the vesting period (exercise period). The stock options can only be exercised within certain time periods (exercise windows) during an exercise period.

The exercise is also linked to the attainment of a "performance target". Accordingly, an exercise is possible only if the average closing price of Continental shares in Xetra trading (average closing price) during the last ten trading days before the respective exercise window is at least 15% above the average closing price during the last ten days of trading before the issue date. The issue amount for shares subscribed on the basis of an exercise of subscription rights derived from the 2008 stock option plan ("exercise price") corresponds to the average closing price during the last ten trading days prior to the issue date (issue price), plus a premium, minus a performance-oriented reduction and adjusted by an outperformance-oriented reduction or surcharge. The performance discount is calculated as a function of the relative change in the corporation's EBIT margin. The outperformance discounts and premiums are determined on the basis of the development of Continental's shares in comparison with the development of the MDAX or the stock market index to which the Continental shares belong at the beginning of the exercise window.

The value of the issued stock options is determined using the Monte Carlo simulation model, which is explained in detail in the description of the 1999 stock option plan. In agreement with the 2004 stock option plan, a ceiling has been imposed on the achievable capital gain.

Stock option plan 2008	2009		2008	
in € millions	Number of subscription rights	Average exercise price[1]	Number of sub scription rights	Average exercise price[1]
	1,000 units	€/unit	1,000 units	€/unit
Outstanding at January 1	1,223.5	89.95	—	—
Exercised	—	—	—	—
Granted	—	—	1,369.3	89.95
Expired	39.9	89.95	145.8	89.95
Outstanding at December 31[2]	1,183.7	89.95	1,223.5	89.95
Exercisable on December 31	—	—	—	—

[1] With the exception of the stock options exercisable on December 31, the average exercise hurdle is given.

[2] Outstanding subscription rights at December 31: in the period under review 626,000 subscription rights are assigned to the compensation offer (PY: 491,550) and can no longer be exercised.

The weighted average remaining option duration is 3 years and 4 months (PY: 4 years and 4 months) and corresponds to the maximum remaining duration of the entire 2008 stock option plan.

The assumptions used in calculating the fair value of the respective tranches changed as follows:

	Tranche 2008	Tranche 2007
Reference price in €	78.22	103.17
Closing price Continental in €	82.16	104.62
Closing price DAX Index	7,156.55	8,050.68
Risk-free rate (in %) [1]	3.96	4.42
Volatility Continental (in %)	27.20	29.19
Volatility DAX (in %)	17.07	22.99
Correlation Continental/DAX	0.62	0.55
Dividend yield (in %)	2.55	2.27
Option period	5 years	5 years
Fair value at grant date in €	**27.52**	**37.84**
Fair value at balance sheet date December 31, 2009 in €	**29.50**	**36.18**
Fair value at balance sheet date December 31, 2008 in €	**27.02**	**36.18**

[1] Based on the yield curve for government bonds.

In December 2008, a compensation offer for granted and not yet exercised stock options was made to the senior executive management of the corporation to whom stock options were granted from the stock option plans of 2004 and 2008. The reason for the compensation offer was the limited free float of Continental AG's shares, which meant that the share price performance could be subject to coincidental fluctuations which do not reflect Continental's economic development. The stock option plan thus lost its effectiveness as a long-term remuneration instrument geared towards the company's performance.

The compensation offer is based on the fair value of the stock options as of October 31, 2008. The average weighted fair value of the 2005 to 2008 tranches was €3.13. Based on this evaluation, a provision was made for the payments in the years 2010 and 2011. The acceptance period ran until mid-January 2009. A large portion of the stock option plan beneficiaries accepted the offer.

2009 remuneration plan
As a component of Executive Board remuneration, a decision was made at the end of 2009 to convert part of the variable element into virtual shares. The total bonus amount was recognized as a provision at the end of the reporting period. Information on Executive Board remuneration can be found in the Remuneration Report.

24. Provisions for Pension Liabilities and Other Post-Employment Benefits

Provisions for pension liabilities and other post-employment benefits are shown in the following balance sheet items:

in € millions	Dec. 31, 2009	Dec. 31, 2008
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	1,156.8	460.2
Provisions for other post-employment benefits	168.5	185.1
Provisions for similar obligations	19.7	24.4
Pension obligations	**1,345.0**	**669.7**
Deferred pension charges (difference between pension obligations and related funds)	70.8	116.0

Pension plans
The Continental Corporation offers its employees pension plans in the form of defined benefits and defined contributions, either as general or individual plans. The provisions cover the obligations from defined benefit plans, in particular in Germany, the U.S.A., Canada, the UK, Austria, France, Mexico, Italy, and Ireland.

Separate pension funds exist to fully or partially finance the company's pension obligations for the principal plans. These pension fund assets may only be used to settle pension obligations. The principal funds are in the U.S.A. and the UK, and in Germany in the form of contractual trust arrangements (CTAs). These pension fund assets are netted against the related pension provisions, provided they qualify as plan assets as defined by IAS 19. Due to asset reclassification and restructuring within individual CTAs in Germany – linked with a sale of shares of ContiTech AG to the Continental Pension Trust e.V. in an amount of 24.9% at a purchase price of €475.6 million – the status of the assets as qualifying plan assets was discontinued. In addition to this asset reclassification and restructuring, the other assets of the respective CTAs in an original amount of €95.1 million were no longer netted against the related obligations.

The plan assets also include, in particular in Germany, insurance annuity contracts. In addition, certain closed pension contribution funds in Germany are shown in the reconciliation of the total pension plans in accordance with IFRIC D 9 due to certain warranty risks.

in € millions	Dec. 31, 2009	Dec. 31, 2008
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	1,156.8	460.2
Deferred pension charges (difference between pension obligations and related funds)	70.8	116.0
Net amount recognized	**1,086.0**	**344.2**

The pension provisions increased by €696.6 million compared with the previous year. The increase primarily results from the payment, asset reclassification and discontinuation of the status of the assets as qualifying plan assets in individual CTAs in Germany. Deferred pension charges representing the net assets from pension obligations and related funds decreased by €45.2 million. The decrease was also significantly influenced by the payments from the pension funds in Germany.

The pension obligations for Germany, the U.S.A. and Canada, the UK, and other countries, as well as the amounts for the Continental Corporation as a whole, are shown in the following tables. The U.S.A. and Canada are abbreviated to USA/C.

The reconciliation of the changes in the defined benefit obligation from the beginning to the end of the year is as follows:

in € millions	2009					2008				
	Germany	USA/C	UK	Other	Total	Germany	USA/C	UK	Other	Total
Defined benefit obligation at January 1	1,621.5	855.8	164.1	159.5	**2,800.9**	1,641.1	892.0	199.4	156.5	**2,889.0**
Reclassification	—	—	—	—	**—**	—	—	—	70.8	**70.8**
Foreign currency differences	—	8.8	16.3	5.7	**30.8**	—	-5.4	-52.5	-13.5	**-71.4**
Current service cost	52.9	7.1	3.0	10.4	**73.4**	57.7	7.8	3.4	11.0	**79.9**
Interest cost on defined benefit obligation	86.5	53.6	10.7	10.2	**161.0**	82.4	49.2	10.9	10.5	**153.0**
Plan amendments	—	—	—	0.0	**0.0**	—	0.1	—	0.6	**0.7**
Actuarial gains/losses from changes in assumptions	61.3	65.2	13.0	10.1	**149.6**	-39.2	-37.7	6.2	-10.4	**-81.1**
Actuarial gains/losses from experience adjustments	22.4	-1.4	-4.9	-2.4	**13.7**	-14.8	6.4	2.1	-0.2	**-6.5**
Curtailments/settlements	—	4.3	0.0	-15.5	**-11.2**	0.0	-0.1	-1.0	-49.0	**-50.1**
Net changes in the scope of consolidation	-2.3	—	—	3.5	**1.2**	-24.8	—	—	—	**-24.8**
Employee contributions	—	0.1	1.1	0.3	**1.5**	—	—	1.6	0.4	**2.0**
Other changes	—	—	1.3	0.1	**1.4**	0.0	—	-0.7	0.0	**-0.7**
Benefit payments	-82.1	-58.1	-9.7	-16.0	**-165.9**	-80.9	-56.5	-5.3	-17.2	**-159.9**
Defined benefit obligation at December 31	**1,760.2**	**935.4**	**194.9**	**165.9**	**3,056.4**	**1,621.5**	**855.8**	**164.1**	**159.5**	**2,800.9**

The reconciliation of the changes in the plan assets from the beginning to the end of the year is as follows:

in € millions	2009					2008				
	Germany	USA/C	UK	Other	Total	Germany	USA/C	UK	Other	Total
Fair value of plan assets at January 1	1,337.0	617.7	148.2	69.1	**2,172.0**	1,357.2	882.8	218.0	93.6	**2,551.6**
Reclassification	—	—	—	—	**—**	—	—	—	27.5	**27.5**
Foreign currency translation	—	8.4	14.7	4.4	**27.5**	—	-8.8	-50.0	-8.4	**-67.2**
Net changes in the scope of consolidation	—	—	—	—	**—**	-20.5	—	—	—	**-20.5**
Expected return on plan assets	51.6	45.1	10.3	4.2	**111.2**	64.1	65.1	14.2	3.8	**147.2**
Actuarial gains/losses from plan assets	11.3	56.4	0.5	0.5	**68.7**	-36.5	-271.1	-34.7	-5.3	**-347.6**
Employer contributions	0.6	6.0	9.5	8.7	**24.8**	0.2	6.3	5.0	10.8	**22.3**
Employee contributions	—	0.1	1.1	0.3	**1.5**	—	—	1.6	0.4	**2.0**
Curtailments/settlements	—	—	—	-2.7	**-2.7**	—	—	—	-45.7	**-45.7**
Other changes	-570.7	—	1.3	-0.2	**-569.6**	—	-0.1	-0.6	-0.2	**-0.9**
Benefit payments	-140.5	-58.1	-9.7	-5.2	**-213.5**	-27.6	-56.5	-5.3	-7.4	**-96.8**
Fair value of plan assets at December 31	**689.3**	**675.6**	**175.9**	**79.1**	**1,619.9**	**1,336.9**	**617.7**	**148.2**	**69.1**	**2,171.9**
Actual return on plan assets	62.9	101.5	10.8	4.7	**179.9**	27.6	-206.0	-20.5	-1.5	**-200.4**

€2,989.6 million (PY: €2,740.3 million) of the defined benefit obligation at December 31, 2009, relates to plans that are fully or partially funded, and €66.8 million (PY: €60.6 million) relates to plans that are unfunded.

In the period under review, there was a refund from the CTAs in Germany totaling €112.1 million (PY: nil) for pension payments that arose since the creation of the CTAs and advanced by the Continental Corporation to date. The other changes result from the discontinuation of the status of the CTAs' assets as qualifying plan assets due to asset reclassifications.

The changes in the year under review resulting from changes in the companies consolidated particularly relate to additions from the acquisition of interests in ERCO, Synerject, Eu-Retec and Kolubara. In the previous year, the changes to the companies consolidated in Germany were the result of the sale of the electric motors activities to the Brose Group.

In the previous year, the pension plan acquired in Switzerland with Siemens VDO was outsourced to an external financial services provider. The Continental Corporation therefore no longer had any obligations in this respect and the pension plan was reported as a settlement.

Plan assets in Germany include the CTA assets amounting to €267.8 million (PY: €909.5 million), pension contribution fund assets of €334.8 million (PY: €343.0 million), and insurance annuity contracts amounting to €86.7 million (PY: €84.5 million). €2.5 million of the actuarial gains and losses on plan assets in Germany in 2009 resulted from official retirement funds (PY: €5.0 million) and €8.8 million from the CTAs (PY: -€41.5 million).

Continental AG has pension funds for previously defined contributions in Germany that have been closed to new entrants since July 1, 1983, and March 1, 1984, respectively. At December 31, 2009, the minimum net funding requirement was exceeded; Continental AG has no requirement to make additional contributions. The pension fund assets show a fair value of €334.8 million (PY: €343.0 million) on December 31, 2009. The pension funds are subject to an effective interest rate of 3.50%, for which Continental AG is ultimately liable under the *Betriebsrentengesetz* (German Law Relating to Company

Pension Plans). Under this law, the pension obligations constitute a defined benefit pension plan in accordance with IFRIC D 9; this plan must be reported in line with the development of pension provisions. However, given that only the plan members are entitled to the assets and all income, the benefit obligations are recognized in the same amount as the existing assets at fair value.

The following table shows the reconciliation of the funded status to the amounts contained in the balance sheet:

in € millions	Dec. 31, 2009					Dec. 31, 2008				
	Germany	USA/C	UK	Other	Total	Germany	USA/C	UK	Other	Total
Funded status[1]	**-1,070.9**	**-259.8**	**-19.0**	**-86.8**	**-1,436.5**	**-284.6**	**-238.1**	**-15.9**	**-90.4**	**-629.0**
Unrecognized actuarial gains/losses	51.2	265.9	29.9	9.5	**356.5**	-24.7	286.9	23.3	2.3	**287.8**
Unrecognized past service cost from plan amendments	—	0.1	—	0.8	**0.9**	—	0.2	—	1.4	**1.6**
Asset limitation	—	-2.5	-8.1	—	**-10.6**	—	-0.9	-7.1	—	**-8.0**
Reclassification to liabilities held for sale	3.7	—	—	—	**3.7**	3.4	—	—	—	**3.4**
Net amount recognized	**-1,016.0**	**3.7**	**2.8**	**-76.5**	**-1,086.0**	**-305.9**	**48.1**	**0.3**	**-86.7**	**-344.2**

[1] Difference between plan assets and benefit obligation.

The net amount recognized in the balance sheet comprises the following balance sheet items:

in € millions	Dec. 31, 2009					Dec. 31, 2008				
	Germany	USA/C	UK	Other	Total	Germany	USA/C	UK	Other	Total
Deferred pension charges	—	58.9	5.8	6.1	**70.8**	27.4	80.7	3.3	4.6	**116.0**
Pension provisions	-1,016.0	-55.2	-3.0	-82.6	**-1,156.8**	-333.3	-32.6	-3.0	-91.3	**-460.2**
Net amount recognized	**-1,016.0**	**3.7**	**2.8**	**-76.5**	**-1,086.0**	**-305.9**	**48.1**	**0.3**	**-86.7**	**-344.2**

The pension plan of Continental Automotive Trading UK Ltd., UK, reports plan assets at the end of the fiscal year that exceed the defined benefit obligation. The recognition of such an asset is limited to the present value of the benefits to the corporation (asset ceiling). At December 31, 2009, this present value is €0.0 million (PY: €0.0 million).

The pension plan of Continental Automotive Canada, Inc., Canada, also reports plan assets that the Continental Corporation cannot fully utilize. At December 31, 2009, this present value is €0.1 million (PY: €0.2 million).

The assumptions used in measuring the pension obligations, in particular the discount factors, long-term salary growth rates, and the long-term rates of return on plan assets, are established separately for each country.

In the principal pension plans, the following weighted-average assumptions have been used:

Average valuation factors at December 31	2009				2008			
in %	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other
Discount rate	5.40	5.61	5.50	6.19	6.00	6.23	6.00	7.05
Expected long-term return on plan assets	4.76	7.43	6.44	6.34	4.92	7.48	6.72	6.32
Long-term rate of compensation increase	3.50	3.05	3.90	3.96	3.50	3.08	4.10	3.64

[1] Excluding the pension contribution funds.

