The momentum of trust.

Annual Report 2010

Continental

Continental Corporation

in € millions	2010	2009	Δ in %
Sales	26,046.9	20,095.7	29.6
EBITDA	3,587.6	1,591.2	125.5
in % of sales	13.8	7.9	
EBIT	1,935.2	-1,040.4	286.0
in % of sales	7.4	-5.2	
Net income attributable to the shareholders of the parent	576.0	-1,649.2	134.9
Earnings per share (in €)	2.88	-9.76	129.5
Adjusted sales[1]	25,945.3	19,941.0	30.1
Adjusted operating result (adjusted EBIT)[2]	2,516.8	1,180.5	113.2
in % of adjusted sales	9.7	5.9	
Free cash flow	566.9	1,640.3	-65.4
Net indebtedness	7,317.0	8,895.5	-17.7
Gearing ratio in %	118.0	219.0	
Total equity	6,202.9	4,061.7	52.7
Equity ratio in %	25.4	17.6	
Number of employees at the end of the year[3]	148,228	134,434	10.3
Dividend in €	—	—	
Share price (high) in €	66.84	42.82[4]	
Share price (low) in €	32.13	11.35[4]	

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

Continental's Core Business Areas

Automotive Group

in € millions	2010	2009	Δ in %
Sales	15,917.0	12,042.4	32.2
EBITDA	1,779.1	608.9	192.2
in % of sales	11.2	5.1	
EBIT	567.9	-1,561.6	136.4
in % of sales	3.6	-13.0	
Adjusted sales[1]	15,900.0	11,912.6	33.5
Adjusted operating result (adjusted EBIT)[2]	1,068.6	203.7	424.6
in % of adjusted sales	6.7	1.7	

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

Rubber Group

in € millions	2010	2009	Δ in %
Sales	10,152.5	8,068.3	25.8
EBITDA	1,851.5	1,114.5	66.1
in % of sales	18.2	13.8	
EBIT	1,413.1	655.7	115.5
in % of sales	13.9	8.1	
Adjusted sales[1]	10,067.9	8,043.4	25.2
Adjusted operating result (adjusted EBIT)[2]	1,513.4	1,038.5	45.7
in % of adjusted sales	15.0	12.9	

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

The German word for trust, *Vertrauen*, dates back to the 16th century and derives from the Gothic word *trauan*. In the German language, the concept of trusting or *trauen* belongs to a group of words that includes concepts such as loyalty, strength and permanence.

Trust is based on the ideals of credibility, reliability and authenticity; it impacts on the present, but is directed at future events.

Trust is always founded on the idea of mutuality and is a basic requirement for a functioning community. In order to develop trust, one needs security. Trust means being able to assume that developments will follow a positive or anticipated path and need not be continuously monitored.

The notion of trust also implies that one has recourse to alternative actions. Indeed, this is the most important difference between trust and hope. Trust is not merely anticipation; trust is an overall concept. But how is trust created and – once you have it – how do you retain it? What does trust mean for us in our daily interaction with

other people and companies? And most importantly: What does it mean for us at a personal level and in our day-to-day work?

At Continental, we engage with these questions every day in dealings with our stakeholders. That is because our customers and employees, our investors and suppliers, our other business partners as well as persons living near our plants all trust in us, just as we do in them. Therefore, trust is the most important source of added value.

Trust in our fellow citizens

As people, we grow and develop on the basis of the tasks we perform. But that's not the whole story: Trust within a team, a community or a group of coworkers grows and deepens with each task that is accomplished collectively. As part of our ongoing cooperation, we are confronted by numerous everyday and extraordinary situations – situations that constantly challenge us and enable us to grow. Both as people and as a company.

The success of Continental is fundamentally determined by the quality of cooperation between our employees. For this reason, we promote and expect interdisciplinary cooperation and networking across hierarchy levels, organizational boundaries and geographical borders. On the one hand, this enables us to act reliably and transparently and to take a consistent approach to key issues. On the other hand, our decentralized forms of organization allow us to operate efficiently and flexibly, and to meet the most diverse regional challenges.

The key factor behind the quality of this cooperation is the ability of our employees to network and coordinate with each other as well as with internal and external partners. This networking can only function in an atmosphere of mutual trust between employees and the company.

Basis for trust

Trust in one's own capabilities

Pursuing the goal of lifelong learning means continuously putting oneself to the test and acquiring new experiences in the process. It involves embarking on a voyage of discovery and development – of oneself and one's own potential. On this basis, we can learn to trust our own capabilities – to have self-confidence. Lifelong learning also means finding one's limitations, so one can recognize them and then surpass them. This applies equally to individuals as it does to a company. We are continuously working to expand our horizon of experience, to increase our knowledge and to create the foundation for innovation and technical solutions at the highest level.

The willingness of our employees to pursue lifelong learning and to continuously develop themselves is the basic requirement for many innovations and projects. Retaining a sense of curiosity and preparing for the future today are essential in terms of securing the long-term existence of a company. Two of our projects are good examples.

Firstly, the successful program for demographic change: In this project, we are offering targeted qualifications for older colleagues, motivating employees for a longer career and creating an optimum framework through a process of continuous improvement to workplace ergonomics. We also offer special workshops and seminars for our managerial staff because it is they who exert a critical influence on the working environment and working atmosphere. These workshops cover topics such as learning, coping with stress, mental illness or how to handle restructuring.

The second example is the Continental Universities: This program is based on a partnership between the company and local colleges and universities – for example, in Mexico, the Philippines, in Romania or the U.S. – that gives employees access to higher education. Our concept, which we have been expanding continuously since 2005, forms part of a global strategy that focuses on lifelong learning and promotes employee training.

The self-confidence of our employees, their desire for successful learning and supportive frameworks are the basis for ideas, innovation and success.


Trust in oneself

Trust in others

Trust in partnership

Partnership occurs wherever efforts are made to accomplish tasks together. Partnership develops when a person entrusts themselves to the care of another, or when a person enters into a commitment with another, and does so trusting that each person will complete his or her part of the task – in full and with confidence. In the same way, with each passing day, we renew our trust and loyalty in our partners here at Continental: our customers, shareholders, employees, business partners and suppliers.

Already in 1989, we formulated our visions, values and the self-image of the corporation, making them transparent and tangible. This corporate philosophy – the BASICS – guides the actions of our employees. The BASICS are continuously evolving and are implemented and practiced throughout the corporation. Along with integrity, tolerance and respect, they also comprise the relationship with our partners.

In our business, we are open to all forms of cooperation and partnership that complement our core competencies and enable us to further extend our technological leadership. Our partners rank among the best in their industries. Our cooperation with them is built on fairness and mutual trust. We aim to inspire our customers and, to that end, we work continuously on innovative solutions. What we develop today becomes the product of tomorrow. We safeguard our own success through quality, performance and effective marketing. We do so with the self-confidence we have acquired over many years of positive experiences. And we do so trusting the dependability and loyalty of our partners.

Trust in the products

In order to ensure long-term and positive recognition in a market that is flooded with information, a company or brand must establish a high profile that conveys a consistent message. A brand of this type will earn the trust of its customers and partners. It's about trust in the products, in the company's capabilities and forward-looking philosophy, and about trust in its employees. Tradition and continuity represent a solid foundation in this regard. Continental has enjoyed trust on many levels for 140 years and works every day to justify it.

The trust in our innovative strength is founded on the success of our predecessors. As far back as 1898, for instance, we commenced production of automobile pneumatic tires with a plain tread. In 1909, French aviator Louis Blériot was the first person to fly the English Channel. The fuselage and wings of his monoplane were covered with Continental Aeroplan material. In 1955, we were the first company to develop air springs for trucks and buses. About 20 years ago, we became the first manufacturer to launch an environmentally-friendly passenger tire, and we unveiled the key technology that enabled the development of hybrid drive systems already in 1997. Today, Continental ranks among the top 5 automotive suppliers worldwide and holds the number 2 spot in Europe. We have not only participated in industrial progress, we have also helped shape it.

Just as we trust in our products and our capacity for innovation, so too do our customers. Their trust is reflected in the steady flow of challenging development contracts they provide us with and in their outstanding response to our products in markets around the world.

Trust in systems

The world we live in today is fast-paced and difficult to predict. We fully accept the ever increasing dynamism and complexity of the global market, and are coordinating our business in line with its rapidly accelerating pace. Recent events have taught us that neither the onset nor the end of an economic crisis can be predicted. Our ability to predict the future appears to be rapidly diminishing. Our priority is to ensure that we are as well prepared for it as possible. In these preparations, trust in reliable systems as well as their continuous evolution is essential. Systems that, together with their accompanying structures and the behavior of the components involved, are based on what we have learned in the past. Systems that will enable us to keep pace with the dynamism and complexity of the future.

For example, with a system that is new to Continental. One that we are striving for as a result of a certain philosophy and holistic program. With this system, our goal is to introduce a fundamentally new approach to cooperation and structure in our work organization and our operations, both externally and internally. Our focus in this context is on working with employees to streamline our procedures so they run more smoothly. We want to remove bottlenecks and stoppages that put excess pressure on our work processes. This will enable us to react to changes in the marketplace faster and more flexibly and, above all, in a manner that is more sustainable and less stressful for all participants. Our objective in taking this approach is, in the end, to substantially reduce the amount of capital tied up in current assets on the one hand, while increasing the satisfaction of customers and staff on the other. The principle applied involves simplifying procedures and structures across the company, thereby enabling us to become more agile, efficient and competitive on a permanent basis. Most importantly, this will help us create more value.

Open communication and trust are the fundamental elements of functioning systems and their participants. We expect employees across all hierarchy levels and organizational divides to deal openly and responsibly with information. We promote this policy wherever we can, especially with the current “CBS – Continental Business System” program.

Reliance on trust

Display of trust

Trust in the future

Nobel Prize winner and former German Chancellor Willy Brandt once said: "The best way to predict the future is to shape it." Our ability to shape the future over the long term calls for a positive and open attitude to new ideas and situations, but most importantly, it requires a minimum level of trust at the very least. Trust that is based on experiences gained over many years as well as on new ones; experiences from childhood and adulthood; good experiences and bad; unique experiences as well as those that continuously recur. And it calls for trust in our own capabilities and the capabilities of others. Trust in our fellow citizens and in our employees. Trust in the diverse partnerships and in the structures and systems within which we operate every day. And of course, trust in the validity of our own thoughts and actions.

None of this can be achieved from one day to the next; trust has to be nurtured. Slowly in most cases, and not always in a linear direction. It must be acquired and earned. And continuously renewed and maintained. We have been doing this for 140 years. The trust we have today in our company and in our abilities is driven by our experiences in the past. And at the same time, we have gained the trust of our partners and customers. By continuously developing our products and business processes, by innovating at the highest level, by delivering uncompromising quality and by adopting a future-oriented approach for our company, we continuously renew the trust placed in us.

Our trust in the future is based on a successful past. And our customers, partners and investors know this. They show it with the trust they continue to place in us. Because trust is always based on mutuality.

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Dear Shareholders,

Continental AG is on its way back to recovering its former strength. 2010 was a very demanding year for us, and, with your support, we ended up achieving a great deal. I wish to thank you on behalf of the entire Executive Board.

I must admit that a year ago, in light of the economic crisis and our financial situation, we could not be certain that we would successfully overcome all the major challenges in just a few months, although we firmly believed in our abilities and potential. Nor could we envision that we would even actually grow stronger.

Today we are able to present you with solid business results and a significant increase in sales. We have also continued to reduce the company's debt and greatly improved our debt maturity structure. This has given us additional operating maneuverability, and the future success of your Continental AG can be planned more easily again.

On the one hand, the key to this positive development is the economic recovery, and we were able to put this tailwind to good use. On the other hand, the old saying is still true: Fortune favors the bold! A large part of our success is due also to our restructuring and cost reduction measures as well as a number of new successful products. Thirdly, and most importantly, we were able to rely on our highly dedicated employees. I trust you will join me in sincerely thanking all of them around the world for their excellent performance.

It is easy to point to the good earnings figures after a successful year. I could quote the corporation's sales increase of about 6 billion euros or 30 percent, or our adjusted EBIT, which we raised by 113 percent to 2.5 billion euros despite the heavy impact of increased raw material prices. We have therefore exceeded our expectations of an adjusted EBIT margin of roughly 9 percent. Surely these figures on their own reflect the success we have achieved.

But the strategy behind the figures is at least as important: ensuring that our performance is high quality, increasing the free cash flow available to us for debt reduction, and driving forward profitable growth especially in the emerging markets.

In the past year, we not only accomplished incremental successes, but also set decisive strategic foundations for our future success.

In this context, it is especially pleasing that the Powertrain division exceeded the break-even point at adjusted EBIT level a year earlier than we had expected in view of the crisis. After all, our goal remains that all business units and segments create value for your corporation.

Our focus for future growth remains in Asia – especially China, but India also – as well as in Brazil and Russia. The demand for mobility in these countries is growing dramatically. At present, our Automotive divisions achieve 21 percent of their sales in Asia, and we intend to increase that figure to 30 percent. This is why we as a corporation are experiencing above-average sales growth of nearly 50 percent to over 4 billion euros in that region, in line with our plans. Production began early in 2011 at our new tire factory in Hefei, China, which will be supplying the Asian market.

In Asia, we have at present a total of around 40 production sites and 30 sales offices staffed by some 24,000 employees. Proximity to customers is crucial in expanding our activities. It is also about working in the region for that region, which means we intend to work locally along the entire value-added chain from research and development through purchasing, down to production and sales.

We are about to double our tire production capacity in Brazil and we intend to establish our own production site in Russia.

We will increase our investment activity in 2011 by about 200 million euros, a large part of which will be in the rapidly growing Tire divisions.

In addition to above-average growth in emerging markets, it is strategically important for us to help shape the megatrends in the automotive industry: safety, information, the environment, and affordable vehicles.

We are helping to research, develop and build the future of these trends in all our six divisions. An example is our systems that link the vehicle with other vehicles or with the traffic infrastructure. They help drivers to be networked from their cars, to communicate, and to drive with maximum fuel economy. Our main task is to integrate the thousands of modern electronic applications and the diverse web offerings into the vehicle in such a way that the strain on drivers is greatly reduced so they drive safely. Our megatrend products also include tires with reduced rolling resistance, lightweight construction technologies and optimized fuel injection systems for lower fuel consumption and CO_2 emissions. Above all else, the sustainable vehicle of the future must be lighter and more highly-networked. It will contain a protective shield made of electronic sensor systems and increasingly incorporate new drive systems. Our company has the highest level of expertise in combustion engines and electric drives. We are pleased to say that this year we are producing the first all-electric powertrain for a standard vehicle manufactured by a European carmaker. The electric motor for this will be produced in Germany.

Despite all the excitement about electric vehicles, the combustion engine will still be with us for many decades to come. We are convinced that our engineers have the gripping ambition to make the diesel engine as environmentally friendly as the gasoline engine and the gasoline engine as efficient as the diesel engine. I am certain that they will succeed in reducing fuel consumption by as much as 50 percent by 2020, with emissions having been cut considerably along the way.

The growing need for traffic safety still continues to be an extremely important issue for us since it is all about protecting lives and avoiding accidents. Already today, we are playing a significant role in realizing the vision of "zero accidents" with a large number of products and systems.

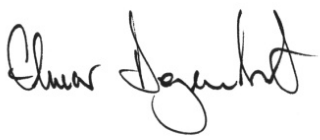
In addition to the automotive industry, we are partner to many other key industries that are subject to different economic cycles. Our ContiTech division, for instance, is a committed and very successful partner to the machine and plant construction, shipping, aviation, railway engineering, and mining industries.

The financial and economic crisis of 2009 demonstrated in a dramatic way that our world's globalized markets have become much more multi-layered and dynamic, and less predictable. The winners in the long term will not be the biggest or the fastest, but the most adaptable companies.

This is why in the past year we began to clearly analyze where and how we can become better in our daily work behavior, and we have launched a comprehensive development process to this end. In the coming months, we want to start adjusting better to fast-changing customer requirements. This involves, for example, more effective management and more efficient networking of employees across all levels and continents, both internally and beyond the boundaries of our organization. In addition, we want to simplify our value-added chains and tune ourselves more closely to the speed of the markets.

As you can see, the entire Continental team is again on the path to success. We look forward to the road ahead and are glad that you will be actively supporting us along the way.

Sincerely,



Dr. Elmar Degenhart
Chairman of the Executive Board

From left:

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

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

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

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

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

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

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

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

Continental Shares and Bonds

Continental share price increases by 62%. Bonds placed successfully.

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
Stock exchanges	Frankfurt (Prime Standard), Hanover (NISAX), Hamburg, Stuttgart
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, 2010	200,005,983

American Depositary Receipt 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

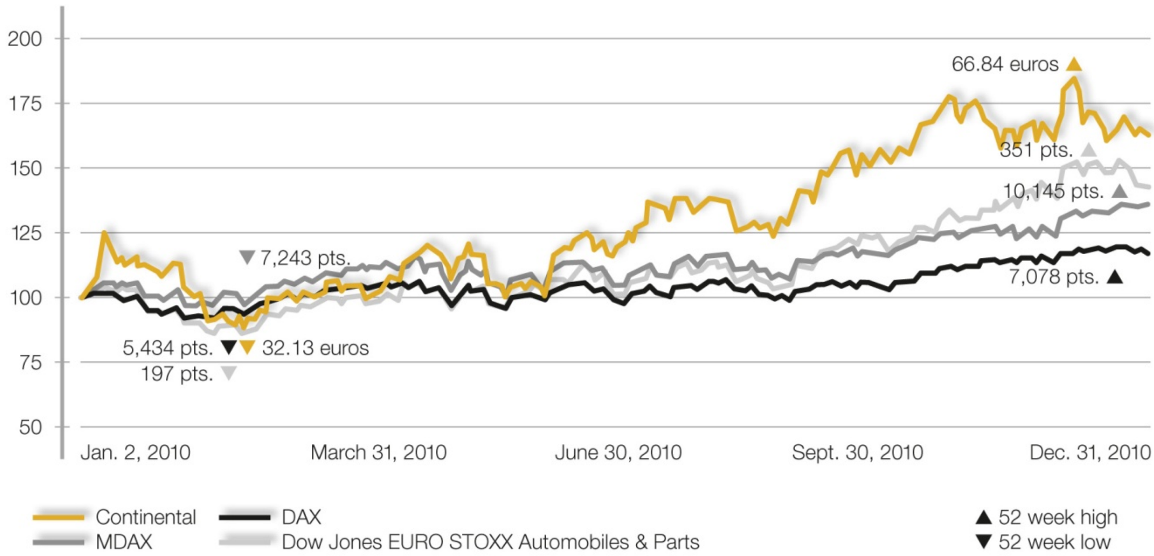
62% price increase in course of the year

Year-on-year, Continental's share price was up 62% in 2010 (taking into account the capital increase), listing at €59.14 on December 31, 2010, thereby significantly outperforming the comparable benchmark indexes, the DAX (by more than 46 percentage points) and the MDAX (by more than 27 percentage points). The shares also outperformed the sector index for European automotive and automotive supplier stocks by 19 percentage points.

Automotive cycle and greatly improved key performance indicators have positive influence on share price performance

After 31 million new Continental shares were successfully placed with institutional investors at an average price of €35.93 at the beginning of January 2010, the free float of the MDAX-listed shares increased from 11% to almost 25% with the share price stabilizing at around €40. However, the stock markets were negatively impacted in mid-January 2010 by worries stemming from excessive state debt of eurozone countries such as Portugal, Ireland, Italy and Greece as a result of the financial and economic crisis. The DAX and the MDAX hit their lows for the year on February 5, 2010, of 5,434 points and 7,243 points respectively. Continental's preliminary figures were released on February 23 and were received very well by market players, but Continental shares could not escape the market trend and fell to their year's low of €32.13 on February 25, 2010. Due to a large number of positive analyst recommendations, Continental's share price rose again significantly over the rest of the quarter to end the first three months at €37.55. A broad market recovery began in April due to the positive development of many economic indicators and the resulting expectation of good key performance indicators for the first quarter of 2010. Not only did the DAX and MDAX reach their temporary new high points at the end of April (DAX 6,332 points; MDAX 8,642 points, both on April 26, 2010) but the sector index for automotive and automotive supplier stocks also increased, carried by favorable sales data from automotive manufacturers, to a temporary high for the year of 248 points (April 26, 2010). Increasing speculation regarding a possible default of the Greek government coupled with fears of a repeated destabilization of the European financial system led to significant price losses in the indexes at the beginning of May. The necessary trust amongst market participants was finally rebuilt when the EU Finance Ministers agreed on the EU rescue

Share price performance vs. major stock indexes



parachute of €750 billion while the DAX closed at 5,965 points as of June 30, almost the previous year's level. In contrast, Continental's positive figures in the first quarter of 2010 allowed its shares to clearly decouple from the general negative market performance of the second quarter, closing at €42.78 per share as of June 30. Third quarter market performance was influenced by favorable economic data from Europe and Asia on the one hand and worries about the downturn of the U.S. economy on the other. This development was accompanied by more and more intense discussion of the global currency imbalances. In addition to the ongoing debate on the ratio of the Chinese renminbi to the U.S. dollar, the development of the Japanese yen compared with the U.S. dollar prompted the Bank of Japan to make massive currency interventions and drop the Japanese key interest rate to almost 0% at the beginning of October. Unfazed by this development and encouraged by favorable corporate figures, European stock markets recorded substantial gains in the third quarter, but did not quite reach the record highs of the end of April. Continental's third quarter share price reflected the favorable first half results and successful refinancing. For example, from July to September we refinanced a total of €3.0 billion in bank liabilities via the bond market and thus not only reduced our dependency on our main financing instrument, the VDO loan, but also

	March 31, 2010	in % vs. Dec. 31, 2009	June 30, 2010	in % vs. Dec. 31, 2009	Sept. 30, 2010	in % vs. Dec. 31, 2009	Dec. 31, 2010	in % vs. Dec. 31, 2009
Continental	37.55	3	42.78	17	57.01	56	59.14	62
DJ EURO STOXX 50	2,931.16	-1	2,573.32	-13	2,747.90	-7	2,792.82	-6
DAX	6,153.55	3	5,965.52	0	6,229.02	5	6,914.19	16
MDAX	8,143.46	8	8,008.67	7	8,768.03	17	10,128.12	35
DJ EURO STOXX Automobiles & Parts	227.46	-2	244.05	5	285.18	23	332.13	43

significantly improved the maturity profile of our indebtedness. The share price reacted very positively to this, closing at €57.01 on September 30, 2010. The fourth quarter in the U.S. was marked by the “QE2”, the abbreviation describing the U.S. Federal Reserve Bank’s $600 billion rescue program to stabilize the upturn of the U.S. economy. This was necessary because the Fed had had only marginal maneuverability in its interest policy since the end of 2009. The European markets reacted very positively to this new rescue program as well until about mid-November 2010, when it became increasingly apparent that, after Greece, Ireland would also be unable to make it without an EU rescue program. The EU Finance Ministers then agreed on the details of a rescue package for Ireland, causing the DAX to exceed the 7,000-points-mark on December 10, 2010, for the first time in two-and-a-half years and to record its high for the year of 7,078 points on December 21. The MDAX reached its high of 10,145 points on December 23. Continental’s share price continued to benefit from the good mood on the markets until the beginning of December, recording its high for the year at €66.84 on December 6, 2010. Due in part to bad weather conditions, however, basic raw materials for tire production appreciated so much that the share closed the year at €59.14, far below its high for the year. In particular, the price for natural rubber (TSR 20) jumped by 45% in the fourth quarter alone to over $5.00 per kilogram on December 31, 2010. The price of natural rubber had climbed to $5.78 by February 7, 2011. On September 30, 2010, natural rubber still listed at $3.56 per kilogram.

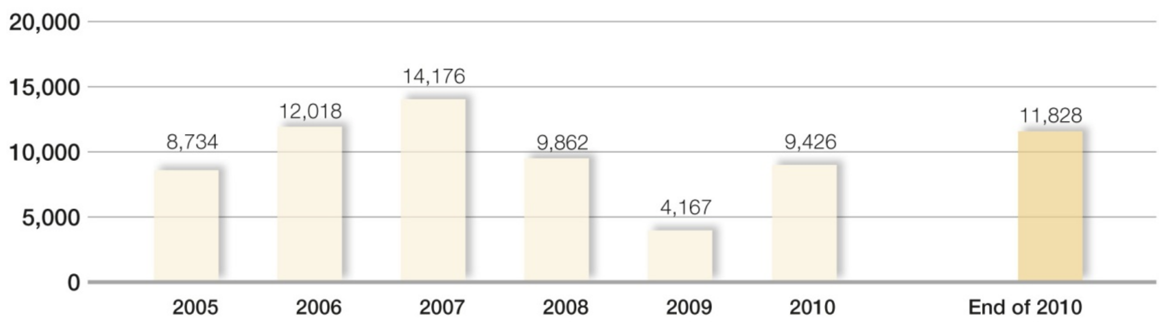
As of December 31, 2010, the free float market capitalization amounted to around €2.9 billion. The capital increase coupled with the strong price recovery in the year under review meant the Continental shares ranked 4th in the MDAX listings as of the end of the year, therefore improving by 26 places (PY: 30th place). They also occupied 4th position (PY: 13th) in terms of turnover in XETRA trading. The average daily trading volume in 2010 was 537,455 shares.

At the beginning of the new year, the price stabilized at €60 per share and the key data on fiscal year 2010 published by Continental at the beginning of January again received a very positive response from the market.

Earnings per share increase substantially

At December 31, 2010, earnings per share amounted to €2.88 (PY: -€9.76), 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 200,005,983 shares were in circulation in the year under review.

Market capitalization at annual average prices (in € millions)



Key figures per share in €	2010	2009
Basic earnings	2.88	-9.76
Diluted earnings	2.88	-9.76
Free cash flow	2.83	9.71
Dividend	—	—
Dividend payout ratio (%)	—	—
Dividend yield (%)	—	—
Total equity (book value)	31.01	24.03
Share price at year-end	59.14	37.67*
Average share price	47.12	25.47*
Average price-earnings ratio (P/E ratio)	16.36	—
High	66.84	42.82*
Low	32.13	11.35*
Average trading volume (XETRA)	537,455	278,992
Number of shares, average (in millions)	200.0	169.0
Number of shares at December 31 (in millions)	200.0	169.0

*Taking into account the capital increase.

Investments in Continental shares*

Initial investment	Jan. 1, 2001	Jan. 1, 2006	Jan. 1, 2010
Investment period in years	10	5	1
Portfolio growth in € at December 31, 2010	42,040	-15,840	22,680
Average dividends in investment period	7,280	5,000	—
Shareholder return p.a. in %**	14.5	-3.1	62.2
Average returns of comparable indexes in %			
DAX 30	0.7	5.0	16.1
Dow Jones EURO STOXX 50	-3.1	-3.0	-5.8

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

Dividend proposal

A proposal will be made to the Annual Shareholders' Meeting on April 28, 2011, that no dividend be paid for fiscal year 2010. Regardless of this, existing loan agreements would limit total possible distribution to €50 million anyway, corresponding to €0.25 per share. Distributing a dividend was not considered in the two previous years due to the net loss of the parent company.

Common stock increased

The common stock of Continental AG increased by €79,360,000 million to €512,015,316.48 due to the capital increase carried out in January 2010. It is divided into 200,005,983 no-par-value shares. Each share has the same dividend entitlement. In line with Article 20 of Continental AG's Articles of Incorporation, each share grants one vote at the Annual Shareholders' Meeting. There is authorized as well as contingent capital.

Share returns increased

After an increase of more than 30% was recorded for 2009 as a whole, 2010 also saw positive growth. An investment in 1,000 Continental shares at the beginning of the year would have resulted in an increase of €22,680 or 62% in the securities account by the end of the year. An investor would therefore have had excess returns of 46% above the DAX. The investment would still have underperformed if observed over a five year period: investing in 1,000 Continental shares at the beginning of 2006 would have cost an investor around €75,000, but the value of the Continental investment in his security account at the end of 2010 would have been only €59,140, or a performance averaging -4.6% p.a. Dividend payments in this investment period would have also averaged -3.1% p.a., or more than 8 percentage points below the DAX figure. However, the total shareholder return over a ten year period remains 14.5% p.a. – patience pays.

Bonds placed successfully

As part of the refinancing plan agreed at the end of 2009, four bonds totaling €3.0 billion were successfully placed between July and September 2010 on the market for high-yield bonds. All of the euro bonds were issued by Conti-Gummi Finance B.V., Amsterdam, Netherlands, and guaranteed by Continental AG and selected subsidiaries. The bonds are listed on the open market on the Frankfurt, Hanover and Hamburg stock exchanges as well as others. The net revenues from the issues helped the early repayment of the forward start facility that Continental had agreed with its lending banks in December 2009 as well as the partial repayment of the syndicated loan that Continental had taken out in the summer of 2007 to finance the acquisition of Siemens VDO (VDO loan).