Net pension expenses can be summarized as follows:

in € millions	2009					2008				
	Germany	USA/C	UK	Other	Total	Germany	USA/C	UK	Other	Total
Current service cost	52.9	7.1	3.0	10.4	**73.4**	57.7	7.8	3.4	11.0	**79.9**
Interest on defined benefit obligation	86.5	53.6	10.7	10.2	**161.0**	82.4	49.2	10.9	10.5	**153.0**
Expected return on plan assets	-51.6	-45.1	-10.3	-4.2	**-111.2**	-64.1	-65.1	-14.2	-3.8	**-147.2**
Amortization of actuarial gains/losses	-3.5	26.6	3.4	0.8	**27.3**	0.0	6.2	9.9	0.1	**16.2**
Amortization of past service cost, as well as other pension income/expenses	—	0.1	—	0.2	**0.3**	—	0.2	—	0.0	**0.2**
Curtailments/settlements	—	4.3	0.0	-12.8	**-8.5**	-0.3	0.0	-1.0	-2.7	**-4.0**
Effect of change of asset ceiling	—	1.3	0.3	—	**1.6**	—	-3.8	-8.3	—	**-12.1**
Net period pension cost	**84.3**	**47.9**	**7.1**	**4.6**	**143.9**	**75.7**	**-5.5**	**0.7**	**15.1**	**86.0**

Curtailments and settlements particularly result from income for the closure of the location in Clairoix, France, and expenses for Huntsville, U.S.A.

The income from curtailments and settlements in 2008 related in particular to the locations in Rambouillet, France, and Ebbw Vale, UK.

A one percentage point increase or decrease in the discount rate used to discount pension obligations would have had the following impact on the pension obligations at the balance sheet date:

in € millions	Dec. 31, 2009				Dec. 31, 2008			
	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other
1% increase								
Effects on service and interest costs	-2.1	2.1	-0.4	-1.0	-2.0	1.4	-0.5	-1.3
Effects on benefit obligation	-147.6	-91.8	-31.2	-16.9	-119.3	-80.4	-23.8	-14.4
1% decrease								
Effects on service and interest costs	3.9	-3.0	0.6	1.4	1.7	-2.1	0.7	0.8
Effects on benefit obligation	181.5	110.2	40.3	22.2	146.3	95.7	28.5	19.7

[1] Excluding the pension contribution funds.

Changes in the discount factor as well as the salary and pension trends do not have a linear effect on the defined benefit obligations (DBO), because of the financial models used (particularly due to the compounding of interest rates). For this reason, the net periodic pension cost derived from the pension obligations does not change as a result of an increase or decrease in the discount rate assumptions by the same amount.

Pension funds

The structure of the corporation's plan assets is based on an asset/liability management study that includes the forecasted pension obligations and the corresponding plan assets. Investment committees regularly review the investment decisions taken and the selection of the external fund managers.

The portfolio structures of the pension plan assets at the measurement date for fiscal years 2009 and 2008, as well as the planned portfolio structure for fiscal 2010, are as follows:

in %	Planned structure 2010				2009				2008			
Type of asset	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other
Equity instruments	19	51	40	14	6	51	42	13	7	57	34	12
Debt securities	81	43	51	48	27	43	54	48	69	38	55	56
Real estate	—	3	9	3	2	3	2	3	1	5	2	3
Cash, cash equivalents and other	—	3	—	35	65	3	2	36	23	0	9	29
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

[1] The portfolio structure of the fund assets in Germany excludes the pension contribution funds, whose assets are invested mainly in fixed-income securities.

The expected long-term return on plan assets of the individual asset types for 2009 and 2008 is as follows:

in %	2009				2008			
Type of asset	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other
Equity instruments	7.10	8.67	8.00	7.18	7.10	8.62	8.00	6.65
Debt securities	4.03	5.36	5.50	7.02	4.26	5.49	5.53	6.49
Real estate	—	6.37	8.00	5.34	—	6.37	8.00	4.96
Cash, cash equivalents and other	—	3.77	5.00	4.97	—	—	5.00	5.41
Long-term return	**4.76**	**7.43**	**6.44**	**6.34**	**4.92**	**7.48**	**6.72**	**6.32**

[1] The expected long-term return on the individual asset types relating to fund assets in Germany excludes the expected returns of the pension contribution funds, whose returns range from 4.00% to 4.50%, for long-term debt securities.

The reference date for plan asset measurement is December 31.

Pension funds
Contributions by the employer

The following table shows the cash contributions made by the company to the pension funds for 2009 and 2008 as well as the expected contributions to the pension funds for 2010:

in € millions	2010 (expected)	2009	2008
Germany	0.0	0.6	0.2
USA/C	16.6	6.0	6.3
UK	8.8	10.0	5.0
Other	5.7	8.7	10.8
Total	**31.1**	**25.3**	**22.3**

The following overview contains the pension benefit payments made in the reporting year and the previous year, as well as the undiscounted, expected pension benefit payments for the next five years:

in € millions	Germany	USA/C	UK	Other	Total
Benefits paid					
2008	80.9	56.5	5.3	17.2	**159.9**
2009	82.1	58.1	9.7	16.0	**165.9**
Benefit payments as expected					
2010	92.8	70.0	4.9	10.9	**178.6**
2011	109.7	61.3	5.2	11.2	**187.4**
2012	107.9	161.1	5.9	11.5	**286.4**
2013	99.2	53.0	6.6	12.5	**171.3**
2014	106.3	53.9	6.9	13.4	**180.5**
Total of years 2015 to 2019	549.9	286.0	44.5	79.9	**960.3**

The expected pension payments from 2010 onwards relate to lump-sum amounts in connection with fixed service cost benefit plans, as well as annual pension benefits. For the purposes of estimating the future payments, in those cases where employees have an option to immediately receive their benefits in cash on retirement or to opt for monthly pension payments, it has been assumed that in all cases the lump-sum will be chosen. Furthermore, the earliest eligible date for retirement has been assumed when determining future pension payments. The actual retirement date could occur later. Therefore the actual payments in future years for present plan members could be lower than the amounts assumed. The concluding payments for the location Chatham, Canada, will be made in 2012.

The amounts for the current and four preceding periods are as follows:

in € millions	2009	2008	2007	2006	2005
Defined benefit obligation	3,056.4	2,800.9	2,889.0	2,418.8	2,489.9
Plan assets	1,619.9	2,171.9	2,551.6	1,907.1	1,326.7
Deficit	-1,436.5	-629.0	-337.4	-511.7	-1,163.2
Experience adjustments to plan liabilities	163.3	-87.6	-216.1	-31.3	215.9
Experience adjustments to plan assets	68.7	-347.6	-28.9	18.4	12.3

The increase in the deficit in the year under review results particularly from asset reclassification in the CTAs in Germany.

Other post-employment benefits

Certain subsidiaries – primarily in the U.S.A. and Canada – grant eligible employees healthcare and life insurance on retirement if they have fulfilled certain conditions relating to age and years of service. The amount and entitlement can be altered. Certain retirement benefits, in particular for pensions and healthcare costs, are provided in the U.S.A. for hourly-paid workers at unionized tire plants under the terms of collective pay agreements.

No separate plan assets have been set up for these obligations.

in € millions	2009	2008
Change in defined benefit obligation		
Defined benefit obligation at January 1	180.0	208.8
Foreign currency translation	0.3	1.6
Current service cost	2.5	4.4
Interest cost on defined benefit obligation	11.8	10.9
Actuarial gains/losses from changes in assumptions	15.3	-7.1
Actuarial gains/losses from experience adjustments	8.2	-17.2
Curtailments/settlements	-8.9	-10.2
Other changes	—	0.4
Benefit payments	-18.1	-11.6
Defined benefit obligation at December 31	**191.1**	**180.0**
Unrecognized actuarial losses	34.4	10.3
Unrecognized income from plan amendments	-11.8	-15.4
Amount recognized on December 31	**168.5**	**185.1**

The increase in the defined benefit obligation is the result in particular of actuarial losses due to changes in assumptions, which were not offset by curtailments in the U.S.A.

At the end of 2006, all hourly workers at the U.S. tire operations and retirees were notified that their maximum amount of medical coverage would be reduced further starting at the beginning of 2007. As a result of this amendment, these beneficiaries now have a standardized level of medical coverage. These plan amendments resulted in a release of provisions in 2006 for post-employment obligations of €108.8 million. Certain affected individuals filed a class-action lawsuit contesting this measure at the end of 2006. Due to a judicially approved settlement, which ended the legal proceedings, the company had to make a one-time payment totaling €43.5 million as compensation. Most of the payment was made in 2008, with payment of the remainder spread over the following seven years. The remaining provision of €11.0 million at December 31, 2009 (PY: €16.8 million) is recorded under the provisions for obligations similar to pensions within pension obligations.

The assumptions used for the discount rate and cost increases to calculate the healthcare and life insurance benefits vary according to conditions in the U.S.A. and Canada. The following weighted average assumptions were used:

Average valuation factors at December 31 in %	2009	2008
Discount rate	5.79	6.58
Rate of increase in healthcare and life insurance benefits in the following year	7.70	8.58
Long-term rate of increase in healthcare and life insurance benefits	4.98	4.99

The net cost of healthcare and life insurance benefit obligations can be broken down as follows:

in € millions	2009	2008
Current service cost	2.5	4.4
Interest cost on defined benefit obligation	11.8	10.9
Amortization of actuarial gains/losses	-1.1	1.1
Amortization of vested prior plan amendments	-3.0	-2.9
Curtailments/settlements	-8.9	-10.2
Other costs	—	0.4
Net cost	**1.3**	**3.7**

The income from curtailments and settlements in the fiscal year results primarily from an automotive location in the U.S.A.

In the previous year, income of €10.2 million was generated from curtailments as a result of the reduction of the upper limit to the medical benefits for employees in the U.S.A.

The following table shows the effects of a 1% increase or decrease in the cost trend for healthcare and life insurance obligations:

in € millions	2009	2008
1% increase		
Effects on net cost	0.4	1.0
Effects on benefit obligation	4.8	7.7
1% decrease		
Effects on net cost	-0.3	-0.8
Effects on benefit obligation	-4.0	-6.5

A one percentage-point increase or decrease in the discount rate specified above for calculating the net cost of healthcare and life insurance benefit obligations would have had the following effect on net cost:

in € millions	2009	2008
1% increase		
Effects on service and interest costs	0.6	-0.4
Effects on benefit obligation	-16.4	-18.5
1% decrease		
Effects on service and interest costs	-0.6	0.3
Effects on benefit obligation	19.4	21.9

The following table shows the payments made for other post-employment benefits in 2009 and the previous year, as well as the undiscounted expected benefit payments for the next five years:

Benefits paid in € millions	
2008	11.6
2009	18.1
Benefit payments as expected	
2010	13.9
2011	14.5
2012	14.4
2013	14.4
2014	14.4
Total of years 2015 to 2019	70.4

The amounts for the current and four preceding periods are as follows:

in € millions	2009	2008	2007	2006	2005
Defined benefit obligation	191.1	180.0	208.8	188.3	327.3
Deficit	-191.1	-180.0	-208.8	-188.3	-327.3
Experience adjustments to plan liabilities	23.5	23.3	-7.6	47.8	-25.5

Provisions for obligations similar to pensions
Some companies of the corporation have made commitments to employees for a fixed percentage of the employees' compensation. These entitlements are paid out when the employment relationship is terminated. In fiscal 2009, the expenses for these obligations were €1.2 million (PY: €0.8 million).

The provision for obligations similar to pensions fell by €4.7 million in fiscal 2009. This was primarily the result of the agreement with the U.S. union in 2008 on a compensation payment; the outstanding amount of €11.0 million (PY: €16.8 million) will be paid out in the next six years.

Defined contribution pension plans
Excluding social security contributions, the expenses for the defined contribution pension plans to which Continental Corporation contributes amounted to €20.4 million in 2009 (PY: €31.3 million). The decrease in the year under review results primarily from temporary suspensions of the contributions in the U.S.A. and from workforce reductions.

25. Provisions for Other Risks

in € millions	Dec. 31, 2009		Dec. 31, 2008	
	Current	Non-current	Current	Non-current
Restructuring provisions	501.1	—	199.5	—
Litigation and environmental risks	—	130.3	—	147.5
Flexible early retirement contracts	—	89.1	—	107.0
Anniversary and other long-service benefits	—	63.9	—	71.1
Warranties	679.1	—	654.1	—
Other provisions	162.7	68.4	172.7	104.1
Provisions for other risks	**1,342.9**	**351.7**	**1,026.3**	**429.7**

The provisions changed during the year as follows:

in € millions	Restructuring provisions	Litigation and environ-mental risks	Flexible early retirement contracts	Anniversary and other long-service benefits	Warranties	Other provisions
At January 1, 2009	**199.5**	**147.5**	**107.0**	**71.1**	**654.1**	**276.8**
Additions	481.0	30.4	45.2	2.8	257.5	157.4
Utilization	-157.0	-36.3	-75.0	-3.7	-186.9	-122.2
Net changes in the scope of consolidation	—	1.0	—	0.2	-4.6	-0.2
Reclassification to liabilities held for sale	—	—	0.3	0.1	—	12.9
Restatements from liabilities held for sale	—	—	-0.1	-0.7	-1.6	-20.1
Reversals	-21.0	-15.0	-5.2	-9.8	-42.7	-65.9
Interest	-0.7	2.4	16.9	3.9	0.5	-11.5
Foreign currency translation	-0.7	0.3	—	—	2.8	3.9
At December 31, 2009	**501.1**	**130.3**	**89.1**	**63.9**	**679.1**	**231.1**

The additions to the restructuring provisions mainly relate to expenses in connection with the closures or capacity adjustments at the plants in Clairoix, France; Hanover-Stöcken, Wetzlar, Dortmund and Neubiberg, Germany; Traiskirchen, Austria; and Huntsville, U.S.A. The additions also include expenses from the closure of the logistics warehouse in Straubing, Germany. Please see Note 6.

The utilization primarily relates to the implementation of restructuring measures decided in previous years – in particular at the locations at Rambouillet, France, and Ebbw Vale, UK.

As in the previous year, the increases and utilization of the provisions for litigation and environmental risks relate in particular to product liability risks from the tire activities in the U.S.A. and also include utilization in connection with the costs from the decisions of the antitrust authorities against Dunlop Oil & Marine Ltd, UK. The reversals mainly relate to expired patent risks due in part to patent duration in the automotive area.

Provisions for the flexible early retirement contracts, as well as anniversary and other long-service benefits, were measured using a discount rate of 4.00% (PY: 6.50%). In accordance with the option under IAS 19, the interest component was not separately shown in net interest expense, but included in compensation costs as part of the cost categories as classified in the income statement; it includes the effect of the change in the interest rate of 2.5 percentage points.

The changes in provisions for warranties include utilization amounting to €186.9 million (PY: €157.8 million), and additions of €257.5 million (PY: €101.1 million), in particular for specific provisions in the automotive divisions.

The changes in the companies consolidated mainly relate to the sale of the amplified common rail business.

The reclassification to liabilities held for sale relate in particular to operations held for sale in the non-OE area of the Interior division, which are not part of the Continental Corporation's core business. The business was sold in October 2009.

Other provisions mainly comprise provisions for risks from operations, including in connection with fixed supply and acceptance agreements.

26. Income Tax Liabilities

Tax liabilities changed as follows:

in € millions	2009	2008
At January 1	**507.8**	**559.7**
Additions	444.7	394.5
Utilization and advance payments for the current fiscal year	-276.3	-366.6
Additions from the first consolidation of subsidiaries	-0.6	-0.1
Reversals	-35.7	-70.5
Foreign currency translation	4.8	-9.2
At December 31	**644.7**	**507.8**

Changes in the companies consolidated and reclassifications in the reporting year relate to reclassifications in liabilities held for sale in the amount of €0.6 million.

In addition to the utilization and advance payments for the current fiscal year, the changes in income tax receivables are also included in income taxes paid in the cash flow statement.

The increase in income tax liabilities resulted, among other things, from a tax liability from the 2008 taxable period that occurred in connection with the carve-out of the tire activities in Germany (incorporation of tires).

The reduction in income tax receivables of €53.8 million from €148.0 million to €94.2 million is mainly the result of refunds, primarily in France, that exceed the advance payments for the 2008 taxable period.

27. Indebtedness

in € millions	Dec. 31, 2009			Dec. 31, 2008		
	With a term of			With a term of		
	Total	up to 1 year	over 1 year	Total	up to 1 year	over 1 year
Bonds	**5.2**	2.5	2.7	**70.0**	70.0	—
Bank loans and overdrafts[1]	**10,096.3**	4,424.1	5,672.2	**11,399.3**	1,914.5	9,484.8
Derivative financial instruments	**205.1**	7.2	197.9	**199.5**	24.9	174.6
Financial lease liabilities	**107.4**	16.6	90.8	**129.6**	22.3	107.3
Liabilities from factoring/asset-backed securitization programs	**219.0**	219.0	—	**251.0**	251.0	—
Other indebtedness[2]	**79.5**	75.4	4.1	**67.9**	66.3	1.6
Indebtedness	**10,712.5**	**4,744.8**	**5,967.7**	**12,117.3**	**2,349.0**	**9,768.3**

[1] Thereof €8.0 million (PY: €2.3 million) secured by land charges, mortgages, and similar securities.

[2] In 2009, other indebtedness includes €73.4 million (PY: €64.6 million) drawn down from the commercial paper program and €0.7 million (PY: €1.3 million) liabilities on bills drawn and issued.

Breakdown of credit lines and available financing from banks

in € millions		Dec. 31, 2009			Dec. 31, 2008				
Company	Type[1]	Amount of issue	Book value	Fair value	Amount of issue	Book value	Fair value	Interest rate	Maturity
CAG, Conti Automotive,			683.9	683.9		887.2	887.2		2010[2]
CRoA, CGF,			—	—		799.7	799.7		2009
Conti Benelux			3,497.1	3,497.1		3,491.5	3,491.5	Euribor +	2010
	SEL	11,000.0	4,999.1	4,999.1	11,800.0	4,984.3	4,984.3	margin	2012
Conti Automotive	LBL	40.0	40.0	39.1	40.0	40.0	39.2	3.90%	2011
Conti Automotive	LBL	15.0	15.0	14.4	15.0	15.0	14.4	3.76%	2011
CGF			59.9	60.2		59.9	61.6	6.21%	2011
	PL	110.0	49.9	47.0	110.0	49.9	49.9	Euribor + margin	2011
Conti Mabor	LBL	11.4	11.4	10.3	17.1	17.1	17.1	Euribor + margin	2011[3]
CRoA	LBL	34.7	34.7	34.4	35.3	35.3	36.7	5.53%	2011
Conti Automotive	LBL	20.0	20.0	19.1	20.0	20.0	19.4	4.38%	2012
Conti Teves	LBL	29.2	29.2	28.4	39.5	39.5	40.9	5.34%	2012[7]
Conti Brazil	LBL	22.4	22.4	19.1	24.8	24.8	20.7	8.23%[4]	2012[8]
CAG			99.9	100.1		300.0	292.6	6.42%[5]	2010[9]
	LBL	400.0	299.6	298.1	600.0	300.0	291.0	6.34%[6]	2012
Conti Brazil	LBL	15.3	15.3	13.5	19.1	19.1	17.4	3.44%	2013[7]
Conti Brazil	LBL	13.9	13.9	13.0	17.6	17.6	17.9	4.78%	2013[7]
CT Fluid Hungary	LBL	29.2	29.2	27.4	38.1	38.1	38.1	4.35%	2013[7]
Various bank lines		597.9	175.8	175.8	892.5	260.3	260.3	mainly variable	mainly <1 year
Credit lines and available financing from banks		**12,339.0**			**13,669.0**				
Liabilities to banks			**10,096.3**	**10,080.0**		**11,399.3**	**11,379.9**		

[1] SEL: syndicated euro loan; LBL: long-term bank loan; PL: promissory loan.

[2] The credit line permits an extension of any drawdown until 2012.

[3] Annual redemption payments.

[4] Average interest rate. 8.21% at December 31, 2008.

[5] Interest rate at December 31, 2008: 4.67%.

[6] Interest rate at December 31, 2008: 4.59%.

[7] Semi-annual redemption payments.

[8] Monthly redemption payments.

[9] Originally to mature in 2012. Early repayment of €200.0 million in 2009, repayment of the remaining balance in January 2010.

Explanation of company names

CAG, Continental Aktiengesellschaft, Hanover, Germany
CGF, Conti-Gummi Finance B.V., Amsterdam, the Netherlands
Conti Automotive, Continental Automotive GmbH, Hanover, Germany
Conti Benelux, Continental Benelux S.A., Zaventem, Belgium
Conti Brasil, Continental do Brasil Produtos Automotivos Ltda., Varzea Paulista, Brazil
Conti Mabor, Continental Mabor Indústria de Pneus S.A., Lousado, Portugal
CRoA, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.
Conti Teves, Continental Teves Hungária Kft., Veszprém, Hungary
CT Fluid Ungarn, ContiTech Fluid Automotive Hungária Kft., Mako, Hungary

On December 31, 2009, credit lines and available financing from banks amounted to €12,339.0 million (PY: €13,669.0 million). Of these, a nominal amount of €2,196.3 million was not drawn down as of the reporting date (PY: €2,237.2 million). The share of long-term credit lines in this nominal amount was €1,803.9 million (PY: €1,605.0 million). In the year under review, the Continental Corporation utilized its commercial paper program, its factoring programs, and its various bank lines to meet short-term credit requirements.

The VDO loan was utilized on December 31, 2009, by Continental AG and Continental Rubber of America, Corp. (CRoA), Wilmington, U.S.A., and valued at a total of €9,180.1 million (PY: €10,162.7 million). Particularly due to the higher expected cash flows for this loan as a result of rising margins, the carrying amount was adjusted as expense in September and December 2009. At the end of 2009, the value of these adjustments totaled €64.5 million. This deferral will be amortized over the term and reduces expenses accordingly.

For tranche C, due in August 2012, there were interest hedges at the end of 2009 amounting to €3,125.0 million. The resulting average fixed interest rate to be paid is 4.19% plus margin. With the repayment of tranche A due in August 2009 (nominal amount of €800.0 million) of the VDO loan, the total committed amount decreased from €11.8 billion to €11.0 billion. Due to the continuing deterioration of the economic situation in the final months of 2008, a need for adjustment of selected contractual terms for the VDO loan emerged for the first time. Therefore, in December 2008 Continental proactively presented the banks with a concept to adjust the contractual terms to the changed economic environment. Almost all the banks involved agreed to Continental's proposals in January 2009. The renegotiations primarily resulted in the agreement of greater flexibility to be granted until the end of 2010 with regard to the ratio of net indebtedness to EBITDA and the increase in the margins in comparison to the previous conditions. In view of the changed situation for the company, modifications to the company's other obligations were also made in the agreement. For instance, some of the provisions of the investment agreement concluded with Schaeffler KG in August 2008 were incorporated in the conditions. Restrictions regarding future dividend payments were also agreed. At the end of 2009, a further need for adjustment of the financial covenants for the VDO loan emerged. The renegotiations were concluded successfully in December 2009. The result of the renegotiations for the VDO loan is an agreement on increased flexibility with regard to the ratio of net indebtedness to EBITDA and the ratio of EBITDA to net interest expense. In addition, a further margin increase in comparison to the previous conditions and a further reduction of the scope for dividend payments for the fiscal years 2009 and 2010 were agreed. The adjusted financial covenants also stipulate for the first time a limitation of the annual investment volume and the provision of an extensive collateral package by various companies in the Continental Corporation. The provision of collateral was under preparation at the end of 2009 and is to be completed by March 18, 2010 at the latest.

In addition, an agreement on refinancing tranche B due in August 2010 of €3.5 billion was also made as part of this renegotiation. The banks committed bindingly to a forward start facility (FSF) with a volume of €2.5 billion for this purpose. However, utilization of this facility was tied to a capital increase to be carried out by August 2010 with gross proceeds of at least €1.0 billion. This capital increase was placed successfully in January 2010 and led to net proceeds of approximately €1.05 billion, which will be used to repay tranche B. The key elements of the extensive refinancing plan with the goal of an improved financial and capital structure have thus been implemented.

Renegotiations were concluded in November 2009 with the European Investment Bank (EIB) regarding the

framework conditions for the loan it granted in the original amount of €600.0 million. These specify modifications to the level of the margins and the scope of collateralization of the loan, with both these aspects being tied to the rating of Continental AG. Partial repayments of €100.0 million each were already made in March and August 2009. The nominal amount of the EIB loan drawn thus decreased to €400.0 million at the end of 2009. An additional repayment of €100.0 million was made in January 2010.

Please see Note 28 about the structure of maturities of indebtedness.

Financial lease liabilities

The future payment obligations resulting from financial leases are shown in the following tables:

Dec. 31, 2009 in € millions	2010	2011	2012	2013	2014	from 2015	Total
Minimum lease payments	22.9	20.9	17.3	15.6	11.0	64.6	**152.3**
Interest component	6.3	5.9	5.6	4.7	5.6	16.8	**44.9**
Financial lease liabilities	**16.6**	**15.0**	**11.7**	**10.9**	**5.4**	**47.8**	**107.4**

Dec. 31, 2008 in € millions	2009	2010	2011	2012	2013	from 2014	Total
Minimum lease payments	29.3	19.6	17.8	14.3	11.6	90.2	**182.8**
Interest component	7.0	6.3	5.8	5.3	4.7	24.1	**53.2**
Financial lease liabilities	**22.3**	**13.3**	**12.0**	**9.0**	**6.9**	**66.1**	**129.6**

The fair value of the financial lease liabilities is €120.4 million (PY: €131.6 million). The effective interest rate of the leasing contracts lies between 5.5% and 8.7% (PY: between 5.8% and 10.8%).

28. Financial Instruments

The carrying amounts and fair values of financial assets and liabilities belonging to the various measurement categories, classified by balance sheet category and non-current and current items, are as follows:

in € millions	Measurement category in acc. with IAS 39	Carrying amount	Fair value	Carrying amount	Fair value
		Dec. 31, 2009	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2008
Other investments	AfS	8.0	8.0	14.2	14.2
Derivative instruments and interest-bearing investments					
Derivative instruments accounted for as hedging instruments	n.a.	—	—	6.4	6.4
Derivative instruments not accounted for as hedging instruments	HfT	4.2	4.2	27.5	27.5
Financial assets available for sale	AfS	75.7	75.7	11.1	11.1
Other receivables with a financing character	LaR	24.3	24.3	19.4	19.4
Trade accounts receivable	LaR	3,648.1	3,648.1	3,287.5	3,287.5
Other financial assets	LaR	203.8	203.8	160.9	155.2
Cash and cash equivalents					
Cash and cash equivalents	LaR	1,334.8	1,334.8	1,232.0	1,232.0
Financial assets available for sale	AfS	378.0	378.0	337.4	337.4
Financial assets		**5,676.9**	**5,676.9**	**5,096.4**	**5,090.7**
Indebtedness					
Derivative instruments accounted for as hedging instruments	n.a.	197.7	197.7	174.4	174.4
Derivative instruments not accounted for as hedging instruments	HfT	7.4	7.4	25.1	25.1
Liabilities from financial leases	n.a.	107.4	120.4	129.6	131.6
Other indebtedness	FLAC	10,400.0	10,383.7	11,788.2	11,768.8
Trade accounts payable	FLAC	2,819.5	2,819.5	2,469.8	2,469.8
Other financial liabilities	FLAC	880.3	880.3	889.2	889.2
Financial liabilities		**14,412.3**	**14,409.0**	**15,476.3**	**15,458.9**
Aggregated according to categories as defined in IAS 39:					
Financial asset HfT		4.2		27.5	
LaR		5,211.0		4,699.8	
AfS		461.7		362.7	
Financial liability HfT		7.4		25.1	
FLAC		14,099.8		15,147.2	

Abbreviations

AfS, available for sale
FLAC, financial liability at amortized cost
HfT, held for trading
LaR, loans and receivables

Financial instruments belonging to the held for trading category are measured at their fair value. Financial instruments belonging to the available for sale category are also measured at their fair value, unless this cannot be reliably measured, in which case the financial assets are measured at cost.

Cash and cash equivalents, trade receivables, trade payables and other financial liabilities, generally have short remaining maturities. As a result, the carrying amounts at the closing date correspond approximately to the fair value.

The derivative financial instruments which meet the requirements of hedge accounting are not allocated to any IAS 39 measurement category, since they are explicitly excluded from the individual measurement categories.

Derivative financial instruments that did not qualify as highly effective hedges are classified as financial assets and liabilities held for trading.

The fair values of other indebtedness and of liabilities from finance leases were determined by discounting all future cash flows at the applicable interest rates for the corresponding residual maturities, taking into account a company-specific rating spread.

The sum of the positive carrying amounts is equivalent to the maximum default risk of the Continental Corporation from financial assets. To secure trade accounts receivable, trade credit insurance has been agreed, among other things.

The financial instruments measured at fair value are shown in the table below in accordance with their measurement method. The levels of the fair value hierarchy are defined as follows:

Level 1: quoted prices on the active market for identical instruments
Level 2: quoted prices on the active market for a similar instrument or measurement method for which all major input factors are based on observable market data
Level 3: measurement method for which the major input factors are not based on observable market data

in € millions		Dec. 31, 2009	Level 1	Level 2	Cost
Other investments	AfS	8.0	—	—	8.0
Financial assets available for sale	AfS	453.7	453.6	0.0	0.1
Derivative instruments not accounted for as hedging instruments	HfT	4.2	—	4.2	—
Financial assets valued at fair value			**453.6**	**4.2**	**8.1**
Derivative instruments accounted for as hedging instruments	n.a.	197.7	—	197.7	—
Derivative instruments not accounted for as hedging instruments	HfT	7.4	—	7.4	—
Financial liabilities valued at fair value			**—**	**205.1**	**—**

There are currently no financial assets in the Continental Corporation which are measured according to Level 3 of the fair value hierarchy. No transfers were made between different levels of the fair value hierarchy.

The net gains and losses by measurement category were as follows:

in € millions	From interest	From remeasurement			Net gains and losses	
		At fair value	Currency translation	Impairment losses	2009	2008
Loans and receivables	27.5	—	25.7	-33.9	19.3	3.6
Financial assets available for sale	2.8	0.0	—	-0.4	2.4	10.1
Financial assets and financial liabilities held for trading	—	-5.8	—	—	-5.8	-3.5
Financial liabilities at amortized cost	-749.4	—	-31.2	—	-792.8	-643.5
Net gains and losses	**-719.1**	**-5.8**	**-5.5**	**-34.3**	**-776.9**	**-633.3**

Interest income from financial instruments is reported in net interest expense (see Note 8). No interest income was generated from impaired financial assets.

The valuation allowance for loans and receivables results from trade accounts receivable; the valuation allowance for available-for-sale financial assets results from the depreciation of investments. Gains and losses on financial assets and liabilities held for trading, that were determined during subsequent measurement, include both interest rate and exchange rate effects.

The changes in value of the financial assets designated as available for sale that were recognized directly in equity amounted to €1.2 million in 2009 (PY: €0.3 million); the amount taken from equity and recognized in income during the fiscal year was €0.0 million (PY: €1.8 million).

Collateral

As of December 31, 2009, a total of €619.1 million of financial assets had been pledged as collateral (PY: €37.2 million). In the year under review, collateral mainly consists of trade accounts receivable; the remainder relates to pledged cash or other financial assets. Trade receivables sold under factoring programs as well as the aforementioned collateral in the form of trade receivables are shown in Note 19.

In the previous year, financial assets pledged as collateral – including collateral that can be sold or pledged by the recipient – primarily comprised term deposits used as collateral for the cash settlement specified for the other shareholders of ContiTech AG, Hanover, a part of a squeeze-out, as well as trade accounts receivable.

Hedging policy and financial derivatives

The international nature of its business activities and the resulting financing requirements mean that the corporation is exposed to exchange rate and interest rate fluctuations. Where foreign currency risks are not fully compensated by offsetting delivery and payment flows, exchange rate forecasts are constantly updated to ensure that risks can be hedged as necessary in individual cases using appropriate financial instruments. In addition, long- and short-term interest rate movements are continuously monitored and are controlled by using derivative financial instruments. Thus, interest rate and currency derivatives allow debt to be accessed with any required interest and currency structure, regardless of the location at which the financing is required.