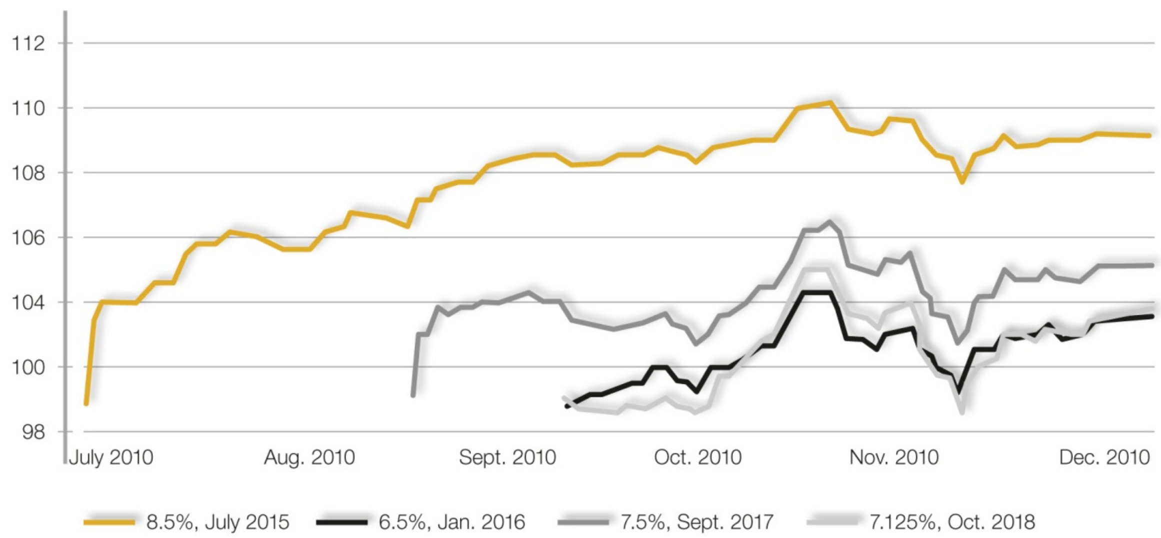
As previously stated, this allowed Continental to significantly reduce its dependence on bank loans and again impressively demonstrate its capital market readiness. The key data on the bonds is summarized in the table below.

All four bonds listed above their issue price as at the end of the year. The bond with final maturity of July 2015 put in the best performance, listing at 108.6% at the end of the year or up by 9.7% since its issue. The bond with final maturity of September 2017 (up 4.7% since issue) takes second place, followed by the bond with final maturity of January 2016 (up 3.1% since issue). The bond with a term until October 2018 put in a positive performance of 3.0%.

After successfully refinancing parts of the VDO loan and the significant improvement of its maturity profile, the 5-year credit default swap significantly outperformed the index for securities with a comparable rating. The spread compared with the iTraxx Crossover, the index for securities with a comparable risk profile, was around 120 basis points as of the end of the year.

German securities identification code	Coupon	Term	Volumes in € millions	Issue price	Price at Dec. 31, 2010
A1AY2A DE000A1AY2A0	8.500%	July 15, 2015	750	99.0047%	108.5818%
A1A1P0 DE000A1A1P09	6.500%	January 15, 2016	625	98.8610%	101.8800%
A1AOU3 DE000A1AOU37	7.500%	September 15, 2017	1,000	99.3304%	104.0150%
A1A1P2 DE000A1A1P25	7.125%	October 15, 2018	625	99.2460%	102.1795%

Performance of the bonds



Credit rating virtually unchanged

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

December 31, 2010	Rating	Outlook
Standard & Poor's	B	stable
Moody's	B1	stable

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

Despite the recovery of the automotive economic situation in 2010 and the improved business results of Continental, the rating of Continental AG remained virtually unchanged. Standard & Poor's reduced the rating to B, stable outlook, while Moody's improved it from negative to stable. 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. By the end of fiscal year 2012 at the latest, the decisive rating ratios of net indebtedness in relation to EBITDA (leverage ratio), net indebtedness in relation to equity (gearing ratio) and the ratio of operating cash flow to net indebtedness (FFO/net indebtedness) as defined by the rating agencies are expected to reach a level characteristic of the investment grade category.

Extensive investor relations activities

A key task of Continental's Investor Relations (IR) is the systematic and continuous dialog with existing and potential investors, stock and credit analysts and other capital market players regarding past, current and especially future business performance. In the process we want to provide all market participants with relevant and useful information at the same time. Our goal is to keep all market participants informed. For this and other reasons, Continental assesses its free float shareholder structure twice a year. The roadshow activities are then geared towards the results of the analyses and are therefore subject to constant change. In addition, the regularly published annual and quarterly reports as well as the Fact Book, which Continental has created this year for the eleventh time, serve to provide an ongoing flow of information.

Despite the low free float in 2009, Continental's IR activities continue to be highly regarded by external market observers as of the beginning of the year under review: as part of a survey by *Institutional Investor*, we were awarded second place in "Europe's most Successful IR Professionals in the Auto & Auto Parts Sector” by the sell side. In the “Pan European Extel Survey” conducted by Thomas Extel, we placed fourth in the “Best IR Professionals – Auto & Automotive Components” category.

After placing 31 million shares and the accompanying increase in the free float at the beginning of the year, the most urgent task in addition to the routine planning of roadshow activities for equity investors was preparing the market for the upcoming bond issuances. As early as the beginning of the year, non-deal roadshows and participation in conferences for bond investors included establishing contacts with the most important bond investors and credit analysts. At the end of the year, Continental is regularly monitored by at least eight credit analysts who express recommendations for bonds issued by Continental. Continental held a deal roadshow with the chairman of the Executive Board, the chief financial officer and the head of Finance & Treasury to place the first bond. It visited around 250 investors in London, Frankfurt, Paris and Amsterdam.

In the end, Continental placed €3.0 billion on the market for high-yield bonds in the period from July to September 2010. According to the most recent calculations, this corresponds to about 6% of the entire volume placed on the high-yield bond market in the year under review. Bond investors have been a set part of Continental’s roadshow activities since the beginning of last year. The company also visited three bond conferences in Europe and one in the U.S. in 2010. In doing so, the IR team works closely with the Finance & Treasury department to ensure a needs-oriented flow of information that is tailored to this target group.

Regular monitoring by stock analysts due to the low free float in 2009 fell to fewer than five active observers at times. Over the course of the year under review, this figure rose to 28 and is continuing to climb. Continental is currently actively monitored by 29 stock analysts, who regularly express investment recommendations for Continental shares.

The roadshow activities in the year under review focused on Europe and the U.S. In Asia, a roadshow was also carried out to gauge interest levels in Continental’s shares on the Hong Kong and Singapore stock markets in particular. All in all, more than 600 one-on-one meetings were held with investors at the non-deal roadshows, with members of Executive Board personally taking part in half of them. We visited 15 conferences, including ten in Europe, four in the U.S. and one in Asia. After coordinating with the responsible Executive Board members, we also presented the Powertrain and Interior divisions in more detail during field trips.

IR activities also focused on personal contact with our private shareholders, with the dialog centering on the Annual Shareholders’ Meeting, which was again well received in 2010. With the support of our shareholder associations, we attempt to take appropriate account of financial services fairs and work with regional stock markets to establish contact with private investors. For example, we contacted around 100 private shareholders in Germany in the year under review.

Interested investors can access the published corporate data, upcoming dates, contact persons and other useful information on the Investor Relations pages on our Internet site 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 much more in 2010 than in 2009: for instance, the number of visits to our IR web pages increased by roughly 53% to approximately 300,000, and the number of downloads by 23% to just under 370,000.

Shareholder structure

Continental AG's largest shareholder is Schaeffler GmbH, which holds 42.17% of the outstanding shares. Private banks M.M.Warburg & CO KGaA and B. Metzler seel. Sohn & Co. Holding AG also each have a 16.48% stake. The free float is 24.87%. A survey of the shareholder structure taken at the end of November 2010 identified around three-quarters of the free float. The findings indicate that around 39% of the identified shares in free float are held by investors in the U.K., Ireland and Continental Europe (excluding Germany). German institutional investors represent about 22% of the identified free float, with North America accounting for about 13%. Approximately one quarter of the identified free float is held by private shareholders or passive investors. 1% of the identified free float is located in Asia.

Dear Shareholders,

On the whole, Continental AG and the corporation coped very well with the many challenges they faced in fiscal year 2010. In the year under review, the Supervisory Board of the company fulfilled all the tasks incumbent upon it under applicable law, the Articles of Incorporation and its By-Laws. It closely monitored the work of the Executive Board, regularly advised it and carefully supervised it in the management of the company and is convinced of the legality and propriety of the management. As explained in further detail below, the Supervisory Board was directly consulted in a timely manner on all decisions of fundamental importance for the company.

In the year under review, the Executive Board provided the Supervisory Board with regular, comprehensive and timely updates in writing and verbally on all issues of relevance to the company related to planning, business strategy, significant business transactions in the company and the corporation, and the related risks and opportunities. The Supervisory Board was continuously informed in detail on the sales, results and employment development in the corporation and individual divisions as well as the financial situation of the company. Where the actual course of business deviated from the defined plans and targets, the Executive Board gave a detailed explanation with reasons to the Supervisory Board and the measures introduced were discussed with the Supervisory Board and its committees. In addition, the Supervisory Board, the Chairman's Committee and the Audit Committee dealt intensively with other key company business at their meetings and separate discussions. The members of the Supervisory Board were also available for consultation by the Executive Board outside the meetings. The chairman of the Supervisory Board in particular was in regular contact with the Executive Board and its chairman and discussed current company issues and developments with them.

Meetings of the Supervisory Board and the committees

In 2010, the Supervisory Board held four regular meetings and two telephone conferences at which – with a few individual exceptions – all Supervisory Board members took part personally. No member was absent from more than half the meetings. The Chairman's Committee met eight times in the year under review. If, for example, individual matters required particular urgency, the Supervisory Board and the

Prof. Dr. Ing. Wolfgang Reitzle
Chairman of the Supervisory Board

Chairman's Committee also passed resolutions outside the meetings by way of written procedure. In each case, there was sufficient opportunity to review and discuss on the basis of detailed drafts. The Audit Committee held four regular meetings and one telephone conference in 2010. The Mediation Committee under Section 27 (3) of the German Co-determination Act (*Mitbestimmungsgesetz*) and the Nomination Committee did not meet. There are no other committees. All committees report to the plenary session on a regular basis. Their duties are described in detail in the Corporate Governance Report (page 18 et seq.).

Key topics dealt with by the Supervisory Board, Chairman's Committee and Audit Committee

As in 2009, the Supervisory Board and its committees took part in the measures to improve the company's financial situation in the year under review. Initial significant progress made towards this includes amending the conditions for the syndicated loan agreement for the acquisition of Siemens VDO back in December 2009, entering into a forward start facility, and increasing the company's capital stock at the beginning of January 2010 with the consent of the Supervisory Board. The successful placement of several high-yield bonds, with which the Chairman's Committee and the Audit Committee were closely involved, then led to a considerable improvement of the maturity structure.

As in previous years, the Supervisory Board also dealt with the company's strategic development and orientation in general as well as the strategic planning of the divisions. Regular discussion topics of the plenary session and the committees were overcoming the consequences of the global financial and economic crisis, the effects of the unexpectedly rapid recovery of the automobile industry (which, however, also led to a shortage of precursor products, especially electronic components) and the substantial increase in prices of natural rubber and other raw materials. In addition, the Supervisory Board also dealt with the future development of hybrid and electric vehicles, with investment projects in the BRIC markets, and with the planned expansion of the retail organization within the Tire divisions.

To ensure the Supervisory Board is involved in the decisions on key company matters, the company's Articles of Incorporation and the Supervisory Board's By-Laws establish the legal transactions that require the approval of the Supervisory Board and/or its Chairman's Committee. In line with these requirements, the Supervisory Board and/or the Chairman's Committee discussed and approved the acquisition of the Flexowell business of Metso GmbH and the acquisition of the investment assets of Tianjin Xinbinhai Conveyor Belt Co., China, by the Conveyor Belt Systems unit of the ContiTech division; the acquisition of Grundfos NoNOx A/S by the joint venture Emitec; the securing of corporate company bilateral loans with various banks; the disposal of a factory site in Costa Rica that was no longer needed; as well as other matters. At its meeting on December 14, 2010, the Supervisory Board dealt with the annual planning for 2011 and long-term planning and also approved the planning and investment plans for fiscal year 2011.

The Audit Committee was continuously informed in detail by the Executive Board on the sales, results and employment development in the corporation and individual divisions as well as the financial situation of the company. 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 relevant reporting period as well as the outlook for the year as a whole. The Audit Committee also dealt with the audit of the consolidated financial statements as of December 31, 2008, by the German Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung e.V.) and agreed with the Executive Board's acceptance of the error finding. The Audit Committee is closely involved in compliance und risk management also. 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. The Audit Committee is convinced of the effectiveness of the internal control system, the risk management system and the internal audit system.

Conflicts of interest and corporate governance

No conflicts of interest among the members of the Executive Board or the Supervisory Board arose in the year under review. The Supervisory Board does not share the opinion of certain shareholders who instituted proceedings against the resolution of the 2009 Annual Shareholders' Meeting to elect Mr. Rolf Koerfer to the Supervisory Board and against the confirmation of this resolution by the 2010 Annual Shareholders' Meeting on the grounds that, among other reasons, they consider Mr. Koerfer to be subject to an irresolvable permanent conflict of interest as the legal advisor of our major shareholder, the Schaeffler Group. We believe that membership by shareholders, representative officers or employees of a major shareholder is in accordance with German stock corporation law and the recommendations of the German Corporate Governance Code. This opinion has been confirmed by renowned experts. The situation can be no different for the legal advisor of the major shareholder. If a conflict of interests arises in an individual matter, the stock corporation law and the rules of corporate governance provide adequate procedures to ensure that detrimental effects for the company are avoided. However, these rules did not have to be applied in the past year. Against this background, both the Supervisory Board and the Executive Board resolved to file an appeal against the judgment of the Hanover District Court (*Landgericht*) ruling in favor of the complaints against the resolutions of the 2009 Annual Shareholders' Meeting and to defend against the complaints against the resolutions of the 2010 Annual Shareholders' Meeting. After Mr. Koerfer's resignation from the Supervisory Board, the parties have declared the matter moot and the proceedings are terminated. In its opinion, the Supervisory Board also had a sufficient number of independent members at all times in the period under review.

In 2010, the Supervisory Board again carried out the regular efficiency review of its activities. In this review, an external consultant interviewed all members of the Supervisory Board and the Executive Board, analyzed the results, compared this information with information from other companies, developed recommendations for further improving the Supervisory Board's activities, and presented these to the Supervisory Board. The plenum of the Supervisory Board discussed the results and will adopt the consultant's recommendations.

In its fall 2010 meeting, the Supervisory Board also dealt with the amendments to the German Corporate Governance Code resolved by the Government Commission in May 2010. The Supervisory Board decided to follow the new regulations and suggestions. In this context, the Supervisory Board asked the Chairman's Committee to prepare set objectives for the future composition of the Supervisory Board that take into account such matters as diversity and especially providing for sufficient female participation. The Supervisory Board and Executive Board agreed a corresponding updated declaration in accordance with Section 161 of the German Stock Corporation Act (*Aktiengesetz – AktG)* on October 18, 2010. More details can be found in the Corporate Governance Report (page 18 et seq.).

Annual and consolidated financial statements

The annual financial statements as of December 31, 2010, prepared in line with the requirements of the German Commercial Code (*Handelsgesetzbuch – HGB*), the 2010 consolidated financial statements and the Management Reports for the company and the corporation were reviewed in terms of the accounting, the accounting-related internal control system and the system for early risk recognition by KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover ("KPMG"). The report by the Executive Board on relationships with affiliated companies in accordance with Section 312 *AktG* (dependent company report) was also reviewed by KPMG. The 2010 consolidated financial statements of Continental AG were prepared in accordance with the International Financial Reporting Standards (IFRS). The auditor issued unqualified audit opinions. In terms of the system for early risk recognition, the auditor found that the Executive Board had taken the necessary measures under Section 91 (2) *AktG* and that the company's system for early risk recognition is suitable for identifying developments at an early stage that pose a risk to the company as a going concern. KPMG issued the following unqualified audit opinion on the dependent company report in accordance with Section 313 (3) *AktG*:

"Based on the results of our statutory audit and evaluation we confirm that:

- the actual information included in the report is correct,
- payments by the company in connection with the legal transactions listed in the report were not unduly high or that disadvantages had been compensated for, and
- there are no circumstances in favor of a significantly different assessment than that made by the Executive Board in regard to the measures listed in the report."

The documents relating to the annual financial statements, including the dependent company report, and the audit reports were discussed with the Executive Board and the auditor in the Audit Committee meeting on February 21, 2011. They were also discussed at length at the Supervisory Board's meeting to approve the annual financial statements on March 11, 2011. The required documents were distributed to all members of the Audit Committee and the Supervisory Board in good time before these meetings so that the members had sufficient opportunity to review them. The auditor was present at these discussions. The auditor reported on the main results of the audits and was available to provide additional information to the Audit Committee and the Supervisory Board. Based on its own review of the annual financial statements, the consolidated financial statements, the company management report, the corporation management report and the dependent company report including the final declaration of the Executive Board, and based on the report and the recommendation of the Audit Committee, the Supervisory Board agreed with the results of the auditor's audit. There were no objections. The Supervisory Board approved the annual financial statements and the consolidated financial statements. The annual financial statements are thereby adopted.

Personnel changes on the Supervisory Board and Executive Board

Dr. Thorsten Reese, the Supervisory Board member representing the executive staff, retired effective April 30, 2010, and therefore stepped down from the Supervisory Board. His elected replacement Mr. Artur Otto, sales and marketing director of Continental Engineering Services, succeeded him on May 1, 2010, as a member of the Supervisory Board. Mr. Hartmut Meine was elected as an Audit Committee member to replace Dr. Reese. On November 29, 2010, Mr. Rolf Koerfer resigned as a Supervisory Board member with immediate effect. The Hanover Local Court (*Amtsgericht*) appointed Prof. Siegfried Wolf on December 6, 2010, to succeed him. At its meeting on December 14, the Supervisory Board elected Mr. Georg F. W. Schaeffler as the additional shareholder representative on the Chairman's Committee to replace Mr. Koerfer. The Supervisory Board would again like to thank Dr. Reese and Mr. Koerfer for their considerable contributions to the success of the company. More information on the Supervisory Board members and the members of its committees who were in office in the year under review can be found on pages 248 and 249.

There were no changes to the Executive Board in 2010. The additional Executive Board members appointed by the Supervisory Board on October 19, 2009 – Mr. Wolfgang Schäfer (Finance, Controlling, IT and Law) and Mr. José A. Avila (Powertrain division) – entered office on January 1, 2010.

The Supervisory Board extends its thanks to the Executive Board, all the employees and the employee representatives for their excellent work in the past year. They have taken up diverse challenges and put the company back on the path to success.

Hanover, March 11, 2011

For the Supervisory Board

Sincerely,

Prof. Dr. Ing. Wolfgang Reitzle
Chairman

Corporate Governance Report and Declaration Regarding Key Management Practices

Our Corporate Governance Principles are the basis of our success in the interests of all stakeholders.

Good and responsible corporate governance geared towards sustainable, long-term value creation is the measure that governs the actions of the Executive Board and Supervisory Board of Continental AG, and the basis of the company's success in the interests of all its stakeholders. In the following, the Executive Board and Supervisory Board report on corporate governance at Continental in accordance with our Corporate Governance Principles, Item 3.10 of the German Corporate Governance Code and Section 289a of the German Commercial Code (*Handelsgesetzbuch – HGB*). The report is supplemented by the Remuneration Report of Continental AG, which is part of the company's Management Report.

Continental AG's Corporate Governance Principles are closely modeled on the German Corporate Governance Code. 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

In line with the law and the Articles of Incorporation, the company's executive bodies are the Executive Board, the Supervisory Board and the Shareholders' Meeting. As a German stock corporation, Continental AG has a dual management system characterized by a strict personnel division between the Executive Board as the management body and the Supervisory Board as the monitoring body.

The Executive Board and its practices

The Executive Board has sole responsibility for managing the company free from instructions from third parties in accordance with the law, the Articles of Incorporation, the Executive Board's By-Laws, while taking into account the resolutions of the Shareholders' Meeting. Regardless of the principle of joint responsibility, whereby all members of the Executive Board equally share responsibility for the management of the company, each Executive Board member is responsible for the areas entrusted to him. The chairman of the Executive Board is responsible for the company's overall management and business policy. He ensures management coordination and uniformity on the Executive Board and represents the company to the public. The Executive Board currently has eight members. Further information on the members and their responsibilities can be found on page 247.

The Executive Board has By-Laws which regulate in particular the allocation of duties among the Executive Board members, key matters pertaining to the company and its subsidiaries that require a decision to be made by the Executive Board, the duties of the Executive Board chairman, as well as the process in which the Executive Board passes resolutions. 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.

The Supervisory Board and its practices

The Supervisory Board appoints the Executive Board and supervises and advises it in the management of the company. 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.

Composition of the Supervisory Board

In accordance with the German Co-determination Act (*Mitbestimmungsgesetz – MitbestG*) 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. The current term of office of all members of the Supervisory Board ends with the conclusion of the 2014 Annual Shareholders' Meeting. On pages 248 and 249 of this Annual Report, you can find the current composition of the Supervisory Board as well as additional information on its members.

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.

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 Supervisory Board meetings, the duty of confidentiality, on handling conflicts of interest, the Executive Board's reporting obligations, and a list of legal transactions that require approval from the Supervisory Board.

Committees of the Supervisory Board

The Supervisory Board currently has four committees: the Chairman's Committee, the Audit Committee, the Nomination Committee and the committee that must be formed in line with Section 27 (3) of the *MitbestG* (Mediation Committee). The members of the committees are listed on page 251 of this Annual Report.

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, the plenum of the Supervisory Board alone is responsible for establishing the total 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 German Stock Corporation Act (*Aktiengesetz – AktG*). 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.

In accordance with Section 31 (3) Sentence 1 of the *MitbestG*, the Mediation Committee becomes active only if the first round of voting on a proposal to appoint a member of the Executive Board or his joint removal does not have the legally required two-thirds majority. 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 14 et seq.

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

Shares representing 42.17% 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 June 29, 2010. As of February 8, 2011, 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, 2011, 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 accordance with Section 15a of the German Securities Trading Act (*Wertpapierhandelsgesetz – WpHG*), members of the Executive Board and Supervisory Board of Continental AG and their related parties must disclose the acquisition and disposal of shares of the company and of financial instruments related thereto. In fiscal year 2010, Continental AG gave notice in line with Section 15a *WpHG* to the effect that two members of the Executive Board had obtained a total of 310 shares by exercising subscription rights.

Shareholders and the Annual Shareholders' Meeting

The company's shareholders exercise their rights of codetermination and control at the Annual Shareholder's Meeting. The Annual Shareholders' Meeting, which is held in the first eight months of every fiscal year, decides on all issues assigned to it by law such as the appropriation of profits, election and dismissal of Supervisory Board and Executive Board members, appointment of auditors, and amendments to the company's Articles of Incorporation. 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.

All shareholders who register in a timely manner and prove their entitlement to participate in the Shareholders' Meeting and to exercise their voting rights are entitled to participate in the Shareholders' Meeting. To facilitate the exercise of their rights and to prepare them for the Shareholders' Meeting, the shareholders are fully informed about the past fiscal year and the points on the upcoming agenda before the Shareholders' Meeting by means of the Annual Report and the invitation to the meeting. All documents and information on the Shareholders' Meeting, including the Annual Report, are also published on the company's website in German and English. To facilitate the exercise of shareholders' rights, the company offers all shareholders who cannot or do not want to exercise their voting rights themselves the opportunity to vote at the Shareholders' Meeting via a proxy who is bound by instructions.

Declaration in accordance with Section 161 of the *AktG* and deviations from the German Corporate Governance Code

The Government Commission on the German Corporate Governance Code resolved another series of amendments to the Code in 2010. 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.

On October 18, 2010, the Executive Board and the Supervisory Board issued the following annual declaration in accordance with Section 161 of the *AktG*:

"The Executive Board and the Supervisory Board of Continental AG declare in accordance with Section 161 of the *AktG* that the company has complied with and will comply with the recommendations issued by the 'Government Commission on the German Corporate Governance Code' (as amended on May 26, 2010, and published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette (*elektronischer Bundesanzeiger*) on July 2, 2010), subject to the following limitations. This refers to the Declaration of the Executive Board and Supervisory Board of October 19, 2009, regarding the recommendations of the German Corporate Governance Code in the version dated June 18, 2009.

- Section 2.3.2 recommends that the convening notice to the annual general meeting and the documents relating thereto should be sent electronically to all domestic and foreign financial services providers, shareholders, and shareholders' associations. The company cannot fulfill this recommendation because shares of the company are bearer shares (Article 5 of the Articles of Incorporation), which means that it is not feasible to identify all possible recipients.

- Under Section 5.4.1, the Supervisory Board shall specify concrete objectives regarding its composition which, whilst considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, an age limit to be specified for the members of the Supervisory Board, and diversity. These concrete objectives shall, in particular, stipulate an appropriate degree of female representation. The Supervisory Board has resolved to follow the recommendations in Section 5.4.1, and has tasked a committee to prepare the resolution on the objectives for the Supervisory Board. After agreeing on the objectives, the Supervisory Board will publish them in accordance with the Code.

Hanover, October 18, 2010

Prof. Dr. Ing. Wolfgang Reitzle
Chairman of the Supervisory Board

Dr. Elmar Degenhart
Chairman of the Executive Board"

The declaration was made permanently available to shareholders on Continental's website. Earlier declarations in accordance with Section 161 of the *AktG* 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.

- With regard to the suggestion in Section 2.3.4 of the Code, 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 and therefore do not follow this suggestion.

The Corporate Governance Principles of Continental AG are published on the Internet at:
www.continental-corporation.com.

Key management practices

In addition to the Corporate Governance Principles, the following principles are also a key basis of our long-term responsible corporate governance:

- The BASICS – Continental AG's corporate guidelines
  The BASICS, our corporate guidelines, have reflected the vision, values and self-image of the corporation since 1989. At the same time, the BASICS are intended to aid in shaping our future.

- Compliance
  Compliance with all laws applicable to our business activities and all internal guidelines has long been a permanent cornerstone of our corporate culture. The Executive Board considers one of its main duties to be ensuring compliance through appropriate measures. To further improve compliance activities and make them even more effective, a global compliance organization with a central compliance department was established. It reports to the Corporate Compliance Officer. The compliance department's work focuses in part on the prevention of corruption and non-compliance with antitrust laws, rules governing competition, and property crimes.

- Code of conduct
  Continental AG is convinced that long-term corporate success depends to a considerable degree on the ability to make business relations responsible on a sustainable basis. Against this background, the corporation voluntarily introduced a global Code of Conduct in the spirit of voluntary self-regulation.

  The Code of Conduct describes the basic values and rules that are binding for all Continental employees in their day-to-day work and in dealing with co-workers, customers and other corporate interest groups.

- Corporate social responsibility
  For the Continental Corporation, sustainable responsible action means striking a balance that is acceptable to all involved between the economic needs of the company and the justified expectations of its interest groups. With this aim in mind, the Executive Board adopted the Corporate Social Responsibility (CSR) Guideline in June 2008.

The aforementioned documents are available on the company's website at:
www.continental-corporation.com.

Accounting
The Continental Corporation's accounting is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. This Annual Report has more information on IFRS 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 German Commercial Code (*Handelsgesetzbuch*).

Internal control system and risk management
Careful corporate management and good corporate governance also require that the company deal with risk in a responsible manner. Continental has a corporation-wide internal control and risk management system, especially in terms of the accounting process, that helps analyze and manage the company's risk situation. The risk management system serves to identify and evaluate developments that could trigger significant disadvantages and to avoid risks that would endanger the continued existence of the company. The internal control and risk management system is described in detail in the Risk Report on page 114 et seq.

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 in German and English which is also available to financial analysts and similar addressees. In particular, the website of Continental AG is utilized to guarantee the timely distribution of information. The company's financial reports, presentations made at analyst conferences as well as press releases and ad-hoc announcements are also available for downloading from the website. 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 2011 and 2012 can be found in the back cover of this Report and on the Internet at:
www.continental-ir.com.