The use of hedging instruments is covered by corporate-wide guidelines, adherence to which is regularly reviewed by internal audit. Internal settlement risks are minimized through the clear segregation of functional areas.

1. Currency management

The international nature of the corporation's business activities results in deliveries and payments in various currencies. Currency exchange fluctuations involve the risk of losses because assets denominated in currencies with a falling exchange rate lose value, while liabilities denominated in currencies with a rising exchange rate become more expensive. At Continental the net exposure, calculated primarily by offsetting exports against imports in the individual currencies, is regularly recorded and measured. For many years now, the corporation has been using natural hedges to reduce currency risks so that the difference between revenues received and expenditure in any one currency is kept as low as possible. Expected exchange rate developments are also monitored and analyzed accordingly. Exchange rate risks are hedged as necessary using appropriate financial instruments. Currency management sets tight limits for open positions and thus considerably reduces the hedging risk. For hedging, it is only allowed to use those derivative financial instruments that can be reported and measured in the risk management system. Financial instruments that do not meet these criteria may not be used at all. The corporation's net foreign investments are generally not hedged against exchange rate fluctuations.

Operational foreign currency risk

Continental compiles its subsidiaries' actual and expected foreign currency payments at a global level for currency management purposes. These amounts represent the corporation's transaction exposure and are measured as the net cash flow per currency on a rolling 12-month forward basis. The currency committee convenes weekly to review and initiate hedging measures. These may not exceed 30% of the 12-month exposure without the express permission of the Executive Board.

Financial foreign currency risks

In addition, currency risks also result from external and internal loan agreements which are denominated in a currency different from the functional currency of the respective subsidiary. These currency risks are generally hedged against through the use of derivative financial instruments, particularly currency forwards, currency swaps and cross-currency interest rate swaps.

Sensitivity analysis

IFRS 7 requires a presentation of the effects of hypothetical changes of currency prices on earnings and equity using sensitivity analyses. The changes to the currency prices are related to all financial instruments outstanding on the reporting date. Expected transactions are not included in the sensitivity analysis. To determine the transaction-related net foreign currency risk, the financial instruments are categorized according to foreign currency for this portfolio and a 10% appreciation or depreciation of the respective functional currency of the subsidiaries is assumed in relation to the foreign currency. The overview below shows the overall effect as measured using this approach, as well as the individual effects resulting from the the euro and the U.S. dollar, as major transaction currencies, on the difference from financial instruments in equity and on net income.

in € millions	2009		2008	
	Total equity	Net income	Total equity	Net income
Local currency +10%				
Total	**0.0**	**-7.0**	**-6.7**	**9.9**
thereof EUR	0.0	-23.1	-6.7	-24.1
thereof USD	0.0	29.5	0.0	42.6
Local currency -10%				
Total	**0.0**	**7.0**	**6.7**	**-9.9**
thereof EUR	0.0	23.1	6.7	24.1
thereof USD	0.0	-29.5	0.0	-42.6

Effects of translation-related currency risk

A large number of the subsidiaries are located outside the euro area. Since Continental AG's reporting currency is the euro, the financial statements of these companies are translated into euros. In order to address translation-related currency effects as part of risk management, it is assumed that investments in foreign companies are generally entered into for the long term and that earnings are reinvested. Translation-related effects that arise when the value of net asset items translated into euros changes as a result of currency fluctuations are taken to equity in the consolidated financial statements.

2. Interest rate management

Variable interest agreements for liabilities pose the risk of rising interest rates. These risks are monitored and evaluated as part of our interest rate management activities and managed by means of derivative interest rate hedging instruments. The corporation's interest-bearing liabilities are the subject of these activities. All interest rate hedges serve exclusively to manage identified interest rate risks. The aim is to keep around 50% of gross interest-bearing indebtedness at a fixed and 50% at a variable interest rate.

The corporation is not exposed to a risk of fluctuation in the fair value of long-term financial liabilities due to market changes in fixed interest rates, as the lenders do not have the right to demand early repayment in the event of changing rates. If the corporation has the right to redeem instruments before maturity, such redemption is only considered if this is advantageous from the Continental Corporation's perspective.

Interest rate risk

The profile of interest-bearing financial instruments allocated to net indebtedness, taking into account the effect of the Continental Corporation's derivative financial instruments, is as follows:

in € millions	2009	2008
Fixed-interest instruments		
Financial assets	3.2	2.4
Financial liabilities	-3,995.6	-4,276.2
Floating-rate instruments		
Financial assets	1,809.6	1,597.5
Financial liabilities	-6,511.8	-7,641.6
Fair value of derivative instruments		
Financial assets	4.2	33.9
Financial liabilities	-205.1	-199.5
Net indebtedness	**-8,895.5**	**-10,483.5**

Interest-bearing instruments were mainly taken out in euros or U.S. dollars.

The Continental Corporation has entered into interest rate derivatives which are classified as effective cash flow hedges. As a result, a change in interest rates as of the balance sheet date would have a direct effect on the income statement (net interest expense) and/or on equity.

In line with IFRS 7, effects of financial instruments on earnings and equity resulting from interest rate changes must be presented using sensitivity analyses.

Fair value – sensitivity analysis

An increase in interest rates of 100 basis points in 2009 would have led to a decline in net interest expense of €0.7 million (PY: €1.5 million) and to an increase in the difference from financial instruments in equity in the amount of €80.4 million (PY: €103.3 million).

An decrease in interest rates of 100 basis points in 2009 would have led to an improvement in net interest expense of €0.6 million (PY: €1.3 million) and to a decrease in the difference from financial instruments in equity in the amount of €85.1 million (PY: €118.6 million). This analysis assumes that interest rates cannot be lower than or equal to 0%.

The effects described are almost entirely due to changes in interest rates for the euro.

Cash flow – sensitivity analysis

An increase in interest rates of 100 basis points in 2009 would have increased net interest expense by €47.0 million (PY: €60.4 million). €54.6 million of this increase (PY: €65.3 million) would have resulted from financial instruments denominated in euros. An opposing effect of €1.1 million (PY: €0.7 million) would have resulted from financial instruments denominated in U.S. dollars.

A decrease in interest rates of 100 basis points would have improved net interest expense by €47.0 million (PY: €60.4 million). €54.6 million of this improvement (PY: €65.3 million) would have resulted from financial instruments denominated in euros. An opposing effect of €1.1 million (PY: €0.7 million) would have resulted from financial instruments denominated in U.S. dollars.

This analysis is based on the assumption that all other variables, and in particular exchange rates, remain unchanged. The same assumption applies to 2008.

3. Counterparty risk

Derivative financial instruments are subject to default risk to the extent that counterparties may not meet their payment obligations either in part or in full. To limit this risk, contracts are only entered into with selected banks. The development of contractual partners' creditworthiness is continuously monitored, particularly by monitoring the rating classifications and the market assessment of default risk using the respective credit default swap rates.

4. Liquidity risks

A liquidity forecast is prepared by central cash management on a regular basis.

Cost-effective, adequate financing is necessary for the subsidiaries' operating business. Various marketable financial instruments are employed for this purpose, These comprise overnight money, term deposits, commercial paper, factoring programs, and bonds, as well as bilateral and syndicated loans, particularly the VDO loan in a nominal amount of €11,000.0 million (PY: €11,800.0 million). Capital expenditure by subsidiaries is primarily financed through equity and loans from banks or subsidiaries. There are also cash-pooling arrangements with subsidiaries to the extent they are possible and justifiable in the relevant legal and tax situation. Should events lead to unexpected financing requirements, Continental can draw upon existing liquidity and fixed credit lines from banks. For detailed information on the existing used and unused loan commitments, please refer to Note 27.

The following undiscounted cash outflows result in the next five years and after from the financial liabilities of €14,412.3 million (PY: €15,476.3 million):

December 31, 2009 in € millions	2010	2011	2012	2013	2014	thereafter	Total
Other indebtedness incl. interest payments[1]	-5,059.9	-573.0	-5,555.8	-18.7	-13.5	-0.0	**-11,220.9**
Derivative instruments	-18.9	-70.8	-121.1	-0.0	—	—	**-210.8**
Financial lease liabilities	-22.9	-20.9	-17.3	-15.6	-11.0	-64.6	**-152.3**
Trade accounts payable	-2,819.5	—	—	—	—	—	**-2,819.5**
Other financial liabilities	-880.3	—	—	—	—	—	**-880.3**

[1] Includes a drawdown payable in 2010 from a credit line valid until 2012 with an amount of €696.1 million.

December 31, 2008 in € millions	2009	2010	2011	2012	2013	thereafter	Total
Other indebtedness incl. interest payments[1]	-2,791.3	-3,956.1	-588.7	-5,832.5	-14.8	—	**-13,183.4**
Derivative instruments	14.5	-56.9	-31.1	-115.7	—	—	**-189.2**
Financial lease liabilities	-29.3	-19.6	-17.8	-14.3	-11.6	-90.2	**-182.8**
Trade accounts payable	-2,469.8	—	—	—	—	—	**-2,469.8**
Other financial liabilities	-889.2	—	—	—	—	—	**-889.2**

[1] Includes a drawdown payable in 2009 from a credit line valid until 2012 with an amount of €887.2 million.

In the analysis, foreign currency amounts were translated with the spot exchange rate current at the time of the reporting date into euros. For floating-rate non-derivative financial instruments, the future interest payment flows were forecasted using the most recently contractually fixed interest rates. Forward interest rates were used to determine the floating rate payments for derivative financial instruments. The analysis only includes payment outflows from financial liabilities. For derivative financial instruments showing a negative fair value on the balance sheet date, the net payments are reported. Payment inflows from financial assets were not accounted for.

The payment outflows in the maturity analysis are not expected to occur at significantly different reference dates or in significantly different amounts.

5. Default risk

Credit risk from trade accounts receivable and financial amounts receivable includes the risk that amounts receivable will be collected late or not at all. These risks are analyzed and monitored by central and local credit managers. The responsibilities of the central credit management function also include pooled accounts receivable risk management. Contractual partners' creditworthiness and payment history are analyzed on a regular basis. Nevertheless, default risk can never be excluded with absolute certainty and has risen further in view of the tense economic situation of some companies in the automotive industry. However, default risk cannot be excluded with absolute certainty, and any remaining risk is addressed by establishing valuation allowances on the basis of experience or charging impairment losses for specific individual risks. Default risk for non-derivative financial amounts receivable is also limited by ensuring that agreements are only entered into with partners with proven creditworthiness or that collateral is provided or trade credit insurance is agreed. Please see Note 19 for information on determining creditworthiness. Financial assets that are neither past due nor impaired accordingly have a prime credit rating.

Measurement of derivative financial instruments
Derivative financial instruments are recognized at fair value, which is generally determined by discounting the expected cash flows on the basis of yield curves. For example, the fair value of currency forwards is calculated as the difference from the nominal amounts discounted with the risk-free interest rates of the respective currencies and translated at the current spot exchange rate. To calculate the fair value of interest rate swaps and cross-currency interest rate swaps, the future cash flows are discounted with the interest rates for the respective maturities, with deposit rates used as short-term interest rates whilst long-term interest rates are based on the swap rates in the respective currency.

in € millions	Dec. 31, 2009		Dec. 31, 2008	
Fair value	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Cash flow hedges (effective)				
Cross-currency interest rate swaps	—	-52.0	6.4	-68.6
Interest rate swaps	—	-145.7	—	-105.8
Other derivatives				
Cross-currency interest rate swaps	2.4	—	6.1	—
Interest rate swaps	—	-0.3	—	-0.1
Interest rate options	—	-0.3	—	-0.2
Currency forwards	1.8	-6.8	21.4	-24.8
Total fair value	**4.2**	**-205.1**	**33.9**	**-199.5**
– thereof long-term	2.5	-197.9	6.1	-174.6
– thereof short-term	1.7	-7.2	27.8	-24.9
Nominal values				
Cash flow hedges	3,175.0			3,245.0
Cross-currency interest rate swaps	64.8			84.6
Interest rate swaps	13.7			10.0
Interest rate options	10.0			10.0
Currency forwards	834.7			854.4
Total of nominal values	**4,098.2**			**4,204.0**

In the case of highly effective hedges, Continental applies hedge accounting as set out in IAS 39. For cash flow hedges, changes in the market value of the derivatives are taken directly to other comprehensive income in total equity until the hedged item is recognized in income.

The Continental Corporation has classified both interest rate swaps and cross-currency interest rate swaps exclusively as cash flow hedges. The cash flow hedges relate firstly to a partial hedging of the floating-rate VDO loan amount of €3.125 billion, which hedges against interest rate risk from the floating rate on the loans and against currency risk at Continental Rubber of America, Corp. (CRoA), Wilmington, U.S.A., from the denomination in euros. Secondly, interest rate risk from a floating-rate promissory loan in euros is hedged against. As of December 31, 2009, marking to market of these financial instruments therefore resulted in an expense of €182.6 million (PY: €149.5 million) before tax that was recognized directly in equity. The interest and principal payments from the underlying transactions which are covered by the cash flow hedges are to become effective in the income statement in the years up until 2012.

The accumulated other comprehensive income relating to the derivative hedging instruments was as follows in the year under review:

in € millions	Jan. 1, 2008	Fair value changes	Reversals	Dec. 31, 2008/ Jan. 1, 2009	Fair value changes	Reversals	Dec. 31, 2009
Effective change in fair value	-1.5	-148.1	0.1	-149.5	-33.8	0.7	-182.6
Deferred taxes	0.5	46.5	0.0	47.0	9.8	-0.3	56.5
Other comprehensive income	**-1.0**	**-101.6**	**0.1**	**-102.5**	**-24.0**	**0.4**	**-126.1**

The prospective and retrospective effectiveness of hedges is demonstrated through regular effectiveness testing. The dollar offset method is used to determine retrospective effectiveness. This calculates the ratio of the fair value changes or changes in cash flow of the hedged underlying transaction to the fair value changes or changes in cash flow of the hedging transaction. The results of retrospective effectiveness testing fell within a range of 80% to 125%, meaning that the hedges used by the corporation can be considered highly effective. As in the previous year, no ineffectiveness arose from the existing cash flow hedges during the reporting year.

Non-derivative host contracts are regularly inspected for embedded derivatives, e.g. contractual payment terms in currencies other than the functional or typical trading currency. Embedded derivatives must be separated from the host contract if the assessment finds that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. The corporation did not hold any material embedded derivative instruments requiring separate recognition in the reporting year.

29. Other Financial Liabilities

in € millions	Dec. 31, 2009	Dec. 31, 2008
Liabilities to related parties	24.9	15.2
Interest payable	131.6	123.6
Liabilities for payroll and personnel related costs	318.2	312.7
Liabilities for selling expenses	351.7	361.7
Termination benefits	39.6	23.1
Purchase prices payable on company acquisitions	4.6	46.8
Other liabilities	9.7	6.1
Other financial liabilities	**880.3**	**889.2**

The liabilities to related parties relate in particular to payables to associates from services provided.

Interest payable is mainly the result of interest ceilings in connection with Continental AG's interest hedging transactions.

The increase for termination benefits results in particular from workforce adjustments at German locations.

Liabilities for selling expenses relate in particular to obligations from bonus agreements with customers, as well as granted, deferred price reductions.

Purchase prices payable on company acquisitions in the previous year relate to the purchase price option exercised on July 1, 2009, for the acquisition of the remaining shares in the tire and conveyor belt business of the Matador Group. The amount of €4.6 million as of December 31, 2009 relates to liabilities from the acquisition of the remaining shares in AVTEL Kaluga, Russia.

The other financial liabilities are due within one year.

2009 long-term incentive plan

In the period under review, senior executives of the Continental Corporation were granted a long-term incentive (LTI) bonus which depends on their job grade and their degree of target achievement. This bonus is intended to allow for participation in the long-term, sustainable increase in the corporation's value and profitability.

The LTI is issued in annual tranches (LTI tranches). In addition to the issue of the 2009/13 tranche with a term of four years, a further tranche (2009/12) was also issued in 2009 with a term of three years, due to the transition from a three-year term for the previous stock option plan to a four-year term for the LTI. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2009/12 tranche was resolved on August 17, 2009; the 2009/13 tranche on July 20, 2009.