Remuneration Report

In accordance with the German Stock Corporation Act (*Aktiengesetz – AktG*), the specification of remuneration for the Executive Board is reserved for the plenary session of the Supervisory Board. In the fall of 2009, the Supervisory Board thoroughly reviewed and completely reorganized the remuneration structure of the Executive Board with the assistance of an independent advisor.

Executive Board 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 targets relating to the year-on-year change in the Continental Value Contribution (CVC) and the Return on Capital Employed (ROCE). In addition, the Supervisory Board can establish a strategic target at the beginning of every fiscal year. An absence of variable remuneration is possible if certain minimum values are not achieved. To take account of extraordinary developments that have influenced the degree of target achievement, 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 at its reasonable discretion. In each case, this variable remuneration component is capped at 150% of the fixed target bonus. 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 on 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. In addition, the Supervisory Board may revise the amount calculated in such a way by 20% upward or downward retroactively to balance out extraordinary developments, for example a noticeable change in the share price that is wholly or mainly due to external influences. Furthermore, a special bonus may be agreed for particular projects in individual cases, and a recognition bonus may be granted.

The employment contracts of Executive Board members Dr. Hans-Joachim Nikolin and Heinz-Gerhard Wente, who are still in office and 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 German Act on the Appropriateness of Management Board Remuneration (*Gesetz zur Angemessenheit der Vorstandsvergütung – 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 that was adjusted on July 1, 2010 to the requirements of Section 93 (2) Sentence 3 of the *Aktiengesetz* in the version of the *VorstAG*. 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 agreement is prematurely terminated by mutual agreement before December 31, 2011. 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 German Occupational Pension Improvement Act (*Betriebsrentengesetz – BetrAVG*). 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 the Executive Board member to be agreed, including the additional benefits, shall not exceed the value of two annual salaries nor the value of remuneration 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 or a change of control in the company. In fiscal year 2010, they neither received nor were promised payments 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 year under review and the previous fiscal year, broken down into fixed and variable components, and the individual pension expense, 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. José A. Avila was assured that the short-term components of his variable remuneration for 2010 would be at least €360 thousand. In addition, the Supervisory Board awarded him a recognition bonus of €225 thousand for fiscal year 2010. Payment of this bonus will be made in the same manner as the long-term component of his variable remuneration. Former Executive Board member Gerhard Lerch received compensation for the period of a restrictive covenant lasting until September 29, 2010. In calendar year 2010, he was paid €509 thousand (PY: €687 thousand) in this context. Further details of the stock option plans are given in Note 24 to the consolidated financial statements.

Remuneration of the Executive Board in 2010

in € thousands	Remuneration components				
	Fixed[1]	Variable, short-term	Variable, long-term[2]	Total	Share-based payment[4]
Dr. E. Degenhart	1,233	594	891	**2,718**	980[2]
J. A. Avila	690	360	551	**1,601**	551[2]
Dr. R. Cramer	636	480	721	**1,837**	782[2]
H. Matschi	630	270	405	**1,305**	466[2]
Dr. H.-J. Nikolin	633	320	479	**1,432**	834[2,3]
W. Schäfer	1,036	457	686	**2,179**	686[2]
N. Setzer	636	540	810	**1,986**	871[2]
H.-G. Wente	788	508	762	**2,058**	1,036[2,3]
Total	**6,282**	**3,529**	**5,305**	**15,116**	**6,206**

[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, including recognition bonuses.

[3] The amount of personnel expenses carried in the consolidated financial statements (compensation cost) in 2010 for stock options granted and redeemed in previous fiscal years under the 2004 and 2008 stock option plans.

[4] Includes changes in the value of the virtual shares granted in previous years.

Remuneration of the Executive Board in 2009

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

[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.

Long-term component of share-based payment

The amounts of variable remuneration converted into virtual shares of Continental AG changed as follows in the year under review:

in € thousands	Outstanding at Jan. 1, 2010	Weighted fair value	Additions	Weighted fair value	Disposals	Amount paid out	Outstanding at Dec. 31, 2010	Weighted fair value
Dr. E. Degenhart	—	—	304	392	—	—	304	392
J. A. Avila	—	—	—	—	—	—	—	—
Dr. R. Cramer	—	—	210	271	—	—	210	271
H. Matschi	—	—	210	271	—	—	210	271
Dr. H.-J. Nikolin	—	—	—	—	—	—	—	—
W. Schäfer	—	—	—	—	—	—	—	—
N. Setzer	—	—	210	271	—	—	210	271
H.-G. Wente	—	—	—	—	—	—	—	—
Total	**—**	**—**	**934**	**1,205**	**—**	**—**	**934**	**1,205**

Post-employment obligations and service costs

The defined benefit obligation (DBO) for all pension commitments for the active members of the Executive Board, as well as the service cost calculated for the respective fiscal year in accordance with international accounting standards, are presented below:

	Defined benefit obligation		Service cost	
in € thousands	**Dec. 31, 2010**	**Dec. 31, 2009**	**2010**	**2009**
Dr. E. Degenhart (since August 12, 2009)	1,111	292	681	265
J. A. Avila (since January 1, 2010)	545	—	541	—
Dr. R. Cramer (since August 12, 2009)	285	88	207	81
H. Matschi (since August 12, 2009)	374	103	240	94
Dr. H.-J. Nikolin	4,315	2,865	146	130
W. Schäfer (since January 1, 2010)	696	—	703	—
N. Setzer (since August 12, 2009)	248	65	153	59
H.-G. Wente	4,023	2,279	67	56
Dr. K.-T. Neumann (until August 12, 2009)[1]	n/a	n/a	—	178
Dr. A. Hippe (until February 28, 2009)[1]	n/a	n/a	—	25
Total	**11,597**	**5,692**	**2,738**	**888**

[1] The defined benefit obligation was omitted for Executive Board members who left the company in the previous year. We refer to Note 39 for details of pension obligations for former members of the Executive Board.

2004 and 2008 stock option plans

	Number of subscription rights		Payments[1] (in € thousands)		
	Dec. 31, 2010	**Dec. 31, 2009**	**2009**	**2010**	**2011**
Dr. K.-T. Neumann (until August 12, 2009)	—	—	59	—	—
Dr. A. Hippe (until February 28, 2009)	—	—	100	—	—
Dr. H.-J. Nikolin	—	—	106	38	96
H.-G. Wente	—	—	76	12	96
Total	**—**	**—**	**341**	**50**	**192**

[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. This remuneration also has fixed and variable components. The variable part depends on the consolidated net income per share for the past 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. As recommended by the German Corporate Governance Code, the deductible has also been in line with the requirements of the *VorstAG* since July 1, 2010.

In the past year there were no consultant agreements or other agreements for the provision of services or work between the company and members of the Supervisory Board or related parties.

Remuneration of individual Supervisory Board members in 2010 as provided for under these arrangements is presented in the following table.

Remuneration of the Supervisory Board

in € thousands	Remuneration components			
	2010		2009	
	Fixed[1]	Variable	Fixed[1]	Variable
Prof. Dr.-Ing. Wolfgang Reitzle (since September 28, 2009)	84	22	19	–
Dr. Hubertus von Grünberg (until March 6, 2009)	–	–	17	–
Rolf Koerfer (from Feb. 5, 2009 to Nov. 29, 2010)	58	15	73	–
Werner Bischoff	68	17	72	–
Dr. h.c. Manfred Bodin (until April 23, 2009)	–	–	14	–
Dr. Diethart Breipohl (until April 23, 2009)	–	–	21	–
Michael Deister	68	17	73	–
Dr. Gunter Dunkel (since April 23, 2009)	42	11	31	–
Hans Fischl (since April 23, 2009)	68	17	48	–
Dr. Michael Frenzel (until September 15, 2009)	–	–	31	–
Dr. Jürgen Geißinger (since February 5, 2009)	42	11	40	–
Prof. Dr.-Ing. E.h. Hans-Olaf Henkel	42	11	57	–
Michael Iglhaut	46	11	55	–
Jörg Köhlinger (since April 23, 2009)	46	11	32	–
Prof. Dr. Klaus Mangold (since April 23, 2009)	42	11	31	–
Hartmut Meine	52	12	48	–
Dirk Nordmann	46	11	48	–
Jan P. Oosterveld (until January 26, 2009)	–	–	4	–
Artur Otto (since May 1, 2010)	29	7	–	–
Dr. Thorsten Reese (until April 30, 2010)	24	5	73	–
Klaus Rosenfeld (since April 23, 2009)	64	17	44	–
Georg F. W. Schaeffler (since February 5, 2009)	43	11	40	–
Maria-Elisabeth Schaeffler (since February 5, 2009)	42	11	55	–
Jörg Schönfelder	46	11	48	–
Jörg Schustereit (until April 23, 2009)	–	–	17	–
Fred G. Steingraber (until January 26, 2009)	–	–	5	–
Prof. Dipl.-Ing. Jürgen Stockmar (until January 25, 2009)	–	–	4	–
Christian Streiff (until February 3, 2009)	–	–	4	–
Dr. Bernd W. Voss	84	22	89	–
Dieter Weniger (until April 23, 2009)	–	–	16	–
Prof. KR Ing. Siegfried Wolf (since December 6, 2010)	3	1	–	–
Erwin Wörle	46	11	48	–
Total	**1,085**	**273**	**1,157**	**–**

[1] Including meeting-attendance fees.

Management Report

Structure of the Corporation

140 years of innovation and progress.

Continental was founded in Hanover in 1871 as the stock corporation "Continental-Caoutchouc- und Gutta-Percha Compagnie". Manufacturing at the main factory in Hanover included soft rubber products, rubberized fabrics, and solid tires for carriages and bicycles.

In 1898, initial successes in development and production were celebrated with the production of automobile pneumatic tires with a plain tread. At the turn of the century Continental balloon fabric was used to seal the gas cells of the first German airship. In 1904 Continental became the first company in the world to develop grooved tires for automobiles, in 1905 we commenced production of rivet anti-skid tires, similar to the later studded tires, and three years later we invented the detachable wheel rim for touring cars. In 1909, French aviator Louis Blériot was the first person to fly the English Channel. The flying surfaces of his monoplane were covered with Continental Aeroplan material.

In the late 1920s, the company merged with major companies in the rubber industry to form "Continental Gummi-Werke AG".

In 1951 we commenced production of steel cord conveyor belts. In 1955, we were the first company to develop air springs for trucks and buses. Series production of belted tires began in 1960. Around 30 years later we brought the first environmentally friendly tires for passenger cars onto the market.

In 1995 the Automotive Systems division was established to intensify the systems business with the automotive industry. We presented the key technology for hybrid drive systems back in 1997.

Today, Continental ranks among the top 5 automotive suppliers worldwide and holds the number 2 spot in Europe.

As a supplier of brake systems, systems and components for powertrains and chassis, instrumentation, infotainment solutions, vehicle electronics, tires and technical elastomers, Continental contributes to enhanced driving safety and global climate protection. Continental is also a competent partner in networked automobile communication.

With 148,228 employees in 46 countries, the Continental Corporation is divided into the Automotive Group and the Rubber Group, and consists of six divisions:

- **Chassis & Safety** embraces the company's core competence in networked driving safety, brakes, driver assistance, passive safety and chassis components.
- **Powertrain** represents innovative and efficient system solutions for vehicle powertrains.
- **Interior** combines all activities relating to the presentation and management of information in the vehicle.
- **Passenger and Light Truck Tires** develops and manufactures tires for compact, medium-size, and full-size passenger cars, as well as for SUVs, vans, motorcycles, and bicycles.
- **Commercial Vehicle Tires** offers a wide range of truck, bus, industrial, and off-road tires for the most diverse service areas and application requirements.
- **ContiTech** develops and produces functional parts, components, and systems for the automotive industry and for other key industries.

Structure of the Corporation					
Automotive Group			**Rubber Group**		
Sales: €15.9 billion Employees: 86,723			Sales: €10.2 billion Employees: 61,265		
Chassis & Safety	**Powertrain**	**Interior**	**Passenger and Light Truck Tires**	**Commercial Vehicle Tires**	**ContiTech**
Sales: €5.8 billion Employees: 30,495	Sales: €4.7 billion Employees: 26,614	Sales: €5.5 billion Employees: 29,614	Sales: €5.8 billion Employees: 28,276	Sales: €1.4 billion Employees: 7,156	Sales: €3.1 billion Employees: 25,833
• Electronic Brake Systems • Hydraulic Brake Systems • Sensorics • Passive Safety & Advanced Driver Assistance Systems (PSAD) • Chassis Components	• Engine Systems • Transmission • Hybrid Electric Vehicle • Sensors & Actuators • Fuel Supply	• Instrumentation & Driver HMI • Infotainment & Connectivity • Body & Security • Commercial Vehicles & Aftermarket	• Original Equipment • Replacement Business, EMEA • Replacement Business, The Americas • Replacement Business, Asia Pacific • Two-Wheel Tires	• Truck Tires, EMEA • Truck Tires, The Americas • Truck Tires, Asia Pacific • Industrial Tires	• Air Spring Systems • Benecke-Kaliko Group • Conveyor Belt Group • Elastomer Coatings • Fluid Technology • Power Transmission Group • Vibration Control

At December 31, 2010

Divisions and Business Units

In six divisions and 30 business units, we work to make individual mobility safer, more comfortable and more sustainable.

Chassis & Safety Division

With extensive expertise in driving safety, the Chassis & Safety division integrates components and systems in the areas of hydraulic and electric brakes, driver assistance, passive safety, sensors and chassis dynamics. A vehicle that acts and reacts in a networked way reduces the strain on the driver, helping him or her to cope with complex or critical traffic situations. Chassis & Safety develops and produces intelligent systems for an automotive future in which life is protected and injuries avoided. The division integrates the entire spectrum of active and passive safety systems. Active safety systems, like electronic braking and driver assistance systems, warn of imminent dangers and intervene to assist with steering, braking and suspension control. Passive safety systems, such as airbags and pedestrian protection, provide the best possible protection in the event of an accident. Our product portfolio includes electronic and hydraulic brake and stability control systems, driver assistance systems, airbag electronics, and electronic air suspension systems and sensors. We are convinced that, thanks to innovative technologies, accident-free driving will be possible in the future – for all vehicle categories and in all markets of this world.

Chassis & Safety has 57 manufacturing sites in 19 countries. The 30,495 employees generated sales of €5.8 billion in 2010. The division is divided into five business units:

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

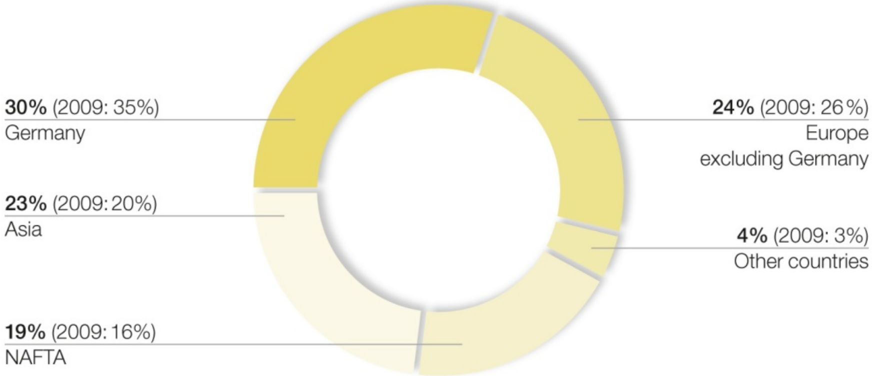
The **Electronic Brake Systems** business unit provides highly advanced braking technology for all vehicle types. It can be used in vehicles ranging from small cars right through to transportation vehicles. Our electronic brake systems feature a high capacity for integrating functions and system components. EBS incorporates ABS (anti-lock braking system) and ESC (electronic stability control) systems 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** 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, drum brakes and parking brakes through actuation units to brake hoses and brake fluids.

Sensors are of fundamental importance to the functions of electronic vehicle control. The fast and precise detection of rotational speeds, deflections, movements and forces which affect the vehicle is the **Sensorics** unit's core competence. This unit develops and manufactures the technologies for implementing the transducers as well as the necessary hardware and software for its own sensors itself. This is done in an integrated network comprising the electronic control units for ABS, TCS (traction control system) and ESC. Our sensors also support engine management and transmission control units, chassis control systems and steering systems.

Driver assistance systems and passive safety electronics help save lives and form the focus of the **Passive Safety & Advanced Driver Assistance Systems** (PSAD) business unit. Driver assistance systems such as the emergency brake assist and blind spot detection help the driver to drive safely and in a controlled manner at all times. Assistance systems act discreetly in the background, as an individual function or as part of a network: with environment sensors such as cameras, infrared or radar they ensure maximum safety by looking ahead. In turn, airbag technologies and pedestrian protection help provide optimum protection in the event of an accident.

Chassis & Safety Division: Sales by region
(at December 31, 2010)



The **Chassis Components** business unit specializes in integrated systems in chassis management, active safety and driving efficiency. It develops and produces solutions for electronic-based active chassis technology which assists the driver in keeping the vehicle under control in all driving situations. Electric steering generates significant fuel savings for all vehicle categories. The intelligent gas pedal AFFP® makes CO_2 reduction tangible for the driver. The innovative windshield washing systems optimize the consumption of resources and ensure safe visibility.

Market positions

The division is the world leader in electronic and hydraulic brake systems, driver assistance systems, air suspension systems, wheel speed and chassis sensors and airbag electronics, among further products. We are number two for drum brakes and brake hoses.

Opportunities for future growth

Thanks to convincing new products (driver assistance systems, steering, electric parking brake), higher installation rates (for ABS and ESC, sensors, passive safety) and greater market penetration, Chassis & Safety is optimally positioned for the future. The growth market Asia and the international legislation with regard to ABS, ESC, airbags and driver assistance systems will be particularly crucial here. We see good opportunities in all markets and regions for profitable and sustainable growth with functions of our ContiGuard® safety system. Under the motto “safety for all”, we will provide scalable technologies for all vehicle categories and all markets, thus offering a highly extensive portfolio in industrialized and growth markets. We are supporting the current topics of environmental protection and electromobility by reducing the weight of components, by offering brake energy recovery, and with the development of our intelligent gas pedal, among other things.

Powertrain Division

The Powertrain division integrates innovative and efficient powertrain system solutions into vehicles of all categories. The goal is to not only make driving more affordable and environmentally sound, but to increase driving comfort and pleasure as well. With our comprehensive portfolio of gasoline and diesel systems including sensors, actuators and tailor-made electronics through fuel supply systems, engine management and transmission control units down to design solutions for hybrid and electric drives, we offer our customers a full range of systems and components.

The Powertrain division has 60 production sites in 22 countries. In the year under review, its 26,614 employees generated sales of €4.7 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 engine management systems for a clean environment. 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 aftertreatment technologies. Extensive expertise with regard to software and system integration, calibration and simulation complete the offering.

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. The range also includes high-end systems and cost-effective solutions for growth markets. The product portfolio extends from external control devices through to mechatronics integrated into the transmission, including sensors and electric or hydraulic actuators.

With the potential to save fuel and cut emissions by 25% and more, plus a significant increase in torque, the hybrid drive and the all-electric drive are major alternatives 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 covers all key components for future drive types. These modules can be adapted to specific vehicle requirements worldwide – from compact vehicles through SUVs to trucks.

The primary goal of the **Sensors & Actuators** business unit is to reduce the CO_2 emissions of vehicles of all categories. Intelligent sensors and actuators combined with engine management systems allow for dynamic diesel and gasoline engines that not only fulfill current emission standards but are optimally prepared for future regulations for many years to come. Our product portfolio covers all key requirements in the powertrain area – from turbochargers to exhaust gas aftertreatment – and comprises both solutions for combustion engines and transmission and also for hybrid and electric vehicles.

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 customized systems with maximum functionality. With new pioneering technologies such as on-demand fuel supply, we make an active contribution to CO_2 reduction.

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.

Powertrain Division: Sales by region
(at December 31, 2010)

Opportunities for future growth

Stricter legislation on emissions – for example, 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 expertise and our 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 the respective requirements profile. Examples include combining gasoline direct injection with exhaust gas turbocharging for high-efficiency gasoline engines in order to further reduce fuel consumption, or combining diesel engine technology with precise and rapid piezo technology in order to further reduce emissions, as well as innovative technologies for hybrid through to all-electric vehicles.

Further advances in exhaust gas aftertreatment and an open system architecture in powertrain management for integrating the growing number of functions in the vehicle will also increasingly gain in importance.

Interior Division

The Interior division combines all activities relating to the presentation and management of information in the vehicle. Filtering, prioritizing and visualizing information in an intuitively comprehensible way are essential to get the most out of that information. Here the division focuses in particular on optimizing the human-machine interfaces. Starting with people and their needs, we develop solutions for networking the vehicle with its driver and passengers with mobile devices, other vehicles, and the outside world. With our vision, expressed in the motto “Always On”, we view the networked vehicle of the future as a partner that supports the driver and passengers.

Interior has production facilities at 60 locations in 23 countries. With 29,614 employees, the division achieved sales of €5.5 billion in fiscal 2010, 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 multifunctional display instruments. One 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 elements and control units for the intuitive operation of various functions, for example for air conditioning, as well as integrated systems and complete cockpit modules.

The **Infotainment & Connectivity** business unit works on connecting vehicles with the outside world and integrating 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 access 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 motorist can concentrate fully on driving.

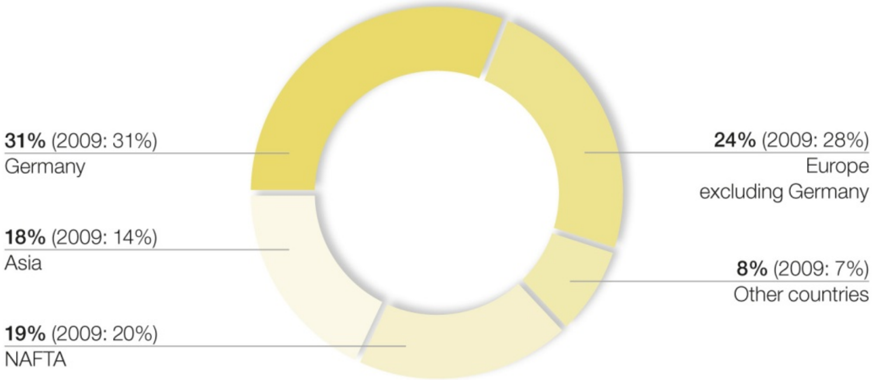
The **Body & Security** business unit develops and produces electronic systems for vehicle access, for rendering key-interlock systems reliable, and for ensuring that safety and comfort functions are available. The unit’s range of products includes the necessary components for immobilizers, alarm systems 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 and enable the ignition. The seat systems provide comfort and the battery and energy management systems maintain a vehicle’s roadworthiness while also helping to reduce fuel consumption. One very topical feature is the tire pressure monitoring systems.

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. The 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.

Interior Division: Sales by region
(at December 31, 2010)



Opportunities for future growth

Thanks to our possibilities for adapting the existing product portfolio to all vehicle categories, we expect future growth in the affordable vehicles segment, particularly in Asia.

New legislation in Europe, the U.S.A. and Brazil opens up further growth potential in the area of telematics, for example with electronic emergency call systems, traffic management technologies and intelligent theft protection systems which allow stolen vehicles to be tracked using satellite technology. In addition, customer requirements for telematics systems used in commercial vehicles and electric cars are increasing. Overall, we stand to profit from the trend towards integration of the Internet and other infotainment functions.

The field of tire pressure monitoring systems will benefit from new regulations regarding the installation of these systems in new vehicles in the European Union, Japan and Korea.

We also expect strong growth in displays for the automotive industry. Our research and development staff work continuously on solutions that reduce the burden on the driver and contribute to greater comfort when driving. These include, for example, freely programmable instrument clusters, integrated adaptive operating concepts, head-up displays and 3D displays.

Passenger and Light Truck Tires Division

Car safety starts with the car's tires. The demands placed on them are enormous since one meter of braking distance can make a crucial difference. After all, the car's full braking force is transmitted to the road solely via four postcard-size contact patches. Continental passenger and light truck tires provide superb vehicle-road contact in all types of weather. Requirements for our tires may vary, but one thing always holds true: nothing is more important to us and our customers than safety. 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 twelve countries.

The division has production facilities at 27 locations in 16 countries and a workforce of 28,276. It generated sales of €5.8 billion in 2010. Passenger and Light Truck Tires comprises five business units:

- Original Equipment
- Replacement Business, EMEA
- Replacement Business, The Americas
- Replacement Business, Asia Pacific
- Two-Wheel Tires

The **Original Equipment** business unit represents global business with the automotive industry. In close consultation with automotive manufacturers, we carefully plan all tire details for every new car to be marketed. Thanks to the innovative ideas of the research and development department and its decades of experience, every Continental tire combines safety with individual requirements, for example minimized rolling resistance and maximized driving comfort. 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 the self-supporting runflat technology (SSR), which means tires have a reinforced sidewall to support them in the event of a puncture and allows continued driving at reduced speed; ContiSeal technology, a viscoelastic material that seals tires from the inside if the tread is damaged; and the ContiComfortKit, a kit consisting of a compressor and sealant for conveniently sealing tire punctures.

Replacement Business is divided into the business units of **EMEA** (Europe, Middle East, Africa), **The Americas** (Canada, North, Central and South America) and **Asia Pacific** (Asia and the Pacific region). 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 product portfolio of **Two-Wheel Tires** ranges from bicycle tires (city, trekking, mountain bike and high-performance racing tires) as well as motorcycle tires (scooter, Enduro and high-performance road tires, some of which are approved for speeds up to 300 km/h). The tires are sold as original equipment and as replacement tires. Continental offers products for professional riders and hobby riders alike.

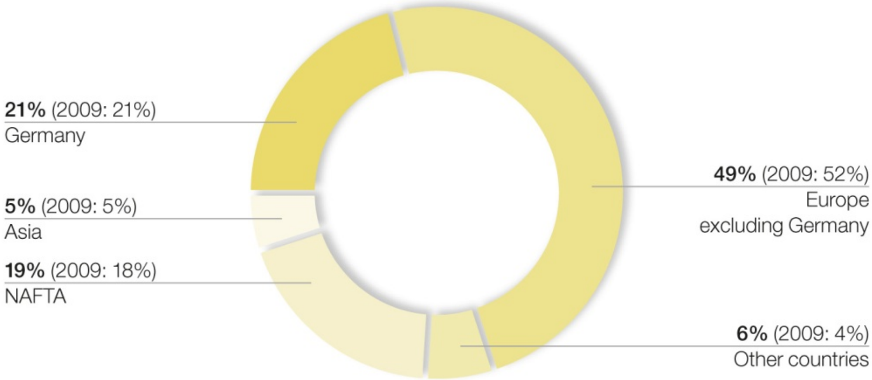
Market positions

Continental is the number four company worldwide for passenger and light truck tires. We are the market leader in Europe. This applies both to the original equipment sector, where nearly every third vehicle in Europe rolls off the line on our tires, as well as to winter tires and custom wheels. For the very first time, more than 20 million winter tires were sold worldwide in 2010.

Distribution of sales

25% of sales in the Passenger and Light Truck Tires division relates to business with vehicle manufacturers, and 75% relates to the replacement business.

Passenger and Light Truck Tires Division: Sales by region
(at December 31, 2010)



Opportunities for future growth
In the next few years, we also intend to grow with new products, especially in the attractive ultra-high performance segment, based on leading technologies. With this in mind, our engineers developed the ContiSportContact™ 5P super sports tire and the ContiForceContact (a racing tire approved for the road) in the year under review, and both have received extremely positive assessments from vehicle manufacturers and test magazines. The new ContiSportContact™ 5 follows in spring 2011 with its official world premiere. Further new products with special regional designs are in development for North and South America and Asia.

In the next few years, expanding capacity in the BRIC countries (Brazil, Russia, India, China) will play a key role in tapping additional growth opportunities. Our sponsorship of the FIFA World Cup 2014™ in Brazil helps to steadily increase the awareness of our premium Continental tire brand worldwide.

After the negative market forecasts for the EMEA region (Europe, Middle East, Africa) at the beginning of 2010, we experienced a surprisingly positive shift in the market and our sales figures there last year significantly exceeded our planned figures. Our facilities put in an outstanding performance in the year under review, which also allowed us to achieve a substantial year-on-year improvement in sales for this region. Global sales of winter tires exceeded the record figure of 20 million passenger and light truck tires, with the highest growth being attributable to the EMEA region, and clearly showing that EMEA is the most important sales region by far. We gradually expanded our sales activities in the Middle East, Near East, North Africa region. We expect that tapping this populous region will provide additional boosts to the summer tire business in the EMEA region in the coming years.