For each beneficiary of an LTI tranche, the Executive Board of Continental AG specifies the amount of a target bonus in euros to be paid out upon 100% target achievement. The actual LTI bonus paid out on expiry of the LTI tranche depends on the degree of target achievement which can lie between 0% (no payment) and 300% (maximum payment). The degree of achievement of two target criteria is decisive for the payment and amount of the LTI bonus. Target criterion 1 consists of the weighted average of the Conti Value Contribution (CVC) of the Continental Corporation over a period of four fiscal years/three fiscal years for the additional tranche, starting from the fiscal year in which the LTI tranche is issued. The weighted average in terms of the LTI is calculated by adding together 10% of the CVC of the first fiscal year of the LTI tranche, 20% of the CVC of the second fiscal year of the LTI tranche, 30% of the CVC of the third fiscal year of the LTI tranche and 40% of the CVC of the fourth fiscal year of the LTI tranche. The weighted average with regard to the additional 2009/12 tranche in the period under review is calculated by adding together 22.22% of the CVC of the first fiscal year of the LTI tranche, 33.33% of the CVC of the second fiscal year of the LTI tranche and 44.45% of the CVC of the third fiscal year of the LTI tranche. Target criterion 2 comprises the ratio of free cash flow in the Continental Corporation (FCF) to consolidated sales. The key variable for measuring this target criterion is based on the last full fiscal year prior to expiry of the respective LTI tranche. The degree of target achievement for both target criteria can lie between 0% and 300%. The key variables for determining the degree of target achievement are defined for each target criterion upon issue of an LTI tranche. The ultimate degree of target achievement used to calculate the LTI bonus to be paid out is determined through the addition of the two equally weighted target criteria. The basis for calculating the LTI bonus comprises the individual bonus amount in the event of 100% target achievement promised upon issue of an LTI tranche. The LTI bonus is paid as a gross one-off payment normally at the end of the second full calendar month following expiry of the LTI tranche at the latest but not before the end of July.

The LTI plan granted in 2009 is classified and assessed as "other long-term employee benefits" under IAS 19.

30. Trade Accounts Payable

The liabilities from trade accounts payable were €2,819.5 million (PY: €2,469.8 million) at the end of 2009. The liabilities are measured at amortized cost. The total amount is due within one year.

The liabilities do not include any amounts from percentage of completion (PY: €9.7 million). For information on the liquidity risk, currency risk and the sensitivity analysis for trade accounts payable, please see Note 28.

31. Other Liabilities

in € millions	Dec. 31, 2009			Dec. 31, 2008		
	Total	Current	Non-current	Total	Current	Non-current
Liabilities for workers' compensation	**58.9**	35.3	23.6	**59.3**	39.4	19.9
Liabilities for social security	**90.8**	90.8	—	**93.4**	93.4	—
Liabilities for vacation	**92.9**	92.9	—	**118.3**	118.3	—
Liabilities for VAT and other taxes	**220.7**	220.7	—	**156.3**	156.3	—
Deferred income	**28.6**	19.4	9.2	**36.8**	26.1	10.7
Others	**192.4**	189.0	3.4	**142.8**	132.5	10.3
Other liabilities	**684.3**	**648.1**	**36.2**	**606.9**	**566.0**	**40.9**

The reduction of the liabilities for vacation is mainly the result of further reduction of vacation as part of capacity reductions in the plants at the end of the year.

The rise in sales and other taxes corresponds with the rise in trade accounts receivable at the end of the year due to increasing operating activities.

The ‘others’ item includes obligations from bank fees for entering into the forward start facility in December 2009.

32. Liabilities Held for Sale

The liabilities held for sale relate to minor business activities in the ContiTech division, which are not part of the Continental Corporation’s core business.

In the previous year, the liabilities held for sale primarily consisted of business activities in the non-OE area of the Interior and ContiTech divisions, which are not part of the Continental Corporation’s core business. The Interior division’s Public Transport Solutions business was sold to the Trapeze ITS Group in 2009.

The liabilities held for sale comprise the following items:

in € millions	Dec. 31, 2009	Dec. 31, 2008
Provisions	4.7	16.6
Trade accounts payable	3.1	10.2
Other liabilities	2.3	12.8
Liabilities held for sale	**10.1**	**39.6**

Note 21 includes an overview of the assets held for sale, as well as other information. In the fourth quarter of the prior-year period, the Continental Corporation had decided to abandon its intention to sell operations classified in Siemens VDO's opening balance as of December 3, 2007, as a disposal group in line with IFRS 5. The end of classification as "held for sale" had no impact on earnings.

Other Disclosures

33. Litigation and Compensation Claims

Continental and its subsidiaries are involved in several lawsuits and regulatory investigations and proceedings worldwide. Such lawsuits, investigations and proceedings may also be initiated or claims asserted in other ways in the future.

Product liability
In particular, Continental is constantly subject to product liability lawsuits and other proceedings in which the company may be accused of the alleged infringement of its duty of care, violations against warranty obligations or material defects, as well as to claims from alleged breaches of contract, product recalls and government fines. The pending claims include lawsuits in the U.S.A. for property damage, personal injury, and death caused by alleged defects in our products. Claims for material and immaterial damages, and in some cases punitive damages, are being asserted. The outcome of individual proceedings, which are generally decided by a jury in a court of first instance, cannot be predicted with certainty. No assurance can be given that Continental will not incur substantial expenses as a result of the final judgments or settlements in some of these cases, or that these amounts will not exceed any provisions set up for these claims. Some subsidiaries in the U.S.A. are exposed to relatively limited claims for damages from purported health injuries allegedly caused by products containing asbestos. The total costs for dealing with all such claims and proceedings have amounted to less than €50 million per year since 2006.

Proceedings relating to ContiTech AG
Shareholders of Phoenix AG brought actions of rescission and nullification against the resolutions adopted at the Special Shareholders' Meeting of the company held on December 28, 2004, for approval of a management and profit and loss pooling agreement and the merger agreement with ContiTech AG and for confirmatory resolutions by the Annual Shareholders' Meeting of Phoenix AG on May 19, 2005. The Hamburg Regional Court and the Hanseatic Higher Regional Court had dismissed all claims, and the leave to appeal was denied. The appeal against denial of leave to appeal which individual claimants had lodged against this decision was dismissed by the German Federal High Court on June 8, 2009. Following completion of the rescission proceedings, proceedings regarding the appropriateness of settlements and compensatory payments under the management and profit and loss pooling agreement and the exchange ratio established in the merger agreement are still pending. In the proceedings, an expert appointed by the court submitted an opinion dated December 7, 2009, which comes to the conclusion that valuation of ContiTech AG which the merger agreement is based on is too high. The expert providing the opinion therefore considers that the exchange ratio is inappropriate and that a cash settlement in the amount of €5.24 per Phoenix share ought to be paid to the former minority shareholders of Phoenix AG. The conclusion of the expert opinion is not binding for the court and Continental can challenge the assumptions it is based upon. However, an increase in the amounts paid to the minority shareholders after completion of these proceedings cannot be ruled out.

On August 22, 2007, the Annual Shareholders' Meeting of ContiTech AG approved the conclusion of a management and profit and loss pooling agreement between ContiTech AG as controlled company and ContiTech-Universe Verwaltungs-GmbH as the controlling company effective January 1, 2008. In addition, the Annual Shareholders' Meeting of ContiTech AG resolved to squeeze out minority shareholders. Minority shareholders have brought actions for rescission and nullification against both resolutions. The Hanover Regional Court dismissed all claims with its judgment of January 14, 2009. The appeals lodged against this by individual claimants have all been withdrawn except one. This appeal was dismissed by the Higher Regional Court of Celle on September 24, 2009. Proceedings regarding the appropriateness of settlements and compensatory payments under the management and profit and loss pooling agreement and the settlement for the squeeze-out are pending.

Claims against resolutions adopted at the Shareholders' Meeting of Continental AG
A shareholder brought an action for rescission and nullification of the resolution adopted by Continental AG's Annual Shareholders' Meeting on May 5, 2006, under agenda item 9 (partial termination and granting of a new authorization to issue convertible bonds, deletion and cancellation of the existing conditional capital, and creation of new conditional capital). Two other shareholders joined this action as intervenors. The Hanover Regional Court declared the resolution of the Annual Sharehold-

ers' Meeting on February 22, 2007, null and void. This ruling was confirmed by the Higher Regional Court of Celle on November 7, 2007. On appeal by the company, the German Federal Court of Justice revoked and amended the lower-instance decisions on June 18, 2009 where these were detrimental to the company, and dismissed the claims with binding effect.

Several shareholders had brought actions for rescission and nullification against the resolutions adopted at the Shareholders' Meeting of Continental AG on April 23, 2009, under agenda item 6 (cancellation of conditional capital), agenda item 7 (creation of new authorized capital and exclusion of subscription rights) and agenda item 8 (adoption of a resolution on an authorization III for issuing convertible bonds and/or bonds with warrants, participation rights or income bonds (or combinations of these instruments), excluding subscription rights and creating a conditional capital III). The Hanover Regional Court dismissed these claims as unfounded on December 3, 2009. Some claimants have lodged appeals against this decision.

Furthermore, several shareholders brought actions for rescission and nullification against the resolutions adopted at the Shareholders' Meeting of Continental AG on April 23, 2009, under agenda item 5 (new election of the Supervisory Board) regarding the election of individual Supervisory Board members. These proceedings are pending at the Hanover Regional Court.

Regulatory proceedings

Proceedings against Dunlop Oil & Marine Limited

In 2007, the European Commission and the U.S. Department of Justice ("DoJ") initiated their investigations into antitrust behavior in the offshore hose market by Dunlop Oil & Marine Limited ("DOM"), UK, a subsidiary of Continental, and other manufacturers of offshore hoses. On January 28, 2009, the European Commission imposed a fine for infringement of antitrust law of €18.0 million on DOM, for which ContiTech AG and Continental AG are jointly and severally liable in the amount of €16.0 million and €7.1 million respectively. The decision in this respect is final. On January 8, 2009, DOM pleaded guilty before the competent Federal District Court in Florida, U.S.A., to certain antitrust activities and received a fine of $4.5 million in line with an agreement with the DoJ. The proceedings by the European Commission and the DoJ against the company have thus been brought to a close.

Following the initiation of the European Commission and DoJ investigations, additional investigations against the company for the infringement of national antitrust law were opened in other jurisdictions (Brazil, Japan, Australia, Korea and Canada). Apart from the ongoing proceedings in Australia and in Brazil, all other proceedings have been concluded or in the case of Canada have not been pursued. DOM issued a cease and desist declaration in Japan. A fine was imposed in Korea, which was accepted by DOM. In Brazil and in Australia, the company may still be subject to fines to be imposed by the national antitrust authorities in relation to the offshore hose cartel.

In addition, DOM may be subject to claims for damages by third parties resulting from the infringement of antitrust law as a result of the marine hose cartel. In the U.S.A., DOM agreed on a settlement of $6.5 million with the plaintiffs in a U.S. class-action lawsuit. The competent U.S. District Court for the Southern District of Florida approved this settlement on January 13, 2010. Unless individual class members have explicitly opted out of the settlement, no further civil actions can be filed in the U.S.A. in connection with this matter. Proceedings have also been issued by a customer in the English High Court and further claims in the United Kingdom have been threatened. There is also a risk of damages claims in other countries.

Proceedings against
Continental Brasil Industria Automotiva Lda.

In May 2005, the Brazilian antitrust authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Industria Automotiva ("CBIA"), Brazil, following a complaint by a third party of alleged anticompetitive behavior in the area of commercialization of tachographs. On April 11, 2006, the Secretaria de Direito Economico ("SDE") of the Brazilian ministry of justice opened formal proceedings. Following statements by the SDE and the Brazilian Federal Public Prosecutor's Office, the matter is now awaiting a decision by the Conselho Administrativo do Defesa Economica ("CADE"). CBIA denies the allegations. However, should the Brazilian antitrust authorities conclude that CBIA has contravened Brazilian antitrust law, fines may be imposed on CBIA of up to 30% of the company's gross turnover in the year preceding the commencement of the proceedings. There is some uncertainty, due to a lack of precedents, as to whether under Brazilian law the calculation of the fine is

limited to Brazilian turnover only or whether worldwide turnover can be considered.

Proceedings against Continental Tyre South Africa (Pty.) Limited

On October 2, 2006, the South African antitrust authorities received a complaint by a third party against several South African tire manufacturers, including Continental Tyre South Africa (Pty.) Limited ("CTSA"), a joint venture in which Continental holds an interest of 74%, due to alleged anticompetitive behavior. The authorities performed searches at three manufacturers but not at CTSA. The investigations initiated by the authorities are still ongoing and their outcome cannot yet be foreseen. CTSA denies all allegations of infringements of South African antitrust law.

Proceedings against Continental Automotive Spain

On October 5, 2007, the antitrust authorities for the Basque Country, Spain, received a complaint by a third party against Continental Automotive Spain, S. A. ("CAS") due to alleged anticompetitive behavior in the business with tachographs. After investigation by the antitrust authorities, the Basque antitrust court sentenced CAS to a fine of €700,000 on January 20, 2010. CAS denies the allegation of anticompetitive behavior and is expected to lodge an appeal against the judgment.

Review by the German Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung e.V.)

In May 2009, the German Financial Reporting Enforcement Panel ("FREP") (Deutsche Prüfstelle für Rechnungslegung e.V.) initiated a review of the consolidated and annual financial statements, and of Continental AG's management report for the corporation, for fiscal 2008 pursuant to Section 342b(2) Sentence 3 No. 3 of the German Commercial Code (*HGB*). This was done by way of spot checks. The FREP submitted to Continental questions in relation to seven aspects of the consolidated financial statements and the management report for fiscal 2008, most of which Continental was able to answer to the FREP's satisfaction. However, in a "preliminary statement" (*vorläufige Feststellung*) dated December 21, 2009, FREP held the view that two aspects of Continental's financial accounting and reporting for the relevant period needed to be further clarified: The first aspect relates to the adequacy of certain assumptions underlying the impairment testing of goodwill as of December 31, 2008. In this regard, the FREP holds the view that the goodwill shown in the amount of €6,384.1 million has not been substantiated to its full extent by the impairment test. In the FREP's view further impairments of €1,370.0 million would have been necessary as per December 31, 2008. Secondly, the FREP has reservations about the adequacy of certain statements in the management report for the corporation with respect to the risk of a potential breach of the financial covenants under the VDO loan agreement in the course of 2009 and about the outlook given by Continental. Continental has stated its position regarding the FREP's preliminary statement and has provided further documents and information which demonstrate the correctness of its accounting and reporting in relation to these two aspects. At the time this management report was completed, the FREP had not yet issued a final statement.

If the FREP does not agree with Continental's opinion and instead comes to the conclusion that Continental's accounting and reporting for fiscal 2008 was erroneous with regard to one or both of these aspects, Continental will be given another opportunity to state its position. If Continental does not concur with the FREP's view, the FREP will inform the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) of this. The BaFin will then initiate its own review of the relevant aspects. In the process Continental will have the right to provide documents, other evidence and explanations to support its accounting and reporting. If BaFin finally concludes that Continental's accounting and reporting was erroneous it will order the publication of the error(s), unless no public interest for publication exists or overwhelming company interest conflicts with its publication [Section 37q(2) of the German Trading Act (*Wertpapierhandelsgesetz*)] – although this is rarely the case. Continental is entitled to appeal against BaFin's decision at the Higher Regional Court of Frankfurt am Main. If Continental is not successful in this, a publication containing the results of the examination of the FREP concluding that these issues were treated incorrectly would be required. Continental could be obligated to accordingly adjust the specific accounting items identified by the FREP.

The outcome of the pending cases or potential cases brought against subsidiaries in the future may, individually or as a whole, have a material effect on Continental's net assets, financial and earnings position.

34. Non-Recognized Contingent Liabilities and Other Obligations

in € millions	Dec. 31, 2009	Dec. 31, 2008
Liabilities on bills of exchange	13.7	27.2
Liabilities on guarantees	109.7	101.1
Liabilities on warranties	10.1	1.5
Other contingent liabilities	76.8	25.2
Non-recognized contingent liabilities and other obligations	**210.3**	**155.0**

The non-recognized contingent liabilities relate primarily to guarantees for the liabilities of unconsolidated affiliated companies and third parties, as well as to contractual warranties relating to associated companies. They include the guarantee for a larger project, as already reported in the previous year, in the amount of €68.1 million (PY: €59.1 million). An amount of €52.8 million was also accounted for as a contingent liability, which results from the FIFA sponsorship contract concluded by Continental AG in the period under review.

Continental may be subject to obligations relating to environmental issues under governmental laws and regulations, or as a result of various claims and proceedings that are pending or that might be asserted or initiated against it. Estimates of future expenses in this area are naturally subject to many uncertainties, such as the enactment of new laws and regulations, the development and application of new technologies, and the identification of contaminated land or buildings for which Continental is legally liable.

Continental conducts recall and voluntary exchange actions for products it has sold, as prescribed by law or deemed necessary and appropriate, in order to ensure customer satisfaction and compliance with its own safety standards. The corporation's warranty provisions also include the estimated expenses as necessary for such measures. Estimates of expected expenses are based primarily on previous experience. Estimates of expected expenses are inevitably subject to numerous uncertainties, such as the enactment of new laws and regulations, the number of products sold, or the type of measures to be taken, which could lead to the need to adjust the previously recognized provisions. No assurance can be given that the actual expenses will not exceed existing provisions by presently undeterminable amounts. However, although the potential expenses could have a material effect on Continental's results, the probable amounts have been adequately provided for and therefore, in our opinion, the settlement of these obligations will not have a material effect on the corporation's overall net assets.

In 2009, expenses for operating leases and rental agreements amounted to €142.4 million (PY: €138.2 million).

Future liabilities relating to these agreements with an original or remaining term of more than one year as of December 31, 2009, for which the corporation is not the beneficial owner, and for which the related assets are therefore not recognized as property, plant, and equipment, are shown on the next page for 2010 and cumulatively for the years 2011 through 2015, and likewise cumulatively from 2015.

December 31, 2009/in € millions	2010	2011 to 2015	from 2015
Operating leases and rental agreements	152.1	261.8	115.8
December 31, 2008/in € millions	**2009**	**2010 to 2014**	**from 2014**
Operating leases and rental agreements	142.4	266.7	145.9

Open purchase commitments for property, plant, and equipment amounted to €297.3 million (PY: €344.2 million).

35. Segment Reporting

Notes to segment reporting

In accordance with the provisions of IFRS 8, Operating Segments, Continental AG's segment reporting is based on the management approach with regard to segment identification, under which information regularly provided to the chief operating decision maker for decision-making purposes is considered as decisive. The segments are also evaluated under the management approach.

The Continental Corporation's activities are carried out by the divisions as follows:

Chassis & Safety

The core of the Chassis & Safety division is a large portion of the business of the former Automotive Systems division. This division combines the active and passive safety activities and driver assistance systems of both companies.

Powertrain

The Powertrain division stands for innovative and efficient systems solutions for vehicle drivetrains. The former business areas of the Continental Corporation and Siemens VDO were united to form this division.

Interior

The focus of the Interior division is information management between the vehicle, driver, and passengers, between vehicles, and between the vehicle and the environment. This division was formed from complementary operating units at the Continental Corporation and Siemens VDO.

Passenger and Light Truck Tires

The Passenger and Light Truck Tires division develops, manufactures, and distributes passenger and light truck tires for compact, medium-size, and full-size cars as well as tires for vans. Extended mobility systems are also included in this division. Motorcycle and bicycle tires are also included in this division, as well as Continental's own retail tire companies.

Commercial Vehicle Tires

The Commercial Vehicle Tires division offers truck, bus, industrial, and off-the-road tires for the most diverse service areas and application requirements.

ContiTech

The ContiTech division is one of the world's biggest specialists in the field of rubber and plastics technology outside of the tire industry. The division develops and produces functional parts, components, and systems for the automotive industry and for other key sectors, such as the rail and printing industries, as well as mining, and machinery and equipment construction.

Other/consolidation

This comprises centrally managed subsidiaries and affiliates, such as holding, financing, and insurance companies, as well as the holding function of Continental AG and certain effects of consolidation. It also contains the effects on earnings of uncertain risks, particularly those in connection with contractual and similar claims or obligations representing, among other things, risks from investments currently not assignable to the individual operating units.

Internal control and reporting within the Continental Corporation is based on International Financial Reporting Standards (IFRS) as described in Note 2. The corporation measures the performance of its segments on the basis of their operating result (EBIT). This is expressed as the return on sales (ROS), and as the return on capital employed (ROCE), which represents EBIT as a percentage of average operating assets. Intersegment sales and other proceeds are determined at arm's length prices.

For administrative services performed by centrally operated companies or by the corporation's management, costs are calculated on an arm's length basis as rendered. Where direct allocation is possible, costs are assigned according to the services performed.

The divisions' segment assets comprise the operating assets of the assets side of the balance sheet as of the reporting date. The segment liabilities show the operating liabilities of the liabilities side of the balance sheet.

Non-cash expenses/income mainly includes the changes in pension provisions apart from contributions to/withdrawals from the associated funds, as well as the share of profit or loss of associates and gains and losses from disposals of property, plant, and equipment, and intangible assets, as well as businesses. Capital expenditure relates to additions to property, plant, and equipment, and software.

In the segment information broken down by region, sales are allocated on the basis of the domicile of the respective customers; in contrast, capital expenditure and segment assets are allocated on the basis of the domicile of the respective companies.

in € millions	Dec. 31, 2009	Dec. 31, 2008
Total assets	**23,049.2**	**24,687.9**
less financial assets		
– cash and cash equivalents	1,712.8	1,569.4
– current and non-current derivatives, interest-bearing investments	104.2	64.4
– other financial assets	48.1	26.5
	1,865.1	**1,660.3**
– less other non-operating assets	370.1	418.0
less income tax receivable		
– deferred tax assets	728.9	391.3
– income tax receivable	94.2	148.0
	823.1	**539.3**
plus discounted bills for trade accounts receivable	13.7	6.9
Segment assets	**20,004.6**	**22,077.2**
Total liabilities and provisions	**18,987.5**	**19,158.0**
less financial liabilities		
– current and non-current indebtedness	10,712.5	12,117.3
– interest payable	146.0	129.7
	10,858.5	**12,247.0**
less income tax liabilities		
– deferred tax liabilities	196.5	401.7
– income tax payable	644.7	507.8
	841.2	**909.5**
– less other non-operating liabilities	1,866.0	1,210.4
Segment liabilities	**5,421.9**	**4,791.1**
Operating assets	**14,582.7**	**17,286.1**

36. Earnings per Share

Earnings per share are calculated as shown below:

in € millions/millions of shares	2009	2008
Net income attributable to the shareholders of the parent	-1,649.2	-1,123.5
Weighted average number of shares issued	169.0	164.2
Undiluted earnings per share in €	**-9.76**	**-6.84**
Diluted net income attributable to the shareholders of the parent[1]	-1,649.2	-1,123.5
Diluted weighted average number of shares[2]	169.0	164.2
Diluted earnings per share in €	**-9.76**	**-6.84**

[1] There was no dilution effect from the interest savings on convertible bonds and bonds with warrants, net of taxes, in the year under review and the previous year.

[2] There was no dilution effect from the stock option plans and the potential conversion of convertible bonds in the year under review and the previous year.

37. Events after the Balance Sheet Date

Capital increase

On January 6, 2010, the Executive Board of Continental AG resolved – with Supervisory Board approval – an increase in the share capital of €432,655,316.48 by a nominal amount of €79,360,000.00 to €512,015,316.48 by issuing 31,000,000 new shares from authorized capital (Authorized Capital 2007).

The capital increase was implemented by way of a rights offering to the shareholders of Continental AG. In an initial step, a bank consortium led by Deutsche Bank AG, Goldman Sachs International and J.P. Morgan Securities Ltd. placed 24.55 million shares with institutional investors in a private placement on January 6, 2010. An additional 6.45 million shares were placed with institutional investors at a price of €40.00 on January 12 as part of an accelerated bookbuilt offering. 3.4 million fewer shares were allotted as a result of the subscription rights exercised by the free float shareholders. The capital increase was accompanied by BNP Paribas, CALYON and HSBC Trinkaus, in addition to the institutes already mentioned.

Existing shareholders could exercise their subscription rights from January 12 to January 25, 2010, acquiring two shares for every eleven shares they possessed at the time. The rights trading of the subscription rights on the Frankfurt Stock Exchange took place from January 12, 2010, until (and including) January 21, 2010. The new shares have full dividend entitlement as of fiscal 2009.

On January 26, 2010, Continental announced that more than 99% of the free float shareholders had made use of their subscription rights and that the total gross proceeds amounted to €1.1 billion. The capital increase served to repay Continental AG's liabilities from the VDO loan.

The major shareholders of Continental AG, representing 88.9% of the share capital of the company before the capital increase (Schaeffler KG 49.9%, M.M.Warburg & CO KGaA 19.5%, B. Metzler seel. Sohn & Co. Holding AG 19.5%) had irrevocably undertaken vis-à-vis the bank consortium not to exercise their subscription rights and not to transfer such subscription rights to third parties. Upon the completion of the rights offering, these major shareholders were calculated to hold an aggregate of 75.1% of the increased share capital of Continental AG. The free float of the Continental share therefore increased to 24.9%.

The inclusion of the new shares in trading on the regulated market of the stock exchanges of Frankfurt, Hanover, Hamburg and Stuttgart began on January 14, 2010. The delivery and settlement of the new shares subscribed in the rights offering or otherwise not subscribed took place on January 28, 2010.

Sale of VDO Automotive Huizhou Co. Ltd.
The participation in Siemens VDO Automotive Huizhou Co. Ltd., Huizhou, China, reported as assets held for sale was sold to Desay Industry Development Limited at the beginning of February. Proceeds before withholding tax amounted to €27.4 million. The effects on the final purchase price settlement were insignificant.

38. Auditors’ Fees

Since its merger with KPMG Europe LLP at the reporting date of October 1, 2007, KPMG LLP (UK) constitutes an affiliated company of KPMG in Germany as defined under Section 271 (2) of the German Commercial Code (*HGB*). Since joining KPMG Europe LLP at the reporting date of October 1, 2008, KPMG in Switzerland and KPMG in Spain constitute affiliated companies of KPMG in Germany as defined under Section 271 (2) *HGB*. The disclosure requirement for audit and consultancy fees of KPMG in Switzerland and KPMG in Spain relates to services performed after September 30, 2008. Comparative figures for the preceding year have been restated.

Since joining KPMG Europe LLP at the reporting date of April 1, 2009, KPMG in Belgium constitutes an affiliated company of KPMG in Germany as defined under Section 271 (2) *HGB*. The disclosure requirement for audit and consultancy fees of KPMG in Belgium relates to services performed after March 31, 2009.

Since joining KPMG Europe LLP at the reporting date of October 1, 2009, KPMG in the Netherlands, KPMG Turkey and KPMG in Russia constitute affiliated companies of KPMG in Germany as defined under Section 271 (2) *HGB*. The disclosure requirement for audit and consultancy fees of KPMG in the Netherlands, KPMG Turkey and KPMG in Russia relates to services performed after September 30, 2009.

For fiscal 2009, a total fee of €8.0 million (PY: €9.9 million) was agreed for the worldwide audit of the consolidated financial statements and the related standalone financial statements of the subsidiaries.

The following fees were recognized as an expense specifically for the auditors of Continental AG elected by the Annual Shareholders’ Meeting:

in € millions	2009	2008
Audit of financial statements	3.5	4.2
Other assurance services	0.6	0.4
Tax advisory services	0.1	0.4
Other services provided to the parent company or its subsidiaries	0.1	0.1

39. Transactions with Related Parties

Remuneration of the Executive Board and the Supervisory Board

The remuneration of the corporation's key management personnel that must be disclosed in accordance with IAS 24 comprises the remuneration of the active members of the Executive Board and the Supervisory Board.

The remuneration of the active members of the Executive Board was as follows:

in € thousands	2009	2008
Short-term benefits	3,443	4,546
Service cost relating to post-employment benefits	888	990
Payments on termination of employment contract	7,430	7,310
Share-based payment	2,248	3,101

The basic elements of the Executive Board remuneration system and the amounts granted to the Executive Board and the Supervisory Board in the year under review are explained in the Remuneration Report in the Corporate Governance section; reference is made to this in the Management Report.

In 2009, as in 2008, no advances or loans were granted to members of Continental AG's Executive Board or Supervisory Board.

Former members of the Executive Board and their surviving dependants received payments totaling €12.9 million in 2009 (PY: €11.9 million). Provisions for pension obligations for former members of the Executive Board and their surviving dependants amounted to €77.6 million (PY: €65.9 million).

In addition, one member of the Executive Board who left the company the previous year receives compensation for the period of a restrictive covenant. In 2009, he was paid €0.687 million in this context.

The remuneration paid to the members of the Supervisory Board was as follows:

in € thousands	2009	2008
Short-term benefits	1,157	1,083

No remuneration was paid to Supervisory Board members for any personally rendered services, except for the remuneration of the employee representatives arising from their employment contract.

Moreover, none of the members of the Executive Board or Supervisory Board entered into any reportable transactions with other management personnel holding key positions, or with companies in whose management or supervisory bodies these individuals are represented. This also applies for close members of the families of such individuals.

Transactions with related parties, other than subsidiaries:

in € millions	2009	2008
Income	156.6	164.2
Expenses	323.5	106.6

Income, mainly from sales, and expenses, mainly from product and material procurement, resulting from transactions between subsidiaries and related parties are attributable solely to the ordinary business activities of the respective company and were conducted on an arm's length basis. They are essentially the result of relationships with associates. The corresponding amounts receivable from or payable to these companies are reported in the balance sheet.

Please refer to Note 24 regarding transactions with Continental Pension Trust e.V. during the year under review.

The transactions with the Schaeffler Group in the reporting year are attributable to ordinary business activities and were concluded at usual market conditions. The income in the reporting year amounted to €8.7 million, and the expenses to €66.3 million.

Investment agreement
On August 20, 2008, Continental AG entered into a far-reaching investment agreement with Schaeffler KG, Mrs. Maria-Elisabeth Schaeffler and Mr. Georg Schaeffler. The open-ended agreement, which cannot be terminated by the parties before spring 2014, contains comprehensive provisions to safeguard the interests of Continental AG, its shareholders, employees and customers. Former German Chancellor Dr. Gerhard Schröder is the guarantor for the Schaeffler Group's compliance with its obligations in the interest of all Continental AG stakeholders.

Due to the negative impact from losses carried forward in the U.S.A., Continental AG booked a claim for €20.0 million from Schaeffler KG in January 2009. This is shown as a voluntary payment into capital reserves. In addition, Schaeffler KG made a further voluntary payment into the capital reserves of Continental AG in the amount of €3.7 million in line with Section 272 (2) No. 4 *HGB* in the reporting period.

Notice in Accordance with the *Wertpapierhandelsgesetz* (*WpHG* – German Securities Trading Act
In the 2009 fiscal year, we received notifications from various investors relating to a rising above or falling below the threshold values in line with Section 21 of the *WpHG*. The following gives the most up-to-date information on investments exceeding or falling below the threshold values subject to a duty of disclosure in line with the *WpHG*.