We again expanded faster than the market in The Americas region in the year under review. We thus further improved our market positions in the original equipment business, which is picking up again, as well as in the replacement business. The excellent performance characteristics of our products were confirmed in the U.S. by several independent test organizations, which gave them their highest recommendations. The high growth rate in South America persisted in 2010 and is expected to continue. Our tire plant in Camaçari, Brazil, produced at its capacity limit with an output of about 4.6 million passenger and light truck tires in 2010.

Tire sales in Asia developed more positively than anticipated in the year under review. Our new plant for passenger and light truck tires in Hefei, China, with an expected annual capacity of four million tires will play a major role in implementing our expansion plans.

Commercial Vehicle Tires Division

Continental's commercial vehicle tires and services are used in sectors involving the transportation of goods and people, construction site work, and the handling of materials. They represent long tire life, reliable transmission of forces and low fuel consumption, therefore providing economical mobility. 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 unit develops and produces tires of the Continental, Barum, Simex, General Tire, Ameri*Steel and Novum brands.

Commercial vehicle tires are manufactured at 15 locations in ten countries. In the year under review, 7,156 employees generated sales totaling €1.4 billion. The division comprises four business units:

- Truck Tires, EMEA
- 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 tire business is split into three regions: **EMEA** (Europe, Middle East, Africa), **The Americas** (Canada, North, Central and South America) and **Asia Pacific** (Asia and the Pacific region). The original equipment business is organized on a global basis, with near-site operations close to the customer in the regional business units. 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.

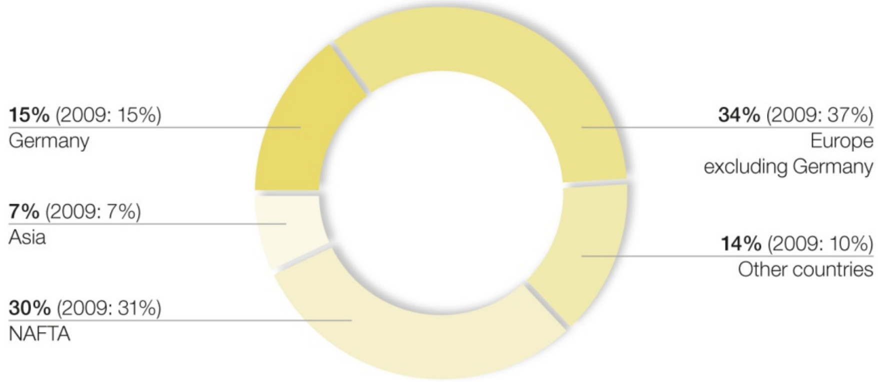
Our customers benefit many times over from using Continental tires. Firstly, the tires demonstrate a high mileage performance and help to substantially improve fuel economy thanks to their low rolling resistance. Secondly, they can be retreaded as part of the ContiLifeCycle concept. Thirdly, our tire range is not limited to just the product itself, but takes account of the entire utilization process with the customers and includes corresponding services for professional tire management.

ContiLifeCycle maximizes the life of the tire and is a key factor in keeping operating costs to a minimum. Continental truck tires can still be used even if the tread is worn off, as they can be re-treaded with no loss in quality. To supplement Continental's new tire range, we have therefore included a hot-retreaded and a cold-retreaded line of tires under the ContiRe and ContiTread brand names.

In our eight key European markets, Conti360°Fleet Services offers our fleet customers, for example transportation companies, comprehensive services by means of a network of select service partners. Conti-360°Fleet Services includes five elements and ranges from choosing the right tire with the ContiFitmentService, through the ContiBreakDownService for fast assistance with a breakdown, to ContiFleetReporting for determining potential savings when it comes to the fleet's tires. Continental's interplay of service and product effectively provides its customers with the optimized total costs for the fleet.

The **Industrial Tires** business unit sells its products worldwide. Continental industrial tires are used on roads, at construction sites, ports, airports, large industrial plants, in the beverage industry – in fact, wherever a lot is moved. This includes, for example, tires used in road gritting and road maintenance applications, in stacking and lifting jobs on forklifts, and in transporting goods on a wide range of surface types. We have a diverse spectrum of products, ranging from solid rubber tires for situations in which avoiding punctures and preventing repairs are the key criteria, to tires with a light-colored tread for food factory applications, for example.

Commercial Vehicle Tires Division: Sales by region
(at December 31, 2010)



Market positions

Worldwide, we are number four in the 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

18% of the Commercial Vehicle Tires division's sales relates to business with vehicle manufacturers and 82% to the replacement business.

Opportunities for future growth

In the year under review, we concluded an off-take and delivery agreement for truck tires in Russia. This gives our sales in the region an excellent starting point for further significant growth. The agreement guarantees Continental the delivery of up to 200,000 truck tires for the Russian market. They are manufactured at the tire plant in Nizhnekamsk, which has an annual capacity of 1.2 million tires. Continental provided technology support during the construction of this production facility.

The Commercial Vehicle Tires division successfully positioned itself as a provider of mobility solutions on the key European markets in 2010 by integrating products and services. Activities in the EMEA region therefore focused on the growing business with fleet customers. The Europe-wide Conti360° network will be expanded from eight to 15 countries in 2011. Since 2010, the ContiBreakdownService has been offered in 37 European countries instead of the previous 25.

Conti360° Fleet Services are also being set up in Asia. They will be introduced there starting in 2012 on the Malaysian and Australian markets and in Thailand in the next step. Tire technology, which is being presented during a truck roadshow in Malaysia in 2011 as well as on other occasions, economy and ContiLifeCycle are also focus areas. Moreover, the business unit is further expanding its product portfolio in the growth segments.

The Americas business unit is also concentrating on speeding up the establishment of ContiLifeCycle solutions in the entire region. In the next one and a half years, tire production and sales will also be increased further – combined with a clear fleet approach.

The Industrial Tires business unit is solidifying its global market presence with local sales organizations to generate above-average growth in America and Asia. We are systematically gaining new clients in our partnership with the tire trade. There is additional growth potential in the successful launch of the new CRT2 radial tire line, which is designed for the extreme requirements in materials handling, and in the launch of the secondary brand Ameri*Steel in the U.S.

ContiTech Division

The ContiTech division is a specialist in rubber and plastics technology. With its high-tech products and systems, ContiTech is a global development partner and OEM to the automotive industry, machine and plant construction, railway engineering and printing industries, the building trade, as well as to the mining, chemical, petrochemical, shipping and aviation industries. 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 56 production locations in 18 countries. In 2010, 25,833 employees generated sales of €3.1 billion. 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 the world's leading development partner and manufacturer of self-adjusting air suspension systems. Its components and complete systems are installed in commercial vehicles, buses, rail vehicles, stationary machines and foundation supports. The unit also offers air actuators for industrial pneumatic systems, as well as rubber compensators, which are used in plant and machine engineering.

The **Benecke-Kaliko Group** is the world's leading manufacturer of surface materials for vehicle interiors. Its products are used, for instance, on instrument panels, door trim panels, center consoles and seats. These innovative interior trim materials protect people, the environment and the climate. Benecke-Kaliko sets the same standards worldwide, thus ensuring that its products are made under the same environmentally compatible conditions over the long term.

The **Conveyor Belt Group** provides solutions for reducing energy consumption and CO_2 emissions. Its smooth-running ContiTech conveyor belts, for example, have an ultra-energy-optimized design. Moreover, they are a much more eco-friendly and economical way of transporting raw materials.

The **Elastomer Coatings** business unit develops and manufactures innovative printing blankets, coated fabrics and diaphragm materials, as well as three-dimensionally engineered products like gas holder diaphragms and flexible tanks. Elastomer Coatings is the world leader for diaphragms for fuel management systems, life raft materials and climate-neutral printing blankets.

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.

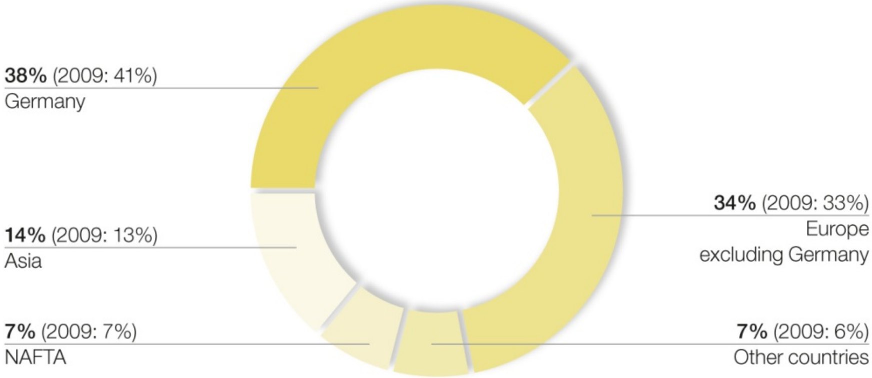
The **Power Transmission Group** is a development partner and manufacturer of everything from drive belts and matched components right up to complete belt drive systems. Its products and systems are used in the automotive industry as well as in machine and plant construction.

The **Vibration Control** business unit is a worldwide recognized specialist in vibration control technology and noise isolation. Products and systems are developed for automotive uses to control vibration and minimize noise in vehicles, in addition to sealing systems for chassis, steering and brake applications. In the industry market segment, this unit is a development partner and an original equipment supplier of parts 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 advanced technical products made of elastomers and plastic components. 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.

ContiTech Division: Sales by region
(at December 31, 2010)



Distribution of sales
54% of sales in the ContiTech division relates to business with vehicle manufacturers, and 46% relates to business with other industries and in the replacement market.

Opportunities for future growth
We continue to see growth opportunities in the Chinese market. The plant in Changshu, China, began operations in 2010 and will be expanded further in 2011. A compounding center will also be integrated there. The Vibration Control, Air Spring Systems and Fluid Technology units produce at this location. Thanks to the takeover of the conveyor belt operations of a Chinese company, the Conveyor Belt Group strengthened its market position. We intend to more than double our sales in China by 2015.

As a result of the planned plant expansions in Ponta Grossa, Brazil, and San Luis Potosí, Mexico, we expect further growth in South America and NAFTA.

We anticipate stronger growth in Eastern Europe thanks to the Conveyor Belt Group's increased production capacity in Serbia.

The Vibration Control business unit expects to generate additional sales from its strong involvement in the global wind power industry.

Organization and Corporate Management

The Continental Corporation comprises Continental AG and 429 companies around the world, including minority holdings.

Organizational structure
The Continental Corporation is an international automotive supplier that comprises Continental AG, a stock corporation under German law, as the parent company and 429 companies around the world, including minority holdings.

The Continental Corporation is organized into six divisions with 30 business units. The divisions and business units are based upon classification according to products and product groups and certain regions. The divisions and business units bear full responsibility for their business, including their results. This organizational structure allows a high degree of flexibility and speedy coordination of operating business across countries and companies, which therefore allows a fast reaction time to technological changes and market developments and an optimal use of resources.

Continental AG's Executive Board has overall responsibility for corporate management. Each of the six divisions is represented on the Executive Board with a separate Executive Board member, while the central units are represented by the Chairman of the Executive Board, the CFO and the Director of Labor Relations. This ensures that strategic management and operational tasks are coordinated. The central units assume cross-divisional functions necessary for corporate management, including Finance and Controlling, Law and Compliance, and Quality Management in particular.

This organizational structure ensures that we can react flexibly and quickly to market conditions and the requirements of our global customers while also optimizing the overall success of the Continental Corporation.

Value management
Continental's financial objectives center on sustainably increasing the enterprise value of each business unit and therefore also the corporation as a whole. The aim is to create added value, meaning that we want to earn a premium on our cost of capital on a permanent basis. We use the following key figures to assess this objective:

- the percentage return on capital employed (ROCE)

  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 quarterly balance sheet dates of the fiscal year.

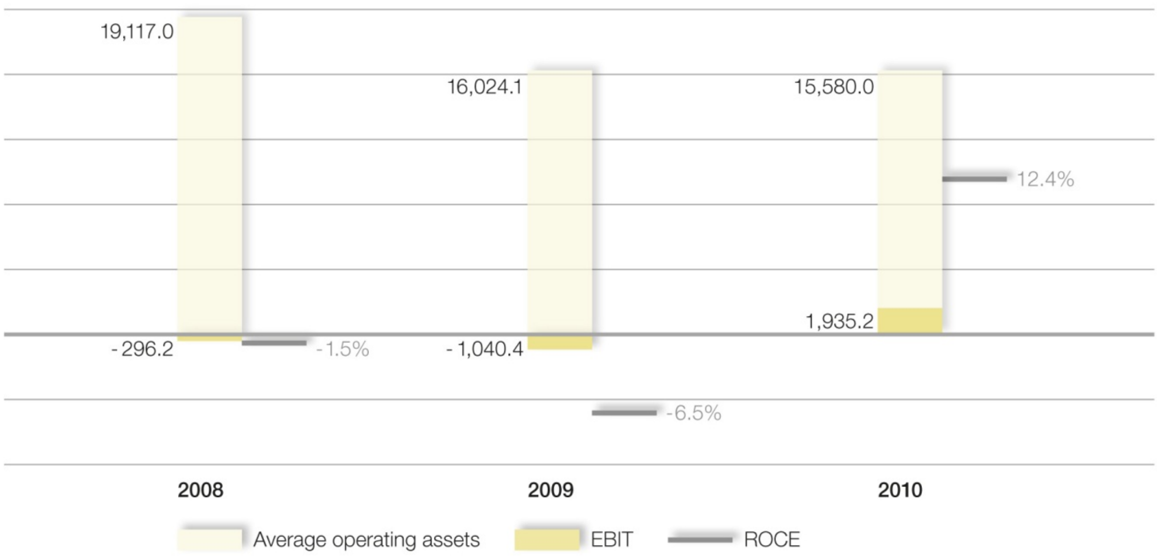
- the CVC (Continental Value Contribution) as the absolute amount of value achieved

  The CVC represents the absolute amount of additional value created, and the Delta CVC represents the change in absolute value creation over the prior year. The CVC is measured by subtracting the weighted average cost of capital (WACC) from the ROCE and multiplying this by the average operating assets for the fiscal year. The weighted average cost of capital calculated for the Continental Corporation corresponds to the required minimum return. The cost of capital is calculated as the weighted average ratio of the cost of equity and borrowing costs. Continental's cost of equity is based on the return from a risk-free alternative investment plus a market risk premium, taking into account Continental's specific risk. The borrowing costs are calculated based on the weighted borrowed capital expense ratio. Since the economic environment is always changing, Continental regularly checks its cost of capital to determine if it is up to date, adjusting it as required.

- 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 resources must be employed more efficiently.

Development of ROCE (in € millions)



Financing strategy

At Continental, the central function Finance & Treasury coordinates the preparation of the necessary financial framework in order to both finance corporate growth and secure the long-term existence of the company. The company's annual investment needs are currently between 5% and 6% of sales. Care is taken to ensure a balanced mix of equity capital and borrowed capital to continually improve the corporation's cost of capital in the prevailing environment. We aim to stabilize the ratio of equity to net financial debt (gearing ratio) within a corridor of 70% to 100%. Deviations from this corridor may be possible for extraordinary financing occasions or under particular market conditions. We are striving for an equity ratio of more than 30%. Our financial debt is to be financed in a balanced mix between bank liabilities and other financing sources on the capital market, whereby we intend to use a wide range of financing instruments for short-term debt in particular. Depending on the market conditions, the corporation strives for liquidity between €0.9 billion and €1.5 billion. The liquidity requirements are particularly dependent on the seasonal nature of individual business units and are also influenced by corporate growth.

As of December 31, 2010, the gearing ratio was 118.0%, explained primarily by the acquisition of Siemens VDO's activities in July 2007 for €11.3 billion as well as the consequences of the financial and economic crisis of 2008 and 2009. It is the aim of the Executive Board to achieve the target corridor by 2012 at the latest and produce key financial figures that support a return to investment grade status. This goal shall be achieved primarily by repaying financial obligations from free cash flow, as well as by increasing the equity from retained earnings. As of December 31, 2010, the equity ratio amounted to 25.4%, and was thus lower than our target.

Gross debt amounted to €9.0 billion as of December 31, 2010. Even after the implementation of a large portion of the refinancing plan begun in 2009, the largest financing instrument remains the VDO loan with a committed volume of €6.48 billion (as of the end of 2010). It consists of tranche C for a nominal amount of €3.98 billion and a revolving line of credit for €2.5 billion (tranche D), with €0.3 billion of the latter having been drawn down as of December 31, 2010. Both tranches have a term until August 2012. The last step of the refinancing plan initiated at the end of 2009 consists of renegotiating parts of or the entire VDO loan in order to further improve the maturity profile of the liabilities.

Gross debt at December 31, 2010 (in € billions)

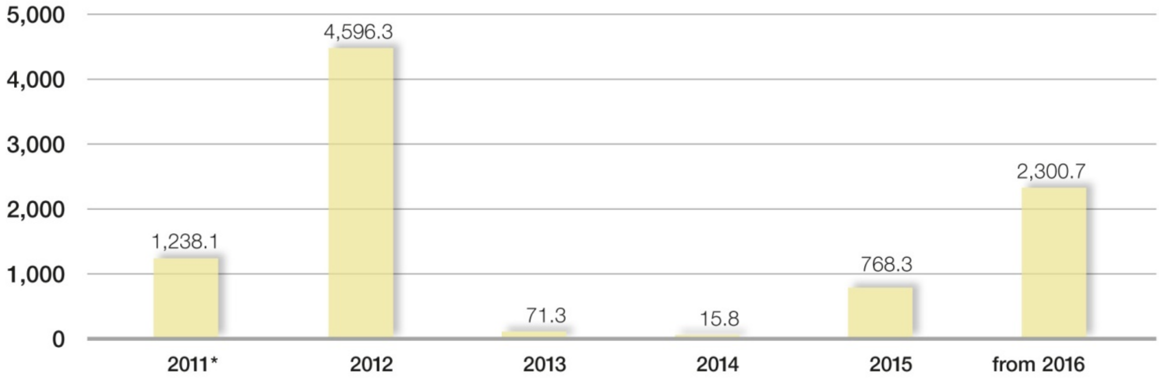
The discussions with the banking syndicate required for this have already begun and are to be concluded in the first half of 2011.

Around one-third of the gross debt is financed via the capital market in the form of bonds with due dates between July 2015 and September 2018. The interest coupons vary, depending on the term of the bond, between 6.5% and 8.5% Repayment amounts on maturity are €625 million each in 2016 and 2018, €750 million in 2015 and €1.0 billion in 2017. All four bonds grant the issuer the right to early repayment under certain conditions. In addition, there are bilateral lines of credit with various banks in the amount of €1.0 billion as of December 31, 2010, as well as a promissory note loan of €110 million and an investment loan from the European Investment Bank of €300 million. In addition to finance leases, Continental's other corporate financing instruments currently include sales of receivables, and commercial paper programs.

Maturity profile

Continental always strives for a balanced maturity profile of its liabilities to be able to repay amounts falling due each year with free cash flow. Significant progress was made here in the past fiscal year, thanks in particular to the bond issues totaling €3.0 billion. In 2011, the promissory note loan of €110 million will become due and payable, among others. However, around half of the gross financial debt will become due in August 2012. Maturities in the years after that are characterized primarily by the bond maturities which will amount to a maximum of €1.0 billion in one respective calendar year. Continental aims to extend the maturity of the existing VDO loan substantially in the ongoing renegotiations.

Gross debt maturity profile (in € millions)



* includes the maturity of the nominal amount of €303.3 million currently drawn down under the revolving line of credit for €2.5 billion (tranche D of the VDO loan) due in 2012

Rating goal

Continental is currently assessed by several rating agencies. Moody's evaluation is B1 Outlook stable, and Standard & Poor's categorizes Continental as B Outlook stable. Continental's goal is 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. By the end of fiscal year 2012 at the latest, the decisive financial ratios of net indebtedness in relation to EBITDA (leverage ratio), net indebtedness in relation to equity (gearing ratio) and the ratio of operating cash flow to net indebtedness (FFO/net indebtedness) as defined by the rating agencies are expected to reach a level characteristic of the investment grade category.

Megatrends and Innovations

We play a major role in shaping the megatrends in the automotive industry.

In the year under review, we developed and launched a number of new products and systems in line with the automotive industry's megatrends that make driving safer, more comfortable and more sustainable. In some cases, they represent several trends rather than just one. Some examples of this are:

Safety megatrend or the vision of accident-free driving

The world's roads are getting more crowded. Increasing traffic heightens people's need for safety. Although the number of fatal accidents has decreased steadily worldwide since 1970 despite the exponentially growing number of vehicles, every accident is one accident too many. Vehicle development focuses on driving safety, collision avoidance and protection during accidents.

As a partner of the AKTIV (Adaptive and Cooperative Technologies for Intelligent Traffic) research initiative, we developed a new driver assistance system that helps the driver stay in his or her own lane and brake at the right time in congested traffic in badly marked and narrow areas. By using a combination of radar and camera technology, the construction site assistance detects lane limits, road users in front of and to the side of the vehicle as well as cars pulling in and out of the lane in front of the vehicle. The system then guides the driver intuitively towards the middle of the lane by means of feedback to the steering wheel, warns of the threat of rear-end accidents and engages active hazard braking in an emergency.

Employing a new technology, we are the first supplier in the world to offer a high-quality truck emergency brake assist with just one single sensor, which cuts costs substantially. The emergency brake assist recognizes standing obstacles on the road and provides the driver with an early warning of a rear-end collision. If the driver does not react appropriately, the system automatically triggers emergency braking. The sensor is used in a major German manufacturer's range of commercial vehicles. Continental is therefore supplying an elementary component for the early recognition of standing hazards and thus the prevention of rear-end collisions, which account for a large share of fatal truck accidents each year on highways.

Environment megatrend or the vision of emission-free driving

Fossil fuels are running out and our air is becoming ever more polluted. The reaction to this is comprehensive legal regulations and sustainable use of resources. The need for environmentally friendly technologies that aim to reduce fuel consumption and emissions is becoming increasingly urgent and is an important growth market in the automotive sector.

Starting in 2011, Continental will be the first automotive supplier to produce an all-electric powertrain for a standard vehicle manufactured by a European carmaker. This means that, in addition to the battery and the power electronics, we are putting the third key component for electromobility into mass production: the engine. With 60 kW or 75 kW depending on the model, our engines provide impressive torque. The electric engine can accelerate from a dead stop like no other combustion engine of the same weight. Thanks to substantial progress made in its compact and lightweight construction, the Continental synchronous engine weighs just roughly 65 kilograms. In comparison, a conventional combustion engine weighs between 80 kilograms (1.2 liter) and 150 kilograms (2.0 liter) excluding transmission, depending on the manufacturer and design type.

Until now, combining short braking distances on wet and dry roads with low rolling resistance was highly problematic. With our new ContiEcoContact 5, we have launched a product onto the market that unifies both. Compared to the previous model, the ContiEcoContact 5 boasts 20% less rolling resistance and 12% better mileage as well as shorter braking distances on wet roads. This means a vehicle with these new tires uses about 3% less fuel than the same car with standard tires. ContiEcoContact 5 is approved for speeds of up to 300 kilometers per hour.

The new Continental HSL2 2 ECO-PLUS XL long-distance tire can carry the increased loads on the front axles of future truck generations. The Euro 6 emissions standard that comes into force at the beginning of 2013 demands that vehicle manufacturers build new engines with more complex exhaust purification and aftertreatment technology. Catalytic converters, exhaust gas recirculation, particulate filters and considerably larger cooling systems greatly increase the load over the truck's front axle. The newly developed long-distance tire, which has 500 kilograms of greater axle load-bearing capacity, also ensures a reduction in fuel consumption thanks to its optimized rolling resistance.

Another factor in reducing fuel consumption and therefore also CO_2 emissions is lightweight construction. Substituting metal with plastic is an important approach here. We were the first automotive supplier to develop heavy-duty power unit mounts made from plastic, thus ushering in the use of much lighter load-bearing components in the automotive industry. These components include engine and transmission mounts, torque rod supports and torque reaction mounts which are up to 50% lighter and require less energy to produce.

Information megatrend or the vision of vehicles linked at all times

Not only is more and more information being exchanged between the driver and the vehicle, the data stream and dialog between vehicles and their environment are also constantly increasing. This requires efficient and transparent information management to reduce the burden on the driver as much as possible and guide him or her quickly and safely through increasing volumes of traffic.

Two European automotive manufacturers decided in favor of Continental's new head-up display. The installation space for the head-up display was reduced by almost half so that it can be installed in smaller models as well. With the head-up display, the carmaker can project various relevant information such as speed, navigation details or even warnings in the direct field of vision of the driver, allowing him or her to concentrate on the traffic without missing important information. This translates to enhanced safety since reading information from the screen in the center console takes about one second, in which time a vehicle driving 50 kilometers per hour has already covered 14 meters.

The Continental Filling Assistant is a new application that records the correct tire pressure directly via the smartphone and will make driving safer and more economical in the future. The vehicle's electronics are connected wirelessly with the driver's smartphone, allowing data to be exchanged quickly. The Filling Assistant shows the exact pressure in each of the car's tires, so optimum tire pressure can be achieved when topping up the air in the tires even if inflation pumps at the filling station do not measure the pressure accurately. When the tire has been inflated to the correct pressure again, an optional short honk and flashing signal will sound to confirm this to the driver. Technical requirements for the system are a tire pressure monitoring system with the corresponding sensors in the tires and factory-integrated vehicle electronics with a wireless interface. The first large-scale installation of the Filling Assistant in new vehicles is slated to start in 2013.

Affordable vehicles megatrend or the vision of affordable mobility for everyone

The affordable cars megatrend encompasses all three of the other trends – safety, environment and information. This market segment, comprising cars costing less than $10,000 or €7,000, is growing steadily. Market observers anticipate that in 2015, this segment will represent about 20% of the global production of vehicles under 6 tons (passenger cars, station wagons, light commercial vehicles). These vehicles are manufactured and sold primarily in the high-growth markets of the future in Asia, but also in Brazil and Eastern Europe.

We develop the right solution for every market and every vehicle to satisfy various customer requirements. The scalability of our systems benefits us a great deal in this respect. We also invest in production sites and research and development centers in high-growth emerging markets to meet rising demand. Our high quality standards apply everywhere to all products, no matter where they are manufactured.

Employees

Our HR policy focuses on supporting and qualifying our employees.

Numerous human resources development programs

In addition to local orientation programs, we offer new graduate employees a detailed overview of the corporation with the Corporate Entry Program. Different training offerings in the program give them the opportunity to expand their qualifications. The core of the program is the Corporate Entry Conference, which took place eleven times worldwide in 2010.

Sixteen talent diagnosis workshops were held around the world in 2010 to identify and foster talented future managers. The goal is to bring out the strengths and development needs of the participants and assess their potential for middle management positions.

New managers are prepared for their new duties in the Leadership Entry Program. In addition to strengthening their social and leadership skills, they learn about the company-specific management culture and are introduced to various management tools in a training session. The training concept is carried out in several countries and adapted to regional and cultural differences if needed.

The International Management Program was conducted for the 16th time with 35 up-and-coming managers taking part in the year under review. In this program, management skills are taught by an internationally-renowned business school and applied and reflected on while working on challenging company projects. Early in July 2010, the eight international teams presented their projects to the Executive Board and others.

In cooperation with external partners, the Corporate Executive Development Program took place for the third time for experienced middle managers. The program focuses on strategy, value creation and leadership.

In the year under review, a comprehensive program was launched in the tire factories to prepare and implement standardized requirement profiles and training manuals for all relevant work processes. In addition to establishing a quality standard for the training process, training evaluation and certification, the program also creates a training network to further mutual support and a speedy interchange of projects.

International assignments on the increase

Employee assignments (commitments of between six months and five years in a foreign country) are taking on an important role in the globalization of our company. Around 800 employees were sent to Continental locations abroad in 2010, for example to support new locations or cover management needs. The trend has been rising for years. Except for a slight drop in 2009, the number of international assignments has increased steadily. The front runner at the regional level has long been Asia with more than 30% of all assignees. The largest “assignee population” is in China with over 160 employees. Around 60% of all assignments were from Germany, while the other 40% were from other countries (third-country assignments).

Making these assignments happen, which is highly complex in terms of taxes, social security and residence permits as well as being challenging for all involved, is undertaken according to a global guideline that ensures fair, attractive and optimal structuring of the foreign assignment from a cost point of view. The central management of all international assignments ensures smooth processing and highly satisfied assignees. This is also confirmed by the results of the biennial satisfaction study and the statements of the return assignees, according to which 90% of those surveyed would recommend an international assignment to their colleagues.