On January 13, 2009, we were notified that:

- The voting rights share of Schaeffler KG, Herzogenaurach, in Continental AG had exceeded the thresholds of 20%, 25% and 30% on January 8, 2009, and was 49.9% at this point.
- The voting rights share of INA-Holding Schaeffler KG, Herzogenaurach, in Continental AG had exceeded the thresholds of 20%, 25% and 30% on January 8, 2009, and was 49.9% at this point. This voting stock is attributed in accordance with Section 22 (1) Sentence 1 no. 1 of the *WpHG*.
- The voting rights share of Schaeffler Holding LP, Dallas, U.S.A., in Continental AG had exceeded the thresholds of 20%, 25% and 30% on January 8, 2009, and was 49.9% at this point. This voting stock is attributed in accordance with Section 22 (1) Sentence 1 no. 1 of the *WpHG*.
- The voting rights share of Mrs. Maria-Elisabeth Schaeffler, Germany, in Continental AG had exceeded the thresholds of 20%, 25% and 30% on January 8, 2009, and was 49.9% at this point. This voting stock is attributed in accordance with Section 22 (1) Sentence 1 no. 1 of the *WpHG*.
- The voting rights share of Mr. Georg F. W. Schaeffler, U.S.A., in Continental AG had exceeded the thresholds of 20%, 25% and 30% on January 8, 2009, and was 49.9% at this point. This voting stock is attributed in accordance with Section 22 (1) Sentence 1 no. 1 of the *WpHG*.

On January 9, 2009, we received notification that the voting rights share of various associated companies of the Bank of America Corporation, Wilmington, U.S.A., specifically associated companies of Merrill Lynch & Co., Inc., Wilmington, U.S.A., had exceeded the thresholds of 3%, 5%, 10% and 15% on January 6, 2009. In the same notification, we were informed that on January 8, 2009, the companies' voting rights share had fallen below the thresholds of 3%, 5%, 10% and 15% and was 0% at this point.

On January 12, 2009, B. Metzler seel. Sohn & Co. Holding AG, Frankfurt am Main, notified us that its voting rights share in Continental AG had exceeded the thresholds of 5%, 10% and 15% on January 8, 2009, and was 19.5% on that date. In accordance with Section 22 (1) Sentence 1 no. 1 of the *WpHG*, these voting rights are attributable to the company from B. Metzler seel. Sohn & Co. KGaA. Previous notifications reached us on January 5 and January 7, 2009.

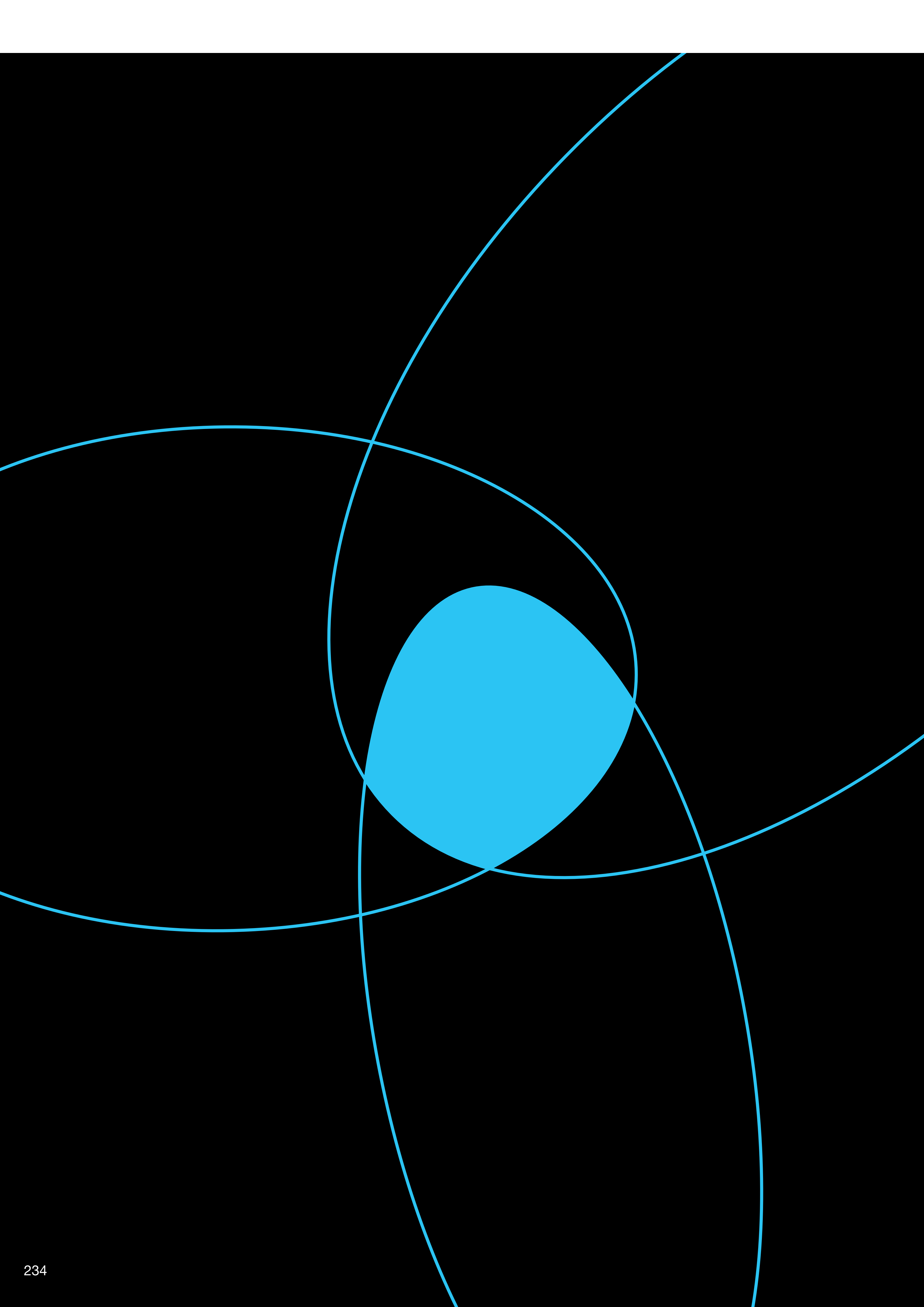
On November 20, 2009, we received notification that the voting rights share of Sal. Oppenheim jr. & Cie. KGaA, Cologne, Germany had fallen below the thresholds of 3%, 5%, 10% and 15% on November 19, 2009, and was 0% on that date. In accordance with Section 22 (1) Sentence 1 no. 1 of the *WpHG*, the voting rights share of Sal. Oppenheim jr. & Cie. KGaA, Cologne, is attributable to Sal. Oppenheim jr. & Cie. S.C.A., Luxembourg, Luxembourg. Corresponding notification of the thresholds of 3%, 5%, 10% and 15% having been exceeded reached us on January 7, 2009 and on January 12, 2009.

The voting rights share of M.M.Warburg & CO KGaA, Hamburg, Germany, in Continental AG exceeded the thresholds of 3%, 5%, 10% and 15% on November 19, 2009, and was 19.5% on that date. All of these voting rights are attributable to M.M.Warburg & CO Gruppe (GmbH & Co.) KGaA via M.M.Warburg & CO KGaA in accordance with Section 22 (1) Sentence 1 no. 1 of the *WpHG*. Notifications to this effect reached us on November 20 and November 23, 2009.

In 2009 and up to and including February 8, 2010, the members of the Executive Board held shares representing a total interest of less than 1% in the capital stock of the company. Shares representing 49.9% of the capital stock of the company were attributable to two of the new members of the Supervisory Board appointed on February 5, 2009 – Mrs. Maria- Elisabeth Schaeffler and Mr. Georg F. W. Schaeffler – held as specified in the notification of voting rights on January 13, 2009. In 2009 and up to and including February 8, 2010, the other members of the Supervisory Board held shares representing a total interest of less than 1% in the capital stock of the company. In fiscal 2009, Continental AG gave notice in accordance with Section 15a of the *WpHG* to the effect that none of the members of the Executive Board or members of the Supervisory Board or their related parties had conducted any stock transactions.

40. German Corporate Governance Code/Declaration in Accordance with Section 161 of the *Aktiengesetz*

The declaration required in accordance with Section 161 of the *Aktiengesetz* (German Stock Corporation Act) was issued by the Executive Board and the Supervisory Board on October 19, 2009, and is available to our shareholders on the following website: www.continental-corporation.com.



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Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the corporation, and the management report of the corporation includes a fair review of the development and performance of the business and the position of the corporation, together with a description of the principal opportunities and risks associated with the expected development of the corporation.

Hanover, February 8, 2010

Continental AG
The Executive Board

Other Directorships – The Executive Board

List of the positions held by current and former Executive Board members on statutory supervisory boards and on comparable controlling bodies of companies in Germany and abroad in accordance with Section 285 No. 10 of the *Handelsgesetzbuch* (German Commercial Code):

Companies with no country specified are located in Germany.

Dr. Elmar Degenhart
Chairman
Corporate Communications
Corporate Quality and Environment
ContiTech AG, Hanover* (Chairman)
(since October 30, 2009)
Member of the Executive Board since August 12, 2009

Dr. Karl-Thomas Neumann
Chairman
Head of the Automotive Group
Corporate Communications
ContiTech AG, Hanover* (Chairman) (until October 30, 2009), Continental Teves, Inc., Wilmington, Delaware, U.S.A. (until October 30, 2009)*
Member of the Executive Board until August 12, 2009

José A. Avila
Powertrain Division
Member of the Executive Board since January 1, 2010

Dr. Ralf Cramer
Chassis & Safety Division
Continental Automotive Corporation, Yokohama, Japan*
Member of the Executive Board since August 12, 2009

Dr. Alan Hippe
Vice Chairman
Head of the Rubber Group
Passenger and Light Truck Tires Division
Finance, Controlling, IT, Law
KION GROUP GmbH, Wiesbaden; Voith AG, Heidenheim; directorships until February 28, 2009: ContiTech AG, Hanover*; CG Tire, Inc., Charlotte, North Carolina, U.S.A.*; CGT Referral Resources, Inc., Charlotte, North Carolina, U.S.A.*; Compañía Hulera Euzkadi, S.A. de C.V., Mexico D.F., Mexico*; Continental Automotive, Inc., Wilmington, Delaware, U.S.A.*; Continental Automotive Licensing Corp., Charlotte, North Carolina, U.S.A.*; Continental Llantera Potosina, S.A. de C.V., Mexico D.F., Mexico*; Continental Products Corporation, Charlotte, North Carolina, U.S.A.*; Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.*; Continental Teves, Inc., Wilmington, Delaware, U.S.A.*; Continental Tire de Mexico, S.A. de C.V., Mexico D.F., Mexico*; Continental Tire North America, Inc., Charlotte, North Carolina, U.S.A.*; Continental Tire Servicios, S.A. de C.V., Mexico D.F., Mexico*; ContiTech North America, Inc., Wilmington, Delaware, U.S.A.*; CTNA Holding Corp., Charlotte, North Carolina, U.S.A.*; Dynagen, Inc., Charlotte, North Carolina, U.S.A.*; Englewood Services, Inc., Charlotte, North Carolina, U.S.A.*; General Tire de Mexico, S.A. de C.V., Mexico D.F., Mexico*; General Tire International Company, Charlotte, North Carolina, U.S.A.*; The Continental General Tire Foundation, Charlotte, North Carolina, U.S.A.*
Member of the Executive Board until February 28, 2009

Helmut Matschi
Interior Division
SAS Autosystemtechnik Verwaltungs GmbH, Karlsruhe; S-Y Systems Technologies Europe GmbH, Regensburg; ERTICO - ITS Europe, Brussels, Belgium
Member of the Executive Board since August 12, 2009

Dr. Hans-Joachim Nikolin
Commercial Vehicle Tires Division
Corporate Purchasing
TÜV Hannover/Sachsen-Anhalt e.V., Hanover; Drahtcord Saar GmbH & Co. KG, Merzig; KG Deutsche Gasrußwerke GmbH & Co., Dortmund; Continental Sime Tyre Sdn. Bhd., Petaling Jaya, Malaysia*; Continental Tire North America, Inc., Charlotte, North Carolina, U.S.A.*; Continental Tyre South Africa (PTY) Limited, Port Elizabeth, South Africa*; Matador RU Slovshintrade Z.A.O., Omsk, Russia*

Wolfgang Schäfer
Finance, Controlling, IT and Law
Member of the Executive Board since January 1, 2010

Nikolai Setzer
Passenger and Light Truck Tires Division
Member of the Executive Board since August 12, 2009

Heinz-Gerhard Wente
ContiTech Division
Human Resources, Director of Labor Relations
Benecke-Kaliko AG, Hanover* (Vice Chairman); Conti-Tech Antriebssysteme GmbH, Hanover* (Chairman); ContiTech Elastomer Beschichtungen GmbH, Hanover* (Vice Chairman); ContiTech Fluid Automotive GmbH, Hamburg* (Vice Chairman); ContiTech Luftfedersysteme GmbH, Hanover* (Chairman); ContiTech MGW GmbH, Hann. Münden* (Vice Chairman); ContiTech Schlauch GmbH, Hanover* (Chairman); ContiTech Techno-Chemie GmbH, Karben* (Chairman); ContiTech Transportbandsysteme GmbH, Hanover* (Vice Chairman); Conti-Tech Vibration Control GmbH, Hanover* (Chairman); Phoenix Compounding Technology GmbH, Hamburg* (Vice Chairman); ContiTech Fluid Shanghai Co. Ltd, Shanghai, China*; ContiTech Grand Ocean Changchun Co. Ltd., Changchun, China*; ContiTech North America, Inc. Wilmington, Delaware, U.S.A.*

*Consolidated companies pursuant to Section 100 (2) of the *Aktiengesetz* (German Stock Corporation Act).

Other Directorships – The Supervisory Board

Memberships of other statutory supervisory boards and of comparable controlling bodies of companies in Germany and abroad in accordance with Section 285 No. 10 of the *Handelsgesetzbuch* (German Commercial Code):

Companies with no country specified are located in Germany.

Prof. Dr. Ing. Wolfgang Reitzle, Chairman (since October 19, 2009)
President and CEO of Linde AG
Deutsche Telekom AG, Bonn (until December 2009); KION Group GmbH, Wiesbaden (until December 2009); KION Holding 1 GmbH, Wiesbaden (until December 2009)
Member of the Supervisory Board since September 28, 2009

Dr. Hubertus von Grünberg, Chairman (until March 6, 2009)
Member of various Supervisory Boards
Allianz Versicherungs-AG, Munich; Deutsche Telekom AG, Bonn; ABB Ltd., Zurich, Switzerland (Chairman of the Board of Directors); Schindler Holding AG, Hergiswil, Switzerland
Member of the Supervisory Board until March 6, 2009

Rolf Koerfer, Lawyer, Chairman (March 27 to October 19, 2009)
Lawyer
GLOBALE Rückversicherungs-AG, Cologne
Member of the Supervisory Board since February 5, 2009

Werner Bischoff*, Vice Chairman
Trade Union Secretary, IG BCE (Mining, Chemical, and Energy Industrial Union)
Evonik Degussa GmbH, Essen; Evonik Industries AG, Essen; RWE AG, Essen; RWE Dea AG, Hamburg; RWE Power AG, Essen

Dr. h. c. Manfred Bodin
Member of various Supervisory Boards
VHV Holding AG, Hanover
Member of the Supervisory Board until April 23, 2009

Dr. Diethart Breipohl
Member of various Supervisory Boards
Crédit Lyonnais, Paris, France
Member of the Supervisory Board until April 23, 2009

Michael Deister*, Chairman of the Works Council for the Stöcken Plant, and Vice Chairman of the Corporate Works Council

Dr. Gunter Dunkel
Chairman of the Board of Management of Norddeutsche Landesbank Girozentrale
Bremer Landesbank Kreditanstalt Oldenburg Girozentrale, Bremen**; DekaBank Deutsche Girozentrale, Frankfurt/Main; Deutsche Hypothekenbank AG, Hanover (Chairman)**; Joh. Berenberg, Gossler Co. KG, Hamburg; LHI Leasing GmbH, Pullach (Vice Chairman); Norddeutsche Landesbank Luxembourg S.A., Luxembourg (Chairman)**; Skandifinanz Bank AG, Zurich, Switzerland (Chairman of the Board of Directors)**
Member of the Supervisory Board since April 23, 2009