Professional training as a basis for future learning behavior

Professional training is an important part of human resources development at Continental. Our competitiveness is highly dependent on the qualifications of our employees. Initial professional training qualifications are systematically given at the companies, as they are also the foundation of learning behavior for one’s further professional life.

Professional training today faces a wide spectrum of challenges. Fast-spreading new technologies have reached companies of all sizes, which raises questions of qualifications there. Demographic change makes it increasingly difficult to find persons suitably qualified to fill jobs in the companies. The shortage of skilled employees and qualification bottlenecks in operations are signs of this development that are visible even now. For this reason, Continental will concentrate more in the coming years on the qualitative and quantitative structure of its professional training to not only react to but proactively deal with relevant technological and labor market developments.

We are currently training 1,837 (PY: 1,831) young people in Germany and 2,414 (PY: 2,322) young people worldwide in about 20 technical and commercial professions. We are also offering high school graduates the opportunity to combine theory and practice in 17 dual courses of study.

Continental on site – at colleges and universities

To acquire talented and motivated junior staff, it is important to go where you can find them: at colleges and universities. That is why Continental is represented at colleges and universities with various activities. Our Germany-wide activities are bundled in the Key University Concept. We are speaking directly to students at around 30 (mostly technical) colleges and universities. For example, we come in contact with them through our participation at career fairs or through employees who are active ambassadors at these schools. More than 500 employees worldwide are active ambassadors.

Continental also used the 2010 FIFA World Cup™ in South Africa to make this student target group aware of career possibilities at the company. As an official sponsor, we organized around 20 public showings of the games at select partner institutions of higher education, thus reaching over 10,000 students.

Contact with students at international colleges and universities was also further intensified in the year under review. The inclusion of the renowned Tongji University in China now makes nine universities in the network of the Global Engineering Excellence internship program. This initiative, launched in 2005, allows Continental to dedicate itself to training the next generation of engineers for the global workplace.

Marketing at colleges and universities is becoming more important not least because of the shortage of skilled workers. Of the 1,500 university graduates and young professionals expected to be hired worldwide in 2011, around 80% will have technical degrees, so effective marketing at colleges and universities is of vital importance.

Structure of the workforce	Dec. 31, 2010	Dec. 31, 2009
Total number of employees	148,228	134,434
thereof permanent staff	135,802	127,321
outside Germany	92,666	84,249
in Germany	43,136	43,072
Trainees*	1,837	1,831
Female employees in %*	21.9	21.9
Average years of service to the company	14.6	14.0
Average age of employees* in years	42.1	41.8

*in Germany

Environment

REACH stands for Registration, Evaluation and Authorization of Chemicals for the protection of human health and the environment.

REACH stands for Registration, Evaluation and Authorization of Chemicals. In this context, the term chemicals is very broadly defined and, with few exceptions, includes all substances such as metals, cross-linking chemicals and solvents that are manufactured in or imported into the EU. Under the REACH regulation that entered into force on June 1, 2007, and immediately applied to all EU member states, these substances must be registered within set transitional periods at the European Chemicals Agency (ECHA) in Helsinki created for this purpose. To do this, comprehensive data on issues such as toxicity to humans, danger to the environment and the safe use of the substance must be collected in reports and submitted to ECHA. A substantial portion of the substances delivered to Continental had to be registered by December 1, 2010. Dangerous substances require an additional detailed risk assessment for the entire life cycle of the substance.

The REACH list defines selected substances of very high concern (SVHC) that can exist in chemicals or finished products. The REACH regulation stipulates a reporting obligation for the supply chain if such substances are present. At a later time, SVHCs can be either banned or permitted (authorized) for certain uses only. The list of these substances is constantly reviewed and expanded by the EU.

The aim of the REACH regulation is to improve the protection of human health and the environment while maintaining competitiveness and enhancing innovative capability of the EU chemicals industry.

Significance for Continental

The REACH regulation is relevant to both the Rubber Group and the Automotive Group at Continental, since both units use chemicals in their manufacturing processes and the REACH provisions on SVHCs apply to finished products as well.

REACH requirements pertaining to registration are directed primarily at manufacturers and importers who bring chemicals onto EU markets. They must register their substances if the amount exceeds one tonne per year. To ensure the future availability of raw materials, consumables and supplies important to Continental, we check whether our suppliers fulfill their registration obligations. Unregistered substances can no longer be purchased. Some suppliers, especially those outside the EU, had to be thoroughly educated on the new regulation.

Information on the use of the substances is a key element of the registration. These exposure scenarios must prove the safe use of the substance from its manufacture, its use in production, during use of the products and their recycling when they are no longer usable. Information on the industrial or commercial users of these substances must also be contributed and forwarded to the producer registering the substance. Trade associations have therefore developed standardized descriptions of exposure conditions and corresponding risk minimization measures.

Last but not least, Continental itself imports substances into the EU. In these cases, the manufacturers register the substance through “Only Representatives” (ORs), most of whom are advisory offices headquartered in the EU which carry out all tasks related to registration.

Although goods (commonly called articles or products) do not fall under REACH with regard to registration, Continental demands that suppliers confirm that all substances in the supply chain are registered so it can safeguard its own production. For example, a plastic component or a circuit board does not need to be registered, but the basic materials used to manufacture them probably do. As a company, we also aim to ensure that all the third party products we buy in the future are safe and of the same level of quality.

Substances of very high concern affect Continental directly. Due to the ongoing expansion of the list of SVHC substances, manufactured products from all our business units are checked for the presence of SVHCs. If they are detected, different materials are used instead.

REACH project team established

A project team was set up consisting of representatives from hazardous substances management, purchasing, research and development, and environmental protection. Key suppliers were surveyed regarding the pre-registration of their products. REACH coordinators were appointed for the corporation as well as for the Rubber and Automotive Groups. Local REACH coordinators with responsibility for decentralized procurement processes were also determined.

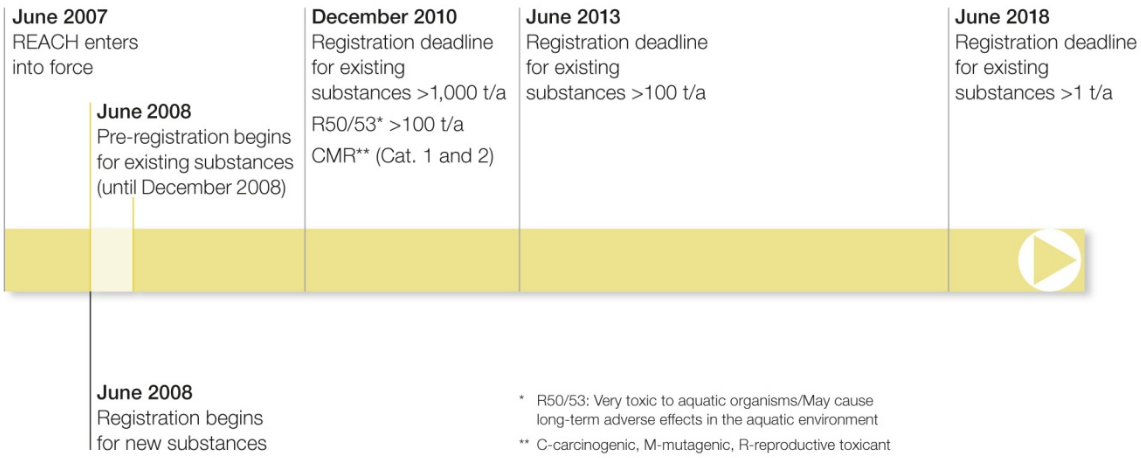
Continuous implementation at Continental

We constantly review European legislation on chemicals and identify the resulting obligations for the Continental Corporation. We also monitor the list of candidates for substances of very high concern (SVHCs) and lists of authorized and prohibited substances. We immediately inform the business units concerned, who in turn release REACH information to their customers in line with the requirements. We have been systematically recording these substances in computer databases for years, which has proven to be especially effective. Information about automotive industry customers is captured automatically in the International Material Data System (IMDS). We also monitor the registration activities of our suppliers to ensure the continuous delivery of raw materials or to develop alternatives if needed. The computer solutions we have installed for this are an important tool to safeguard our production and also allow us to provide online access to comprehensive information for all those involved with the Continental Corporation.

As soon as safety data sheets containing the exposure scenarios are available, the locations concerned must be able to prove within 12 months that the substances are used safely. To estimate human and environmental exposure using model calculations (if possible) and to be able to minimize the expenses for specific measurements, calculation tools are currently being tested and presented to the environmental officers and occupational health and safety officers of the locations.

Thanks to the measures introduced, internal processes and set responsibilities, we have ensured that Continental's supply of raw materials will remain secure even after the last registration deadline in 2018 has expired.

REACH regulation timeline



* R50/53: Very toxic to aquatic organisms/May cause long-term adverse effects in the aquatic environment

** C-carcinogenic, M-mutagenic, R-reproductive toxicant

Acting Responsibly

Achieving goals together while remaining healthy and productive.

Demography management receives award

In 2010, our demography management was awarded the FOKUS 50plus Award by an initiative of Apriori – business solutions AG. This initiative recognizes companies that actively deal with the consequences of an aging society in the working world. Continental received the award for its Germany-wide ergonomics project in particular. As part of this project, we succeeded in significantly increasing the proportion of "age-neutral" job positions in production between 2005 and 2010. All told, 25,000 jobs have been evaluated in the process.

The heart of the ergonomics project is our Stress Documentation System, or SDS for short, which is used to analyze job positions and then design the work environment in such a way that the work can be done, in principle, by employees of any age. This allows us to keep older colleagues in the working process and therefore invest in both older employees and future employees. In the next step, we plan to set up SDS throughout Europe and then worldwide.

As well as the measures for designing job positions, we are also carrying out extensive demography program activities in HR marketing, HR recruiting, internal staff development and staff qualification in order to tackle the demographic change.

Professional and personal life in balance

Every day, Continental employees deliver top performance and meet tough demands. That said, it is important to us that they remain physically and emotionally healthy and balanced. A key prerequisite for this is a balanced relationship between work and personal life (work-life balance), which benefits both the employees and the company.

Continental therefore supports initiatives that contribute to the work-life balance, such as traditional measures like flexible working hours, help in organizing child care and social services. We are also actively involved in occupational health management. A variety of location-related activities help employees focus their attention on their responsibility for their own physical and emotional health and support them in personal resource management.

"Leading yourself and others in a healthy high-performance culture" is one of our initiatives for managers. In a workshop lasting one-and-a-half days, we show how professional life can be organized in such a way that high demands are not overwhelming. We also communicate to our managers personal health expertise and awareness of how they treat themselves and others. In addition, we motivate all of them to make sure that they have enough time for family, hobbies and health.

Achieving ambitious goals together while remaining healthy and productive is our motto.

Diversity

Promoting diversity – diversity of people in terms of their ethnic or social origin, religion, gender and age – is firmly rooted at Continental in the BASICS corporate guidelines. The diversity of our staff opens up opportunities for Continental and its employees. It is therefore our goal to acquire and support employees worldwide who, precisely because they are different, contribute to developing innovative products and processes, tapping new markets and acquiring new customers. To do this, we rely on different expertise and backgrounds without regulating them with set quotas.

Our diversity management focuses on gender and internationality. In 2010, we added diversity to HR management's balanced scorecard as a KPI (key performance indicator), laying the foundation for a comprehensive analysis of the global employment of foreign and female specialists and managers at the corporation. In the initiatives, we focus on tools to reconcile work and family, staff development and staff recruiting.

Measures for reconciling family and work include child care opportunities such as location-based membership in child care associations, nursery places and child care during emergencies and holidays, as well as individual contractual solutions such as flexible working hours, part time contracts and home office agreements.

We ensure the targeted support of female and foreign specialists and managers with management qualification programs offered at the corporation. Regular evaluations of the percentage of female and foreign participants show that these measures are used successfully by both groups and that their percentage is steadily growing.

“ContiTeamCup” for all employees

In the year under review, ContiTeamCup – our worldwide company football tournament – took place for the second time, with more than 100 locations entering the contest under the motto “fit for the future”. The teams played each other first at local level, then at national level, and finally at group level. The ContiTeamCup tournament is not just about playing football. It also enables many employees from different countries and cultures get to know one another.

The two world champion teams (the women’s team from Cuautla, Mexico, and the men’s team from Korbach, Germany) were each presented with a winners’ trophy and prize money of €15,000 which was used locally for a good cause of their choice.

Compliance organization restructured

Responsible and sustainable management has long been a permanent cornerstone of Continental’s corporate culture. This includes compliance with all laws applicable to our business activities and all internal guidelines. Continental already has a variety of compliance tools and measures in place. To further improve compliance activities and make them even more effective, a global compliance organization with a central compliance department was established. It reports to the Corporate Compliance Officer.

Integrity, openness, trust and mutual respect are virtues that guide our business activities and are reflected in our corporate guidelines. Our Code of Conduct requires that all employees act in compliance with the legal regulations of the countries in which we operate and observe our ethical principles, internal guidelines and instructions. The task of the compliance organization is to support the responsible management and all Continental employees in this regard.

The compliance department’s work focuses in part on the prevention of corruption and non-compliance with antitrust laws and rules governing competition.

Our Compliance & Anti-Corruption Hotline is available to employees, as well as to customers, suppliers and other affected parties. Via the hotline, people can report – anonymously if desired – possible violations of laws, ethical principles and internal guidelines without having to fear negative consequences. We investigate all information submitted without exception.

Competition for future engineers

For the first time, students competed in the Formula Student international design competition not only with vehicles featuring traditional internal combustion engines, but also with electric vehicles. In the world’s first Formula Student Electric, the teams had to design a racing car equipped with an all-electric engine as drive source plus a battery. In this competition, which is held around the world, future engineers from international universities have one year to design and build a one-seater prototype on their own, which is then judged by experts from the automotive industry in three static categories and five dynamic disciplines. The special feature of Formula Student: 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. At a global level, Continental supports 31 teams from 12 countries. This sponsoring helps to obtain future engineers and keep them with the company in the long term.

Economic Environment

The following information on inflation and growth rates in 2010 reflects the status of estimates at the time this Annual Report went to press.

Macroeconomic development

Global economy

According to IMF (International Monetary Fund) data, the global economy recovered significantly in 2010. The most recent estimates put global economic growth at 5.0%, following a 0.6% contraction in 2009. In its January update of the World Economic Outlook, the IMF refers to a two-speed recovery, meaning that economic growth – for which the IMF differentiates between the regions of advanced economies and emerging and developing economies – has increased at different speeds. The advanced economies (the U.S., the eurozone, Japan, etc., according to the IMF) grew by 3.0%, while the emerging and developing economies (such as Central and Eastern Europe, Asia and Latin America) grew by 7.1%. One of the key growth drivers was private consumption, which declined the most during the financial and economic crisis. The volume of world trade also rose by 12.0% in 2010, after a 10.7% decrease in 2009.

According to the IMF statistics, Japan was the fastest-growing economy among the advanced economies, improving 4.3% with the help of government aid measures. After the IMF revised its forecast for U.S. economic growth to 2.6% back in October, growth at year-end amounted to 2.8%, encouraged by the Fed's $600 billion monetary aid package. The eurozone grew by 1.8% despite resurgent concerns regarding the financial stability of some EU member states that re-emerged towards the end of 2009 and efforts to reduce state debt. The main driver of this growth was the strong recovery of the German economy, which grew by 3.6% in 2010.

Among the emerging and developing economies, the Russian economy recorded a substantial recovery. According to IMF figures, it grew by 3.7%, while it had recorded a contraction of 7.9% as recently as 2009. China once again had the highest growth rate, adding 10.3% in 2010 (PY: 9.2%). Economic activity in India rose by 9.7% and made a major contribution to the strong economic upturn in Asia.

Consumer prices in developed countries grew only moderately by 1.5% in 2010. However, there was a significant increase in inflation in some regions particularly in the fourth quarter. The IMF estimates that prices increased by 6.3% in emerging and developing economies.

Germany

The German economy increased by 3.6% in 2010, the strongest growth rate since reunification. Measured in terms of growth, Germany was not only the front runner in the eurozone but also among the G7 countries. This growth was driven primarily by four factors: the recovery of exports encouraged by the revival of the global economy, the catch-up effect from investments delayed in 2009, the inventory cycle, and expansive monetary and fiscal policy. Only €14 billion of the €115 billion German Business Fund (Wirtschaftsfonds Deutschland) launched by the German Federal Government in the spring of 2009 was used, chiefly by SMEs, by the end of December 2010. The fund was closed at the end of January 2011. Over the past two years, the use of reduced working hours and working time accounts proved to be the appropriate means to combat the effects of the crisis. For example, the unemployment rate fell to 7.7% in 2010. From January 2007 to October 2010, unemployment was reduced by 21% despite the financial and economic crisis. In comparison, U.S. unemployment rose by 109% in the same period.

At 3.5% of GDP, the German budget deficit exceeded the Maastricht criteria of the Stability and Growth Pact by only 50 basis points, while inflation increased by 1.1% in 2010. Private consumption increased by 0.5% and lagged behind this performance.

Western Europe/eurozone

According to the IMF, eurozone economic growth increased by 1.8% in 2010. The increase would have been only 0.75% excluding growth in Germany (+3.6%) according to Deutsche Bank. Some European countries were still struggling with declining economic performance, including Spain (-0.3%), Ireland (-0.5%) and especially Greece (-4.2%). In order to get a handle on rising government debt – which in some cases represented a double-digit percentage of GDP – in the medium term, these countries committed themselves to strict savings plans. The exact arrangement of these programs varies greatly from country to country, but the fundamental principles are the same: reducing state spending and implementing appropriate tax increases without placing economic growth under too much stress. The budget deficit in the eurozone countries is 6.2% overall according to preliminary data. In addition to the known "problem countries", the French and Spanish governments are also struggling with high budget deficits and high unemployment. In Spain, for example, the bursting of the real estate bubble was one factor that led to a dramatic decrease in the construction sector and record unemployment in the eurozone. Every fifth person of working age in Spain is currently without work. According to *The Economist* economic magazine, eurozone unemployment was 10.1% in 2010. To improve the refinancing opportunities of some countries on the financial markets and to stabilize the common currency, EU finance ministers agreed in mid-May 2010 to launch an EU/IMF rescue package worth €750 billion. The package consists of several parts. The EU is providing a one-time community fund of €60 billion, the IMF is providing €250 billion, and €440 billion is being financed by means of a special purpose vehicle (EFSF – European Financial Stability Facility). In November of 2010, Ireland had to accept financial assistance of €85 billion from the package, which led to speculation that other member countries would also have to accept help before long. In addition to Portugal, Belgium and Spain were also possible candidates for this. In order to find a reliable mechanism for coping with member states in distress in the future, the introduction of a European Stability Mechanism (ESM) is being discussed. One issue in particular is to what extent the creditors should take part in the economic restructuring of a country in distress.

Over the course of the year, inflation in the eurozone increased sharply and amounted to 2.2% for the year as a whole, driven primarily by energy and food prices. This leads to considerations that the European Central Bank could be one of the first major central banks to change its interest policy by the middle of 2011 at the latest.

Central and Eastern Europe

Following the sharp decline of the Eastern European countries with the only major exception being Poland, this region was also able to stabilize itself with the support of the global economic recovery and posted growth in 2010. According to the IMF, economic performance of the Central and Eastern European region improved by 4.2% in 2010. Apart from the comparatively high rate of inflation, the main problem in this region remains the high level of unemployment which exceeds 10% in countries like Hungary and Poland. As regards budget deficit, only Poland is currently below the 3% limit, which is why countries like the Czech Republic and Hungary have taken significant steps to enforce state budget consolidation measures. Savings on the expenditures side are to be achieved primarily through cuts in subsidies and reductions in public sector wages.

America

Despite the significant monetary and fiscal efforts made in 2009, the critical factor of the U.S. economy – the unemployment rate – remained high at just over 9%. The 2009 investment program totaling $800 billion and the lowering of the interest rate to between 0% and 0.25% did not quite have the desired effect as of the beginning of the third quarter of 2010. The U.S. Federal Reserve Bank therefore provided another $600 billion to the U.S. economy in November 2010 under its "quantitative easing" policy. There were also additional tax breaks for companies and private households that the U.S. government resolved at the end of 2010. In total, the IMF estimates that the U.S. economy grew by 2.8% in the year under review, after it fell by 2.6% in 2009. One reason for the U.S. economic upswing in 2010 was the rapid inventory buildup that accounted for about 60% of economic performance. According to the latest information, the budget deficit increased to 8.9% of GDP. The most recent estimates put unemployment at 9.4%. Although the U.S. economy has been in a growth phase for around 18 months, only 951,000 new jobs were created in this period. Even if economic development created 200,000 new jobs per month, it would take until 2020 to bring the unemployment rate below 6%. Since around 70% of U.S. economic performance depends on consumption, the U.S. labor market situation is considered especially important. The housing market stabilized in 2010. However, significant tax incentives were needed for this. Nonetheless, home prices in 16 of the 20 most important U.S. metropolitan areas fell in the past year according to the Case-Shiller Home Price Index.

Asia

According to IMF information, the **Japanese economy** grew 4.3% in the past year, the highest growth in the triad markets in 2010. Growth drivers were exports and especially private consumption. However, a large part of economic growth in Japan was due to government incentives, most of which expired at the end of the third quarter and which led to a government deficit of approximately 200% of GDP. Economic activity took a considerable downturn as early as the fourth quarter of 2010. This is easy to see from the Japanese statistics on new car registrations. According to JAMA, the Japan Automobile Manufacturers Association, the number of new automobile registrations in the fourth quarter was down by 37% from the previous quarter's figure. Another problem in the Japanese economy is that nominal wages have been falling now for a decade, which leads to a decrease in the savings rate since consumer spending has remained the same. At the same time, Japanese unemployment of around 5% is comparatively high despite the falling wages. More than half of Japanese exports are now capital goods, which means Japan benefits directly from the boom in demand in China but has also made the Japanese economy more dependent on the success of its giant neighbor. In contrast, export activity in other regions is suffering due to the strong Japanese yen observed over the past two years. Compared to the euro, the yen has appreciated by 25% since the end of 2008. This development and others caused the Bank of Japan (BoJ) to make massive currency interventions in September 2010 that were not particularly effective. The BoJ also cut the key interest rate to almost zero percent.

In 2010, **China** was again the growth driver of the global economy. With economic growth of 10.3%, China grew faster than any other economy in the world. This growth is accompanied by a significant increase in inflation, mainly due to the significant increase in food prices in China as well. They rose by almost 12% in the year under review alone, while inflation excluding food prices climbed just 1.9%. The positive factor about the increase in food prices is the redistribution of wealth from cities to rural areas. Due to ongoing good export development (encouraged by the prevailing exchange rates), the increase in wages in the coastal areas is pushing production further and further inland, which also means a redistribution of wealth to rural areas. However, there is still a long way to go in eliminating the immense imbalances. In addition to increasing food prices, land prices are also continuing to rise rapidly, causing some market observers to compare the situation in Hong Kong especially with the situation in the U.S. three years ago. Rising inflation caused the Chinese central bank to cut interest twice in a row in the fourth quarter. The required reserve ratio (RRR) of commercial banks at the central bank was raised six times in a row to almost 19% in 2010. However, the more restrictive monetary policy was counteracted by efforts to further increase the foreign trade surplus, since, in order to maintain good export figures, the Chinese government had to constantly purchase foreign currencies to keep its own currency low in comparison to other currencies. Despite interest rate increases in October and December 2010, real interest rates remained negative due to comparatively high inflation. China also failed to become more independent from its exports by increasing domestic consumption in 2010. On the contrary, private consumption accounted for only a third of economic growth, while investments currently make up 50% of GDP.

The **Indian economy** also remained on a growth course in 2010. At 9.7%, its economy just missed double-digit growth. The Indian central bank is still facing the challenge of creating a balanced interest policy to contain inflation without endangering economic growth. Inflation is and will remain the main issue in India. Due to the unfavorable monsoon period, food prices in particular drove the inflation rate for food to 14%. Overall, inflation in 2010 rose to 9.7% and the Indian central bank recently reacted by increasing interest rates again to 6.25%. It raised the interest rate a total of six times in a row in 2010. Exports are also picking up speed. Sectors with problems keeping up with international competition, such as the textile, crafts and tea industries, should be able to count on government help.

Russia

After a sharp drop in 2009 (-7.9%), the Russian economy recovered significantly in 2010. Encouraged by rising raw material prices again, but also by the current increase in industrial production and growing employment, its GDP rose by 3.7% in 2010 according to the IMF. With its significant resources, Russia is one of the largest energy producers in the world with approximately one-quarter of the world's gas reserves (25.2%), about 6.3% of the world's oil reserves, and the world's second-largest coal reserves (19%). It produces 19.6% of the world's gas and 12.4% of the world's oil. The inflation rate fell to 6.8% in the period from January to November 2010 (compared with 8.8% for all of 2009). This slight decline is due to summer wildfires causing food prices to climb considerably again, which drove inflation in the second half of the year. Based on economic data, the Russian budget developed better than planned. Its budget deficit was around 5% of GDP as of the end of 2010, and is expected to fall to 2.9% by 2013.

Industry development

As an international automotive supplier, global business with the manufacturers of passenger vehicles and light trucks is our most important market segment. The worldwide original equipment sector for commercial vehicles and the replacement markets for passenger vehicle, light truck and commercial vehicle tires in Western Europe, Central Europe and NAFTA are also especially important. In terms of macroeconomic development in the year under review, all market segments recorded a significant recovery, with the amount of growth varying from region to region.

Light vehicle production

A key factor in our business volume in original equipment for light vehicles (passenger cars, station wagons, and light commercial vehicles weighing less than 6 tons) is global vehicle production. Development in the regions of Europe and North America, which account for 79% of sales, is especially decisive for Continental in this regard.

New car registrations and sales in millions of units

2010	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
Europe (E27+EFTA)	3.8	3.7	3.1	3.2	13.8
Russia	0.3	0.5	0.5	0.6	1.9
U.S.A.	2.5	3.1	3.0	3.0	11.6
Japan	1.3	1.0	1.2	0.8	4.2
Brazil	0.8	0.7	0.9	1.0	3.3
India	0.6	0.6	0.6	0.6	2.4
China	2.8	2.6	2.7	3.2	11.3
Worldwide	**17.0**	**18.2**	**17.3**	**18.0**	**70.5**

Source: VDA, Renault

Fears that the expiration of the government support programs in some key European vehicle markets (in particular Germany, France and Italy) or the NAFTA region could lead to a significant decrease in global sales figures in 2010 have proven to be unfounded. Due in particular to the booming demand in the BRIC countries (Brazil, Russia, India and China), the number of global new light vehicle registrations in 2010 not only recovered, but accelerated on a seasonally-adjusted basis over the course of the year. More than 70 million new light vehicles were registered worldwide overall, a year-on-year increase of more than 7 million.

Almost 40% of the global increase resulted from the demand boom in China, where according to the VDA (German Association of the Automotive Industry), the number of new registrations increased by almost 2.9 million vehicles to more than 11.3 million units, representing an increase of more than 34% year-on-year. New registrations in China have thus almost doubled in the last two years. However, India also recorded rapid growth, with new registrations increasing by 31% to 2.4 million units. In Brazil, measures to promote car sales which extended into 2010 helped the market and led to a double-digit increase to 3.3 million light vehicles sold, thus exceeding the level in Germany for the first time. The Russian light vehicle market ended the year with a sales increase of 30%. The introduction of a car scrapping premium has successfully buoyed demand since March 2010. 1.9 million new vehicles were sold in Russia in 2010, putting this market on the road to recovery although the figures are still about one-third below their respective annual peaks. If the above-mentioned sales regions are taken together, light vehicle sales have increased by more than 29% in the BRIC countries to 18.9 million units. This means that more than one-quarter of all light vehicles sold in the world are sold in this region already.

In the triad markets (Europe, NAFTA and Japan) the number of new registrations also increased by 2.5% to 29.6 million light vehicles according to the VDA. However, the individual regions contributed to this growth at very different rates. Although the number of new registrations was down in Europe by 5% due to the contraction of the German market after the expiration of the scrapping premium in 2010, the NAFTA region recovered from its low point in 2009 to lift the number of new registrations by 11% to 11.6 million. Sales of light trucks jumped by as much as 17%, while car sales rose only 4%. The ratio of these two categories to one another in 2010 thus tipped again in favor of light trucks, which make up more than half of all light vehicle sales. Light vehicle sales in Japan were boosted by government support measures that were issued until September 2010 and pushed sales up by 7% to 4.2 million vehicles. More than 40% of all light vehicles sold worldwide in 2010 were therefore registered in these markets.

Production of light vehicles in millions of units**

	2010*	2009	2008	2007	2006
Total Europe	18.6	16.3	21.2	22.2	20.8
Western Europe	13.0	11.8	14.6	16.2	15.9
Eastern Europe	5.6	4.5	6.6	6.0	4.9
NAFTA	11.9	8.6	12.6	15.0	15.3
South America	4.1	3.7	3.8	3.6	3.0
Asia	35.1	27.8	28.7	27.7	25.6
Africa and Middle East	2.1	1.8	1.9	1.7	1.6
Worldwide	**71.8**	**58.2**	**68.2**	**70.2**	**66.3**

Source: CSM (2009 and 2010) and Global Insight for the years before *preliminary figures
**passenger cars, station wagons, and light commercial vehicles (<6t)

Output of light vehicles increased in 2010 to a new record high of almost 72 million units, boosted by the tight inventory situation at the end of 2009 and driven by better-than-expected development of new passenger car registrations. If the figures for the number of new registrations are netted against the number of light vehicles produced worldwide, the global inventory increased by around 1.3 million new vehicles in 2010. However, this development is moderate following the significant decrease in inventories of about 4 million vehicles observed in 2009. The highest increases in terms of production volume were observed in the NAFTA market, where the number of light vehicles produced increased by almost 39% to 11.9 million units. Despite this positive development, the fact that this region is still almost 4 million units below its previous peak figure cannot be disregarded. European light vehicle production increased by 14% to 18.6 million units – also considerably below the peak figures generated in 2007. Current market forecasts assume that both markets will not close the gap to their former records until 2014/2015. The strong boom in demand in Asia was followed by a production increase that was just as strong, jumping 26% to 35.1 million units. In absolute terms, this is an increase of more than 7 million vehicles and contributed more than 53% to global growth. South America (+12%) and the remaining regions (+18%) also generated double-digit increases.

Heavy vehicle production

Due to the extremely low prior-year basis, output of heavy vehicles (commercial vehicles weighing more than 6 tons) increased significantly in 2010 compared with 2009. European production in particular generated growth of 46%. But compared with the 2008 figure of 745,000 vehicles, it is clear how severe the 2009 downturn was. NAFTA recovered more slowly than Europe, but growth was still at 17% at the end of the year. The growth engine for commercial vehicles was again Asia. With growth of 46%, this region contributed more than 75% to the growth generated of almost 1 million newly produced vehicles. More than 70% of all heavy vehicles produced worldwide in 2010 came from Asia. In 2006, it was still 41%.

Production of heavy vehicles in thousands of units**

	2010*	2009	2008	2007	2006
Total Europe	395	270	745	720	620
Western Europe	283	205	548	532	480
Eastern Europe	112	65	197	188	140
NAFTA	254	217	353	421	650
South America	247	177	193	163	100
Asia	2,342	1,554	1,415	1,346	970
Worldwide	**3,238**	**2,267**	**2,706**	**2,649**	**2,340**

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

Replacement business for passenger and light truck tires

In our replacement business with passenger and light truck tires, the markets in Western and Central Europe and NAFTA are particularly important. Both of these markets recorded non-typical year-on-year growth in the replacement business. As one of the few automobile-related markets, the European replacement tire market was only 3% below its 2007 record of 289 million tires sold. The total increase was 7.7%.

Favored mainly by strong sales of winter tires, the number of replacement tires sold climbed by more than 7% to 280 million tires in 2010. Not least of all, the harsh winter in many areas of Europe and the introduction of the winter tire requirement in Germany helped the market grow at this unusually high rate. After weak sales in 2008 and 2009, the number of passenger tires sold in North America also grew by almost 5% to 255 million units. Over the course of the year, a significant increase in miles driven by U.S. drivers was one factor with a positive influence on demand. The total number of vehicle miles driven as of November 2010 increased by 1% to 19 billion according to the Department of Transportation (DOT). Including the reinvigorated growth in the original equipment business, demand for passenger vehicle tires increased by more than 8% in this region also. In South America and Asia, where Continental also operates several tire factories, the number of tires sold on the replacement market also increased significantly by 11% and 9% respectively. Both regions noted new records in the number of tires sold on the replacement market.

Replacement business for truck tires

In line with the positive development on the other markets, the replacement market for truck tires also increased considerably in 2010, growing to a total of 12%. Europe and NAFTA recorded particularly strong growth figures. The European market alone increased by 19% to 17.9 million units, while the NAFTA market rose by 14% to 18.0 million units. Once again, these statistics were also positively affected by the significant growth rates in Asia. With 66 million truck tires sold, Asia represents around 50% of all tires sold on the truck tire replacement market worldwide.

Replacement sales of passenger, light truck and 4x4 tires

in millions of units	2010*	2009	2008	2007	2006
Western and Central Europe	280.4	261.6	276.8	288.7	287.1
NAFTA	255.2	243.5	261.3	275.9	264.9
South America	52.3	48.1	50.2	48.6	46.5
Asia	239.2	214.7	210.8	205.6	196.9
Other markets	106.1	98.2	148.7	143.7	132.3
Worldwide	**933.1**	**866.1**	**897.5**	**913.9**	**881.2**

Source: LMC World Tyre Forecast Service, 2010 * preliminary figures

Replacement sales of truck tires

in millions of units	2010*	2009	2008	2007	2006
Western and Central Europe	17.9	15.1	20.3	20.6	19.9
NAFTA	18.0	15.9	18.6	20.6	20.9
South America	11.6	10.7	12.1	11.8	10.9
Asia	66.0	59.6	59.4	57.9	52.8
Other markets	17.9	16.2	28.6	27.9	27.6
Worldwide	**131.5**	**117.4**	**126.9**	**127.0**	**121.2**

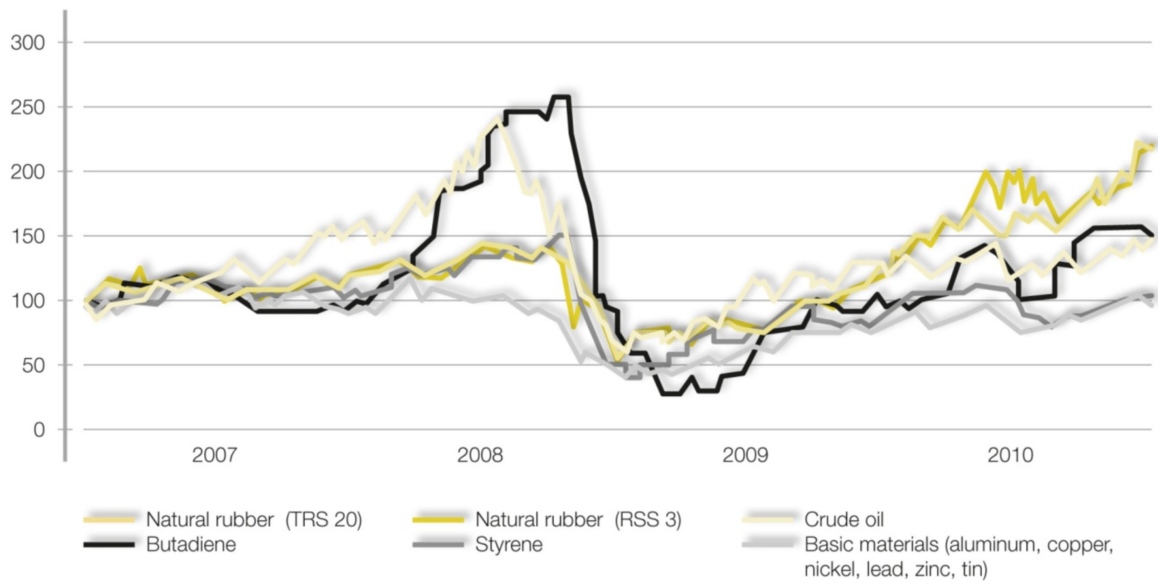
Source: LMC World Tyre Forecast Service, 2010 * preliminary figures

Raw material markets

Important raw materials for our production include metals such as copper, steel, nickel and aluminum. Petroleum-based raw materials and natural rubber are also used in tire manufacturing. Following enormous increases in 2009, prices for natural rubber, petroleum-based raw materials and some metals increased again in the year under review due to flourishing global economic activity. Prices for aluminum ($2.5/kg; up 11%), copper ($9.6/kg; up 30%) and nickel ($24.3/kg; up 32%) had increased dramatically by the end of 2010 as compared with the end of 2009. The price for heat-treated steel ($0.5/kg; up 2.0%) was the only rate that has changed little since the prior year. The average prices for these metals were 25% to 48% higher than in the previous year, but the average prices for nickel, aluminum and heat-treated steel were 6% to 9% lower than the 2007 to 2009 average. The average copper price was the exception at 18% above the three-year average.

Another basic material for our production materials is metals that we buy only in a more refined form such as turned, punched and drawn parts. The sharp increase in demand for steel in 2010 and significant price increases for raw materials such as iron ore and coking coal led to sustained price increases for primary materials made of steel. In some cases, these price increases were passed on to Continental in the second half of the year by the suppliers of turned, punched and drawn parts. The rapid increase in demand for products and components in the automobile industry in 2010 led to a number of supply bottlenecks for the delivery of electronic and/or electromechanical components. In many cases, production downtime at vehicle manufacturers could be avoided only by accelerated logistics and led to corresponding higher freight costs.

Price trends



Natural rubber is an extremely important individual raw material for the Rubber Group on the whole, and the Tire divisions in particular. It is traded on the commodity markets of Singapore and Tokyo. Continental buys various types of natural rubber, mainly from Thailand, Malaysia and Indonesia. The price trend is generally level. After natural rubber (TSR 20) reached a price of around $2,940 per ton at the end of 2009 (up by more than 90% from the end of 2008), further significant price increases occurred in 2010 that led to continuous new record highs. In the fourth quarter of 2010 in particular, the TSR 20 price increased dramatically by more than $1,160 per ton in comparison to the average price in the first nine months of 2010. On December 31, 2010, TSR 20 listed at $5,045.77 per ton – at the same time a new all-time record and representing an increase of 72% year-on-year. The average increase amounted to as much as 83% ($3,442.97 per ton in 2010). The average price for TSR 20 in the year under review was therefore about 54% above the three-year average from 2007 to 2009 of $2,240.49 per ton.

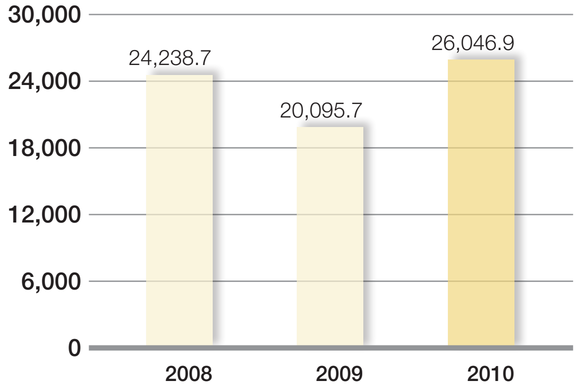
In addition to natural rubber as a raw material used directly, crude oil is the most important basic building block of many production materials such as synthetic rubber, carbon black and some chemicals. Sometimes multi-stage production processes are performed by primary suppliers to make the crude oil into the materials purchased by Continental. The boom on the crude oil market since 2004 peaked on July 3, 2008, with one barrel of North Sea grade Brent costing $145.86. Due to the financial crisis, the market also suffered a severe price decline. As of December 31, 2008, the price for Brent was only $41.71 per barrel. In 2009, the price for Brent had already increased by more than 90% to about $79.51 per barrel. The year under review saw another price rise of 20% to $95.50 per barrel. Compared to $62.22 per barrel in the previous year, the average price increased by 29% to $80.17 per barrel.

The price rises in raw materials traded in U.S. dollars were slightly increased again due to the approximately 4.9% average decrease in the euro compared to the dollar in the year under review. All in all, the high price for natural rubber in particular had a negative effect on our results.

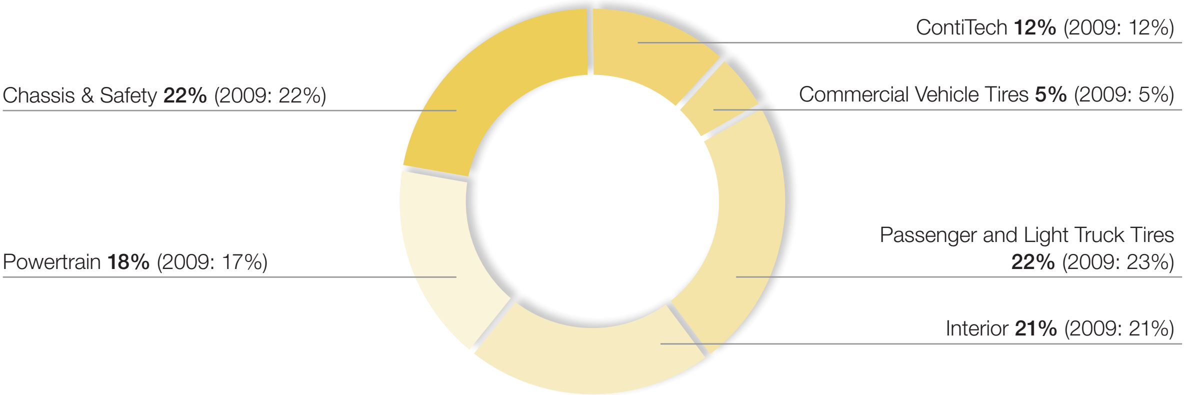
What we have achieved

- Sales up 29.6%
- EBIT up 286.0%
- Free cash flow amounting to €566.9 million
- Net indebtedness down by €1,578.5 million
- Gearing ratio of 118.0%

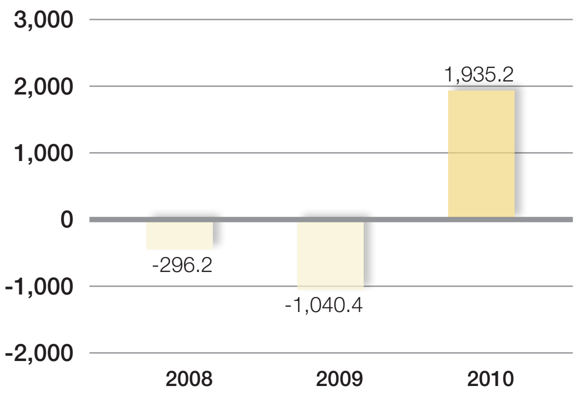
Sales (in € millions)



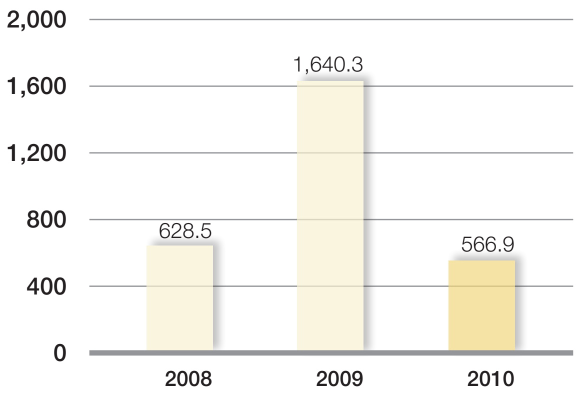
Sales by division (in %)



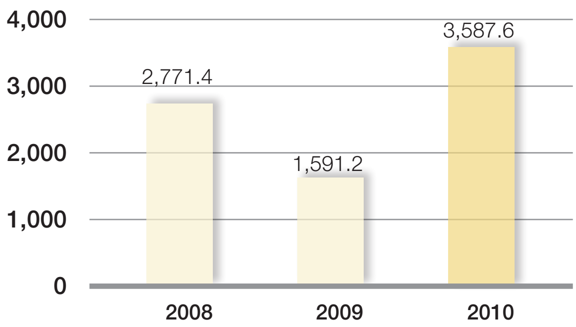
EBIT (in € millions)



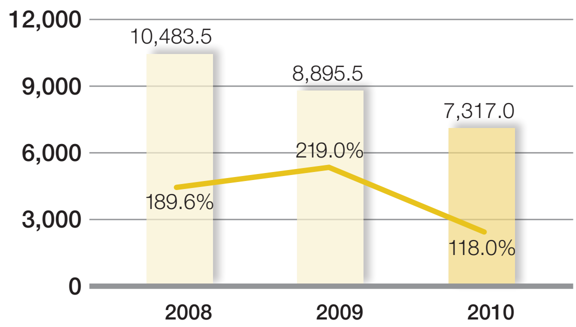
Free cash flow (in € millions)



EBITDA (in € millions)



Net indebtedness (in € millions)/**Gearing ratio** (in %)



Earnings Position

- Sales up 29.6%
- Sales up 25.0% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 113.2%

Continental Corporation in € millions	2010	2009	Δ in %
Sales	26,046.9	20,095.7	29.6
EBITDA	3,587.6	1,591.2	125.5
in % of sales	13.8	7.9	
EBIT	1,935.2	-1,040.4	286.0
in % of sales	7.4	-5.2	
Net income attributable to the shareholders of the parent	576.0	-1,649.2	134.9
Earnings per share (in €)	2.88	-9.76	129.5
Research and development expenses	1,450.4	1,356.3	6.9
in % of sales	5.6	6.7	
Depreciation and amortization[1]	1,652.4	2,631.6	-37.2
thereof impairment[2]	57.7	993.0	-94.2
Operating assets (at December 31)	15,282.8	14,582.7	4.8
EBIT in % of operating assets (at December 31)	12.7	-7.1	
Operating assets (average)	15,580.0	16,024.1	-2.8
EBIT in % of operating assets (average)	12.4	-6.5	
Capital expenditure[3]	1,296.4	860.1	50.7
in % of sales	5.0	4.3	
Number of employees at the end of the year[4]	148,228	134,434	10.3
Adjusted sales[5]	25,945.3	19,941.0	30.1
Adjusted operating result (adjusted EBIT)[6]	2,516.8	1,180.5	113.2
in % of adjusted sales	9.7	5.9	

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Sales up 29.6%

The corporation's sales increased in 2010 as compared with the previous year by €5,951.2 million or 29.6% to €26,046.9 million (PY: €20,095.7 million), primarily thanks to the recovery of the markets relevant to us. The increase in the output of light vehicles, i.e. passenger cars, station wagons and light commercial vehicles, in 2010 had a major impact on business performance. We also recorded significant increases in our non-automotive business. Based on 2009 sales that were heavily influenced by the global economic crisis, each month of 2010 saw sales significantly exceeding those for the same month of the previous year. Changes in the scope of consolidation had a slight negative impact, whilst exchange rate changes had the effect of increasing sales.

In 2010, sales by region changed as follows compared with the previous year:

Sales by region in %	2010	2009
Germany	27	29
Europe excluding Germany	33	34
NAFTA	19	18
Asia	16	14
Other countries	5	5

Adjusted EBIT up 113.2%

The corporation's adjusted EBIT was up in 2010 compared with the same period of 2009 by €1,336.3 million, or 113.2%, to €2,516.8 million (PY: €1,180.5 million), equivalent to 9.7% (PY: 5.9%) of adjusted sales.

Adjusted EBIT rose in the fourth quarter of 2010 compared with the same period of the previous year by €213.1 million, or 41.5%, to €726.0 million (PY: €512.9 million), equivalent to 10.5% (PY: 9.0%) of adjusted sales. On a comparable basis, there was adjusted EBIT of €484.7 million in the third quarter of 2010.

EBIT up 286.0%

EBIT was up by €2,975.6 million year-on-year to €1,935.2 million in 2010, an increase of 286.0% (PY: -€1,040.4 million). The return on sales climbed to 7.4% (PY: -5.2%).

The amortization of intangible assets from the purchase price allocation (PPA) reduced EBIT in the year under review by €454.3 million (PY: €455.2 million). This amount includes impairments on intangible assets from the purchase price allocation (PPA) in the amount of €0.8 million in 2010 (PY: €7.5 million).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 12.4% (PY: -6.5%).

Special effects in 2010

In total, there were impairments on property, plant and equipment, and intangible assets of €29.3 million (Chassis & Safety €3.4 million, Powertrain €16.3 million, Interior €0.0 million, Passenger and Light Truck Tires €7.5 million, Commercial Vehicle Tires –, ContiTech €2.1 million) in 2010 that did not relate to restructuring measures. This includes an impairment loss of €0.3 million on capitalized intangible assets from the purchase price allocation.

The Interior division incurred expenses of €5.6 million for additional final activities relating to the disposal of certain business operations.

Due to the winding-up activities for the disposal of an associated company, a gain of €2.1 million was generated in the Interior division while a tax expense for the corporation was incurred in the same amount.

Owing 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 in 2009. This resulted in additional restructuring expenses of €11.9 million in the Powertrain division in 2010. This primarily relates to impairments on production plants that were partially offset by provisions for supplier claims that were no longer needed.

Additional restructuring-related expenses of €14.7 million were incurred in the Passenger and Light Truck Tires division in connection with the end of tire production in Clairoix, France.

Additional restructuring expenses of €6.0 million were incurred at the Traiskirchen, Austria, location in the Passenger and Light Truck Tires division.

Due to massive collapses in demand on the European commercial vehicle market as a result of the economic crisis, Continental had to reduce production capacity at all European commercial vehicle tire locations in 2009. A still available production cell in Hanover-Stöcken, Germany, was finally closed down. This led to further restructuring expenses totaling €34.6 million in the Commercial Vehicle Tires division in 2010.

Expenses of €34.8 million (Chassis & Safety €4.0 million, Powertrain €18.9 million, Interior income of €3.2 million, Passenger and Light Truck Tires €9.4 million, Commercial Vehicle Tires €2.3 million, ContiTech €3.0 million, Holding €0.4 million) were also incurred, primarily due to restructuring activities and severance payments. For the Passenger and Light Truck Tires division, this includes an impairment loss of €0.5 million on intangible assets from the purchase price allocation (PPA).

The sale of our North American OTR activities to the Titan Tire Corporation in 2006 led to a gain in 2010 of €3.3 million in the Commercial Vehicle Tires division.

The antitrust proceedings initiated in 2007 against Dunlop Oil & Marine Ltd., U.K., a subsidiary of ContiTech AG, in the area of offshore hoses resulted in further expenses of €20.8 million in the ContiTech division.

Owing to the higher expected cash outflows for the VDO loan as a result of rising margins, the carrying amount was adjusted as expense for this loan in 2009 and in June of 2010. The adjustment in 2010 resulted in expenses of €27.4 million. These deferrals will be amortized over the term of the loan and reduce expenses accordingly. This amortization resulted in a positive effect of €37.6 million in 2010. Due to the partial repayments of the VDO loan, the adjustments attributable to the amounts repaid were reversed on a pro-rated basis. In addition to largely using the net income of the bonds placed at the end of September 2010 for a total nominal amount of €1,250.0 million, another partial repayment of €100.0 million in nominal terms was made in December 2010. A pro-rated amount of €9.6 million was incurred from the adjustment on the above-mentioned amounts that were paid early, which then also led to a gain in the same amount. Income of €19.8 million resulted from all the previously mentioned effects in 2010 as a whole.

The total consolidated expense from special effects amounted to €132.5 million in 2010. Adjusted for impairment on capitalized intangible assets from the purchase price allocation in an amount of €0.8 million, special effects had an adverse impact totaling €131.7 million.

Special effects in 2009

In the third quarter of 2009, the impairment test on goodwill 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.

Production was discontinued in Huntsville, U.S.A., at the end of 2010. By closing the Huntsville site 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 (R&D) and administration, there were restructuring expenses of €31.4 million for the Interior division at the plant in Babenhausen, Germany, in 2009.

The Interior division incurred restructuring expenses of €12.2 million at its Wetzlar, Germany, location due to expiring R&D projects for which there are no follow-up orders.

The research and development location in Neubiberg, Germany, was 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 the 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 was concluded in the fourth quarter of 2010. This sale resulted in expenses totaling €4.5 million for the Interior division in 2009.

In the Chassis & Safety and Powertrain divisions in particular, unutilized provisions for severance payments of €5.3 million were reversed as part of the finishing 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, will be relocated to Changshu, China. This resulted in restructuring expenses of €2.9 million in the Chassis & Safety division.

Owing 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 in 2009. This resulted in restructuring expenses of €44.7 million in the Powertrain division which relate primarily to impairments 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.

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 led to restructuring expenses of €207.3 million in 2009. 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.

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.

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

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 on an at-equity investment in the amount of €0.8 million.

The sales declines resulting from the global economic crisis meant that it was no longer possible to efficiently utilize the externally operated warehouse in Straubing, Germany. The warehouse was therefore closed. The corresponding rental agreement exists until 2016. At the end of 2009, it was assumed that the properties could not be sub-leased 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 recorded under 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., U.K., a subsidiary of ContiTech AG, in the area of offshore hoses, resulted in further expenses of €6.2 million.

For the ContiTech division, the initial 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 totaling €13.1 million, of which €9.7 million related 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, 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 outflows 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.

For the corporation, the total 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.

Procurement

In 2010, the Continental Corporation spent €17.5 billion on raw materials, capital goods, and other materials and services, which is equivalent to 67% of sales.

On the one hand, the rapid recovery of the economy and the demand in the growth markets led to a high price level on the markets for basic materials and raw materials. On the other hand, this economic recovery is exactly what drove the increase in the entire corporation’s production volume. The production volume significantly influenced not only the direct material, but also the indirect material and therefore especially investments.

Research and development
Research and development expenses rose by €94.1 million or 6.9% year-on-year to €1,450.4 million (PY: €1,356.3 million), or 5.6% (PY: 6.7%) of sales.

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 named 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. Of the development costs incurred in the three divisions in 2010, €74.5 million (PY: €49.0 million) met the criteria for recognition as an asset.

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 2010 or in 2009.

Depreciation and amortization
Depreciation and amortization fell year-on-year by €979.2 million to €1,652.4 million (PY: €2,631.6 million) and amount to 6.3% of sales (PY: 13.1%). In the year under review, impairment losses of €57.7 million (PY: €993.0 million) were recognized. The previous year's figure includes goodwill impairment of €875.8 million.

Net interest expense
The net interest amount also decreased by €23.6 million to -€697.2 million (PY: -€720.8 million). This decrease is primarily due to mostly non-cash currency effects and effects from changes in the fair value of derivative instruments. At a total of €40.6 million, the two effects were €23.1 million above the previous year's figure of €17.5 million. Interest income from 2010 amounted to €22.6 million (PY: €30.3 million).

Interest expense, excluding the already described effects of foreign currency translation, changes in the fair value of derivative instruments, and earnings from available-for-sale financial assets, fell by €8.2 million compared with the previous year to €760.4 million (PY: €768.6 million).

As in previous years, the amount of interest expense, and thus the net interest amount, is chiefly attributable to the utilization of the VDO loan agreement with a committed amount totaling €6,484.9 million (PY: €11.0 billion) as of December 31, 2010. The significant reduction of the utilization of the VDO loan is the result of several effects. A key effect was the capital increase that was successfully carried out in January of 2010 and the resulting decrease in net indebtedness. Continental generated net proceeds of €1,056.0 million from the capital increase. Due to the positive market environment and the high demand for its bonds, Continental also implemented in mid-2010 another key component of the refinancing package initiated at the end of 2009 to improve its financial and capital structure by placing four bonds with a total volume of €3.0 billion in the third quarter of 2010 via Conti-Gummi Finance B.V., Amsterdam, Netherlands. The net proceeds from these bonds were used to repay part of the utilization of the VDO loan and to repay the loan borrowed to refinance tranche B (due in August of 2010) of the VDO loan (forward start facility). More of the VDO loan was repaid in December 2010 as well due to good business performance. The deferred financing expenses attributable to the repaid amounts had to be closed out and expensed and led to a special effect totaling -€36.8 million. Another negative effect in interest expenses from the VDO loan and forward start facility was due to the (compared with the previous year) higher margin of these loans resulting from the ratings decreases over the course of 2009 and the renegotiation of the covenants of the VDO loan concluded in May 2010 and December 2009. The fact that the market interest rate was lower as compared with the previous year had a positive effect. Taking into account all previously mentioned effects, interest expenses for the VDO loan and the forward start facility amounted to €595.9 million, down by €49.1 million on the previous year's figure of €645.0 million.

The bonds placed in the third quarter of 2010 resulted in interest expenses totaling €73.6 million in 2010.

Tax expense

Income tax expense for fiscal year 2010 amounted to €592.1 million (PY: income item of €154.3 million). The tax rate amounts to 47.8%. In the previous year, the tax relief rate before the goodwill impairment (which had no tax effect) was 17.4%.