Hans Fischl*
Chairman of the Works Council for the Regensburg Location, Chairman of the Central Works Council of Continental Automotive GmbH, and Member of the Corporate Works Council of Continental AG
Continental Automotive GmbH, Regensburg**
Member of the Supervisory Board since April 23, 2009

Dr. Michael Frenzel
Chairman of the Executive Board of TUI AG
AWD Holding AG, Hanover; AXA Konzern AG, Cologne; E.ON Energie AG, Munich; Hapag-Lloyd AG, Hamburg (Chairman)**; Hapag-Lloyd Flug GmbH, Hanover (Chairman)**; Norddeutsche Landesbank, Hanover; TUI Deutschland GmbH, Hanover (Chairman)**; TUI Cruises, Hamburg (Member of the Shareholders' Committee); Volkswagen AG, Wolfsburg; Preussag North America, Inc., Atlanta, U.S.A. (Chairman)**; TUI China Travel Co., Ltd., Beijing, China**; TUI Travel PLC, London (Non-Executive Chairman)**
Member of the Supervisory Board until September 15, 2009

Dr. Jürgen Geißinger
President and CEO of INA-Holding Schaeffler KG
MTU Aero Engines Holding AG, Munich; MTU Aero Engines GmbH, Munich; Schaeffler Group USA Inc., Fort Mill, South Carolina, U.S.A.**; Schaeffler Holding (China) Co. Ltd., Changsa, China**
Member of the Supervisory Board since February 5, 2009

Prof. Dr. Ing. E. h. Hans-Olaf Henkel
Honorary Professor at the University of Mannheim
Bayer AG, Leverkusen; Daimler Luft- und Raumfahrt Holding AG, Munich; EPG AG, Zweibrücken (until December 2009); Heliad Equity Partners GmbH & Co. KGaA, Frankfurt/Main (since February 2009), SMS GmbH, Düsseldorf; Ringier AG, Zofingen, Switzerland

Michael Iglhaut*
Chairman of the Works Council for the Frankfurt Location, Chairman of the Central Works Council of Continental Teves AG & Co. oHG, and First Vice Chairman of the Corporate Works Council

Jörg Köhlinger*
Trade Union Secretary, IG Metall (Metalworkers' Union) for the District of Frankfurt, and IG Metall Delegate for the Corporate Works Council, the Central Works Council of Continental Teves, as well as the Supervisory Committee of the Central Works Councils of Continental Teves, Temic and Automotive
Rasselstein GmbH, Andernach
Member of the Supervisory Board since April 23, 2009

Prof. Dr. Klaus Mangold
Chairman of the Supervisory Board of Rothschild GmbH
Leipziger Messe GmbH, Leipzig; Metro AG, Düsseldorf; Rothschild GmbH, Frankfurt/Main (Chairman); TUI AG, Hanover (since January 2010); Universitätsklinikum Freiburg, Freiburg; Alstom S.A., Paris, France; Magna International Inc., Canada (until May 2009); The Chubb Group of Insurance Companies, New York, U.S.A.
Member of the Supervisory Board since April 23, 2009

Hartmut Meine*
District Manager of IG Metall (Metalworkers' Union) for Lower Saxony and Saxony-Anhalt
KME Germany AG, Osnabrück; Volkswagen AG Wolfsburg (since January 2009)

Dirk Nordmann*
Chairman of the Works Council for the Vahrenwald Plant, ContiTech Antriebssysteme GmbH

Jan P. Oosterveld
Member of various Supervisory Boards
Atos Origin S.A., Paris, France; Barco NV, Kortrijk, Belgium; Candover Investments Plc, London, UK (since October 2008); Cookson Group Plc, London, UK; Crucell NV, Leiden, Netherlands (Chairman)
Member of the Supervisory Board until January 26, 2009

Dr. Thorsten Reese*
Head of Corporate Quality and Environmental Management

Klaus Rosenfeld
CFO of Schaeffler Group
Member of the Supervisory Board since April 23, 2009

Georg F. W. Schaeffler
Partner of Schaeffler Group
Member of the Supervisory Board since February 5, 2009

Maria-Elisabeth Schaeffler
Partner of Schaeffler Group
Österreichische Industrieholding AG, Vienna, Austria
Member of the Supervisory Board since February 5, 2009

Jörg Schönfelder*
Chairman of the Works Council for the Korbach Plant

Jörg Schustereit*
Chairman of the Works Council for the Northeim Plant, ContiTech Transportbandsysteme GmbH
Member of the Supervisory Board until April 23, 2009

Fred G. Steingraber
Chairman Emeritus A.T. Kearney, U.S.A., Chairman of the Board of Advisors, U.S.A., Retired Chairman and CEO, A.T. Kearney, U.S.A.
Diamond Hill Financial Trends Fund, Columbus, Ohio, U.S.A.; Elkay Manufacturing, Oak Brook, Illinois, U.S.A.; 3i plc, London, UK
Member of the Supervisory Board until January 26, 2009

Prof. Dr. h. c. Jürgen Stockmar
Managing Director of Magna Education and Research GmbH & Co KG, Oberwaltersdorf, Austria
Member of the Supervisory Board until January 25, 2009

Christian Streiff
Chairman of the Managing Board of PSA Peugeot Citröen, Paris, France
ThyssenKrupp AG, Düsseldorf
Member of the Supervisory Board until February 3, 2009

Dr. Bernd W. Voss
Member of various Supervisory Boards
Bankhaus Reuschel & Co., Munich (Vice Chairman) (until November 2009); Dresdner Bank AG, Frankfurt/Main (until May 2009); Hapag-Lloyd AG, Hamburg (until March 2009); Wacker Chemie AG, Munich; ABB Ltd., Zurich, Switzerland

Dieter Weniger*
Trade Union Secretary, IG BCE (Mining, Chemical, and Energy Industrial Union)
Member of the Supervisory Board until April 23, 2009

Erwin Wörle
Chairman of the Works Council of Conti Temic microelectronic GmbH, Ingolstadt
Conti Temic microelectronic GmbH, Nuremberg**
(Vice Chairman)

* Employee representative.
**Consolidated companies pursuant to Section 100 (2) of the *Aktiengesetz* (German Stock Corporation Act).

Members of the Supervisory Board Committees:

1. Chairman's Committee and Mediation Committee required under Section 27 (3) of the Mitbestimmungsgesetz (German Co-determination Act)
Prof. Dr. Ing. Wolfgang Reitzle (since October 19, 2009); Dr. Hubertus von Grünberg (until March 6, 2009); Rolf Koerfer (since March 27, 2009); Werner Bischoff; Dr. Diethart Breipohl (until April 23, 2009); Hans Fischl (since April 23, 2009); Michael Iglhaut (until April 23, 2009)

2. Audit Committee
Dr. Bernd W. Voss, Chairman; Michael Deister; Dr. Hubertus von Grünberg (until March 6, 2009); Dr. Thorsten Reese; Klaus Rosenfeld (since April 23, 2009)

3. Nomination Committee
Prof. Dr. Ing. Wolfgang Reitzle (since October 19, 2009); Dr. Hubertus von Grünberg (until March 6, 2009); Rolf Koerfer (since March 27, 2009); Dr. Diethart Breipohl (until April 23, 2009); Maria-Elisabeth Schaeffler (since March 27, 2009); Dr. Bernd W. Voss

Ten-Year Review – Corporation

		2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Balance sheets											
Non-current assets[1]	in € millions	14,724.6	16,348.4	17,383.9	5,877.9	5,193.8	4,953.9	4,835.0	5,102.2	5,424.4	4,718.6
Current assets[2]	in € millions	8,324.6	8,339.5	10,353.7	4,975.1	5,353.9	4,742.0	3,463.5	3,094.9	3,570.2	2,896.6
Total assets	in € millions	23,049.2	24,687.9	27,737.6	10,853.0	10,547.7	9,695.9	8,298.5	8,197.1	8,994.6	7,615.2
Shareholders' equity (excl. minority interests)	in € millions	3,772.6	5,265.4	6,583.2	4,470.8	3,574.2	2,706.2	1,983.2	1,715.2	1,546.7	1,844.1
Minority interests	in € millions	289.1	264.5	272.9	239.1	220.8	231.0	151.4	92.2	101.4	145.7
Total equity, (incl. minority interests)	in € millions	4,061.7	5,529.9	6,856.1	4,709.9	3,795.0	2,937.2	2,134.6	1,807.4	1,648.1	1,989.8
Equity ratio[3]	in %	17.6	22.4	24.7	43.4	36.0	30.3	23.9	20.9	17.2	24.2
Capital expenditure[4]	in € millions	860.1	1,595.2	896.9	805.0	871.8	703.0	625.8	620.0	740.8	715.2
Net indebtedness	in € millions	8,895.5	10,483.5	10,856.4	1,181.0	493.2	881.1	1,168.6	1,899.0	2,601.1	2,017.9
Gearing ratio	in %	219.0	189.6	158.3	25.1	13.0	30.0	58.9	110.7	168.2	109.4
Income statements											
Sales	in € millions	20,095.7	24,238.7	16,619.4	14,887.0	13,837.2	12,597.4	11,534.4	11,408.3	11,233.3	10,115.0
Share of foreign sales	in %	71.0	68.5	69.2	67.6	65.8	66.8	67.0	68.4	70.4	68.9
Cost of sales[5]	in %	80.0	80.4	75.8	75.3	74.6	75.0	76.5	78.2	82.8	75.6
Research and development expenses[5]	in %	6.7	6.2	5.0	4.5	4.3	4.2	4.3	4.3	4.1	4.1
Selling expenses[5]	in %	5.6	4.9	5.5	5.7	6.1	6.2	6.2	6.4	6.3	11.1
Administrative expenses[5]	in %	3.0	3.2	2.7	3.0	3.1	3.1	3.3	3.4	3.6	3.7
EBITA	in € millions	-1,040.4	-296.2	1,675.8	1,601.9	1,507.1	1,157.4	855.2	694.3	32.8	533.0
EBITA[5]	in %	-5.2	-1.2	10.1	10.8	10.9	9.2	7.4	6.1	0.3	5.3
Personnel expenses	in € millions	5,199.8	5,746.3	3,652.7	3,175.2	3,054.3	3,011.7	2,681.8	2,650.2	2,867.8	2,580.8
Depreciation and amortization[6]	in € millions	2,631.6	3,067.6	814.8	699.6	741.8	667.2	603.1	670.3	891.3	654.7
Net income attributable to the shareholders of the parent	in € millions	-1,649.2	-1,123.5	1,020.6	981.9	929.6	716.2	314.0	226.0	-257.6	204.7
Employees (annual average)	in thousands	133.4	148.4	93.9	81.6	81.1	73.7	66.5	65.1	67.0	63.5

[1] Up to 2003, this item was comprised of all items that were primarily long-term, i.e., fixed assets, investments, and other primarily long-term assets.

[2] Up to 2003, this item included all items that were primarily current assets.

[3] Since 2004, this item has included the minority interests.

[4] Capital expenditure on property, plant, equipment and software.

[5] As a percentage of sales; as of 2001, selling expenses comprise only the functional selling and logistics costs, plus IT costs.

[6] Excluding write-downs of investments.

The information for fiscal years since 2004 has been reported in accordance with IFRS, for the years 2000 to 2003 in accordance with U.S. GAAP.

Glossary of Financial Terms

Continental Value Contribution (CVC). CVC represents the absolute amount of additional value created, and the Delta CVC represents the change in absolute value creation over the prior year. Value is created when the actual return (ROCE) exceeds the required minimum. The required minimum return is derived from the weighted average cost of capital (WACC) for the Continental Corporation. CVC is measured by subtracting the minimum return from the actual ROCE and multiplying the net difference by the average operating assets for the fiscal year. This change in the absolute contribution, measured by Delta CVC, allows us to monitor the extent to which management units generate value-creating growth or employ resources efficiently.

Currency swap. Swap of principal payable or receivable in one currency into similar terms in another currency. Often used when issuing loans denominated in a currency other than that of the lender.

Defined Benefit Obligation (DBO). DBO is defined as the present value of all vested and non-vested benefits calculated on the basis of estimated salary levels at retirement. The only actuarial method that may be used to calculate the DBO is the projected unit credit method. DBO corresponds to PBO (projected benefit obligation).

Derivative financial instruments. Transactions used to manage interest rate and/or currency risks.

Dividend payout ratio. The dividend payout ratio is the ratio between the dividend for the fiscal year and the earnings per share.

EBIT. Earnings Before Interest and Taxes. EBIT represents the results of operations. Since 2002, when the amortization of goodwill was discontinued, EBITA has been equal to EBIT.

EBITA. EBIT before scheduled goodwill amortization.

EBITDA. Earnings before interest, taxes, depreciation and amortization. EBIT before depreciation of property, plant, and equipment, and amortization of intangible assets, i.e., relates to impairment losses on plant and machinery as well as the goodwill of companies acquired.

Finance lease. Under a finance lease, the lessor transfers the investment risk to the lessee. This means that the lessor bears only the credit risk and any agreed services. The lessee is the beneficial owner of the leased asset. Finance leases are characterized by a fixed basic term during which the lease may not be terminated by the lessee.

Gearing ratio. The gearing ratio represents the net indebtedness divided by total equity, expressed as a percentage.

Hedging. Securing a transaction against risks, such as fluctuations in exchange rates or changes in raw material prices, by entering into an offsetting hedge transaction, typically in the form of a forward contract.

IAS. International Accounting Standards.

IASB. International Accounting Standards Board. The authority that defines the International Financial Reporting Standards.

IFRIC. International Financial Reporting Interpretations Committee. Committee that reviews and determines appropriate treatment of accounting issues within the context of current IFRS and IAS.

IFRS. International Financial Reporting Standards. The accounting standards issued by the IASB.

Interest rate cap. An interest rate cap sets an upper limit for a variable interest rate in relation to a notional debt amount. To the extent that the variable interest due on the underlying debt exceeds the cap amount, the holder of the cap receives income as compensation in the amount of the difference to the cap. An up-front premium is paid as consideration for the cap.

Interest rate swap. An interest rate swap is the exchange of interest payments between two parties. For example, this allows variable interest to be exchanged for fixed interest, or vice versa.

Net indebtedness. The net amount of interest-bearing liabilities and cash and cash equivalents as recognized in the balance sheet as well as the market values of the derivative instruments.

Operating assets. Operating assets are the assets less liabilities as reported in the balance sheet, without recognizing the net indebtedness, discounted trade bills, deferred tax assets, income tax receivable and payable, as well as other financial assets and debts.

Operating lease. A form of lease that is largely similar to rental. Leased assets are recognized in the lessor's balance sheet and capitalized.

PPA. Purchase Price Allocation. PPA is the process of breaking down the purchase price and assigning the values to the identified assets, liabilities, and contingent liabilities following a business combination. Subsequent adjustments to the opening balance sheet – resulting from differences between the preliminary and final fair values at the date of first consolidation – are recognized as "PPA adjustments".

Rating. Standardized indicator for the international finance markets that assesses and classifies the creditworthiness of a debtor. The classification is the result of an economic analysis of the debtor by specialist rating companies.

ROCE. Return On Capital Employed. We define ROCE as the ratio of EBIT to average operating assets for the fiscal year.

SIC. Standing Interpretation Committee (predecessor to the IFRIC).

US GAAP. United States Generally Accepted Accounting Principles. These principles are subdivided into binding and guiding principles.

Weighted Average Cost of Capital (WACC). The WACC represents the weighted average cost of the required return on equity and net interest-bearing liabilities.

Financial Calendar

2010	
Annual Financial Press Conference	February 23
Analyst Conference	February 23
Annual Shareholders’ Meeting	April 28
Interim Report as of March 31, 2010	May 4
Half-Year Financial Report as of June 30, 2010	July 29
Interim Report as of September 30, 2010	November 3

2011	
Annual Financial Press Conference	February
Analyst Conference	February
Annual Shareholders’ Meeting	April
Interim Report as of March 31, 2011	April
Half-Year Financial Report as of June 30, 2011	July
Interim Report as of September 30, 2011	October

Contact Data
This Annual Report is also published in German. The financial statements of Continental Aktiengesellschaft are also available in English and German.

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