Tax expense for the year under review is primarily affected by non-cash valuation allowances totaling €354.4 million on deferred tax assets. €120.1 million of these valuation allowances were attributable to deferred tax assets for tax carryforwards in Germany measured at the relevant tax rate. The corresponding deferred tax assets from 2009 of €68.9 million and the increases within the year under review of €51.2 million were written down in full. Continental AG's rating decrease in May 2010, accompanied by the higher interest margin on existing loans and the future increasing interest burden from issuing euro bonds with a volume totaling €3.0 billion in the third quarter of 2010, make the use of the carryforward in Germany particularly unlikely from the current point of view. 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 valuation allowances on deferred tax assets in non-German units have increased by €163.9 million year-on-year to €234.3 million, €11.8 million of which relates to previous years, and have a corresponding negative effect on the tax rate.

The tax rate was also negatively impacted by non-deductible operating expenses, and in Germany by non-imputable foreign withholding tax due to the lack of applicable volume. There was a positive influence from foreign tax rate differences, as well as incentives and tax holidays.

Tax expense for the previous year was primarily affected by impairments of €108.5 million on deferred tax assets on loss and interest carryforwards in Germany. This was necessary since the German fiscal authorities are of the opinion that a harmful change of shareholder has occurred pursuant to Section 8c of the German Corporate Income Tax Act (*Körperschaftssteuergesetz – KStG*) due to Schaeffler KG's acquisitions of shares in 2008 and 2009. Continental does not share this legal opinion on the time and scope of harmful share purchases, and is already taking legal action to redress this in test proceedings.

Net income attributable to the shareholders of the parent

Net income attributable to the shareholders of the parent increased in 2010 by €2,225.2 million to €576.0 million (PY: -€1,649.2 million). This corresponds to earnings per share of €2.88 (PY: -€9.76).

Reconciliation of EBIT to net income in € millions	2010	2009	Δ in %
Chassis & Safety	569.0	-102.5	655.1
Powertrain	-198.1	-943.2	79.0
Interior	197.0	-516.0	138.2
Passenger and Light Truck Tires	993.3	536.4	85.2
Commercial Vehicle Tires	50.1	-50.1	200.0
ContiTech	369.6	169.4	118.2
Other/consolidation	-45.7	-134.4	
EBIT	**1,935.2**	**-1,040.4**	**286.0**
Net interest expense	-697.2	-720.8	3.3
Earnings before income taxes	**1,238.0**	**-1,761.2**	**170.3**
Income taxes	-592.1	154.3	-483.7
Net income	**645.9**	**-1,606.9**	**140.2**
Non-controlling interests	-69.9	-42.3	-65.2
Net income attributable to the shareholders of the parent	**576.0**	**-1,649.2**	**134.9**
Earnings per share (in €), undiluted	2.88	-9.76	129.5

Financial Position

Reconciliation of cash flow
Continental's cash from operating activities fell in 2010 by €577.9 million to €1,849.2 million (PY: €2,427.1 million) and amounted to 7.1% of sales (PY: 12.1%).

Free cash flow for fiscal year 2010 amounted to €566.9 million (PY: €1,640.3 million), corresponding to a year-on-year decline of €1,073.4 million.

Interest payments resulting in particular from the purchase price financing for the acquisition of Siemens VDO fell by €31.6 million to €725.6 million (PY: €757.2 million).

Income tax payments increased by €288.2 million to €493.0 million (PY: €204.8 million).

The expansion of working capital had a negative impact, leading to an outflow of funds of €1,078.4 million as compared with fiscal year 2009. This increase in operating working capital is a result of the increase in inventories by €993.0 million and an increase in operating receivables of €330.7 million. In contrast, there was also a €245.3 million increase in operating liabilities.

Inflows from pension provisions fell year-on-year by €676.6 million to €38.2 million. This was mainly due to the reimbursement from Contractual Trust Arrangements (CTAs) at several corporation companies for pension payments made by the companies since mid 2006, Continental Pension Trust e.V. acquiring 24.9% of the shares in ContiTech AG, as well as the discontinuation of the status of the assets as qualifying plan assets of the respective CTAs which led to a total of €682.8 million in cash inflows in fiscal year 2009 and which were not offset by comparable positive effects in fiscal year 2010.

Total cash outflows amounting to €1,282.3 million (PY: €786.8 million) resulted from investment activities, primarily influenced by the €383.2 million increase in investments in property, plant and equipment, and software to €1,242.6 million (PY: €859.4 million).

The cash inflow from the sale of subsidiaries and business units was €123.2 million lower than in the previous year, mainly due to the sale of the associated company Hyundai Autonet Co., Ltd. to Hyundai Mobis Co., Ltd. in June 2009, which led to a cash inflow of €126.6 million, for which there was no comparable single effect in 2010.

Capital expenditure (additions)
Capital expenditure for property, plant and equipment, and software amounted to €1,296.4 million in 2010. This includes €52.3 million (PY: €0.0 million) for finance leasing and €1.5 million (PY: €0.7 million) for capitalizing borrowing costs. Overall, there was a significant increase of €436.3 million as against the previous year's level of €860.1 million, with all divisions contributing to this increase. Capital expenditure amounted to 5.0% (PY: 4.3%) of sales.

Indebtedness
Gross indebtedness was €8,990.5 million as at the end of 2010 (PY: €10,712.5 million) or down by €1,722.0 million on the previous year's level.

The change in the value of the bonds from €5.2 million at the end of 2009 to €2,988.5 million at the end of fiscal year 2010 is due to the four bonds with a total volume of €3.0 billion placed by Conti-Gummi Finance B.V., Amsterdam, Netherlands, in the third quarter of 2010. All bonds are denominated in euros and backed with guarantees by Continental AG and select subsidiaries. A five-year bond of €750.0 million with an interest rate of 8.5% p.a. was placed in July 2010, a seven-year bond of €1,000.0 million and an interest rate of 7.5% p.a. was placed at the beginning of September 2010, and two bonds were placed at the end of September 2010, each in the amount of €625.0 million but with different maturities. The first bond matures in January 2016 and has an interest rate of 6.5% p.a., while the second matures in October 2018 and has an interest rate of 7.125% p.a. Interest payments are made semi-annually in arrears.

in € millions	Dec. 31, 2010	Dec. 31, 2009
Cash provided by operating activities	1,849.2	2,427.1
Cash used for investing activities	-1,282.3	-786.8
Cash flow before financing activities (free cash flow)	**566.9**	**1,640.3**
Dividends paid and repayment of capital to non-controlling interests	-35.2	-33.0
Proceeds from the issuance of shares	1,056.0	—
Non-cash changes	6.8	-42.4
Other	-28.1	14.1
Foreign exchange effects	12.1	9.0
Change in net indebtedness	**1,578.5**	**1,588.0**

Liabilities to banks amounted to €5,144.9 million as of December 31, 2010 (PY: €10,096.3 million) and were therefore €4,951.4 million below the previous year's level. The VDO loan was drawn down as at December 31, 2010, by Continental AG and Continental Rubber of America, Corp. (CRoA), Willmington, U.S.A., and is valued at a total of €4,297.0 million as at the reporting date (PY: €9,180.1 million). The amount committed under this loan was €6,484.9 million as of the end of 2010 (PY: €11.0 billion). The significant reduction in the VDO loan is due to several effects. A key effect was the capital increase that was successfully carried out in January of 2010 and the resulting decrease in net indebtedness. Continental generated net proceeds (before tax effects) of €1,056.0 million from the capital increase, which were used in accordance with the terms of the contract to repay part of tranche B of the VDO loan due in August of 2010. With the capital increase, Continental also fulfilled the prerequisite for receiving a forward start facility (FSF) with a volume of a maximum of €2,500.0 million to refinance tranche B in August of 2010. This connection was part of the refinancing package successfully concluded in December 2009 for the purpose of improving the financial and capital structure. Due to the positive market environment and the high demand for its bonds, Continental implemented another key component of the refinancing package to improve its financial and capital structure in summer 2010 by placing four bonds with a total volume of €3.0 billion in the third quarter of 2010 via Conti-Gummi Finance B.V., Amsterdam, Netherlands. The net proceeds from these bonds were used to repay part of the utilization of the VDO loan and to repay the loan borrowed to refinance tranche B (due in August of 2010) of the VDO loan (forward start facility). Due to good business performance, a further repayment of tranche C of the VDO loan was made in December 2010 in a nominal amount of €100.0 million. For tranche C, due in August 2012, there are still interest hedges at the end of 2010 amounting to €3,125.0 million. The resulting average fixed interest rate to be paid is 4.19% plus margin. Owing in particular to the higher expected cash flows for the VDO loan as a result of rising margins, the carrying amount was adjusted as expense in 2009 and in June of 2010. At the end of 2010, the value of these adjustments totaled €44.7 million (PY: €64.5 million). This deferral will be amortized over the term of the loan and reduces expenses accordingly.

Of the loan granted by the European Investment Bank (EIB) in an original amount of €600.0 million, early repayments totaling €300.0 million were made (€200.0 million in 2009 and €100.0 million in January 2010). The EIB loan was therefore drawn down in an amount of €300.0 million in nominal terms as at the end of 2010.

The various financial liabilities increased by €246.1 million to €857.1 million (PY: €611.0 million). This is mainly due to the increased use of factoring programs as compared with the previous year, an increase in liabilities from financing leasing and higher negative fair values of derivatives. The use of factoring programs was increased by €162.5 million to €381.5 million (PY: €219.0 million). The factoring program concluded in November 2010 with Norddeutsche Landesbank Luxembourg S.A. and Coface Finanz GmbH replaces the program with Skandifinanz Bank AG and provides for €80.0 million more financing volume (€230.0 million in total) compared with the Skandifinanz Bank AG program. At €224.0 million, almost all of the program was utilized as of the end of 2010 (PY: Skandifinanz Bank AG: €149.5 million). In addition, a factoring program with a financing volume of €150.0 million was agreed with Landesbank Hessen-Thüringen Girozentrale in December 2010, of which €82.7 million was used as of the end of 2010 (PY: €– million). The factoring program agreed in October 2009 with Wells Fargo Bank N.A. (formerly Wachovia Bank National Association) was expanded to include the Bank of Nova Scotia as partner, and in this connection the financing volume was increased to $150.0 million. €74.7 million was used as of the end of 2010 (PY: €69.4 million). The €41.6 million increase in the leasing liabilities, from €107.4 million in 2009 to €149.0 million in 2010, is due mainly to building and equipment leasing in connection with the construction of a passenger and light truck tire factory in Hefei, China. The fair value of the derivatives was €234.0 million, up €28.9 million from €205.1 million as of December 31, 2009. At €86.5 million, the volume of issued commercial paper was €13.1 million higher than the figure at the end of the previous year (€73.4 million).

At €1,673.5 million (PY: €1,817.0 million), cash and cash equivalents, derivative instruments and interest-bearing investments were down by €143.5 million.

Net indebtedness decreased by €1,578.5 million to €7,317.0 million as compared with €8,895.5 million at year-end 2009.

Effective indebtedness, i.e. including contingent liabilities on notes, was down by €1,585.5 million to €7,323.7 million (PY: €8,909.2 million).

Financing

Against the backdrop of the global economic crisis, the need emerged for the first time at the end of 2008 to adjust selected conditions of the agreement for the VDO loan in line with the changing economic environment. A concept prepared by Continental AG was submitted to the banking syndicate in December 2008 and was approved by almost all lending banks in January 2009. Although Continental AG reacted well to the effects of the global crisis and, in particular, succeeded in creating and maintaining sufficient liquidity, a further need for adjustment of selected financial covenants associated with the VDO loan emerged at the end of 2009. The result of the renegotiations for the VDO loan, which were concluded successfully at the end of 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 restrictions of the scope for dividend payments 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. In addition, the December 2009 renegotiations included a refinancing package that is expected to create an improved financial and capital structure. The banks gave a binding commitment for a forward start facility (FSF) of €2.5 billion for the VDO loan's tranche B of €3.5 billion due in August 2010. However the facility could be used only under the proviso that a capital increase with gross proceeds of at least €1.0 billion be carried out by August 2010.

The focus in 2010 was the implementation of the measures agreed in the above-mentioned refinancing package to improve the financial and capital structure. The first milestone of the refinancing package was reached back in January of 2010 with the implementation of a capital increase that was met with great interest by the market. The net proceeds (before tax effects) of €1,056.0 million were used to pay back tranche B of the VDO loan in accordance with the agreement. Continental thus fulfilled the requirement for receiving the forward start facility to pay back tranche B due in August 2010. In the summer of 2010, Continental exploited the positive market environment and the high demand for bonds, successfully placing-four euro-denominated bonds totaling €3.0 billion with German and foreign investors in the third quarter of 2010. All bonds were heavily oversubscribed, so the emission volume of the second bond placed at the beginning of September 2010 was raised from the original planned amount of €750.0 million to €1.0 billion. All bonds participated in the comprehensive collateral package granted to the lending banks in accordance with the renegotiations of the VDO loan described above. In line with the agreement, the net proceeds from all of these bonds were used to repay part of the VDO loan and to repay the loan borrowed to refinance tranche B (due in August of 2010) of the VDO loan (forward start facility).

In 2010, the agreed financial covenants were complied with as of the respective quarterly balance sheet dates.

Over the course of 2010, Continental made significant changes to the composition of its financial indebtedness. For example, the bond issues and the expansion of the factoring programs resulted in a stronger diversification of the financing sources and also a significant improvement of the maturity structure.

As of December 31, 2010, Continental is in a very good liquidity position of approximately €4.2 billion (PY: €3.9 billion) made up of cash and unused committed lines of credit.

On average, based on quarter-end values, 56.6% (PY: 36.4%) of gross indebtedness after hedging measures had fixed interest rates over the year.

Net Assets Position

Total assets

As of December 31, 2010, total assets increased by €1,341.3 million from €23,049.2 million to €24,390.5 million in comparison with the previous year's closing date. This is mainly due to the increase in inventories and trade accounts receivable totaling €1,367.7 million, accompanied by increased business activities. Increasing investment activities were the main reason for the €314.4 million increase in property, plant and equipment. Contrary to this, other intangible assets decreased by €345.4 million, mainly due to amortization from the purchase price allocation (PPA). The decrease in cash and cash equivalents of €241.5 million was due to repayments of short-term indebtedness, among other reasons.

Non-current assets

Non-current assets increased by €163.3 million to €14,887.9 million (PY: €14,724.6 million), mainly due to the increase in property, plant and equipment by €314.4 million to €6,098.7 million (PY: €5,784.3 million) and the increase in long-term derivatives and interest-bearing loans by €79.5 million to €157.9 million (PY: €78.4 million) especially resulting from the buy-back options of the high-yield bonds. The increase in goodwill by €107.0 million to €5,643.6 million (PY: €5,536.6 million) is due in particular to exchange rate changes. Other intangible assets fell by €345.4 million to €1,723.3 million (PY: €2,068.7 million). The deferred tax assets included in other non-current assets decreased by €48.2 million to €680.7 million (PY: €728.9 million). Other non-current assets showed no material changes from the previous year.

Current assets

Current assets increased by €1,178.0 million to €9,502.6 million (PY: €8,324.6 million). The increase in inventories and trade receivables is offset by a decline in cash and cash equivalents. The €805.9 million gain in trade receivables from €3,648.1 million in the previous year to €4,454.0 million is attributable primarily to higher sales at the end of 2010 as compared with December 2009. Increased business activities also led to a €561.8 million rise in inventories to €2,637.8 million (PY: €2,076.0 million). Cash and cash equivalents fell in the year under review by €241.5 million to €1,471.3 million (PY: €1,712.8 million) due in particular to the repayment of short-term indebtedness. Other current assets showed no material changes from the previous year.

Total equity

At €6,202.9 million, equity was up by €2,141.2 million from €4,061.7 million, mainly due to the income from the capital increase in January 2010 of €1,073.3 million taking into consideration the issue costs and incurred tax effects, positive exchange rate effects of €410.6 million, and the net income attributable to the shareholders of the parent of €576.0 million. The equity ratio improved from 17.6% to 25.4%.

Non-current liabilities

At €9,730.2 million, non-current liabilities were up by €1,833.1 million from €7,897.1 million in the previous year. Non-current financial indebtedness increased by €1,784.7 million to €7,752.4 million (PY: €5,967.7 million), mainly due to the bond issues in 2010 totaling a nominal amount of €3,000.0 million. The partial repayment of tranche C of the VDO loan in the amount of €1,015.1 million had the opposite effect. Pension provisions increased by €59.5 million to €1,404.5 million (PY: €1,345.0 million). Other non-current liabilities showed no material changes from the previous year.

Current liabilities

At €8,457.4 million, current liabilities were down by €2,633.0 million from €11,090.4 million in the previous year, mainly due to the reduction of short-term indebtedness. This indebtedness decreased by €3,506.7 million to €1,238.1 million (PY: €4,744.8 million) especially because of the repayment of tranche B of the VDO loan with income from the capital increase and from the bond issues in 2010. The changes in other current provisions resulted in particular from expenses for restructuring measures introduced in previous years and changes in the warranty provisions. The increase in trade accounts payable by €691.0 million to €3,510.5 million (PY: €2,819.5 million) resulting from increased production volumes had the opposite effect. The increase in other current financial liabilities of €323.1 million to €1,203.4 million (PY: €880.3 million) was due mainly to increased deferrals for interest, sales commissions, bonus payments and special payments. Other current liabilities showed no material changes from the previous year.

Consolidated balance sheets

Assets in € millions	Dec. 31, 2010	Dec. 31, 2009
Goodwill	5,643.6	5,536.6
Other intangible assets	1,723.3	2,068.7
Property, plant and equipment	6,098.7	5,784.3
Investments in associates	440.4	398.0
Other long-term assets	981.9	937.0
Non-current assets	**14,887.9**	**14,724.6**
Inventories	2,637.8	2,076.0
Trade accounts receivable	4,454.0	3,648.1
Other short-term assets	939.5	887.7
Cash and cash equivalents	1,471.3	1,712.8
Current assets	**9,502.6**	**8,324.6**
Total assets	**24,390.5**	**23,049.2**

Total equity and liabilities in € millions	Dec. 31, 2010	Dec. 31, 2009
Total equity	**6,202.9**	**4,061.7**
Non-current liabilities	**9,730.2**	**7,897.1**
Trade accounts payable	3,510.5	2,819.5
Other short-term provisions and liabilities	4,946.9	8,270.9
Current liabilities	**8,457.4**	**11,090.4**
Total equity and liabilities	**24,390.5**	**23,049.2**
Net indebtedness	**7,317.0**	**8,895.5**
Gearing ratio in %	**118.0**	**219.0**

Operating assets
The corporation's operating assets increased year-on-year by €700.1 million to €15,282.8 million (PY: €14,582.7 million) as of December 31, 2010.

The key factor in this development was the increase in working capital by €669.7 million to €3,588.0 million (PY: €2,918.3 million). Inventories increased by €561.8 million to €2,637.8 million (PY: €2,076.0 million). Despite the decrease in operating receivables as a percentage of sales by 1.1 percentage points to 17.1% (PY: 18.2%), their total amount increased by €798.9 million to €4,460.7 million (PY: €3,661.8 million) as at the reporting date due to the significant year-on-year improvement in business. Operating liabilities increased by €691.0 million to €3,510.5 million (PY: €2,819.5 million).

Non-current assets amounted to €13,975.6 million (PY: €13,846.5 million), up by €129.1 million from the previous year. Goodwill rose by €107.0 million to €5,643.6 million (PY: €5,536.6 million), of which €100.2 million was due to exchange rate effects.

Property, plant and equipment increased by €314.4 million to €6,098.7 million (PY: €5,784.3 million) as a result of investment activity being increased again during the year under review. Other intangible assets fell by €345.4 million to €1,723.3 million (PY: €2,068.7 million). The decisive factor for this decline was the amortization of intangible assets from the purchase price allocation (PPA) in the amount of €454.3 million (PY: €455.2 million).

The sale of the holding in VDO Automotive Huizhou Co. Ltd, Huizhou, China, in February 2010 resulted in a decrease in operating assets of €25.3 million in the Interior division. ContiTech Transportbandsysteme GmbH, Hanover, Germany, acquired a Metso Minerals (Deutschland) GmbH plant in Moers, Germany, as part of an asset deal, leading to an increase in operating assets of €10.4 million. In March 2010, ContiTech AG, Hanover, Germany, gained control of ContiTech Fluid Shanghai, Co. Ltd., Shanghai, China, (previously an investment accounted for using the equity method) due to a change in the partnership agreement. The initial consolidation led to the addition of €5.2 million in operating assets. Other changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets at the corporation level.

In the 2010 fiscal year, exchange rate effects increased the corporation's total operating assets by €522.8 million (PY: €167.3 million). Despite the increase in operating assets as of the reporting date, the average operating assets of the corporation fell year-on-year by €444.1 million to €15,580.0 million (PY: €16,024.1 million).

Employees

The workforce of the Continental Corporation increased by 13,794 employees from 134,434 in 2009 to 148,228. Due to the volume increase and the expansion in low-wage countries, the staff in the Automotive Group increased by 8,693 employees. In the Rubber Group, increased market demand also caused the number of employees to rise by 5,082.

Employees by region in %	2010	2009
Germany	31	33
Europe excluding Germany	32	33
NAFTA	14	14
Asia	16	14
Other countries	7	6

Key Figures for the Automotive Group

Automotive Group in € millions	2010	2009	Δ in %
Sales	15,917.0	12,042.4	32.2
EBITDA	1,779.1	608.9	192.2
in % of sales	11.2	5.1	
EBIT	567.9	-1,561.6	136.4
in % of sales	3.6	-13.0	
Research and development expenses	1,227.1	1,144.3	7.2
in % of sales	7.7	9.5	
Depreciation and amortization[1]	1,211.2	2,170.5	-44.2
thereof impairment[2]	35.6	949.0	-96.2
Operating assets (at December 31)	11,308.8	11,119.5	1.7
EBIT in % of operating assets (at December 31)	5.0	-14.0	
Operating assets (average)	11,512.0	12,015.9	-4.2
EBIT in % of operating assets (average)	4.9	-13.0	
Capital expenditure[3]	739.8	538.1	37.5
in % of sales	4.6	4.5	
Number of employees at the end of the year[4]	86,723	78,030	11.1
Adjusted sales[5]	15,900.0	11,912.6	33.5
Adjusted operating result (adjusted EBIT)[6]	1,068.6	203.7	424.6
in % of adjusted sales	6.7	1.7	

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Development in the Divisions: Chassis & Safety

- Sales up 32.1%
- Sales up 26.7% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 78.6%

Sales volumes

Sales volumes in the Electronic Brake Systems business unit jumped 31.2% to 16.6 million units in 2010 compared to 2009.

In the Hydraulic Brake Systems business unit, sales of brake boosters rose by 26.6% year-on-year to 15.1 million units. Sales of brake calipers in 2010 increased by 31.9% year-on-year to 32.8 million units.

In our Passive Safety & Advanced Driver Assistance Systems business unit, sales of air bag control units were up by 8.1% to 12.4 million units compared with the previous year. Sales of driver assistance systems were up to 1.1 million units, an increase of 79.5% in comparison to 2009.

Sales up 32.1%
Sales up 26.7% before changes in the scope of consolidation and exchange rate effects

Sales of the Chassis & Safety division rose by 32.1% to €5,775.4 million in 2010 compared with €4,373.6 million in 2009. Before changes in the scope of consolidation and exchange rate effects, sales increased by 26.7%. The increase is due to the recovery of all business units in all regions.

Adjusted EBIT up 78.6%

The Chassis & Safety division's adjusted EBIT in 2010 was up by €277.4 million, or 78.6%, year-on-year to €630.2 million (PY: €352.8 million), equivalent to 10.9% (PY: 8.1%) of adjusted sales.

EBIT up 655.1%

Compared with the previous year, the Chassis & Safety division reported an increase in EBIT of €671.5 million, or 655.1%, to €569.0 million in 2010 (PY: -€102.5 million). The return on sales climbed to 9.9% (PY: -2.3%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 14.2% (PY: -2.5%).

The amortization of intangible assets from the purchase price allocation (PPA) reduced EBIT by €53.8 million (PY: €53.0 million).

Special effects in 2010

Smaller impairment losses totaling €3.4 million were recognized on property, plant and equipment in the Chassis & Safety division.

The initial consolidation of a company in South Korea and the disposal of shares in an associated company in China resulted in a gain of €1.3 million.

There was also income of €3.6 million mainly due to the reversal of provisions that were no longer needed as part of finishing up various restructuring activities.

Expenses of €8.9 million arose in the Chassis & Safety division due to severance payments.

For the Chassis & Safety division, total expense from special effects amounted to €7.4 million in 2010.

Special effects in 2009

In the third quarter of 2009, the impairment test on goodwill 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 finishing up restructuring activities at the plant in Dortmund, Germany, since parts of the production could be transferred to the Interior division.

Chassis & Safety in € millions	2010	2009	Δ in %
Sales	5,775.4	4,373.6	32.1
EBITDA	891.7	601.6	48.2
in % of sales	15.4	13.8	
EBIT	569.0	-102.5	655.1
in % of sales	9.9	-2.3	
Research and development expenses	422.3	380.8	10.9
in % of sales	7.3	8.7	
Depreciation and amortization[1]	322.7	704.1	-54.2
thereof impairment[2]	3.8	370.4	-99.0
Operating assets (at December 31)	3,940.5	3,824.9	3.0
EBIT in % of operating assets (at December 31)	14.4	-2.7	
Operating assets (average)	3,997.0	4,034.0	-0.9
EBIT in % of operating assets (average)	14.2	-2.5	
Capital expenditure[3]	247.1	159.5	54.9
in % of sales	4.3	3.6	
Number of employees at the end of the year[4]	30,495	27,148	12.3
Adjusted sales[5]	5,775.4	4,367.6	32.2
Adjusted operating result (adjusted EBIT)[6]	630.2	352.8	78.6
in % of adjusted sales	10.9	8.1	

1 Excluding impairments on financial investments.
2 Impairment also includes necessary reversals of impairment losses.
3 Capital expenditure on property, plant and equipment, and software.
4 Excluding trainees.
5 Before changes in the scope of consolidation.
6 Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

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, there were 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.

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

Procurement

At first, procurement in the year under review remained impacted by the effects of the global financial and economic crisis. The supplier base of the division proved to be pleasingly robust and successfully met the challenges resulting from the crisis. Insolvency risks remained at a reasonable level and were balanced out by working together with partners affected by them on the supplier side.

Over the course of the year, the unexpectedly rapid upturn in the economy led to capacity bottlenecks at some suppliers. This was successfully overcome by means of flanking measures along the supply chain. Increasing prices for raw materials had no effect in some cases in the current fiscal year due to existing agreements and indirect purchases.

Research and development

Research and development expenses rose by €41.5 million or 10.9% year-on-year to €422.3 million (PY: €380.8 million), or 7.3% (PY: 8.7%) of sales.

Depreciation and amortization

Depreciation and amortization fell year-on-year by €381.4 million to €322.7 million (PY: €704.1 million) and amount to 5.6% of sales (PY: 16.1%). This included impairment losses totaling €3.8 million (PY: €370.4 million) in 2010.

Operating assets

Operating assets in the Chassis & Safety division increased year-on-year by €115.6 million to €3,940.5 million as of December 31, 2010 (PY: €3,824.9 million).

The key factor in this development was the increase in working capital by €149.2 million to €524.7 million (PY: €375.5 million). Inventories increased by €86.1 million to €339.7 million (PY: €253.6 million). Despite the decrease in operating receivables as a percentage of sales by 1.5 percentage points to 15.9% (PY: 17.4%), their total amount increased by €156.3 million to €919.1 million (PY: €762.8 million) as of the reporting date due to the significant year-on-year improvement in business. Operating liabilities increased by €93.2 million to €734.1 million (PY: €640.9 million).

Non-current assets amounted to €3,874.6 million (PY: €3,846.3 million), up by €28.3 million from the previous year. Goodwill rose by €31.4 million to €2,330.9 million (PY: €2,299.5 million), with €31.1 million of this increase being due to exchange rate effects. Property, plant and equipment increased by €25.4 million to €1,221.5 million (PY: €1,196.1 million) as a result of investment activity being increased again during the year under review. Other intangible assets fell by €34.6 million to €230.8 million (PY: €265.4 million). The decisive factor for this decline was the amortization and impairments on intangible assets from the purchase price allocation (PPA) in the amount of €53.8 million (PY: €53.0 million).

Changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets in the Chassis & Safety division.

In the 2010 fiscal year, exchange rate effects increased total operating assets in the Chassis & Safety division by €122.2 million (PY: €18.0 million).

Despite the increase in operating assets as of the reporting date, the average operating assets of the Chassis & Safety division fell year-on-year by €37.0 million to €3,997.0 million (PY: €4,034.0 million).

Capital expenditure (additions)

Additions to the Chassis & Safety division increased by €87.6 million year-on-year to €247.1 million (PY: €159.5 million). Capital expenditure amounted to 4.3% (PY: 3.6%) of sales.

Production capacities in all business units were systematically expanded and set up for new products and production technologies. Significant additions were attributable to the creation of new production capacity for the next generation of electronic braking systems. Investments were made at the Changshu, China, location for the construction of a new plant for the production of hydraulic braking systems.

Employees

The number of employees in the Chassis & Safety division increased by 3,347 compared with the previous year to 30,495 (PY: 27,148). The increase in all business units is primarily due to an adjustment to the increased volumes. Capacities were increased mainly in low-wage countries. In addition, the CES (engineering services) area added more staff to service the extremely positive order situation.

Development in the Divisions: Powertrain

- Sales up 39.2%
- Sales up 36.2% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 112.6%

Sales volumes
Sales in the Powertrain division increased by a total of 39.2% year-on-year in 2010, mainly due to a rapid recovery after the economic crisis of 2009 and significant production start-ups in the Engine Systems and Transmission business units. The Sensors & Actuators business unit recorded above-average growth with its products regulating exhaust gases. Sales were up year-on-year in all regions, especially Asia, which saw over 60% growth.

Sales up 39.2%
Sales up 36.2% before changes in the scope of consolidation and exchange rate effects
Sales of the Powertrain division increased by 39.2% year-on-year to €4,730.8 million in 2010 (PY: €3,399.2 million). Before changes in the scope of consolidation and exchange rate effects, sales increased by 36.2%.

Adjusted EBIT up 112.6%
The Powertrain division's adjusted EBIT was up €232.3 million, or 112.6%, year-on-year to €26.0 million (PY: -€206.3 million), equivalent to 0.6% (PY: -6.2%) of adjusted sales.

EBIT up 79.0%
Compared with the previous year, the Powertrain division reported an increase in EBIT of €745.1 million, or 79.0%, to -€198.1 million in 2010 (PY: -€943.2 million). The return on sales climbed to -4.2% (PY: -27.7%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to -6.4% (PY: -27.7%).

The amortization of intangible assets from the purchase price allocation (PPA) reduced EBIT by €178.7 million (PY: €175.3 million).

Special effects in 2010
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 in 2009. This resulted in additional restructuring expenses of €11.9 million in the Powertrain division in 2010. This primarily relates to impairments on production plants that were partially offset by provisions for supplier claims that were no longer needed.

There were additional restructuring-related expenses and severance payments of €18.9 million in the Powertrain division, of which €5.1 million related to the closure of the Asnière, France, location.

Impairment requirements of €16.3 million in the Powertrain division include an impairment loss on property, plant and equipment at the Costa Rica location of €7.7 million.

For the Powertrain division, total expense from special effects amounted to €47.1 million in 2010.

Special effects in 2009
In the third quarter of 2009, the impairment test on goodwill led to an impairment requirement of €447.4 million in the Powertrain division.

Production was discontinued in Huntsville, U.S.A., at the end of 2010. By closing the Huntsville site 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.

Powertrain in € millions	2010	2009	Δ in %
Sales	4,730.8	3,399.2	39.2
EBITDA	268.2	-13.3	2,116.5
in % of sales	5.7	-0.4	
EBIT	-198.1	-943.2	79.0
in % of sales	-4.2	-27.7	
Research and development expenses	396.9	328.8	20.7
in % of sales	8.4	9.7	
Depreciation and amortization[1]	466.3	929.9	-49.9
thereof impairment[2]	36.6	488.0	-92.5
Operating assets (at December 31)	2,997.8	3,034.2	-1.2
EBIT in % of operating assets (at December 31)	-6.6	-31.1	
Operating assets (average)	3,112.2	3,401.8	-8.5
EBIT in % of operating assets (average)	-6.4	-27.7	
Capital expenditure[3]	301.5	247.2	22.0
in % of sales	6.4	7.3	
Number of employees at the end of the year[4]	26,614	24,172	10.1
Adjusted sales[5]	4,713.8	3,341.7	41.1
Adjusted operating result (adjusted EBIT)[6]	26.0	-206.3	112.6
in % of adjusted sales	0.6	-6.2	

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

In this same context, a decision was made to move the activities of several business units of the Powertrain division from the Deer Park location, U.S.A., 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 plant in Blythewood, U.S.A., restructuring measures had to be introduced in 2009, resulting in expenses of €44.7 million. This primarily related to impairments 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 was 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.

In the Powertrain division in particular, unutilized provisions for severance payments of €3.8 million were reversed in 2009 as part of finishing 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, was closed. This led to restructuring expenses of €0.8 million in the Powertrain division.

In 2009, there were 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.

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

Procurement

The rapid market recovery and the accompanying massive increase in sales volumes in 2010 led to price increases for steel and aluminum and therefore negative material cost influences and problems in the material supply.

The expanded procurement cooperation with the Schaeffler Group as well as pooling with new partners helped to limit the price increases in raw materials and ensure delivery for Continental and Continental's suppliers.

Research and development

Research and development expenses rose by €68.1 million or 20.7% year-on-year to €396.9 million (PY: €328.8 million), or 8.4% (PY: 9.7%) of sales.

Depreciation and amortization

Depreciation and amortization fell year-on-year by €463.6 million to €466.3 million (PY: €929.9 million) and amount to 9.9% of sales (PY: 27.4%). This included impairment losses totaling €36.6 million (PY: €488.0 million) in 2010.

Operating assets

Operating assets in the Powertrain division decreased year-on-year by €36.4 million to €2,997.8 million as of December 31, 2010 (PY: €3,034.2 million).

Working capital increased by €68.9 million to €293.4 million (PY: €224.5 million). Inventories increased by €56.1 million to €265.5 million (PY: €209.4 million). Despite the decrease in operating receivables as a percentage of sales by 0.9 percentage points to 17.1% (PY: 18.0%), their total amount increased by €197.9 million to €809.1 million (PY: €611.2 million) as of the reporting date due to the significant year-on-year improvement in business. Operating liabilities increased by €185.1 million to €781.2 million (PY: €596.1 million).

Non-current assets amounted to €3,168.2 million (PY: €3,230.7 million), up by €62.5 million from the previous year. Goodwill rose by €31.3 million to €1,007.3 million (PY: €976.0 million), of which €31.0 million was due to exchange rate effects.

Property, plant and equipment increased by €40.1 million to €1,441.0 million (PY: €1,400.9 million) as a result of investment activity being increased again during the year under review. Other intangible assets fell by €136.3 million to €590.3 million (PY: €726.6 million). The decisive factor for this decline was the amortization and impairments on intangible assets from the purchase price allocation (PPA) in the amount of €178.7 million (PY: €175.3 million).

Changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets in the Powertrain division.

In the 2010 fiscal year, exchange rate effects increased total operating assets in the Powertrain division by €109.3 million (PY: €6.8 million).

Average operating assets in the Powertrain division decreased by €289.6 million to €3,112.2 million as compared with fiscal year 2009 (€3,401.8 million).

Capital expenditure (additions)

Additions to the Powertrain division increased by €54.3 million to €301.5 million (PY: €247.2 million). Capital expenditure amounted to 6.4% (PY: 7.3%) 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 at the Tianjin, China, location in particular.

Employees

The number of employees in the Powertrain division increased by 2,442 compared with the previous year to 26,614 (PY: 24,172). In line with the sales increases, the number of employees increased by 724 in the Engine Systems business unit, 767 in the Transmission business unit, 328 in Sensors & Actuators, and 298 in Fuel Supply. 325 staff were added in the Hybrid Electric Vehicle unit due to new projects and production startups.

Development in the Divisions: Interior

- Sales up 26.5%
- Sales up 22.4% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 623.5%

Sales volumes
The sales volume in the Body & Security business unit was up by 40% year-on-year. This increase involved all product groups and major customers. Especially noteworthy in this regard is the above-average growth in Asia (+69% year-on-year), while growth was also recorded in Europe and NAFTA.

In the Infotainment & Connectivity business unit, sales in audio components, connectivity products and multimedia systems climbed an average of 10% year-on-year. The highest sales growth was recorded in the Asian OEMs segment with +95% (product launches) and American OEMs with +19% (market development, mainly audio products).

Aftermarket sales volume grew by about 1% year-on-year. The number of digital tachographs sold in the Commercial Vehicles & Aftermarket business unit rose by a good 40% compared with 2009 due to the significant economic upturn in commercial vehicles in Western Europe in the second half of 2010.

Sales volumes for instrument clusters in the Instrumentation & Driver HMI business unit increased by over 20% year-on-year in 2010 with above-average growth rates in NAFTA, Brazil and Asia.

Sales up 26.5%
Sales up 22.4% before changes in the scope of consolidation and exchange rate effects
Sales of the Interior division increased by 26.5% year-on-year to €5,518.1 million (PY: €4,362.7 million). Before changes in the scope of consolidation and exchange rate effects, sales increased by 22.4%, mainly due to the recovery of the markets compared with 2009.

Adjusted EBIT up 623.5%
The Interior division's adjusted EBIT was up in 2010 compared with 2009 by €355.4 million, or 623.5%, to €412.4 million (PY: €57.0 million), equivalent to 7.5% (PY: 1.3%) of adjusted sales.

EBIT up 138.2%
Compared with the previous year, the Interior division reported an increase in EBIT of €713.0 million, or 138.2%, to €197.0 million in 2010 (PY: -€516.0 million). The return on sales climbed to 3.6% (PY: -11.8%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 4.5% (PY: -11.3%).

The amortization of intangible assets from the purchase price allocation (PPA) reduced EBIT by €215.1 million (PY: €212.3 million).

Special effects in 2010
In 2010, the Interior division incurred expenses of €5.6 million for additional final activities regarding the disposal of certain business operations.

Winding-up activities for the disposal of an associated company led to a gain of €2.1 million and tax expenses for the corporation in the same amount.

As part of finishing up various restructuring activities, there was also income of €12.4 million from the reversal of provisions that were no longer needed as well as reversals of impairments on property, plant and equipment.

Interior in € millions	2010	2009	Δ in %
Sales	5,518.1	4,362.7	26.5
EBITDA	619.1	20.4	2,934.8
in % of sales	11.2	0.5	
EBIT	197.0	-516.0	138.2
in % of sales	3.6	-11.8	
Research and development expenses	407.9	434.7	-6.2
in % of sales	7.4	10.0	
Depreciation and amortization[1]	422.1	536.4	-21.3
thereof impairment[2]	-4.8	90.6	-105.3
Operating assets (at December 31)	4,370.5	4,260.3	2.6
EBIT in % of operating assets (at December 31)	4.5	-12.1	
Operating assets (average)	4,402.8	4,580.1	-3.9
EBIT in % of operating assets (average)	4.5	-11.3	
Capital expenditure[3]	191.3	131.3	45.7
in % of sales	3.5	3.0	
Number of employees at the end of the year[4]	29,614	26,710	10.9
Adjusted sales[5]	5,518.1	4,296.4	28.4
Adjusted operating result (adjusted EBIT)[6]	412.4	57.0	623.5
in % of adjusted sales	7.5	1.3	

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Expenses of €9.2 million arose in the Interior division due to severance payments.

For the Interior division, total expense from special effects in 2010 amounted to €0.3 million.

Special effects in 2009

In the third quarter of 2009, the annual impairment test on goodwill 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 the disposal of two associated companies, impairment losses in the amounts of €43.6 million and €2.0 million were recognized.

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 was concluded in the fourth quarter of 2010. This sale resulted in expenses totaling €4.5 million in 2009.

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

Production was discontinued in Huntsville, U.S.A., at the end of 2010. By closing the Huntsville site 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.

The Interior division incurred restructuring expenses of €12.2 million at its Wetzlar, Germany, location due to expiring R&D 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 restructuring expenses of €31.4 million for the Interior division at the plant in Babenhausen, Germany, in 2009.

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, there were 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.

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

Procurement

The procurement market for Interior was characterized by a massive rise in demand from the automotive engineering area, but especially entertainment electronics for electronic and electromechanical components. Increased customer demands exceeded the installed production capacities, especially for semiconductors, displays, relays and printed circuit boards, and led to supply bottlenecks.

Research and development

Research and development expenses decreased by €26.8 million or 6.2% year-on-year to €407.9 million (PY: €434.7 million), or 7.4% (PY: 10.0%) of sales.

Depreciation and amortization

Depreciation and amortization fell year-on-year by €114.3 million to €422.1 million (PY: €536.4 million) and amount to 7.6% of sales (PY: 12.3%). This included reversals totaling €4.8 million (PY: impairment losses of €90.6 million) in 2010.

Operating assets

Operating assets in the Interior division increased year-on-year by €110.2 million to €4,370.5 million as of December 31, 2010 (PY: €4,260.3 million).

The key factor in this development was the increase in working capital by €135.6 million to €704.6 million (PY: €569.0 million). Inventories increased by €129.4 million to €553.0 million (PY: €423.6 million). Despite the decrease in operating receivables as a percentage of sales by 1.9 percentage points to 16.3% (PY: 18.2%), their total amount increased by €105.9 million to €901.1 million (PY: €795.2 million) as of the reporting date due to the significant year-on-year improvement in business. Operating liabilities increased by €99.7 million to €749.5 million (PY: €649.8 million).

Non-current assets amounted to €4,209.2 million (PY: €4,271.0 million), up by €61.8 million from the previous year. Goodwill rose by €37.6 million to €2,201.6 million (PY: €2,164.0 million), of which €37.2 million was due to exchange rate effects.

Property, plant and equipment increased by €27.6 million to €984.1 million (PY: €956.5 million) as a result of investment activity being increased again during the year under review. Other intangible assets fell by €168.6 million to €834.7 million (PY: €1,003.3 million). The decisive factor for this decline was the amortization and impairments on intangible assets from the purchase price allocation (PPA) in the amount of €215.1 million (PY: €212.3 million).

The sale of the holding in VDO Automotive Huizhou Co. Ltd, Huizhou, China, in February 2010 resulted in a decrease in operating assets of €25.3 million in the Interior division.

In the fiscal year, exchange rate effects increased total operating assets in the Interior division by €116.1 million (PY: €38.3 million).

Despite the increase in operating assets as of the reporting date, the average operating assets of the Interior division fell year-on-year by €177.3 million to €4,402.8 million (PY: €4,580.1 million).

Capital expenditure (additions)
Additions to the Interior division increased by €60.0 million to €191.3 million (PY: €131.3 million). Capital expenditure amounted to 3.5% (PY: 3.0%) of sales.

Investment focused primarily on targeted expansion and installation of manufacturing capacity for the Body & Security and Instrumentation & Driver HMI business units. These investments relate in particular to manufacturing capacity at the German plants and in the U.S.A., Mexico, Brazil, the Czech Republic, Romania and China.

Employees
The number of employees in the Interior division increased by 2,904 to 29,614 (PY: 26,710). In the Body & Security business unit, the number of employees increased, especially in Asia, by 679 due to the volume increase. Sales growth and location expansion in Nogales, Mexico; Tianjin, China; and Bizerte, Tunisia, led to an increase of 180 employees in the Infotainment & Connectivity unit. The sales increase and expansion in Asia (Malaysia, China) and the enlargement of the development site in Timisoara, Romania, led to an increase of 805 employees in the Commercial Vehicles & Aftermarket business unit. Significant sales growth with above-average growth rates in NAFTA, Brazil and Asia as well as an increase of R&D employees in low-wage countries led to an increase of 1,240 employees in the Instrumentation & Driver HMI unit.

Key Figures for the Rubber Group

Rubber Group in € millions	2010	2009	Δ in %
Sales	10,152.5	8,068.3	25.8
EBITDA	1,851.5	1,114.5	66.1
in % of sales	18.2	13.8	
EBIT	1,413.1	655.7	115.5
in % of sales	13.9	8.1	
Research and development expenses	223.3	212.0	5.3
in % of sales	2.2	2.6	
Depreciation and amortization[1]	438.4	458.8	-4.4
thereof impairment[2]	22.1	44.0	-49.8
Operating assets (at December 31)	4,019.3	3,553.2	13.1
EBIT in % of operating assets (at December 31)	35.2	18.5	
Operating assets (average)	4,112.1	3,989.8	3.1
EBIT in % of operating assets (average)	34.4	16.4	
Capital expenditure[3]	555.8	321.7	72.8
in % of sales	5.5	4.0	
Number of employees at the end of the year[4]	61,265	56,183	9.0
Adjusted sales[5]	10,067.9	8,043.4	25.2
Adjusted operating result (adjusted EBIT)[6]	1,513.4	1,038.5	45.7
in % of adjusted sales	15.0	12.9	

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Development in the Divisions: Passenger and Light Truck Tires

- Sales up 23.9%
- Sales up 18.2% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 33.1%

Sales volumes

We increased volumes in the OE business, Europe and NAFTA by good double-digit percentages and therefore increased and/or maintained our market share. We achieved double-digit growth rates in the replacement business in Europe and the Americas. Year-on-year sales growth of 7% in the Asia Pacific region affected total development only slightly.

Sales up 23.9%
Sales up 18.2% before changes in the scope of consolidation and exchange rate effects

Sales of the Passenger and Light Truck Tires division rose by 23.9% to €5,820.8 million in 2010 compared with 2009 (PY: €4,696.4 million). Before changes in the scope of consolidation and exchange rate effects, sales increased by 18.2%.

Adjusted EBIT up 33.1%

The Passenger and Light Truck Tires division's adjusted EBIT was up in 2010 compared with 2009 by €256.1 million, or 33.1%, to €1,030.5 million (PY: €774.4 million), equivalent to 17.9% (PY: 16.5%) of adjusted sales.

EBIT up 85.2%

Compared with the previous year, the Passenger and Light Truck Tires division reported an increase in EBIT of €456.9 million, or 85.2%, to €993.3 million in 2010 (PY: €536.4 million). The return on sales climbed to 17.1% (PY: 11.4%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 41.0% (PY: 22.8%).

Average raw material prices were higher in 2010 as compared with 2009, negatively impacting the Passenger and Light Truck Tires division by around €282 million in 2010.

Special effects in 2010

Additional restructuring-related expenses of €14.7 million were incurred in connection with the end of tire production in Clairoix, France.

Additional restructuring expenses of €6.0 million were incurred at the Traiskirchen, Austria, location.

€3.0 million in expenses mainly from restructuring were incurred, of which €0.5 million related to capitalized intangible assets from the purchase price allocation.

Expenses of €6.4 million arose in the Passenger and Light Truck Tires division due to severance payments.

An impairment of €7.2 million on property, plant and equipment in Puchov, Slovakia, arose in 2010.

An impairment loss of €0.3 million on capitalized intangible assets from the purchase price allocation was incurred at a ContiTrade company.

For the Passenger and Light Truck Tires division, total expense from special effects in 2010 amounted to €37.6 million. Adjusted for impairment of capitalized intangible assets from the purchase price allocation in an amount of €0.8 million, special effects had an adverse impact totaling €36.8 million.

Passenger and Light Truck Tires in € millions	2010	2009	Δ in %
Sales	5,820.8	4,696.4	23.9
EBITDA	1,241.0	793.1	56.5
in % of sales	21.3	16.9	
EBIT	993.3	536.4	85.2
in % of sales	17.1	11.4	
Research and development expenses	120.8	113.5	6.4
in % of sales	2.1	2.4	
Depreciation and amortization[1]	247.7	256.7	-3.5
thereof impairment[2]	7.2	24.6	-70.7
Operating assets (at December 31)	2,351.3	2,012.1	16.9
EBIT in % of operating assets (at December 31)	42.2	26.7	
Operating assets (average)	2,422.9	2,348.4	3.2
EBIT in % of operating assets (average)	41.0	22.8	
Capital expenditure[3]	404.3	198.3	103.9
in % of sales	6.9	4.2	
Number of employees at the end of the year[4]	28,276	26,510	6.7
Adjusted sales[5]	5,772.8	4,698.8	22.9
Adjusted operating result (adjusted EBIT)[6]	1,030.5	774.4	33.1
in % of adjusted sales	17.9	16.5	

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

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 of €207.3 million in 2009. 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.

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 recorded under other intangible assets led to an impairment requirement of €2.4 million with various customer groups.

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

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 2009.

For the Passenger and Light Truck Tires division, total expense from special effects amounted to €235.0 million in 2009. Adjusted for customer relationship impairment of €2.4 million and the impairment on 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.

Procurement
The average price for natural rubber in 2010 was almost twice the 2009 price, whereby the price rose most quickly in the second half of 2010. It hit a temporary record high at the end of the year.

The rapid rise in demand, previous capacity adjustments at suppliers, and speculation in the raw material markets led to general price pressure on all production materials. Synthetic rubbers and carbon blacks were also no exception to this development.

Due to the significant sales increase in the Passenger and Light Truck Tires division, flexible raw material procurement to overcome supply bottlenecks was a major challenge in 2010.

Research and development
Research and development expenses rose by €7.3 million or 6.4% year-on-year to €120.8 million (PY: €113.5 million), or 2.1% (PY: 2.4%) of sales.

Depreciation and amortization
Depreciation and amortization fell year-on-year by €9.0 million to €247.7 million (PY: €256.7 million) and correspond to 4.3% of sales (PY: 5.5%). This included impairment losses totaling €7.2 million (PY: €24.6 million) in 2010.

Operating assets
Operating assets in the Passenger and Light Truck Tires division increased year-on-year by €339.2 million to €2,351.3 million (PY: €2,012.1 million).

The division recorded an increase of €82.7 million in working capital to €1,215.6 million (PY: €1,132.9 million). Inventories increased by €175.2 million to €915.2 million (PY: €740.0 million). Despite the decrease in operating receivables as a percentage of sales by 1.6 percentage points to 17.5% (PY: 19.1%), their total amount increased by €120.1 million to €1,018.7 million (PY: €898.6 million) as at the reporting date due to the significant year-on-year improvement in business. Operating liabilities increased by €212.6 million to €718.3 million (PY: €505.7 million).

Non-current assets amounted to €1,628.1 million (PY: €1,383.4 million), up by €244.7 million from the previous year, mainly due to the increase in property, plant and equipment by €243.5 million to €1,503.3 million (PY: €1,259.8 million).

Changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of assets in the Passenger and Light Truck Tires division.

In the 2010 fiscal year, exchange rate effects increased total operating assets in the Passenger and Light Truck Tires division by €109.3 million (PY: €60.4 million).

Average operating assets in the Passenger and Light Truck Tires division increased by €74.5 million to €2,422.9 million as compared with fiscal 2009 (€2,348.4 million).

Capital expenditure (additions)
Additions to the Passenger and Light Truck Tires division increased by €206.0 million year-on-year to €404.3 million (PY: €198.3 million). This includes €52.3 million (PY: €0.0 million) for finance leasing and €1.1 million (PY: €0.3 million) for capitalizing borrowing costs. Capital expenditure amounted to 6.9% (PY: 4.2%) of sales.

Investments were made to set up a new production plant for passenger and light truck tires in Hefei, China. Production capacities in Europe and South America were also expanded and funds were invested for quality assurance and cost-cutting measures.

Employees

The number of employees in the Passenger and Light Truck Tires division increased by 1,766 compared with previous year to 28,276 (PY: 26,510). This is mainly due to the increased market demand and accompanying increase in production volume, which led to an increase of 1,433 employees at the production companies in 2010. Expansion projects at the trading companies and the adjustment to the improved market situation at the sales companies also increased staff by 333 employees.

Development in the Divisions: Commercial Vehicle Tires

- Sales up 34.0%
- Sales up 25.8% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 290.5%

Sales volumes

Based on an extremely weak 2009 which was characterized by massive declines in demand, there was a significant recovery of the markets through the whole of 2010. We increased sales year-on-year in all quarters in the reporting period. Sales figures in the first nine months of 2010 were down compared to 2008, but the fourth quarter figures were up by 13.5% over the same period of 2008. Positive development was seen in all regions and in original equipment and replacement business alike.

Sales up 34.0%
Sales up 25.8% before changes in the scope of consolidation and exchange rate effects

Sales of the Commercial Vehicle Tires division rose by 34.0% to €1,427.8 million in 2010 compared with 2009 (PY: €1,065.6 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 25.8%.

Adjusted EBIT up 290.5%

The Commercial Vehicle Tires division's adjusted EBIT was up in 2010 compared with 2009 by €63.9 million, or 290.5%, to €85.9 million (PY: €22.0 million), equivalent to 6.1% (PY: 2.1%) of adjusted sales.

EBIT up 200.0%

Compared with the previous year, the Commercial Vehicle Tires division reported an increase in EBIT of €100.2 million, or 200.0%, to €50.1 million in 2010 (PY: -€50.1 million). The return on sales increased to 3.5% (PY: -4.7%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 8.0% (PY: -7.9%).

The increase in raw material prices had a negative impact of approximately €123 million on the Commercial Vehicle Tires division in 2010 compared with average prices for 2009.

Special effects in 2010

Due to massive collapses in demand on the European commercial vehicle market as a result of the economic crisis, Continental had to reduce production capacity at all European commercial vehicle tire locations in 2009. A still available production cell in Hanover-Stöcken, Germany, was finally closed down, creating additional restructuring expenses of €34.6 million in 2010.

The sale of our North American OTR activities to the Titan Tire Corporation in 2006 led to a gain in 2010 of €3.3 million.

There was also an impairment on an at-equity investment in the amount of €0.5 million in 2010.

Expenses of €1.8 million arose in the Commercial Vehicle Tires division due to severance payments.

For the Commercial Vehicle Tires division, total expense from special effects amounted to €33.6 million in 2010.

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.

Unutilized provisions of €0.2 million were reversed in 2009 as part of the finishing up of restructuring activities in Alor Gajah, Malaysia.

Commercial Vehicle Tires in € millions	2010	2009	Δ in %
Sales	1,427.8	1,065.6	34.0
EBITDA	142.2	47.5	199.4
in % of sales	10.0	4.5	
EBIT	50.1	-50.1	200.0
in % of sales	3.5	-4.7	
Research and development expenses	41.8	40.5	3.2
in % of sales	2.9	3.8	
Depreciation and amortization[1]	92.1	97.6	-5.6
thereof impairment[2]	12.8	15.7	-18.5
Operating assets (at December 31)	631.3	570.4	10.7
EBIT in % of operating assets (at December 31)	7.9	-8.8	
Operating assets (average)	628.4	634.7	-1.0
EBIT in % of operating assets (average)	8.0	-7.9	
Capital expenditure[3]	51.2	40.5	26.4
in % of sales	3.6	3.8	
Number of employees at the end of the year[4]	7,156	7,594	-5.8
Adjusted sales[5]	1,416.1	1,063.2	33.2
Adjusted operating result (adjusted EBIT)[6]	85.9	22.0	290.5
in % of adjusted sales	6.1	2.1	

[1] Excluding impairments on financial investments.
[2] Impairment also includes necessary reversals of impairment losses.
[3] Capital expenditure on property, plant and equipment, and software.
[4] Excluding trainees.
[5] Before changes in the scope of consolidation.
[6] Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

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 on an at-equity investment in the amount of €0.8 million.

The sales declines resulting from the global economic crisis mean that it is no longer possible to efficiently utilize the externally operated warehouse in Straubing, Germany. The warehouse will therefore be closed. The corresponding rental agreement exists until 2016. At the end of 2009, it was assumed that the properties could not be sub-leased 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 Commercial Vehicle Tires division, of which €1.4 million related to capitalized intangible assets from the purchase price allocation.

Impairment losses of €0.4 million were recognized on property, plant and equipment in the Commercial Vehicle 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, total expense from special effects amounted to €72.0 million in 2009. Adjusted for impairment on intangible assets from the purchase price allocation of €2.5 million, the impact of special effects amounted to a total of €69.5 million.

Procurement

As a general rule, material use for the products of the Commercial Vehicle Tires division is comparable with that of the Passenger and Light Truck Tires division, so rising prices were recorded in this area as well. Due to the high percentage of natural rubber in commercial vehicle tires, the price pressure in this business unit was especially high in the second half of the year.

The considerable increase in production volume caused the purchasing volume of the entire business unit to rise.

Research and development

Research and development expenses rose by €1.3 million or 3.2% year-on-year to €41.8 million (PY: €40.5 million), or 2.9% (PY: 3.8%) of sales.

Depreciation and amortization

Depreciation and amortization fell year-on-year by €5.5 million to €92.1 million (PY: €97.6 million) and amount to 6.5% of sales (PY: 9.2%). This included impairment losses totaling €12.8 million (PY: €15.7 million) in 2010.

Operating assets

Operating assets in the Commercial Vehicle Tires division increased year-on-year by €60.9 million to €631.3 million as of December 31, 2010 (PY: €570.4 million).

The key factor in this development was the increase in working capital by €100.5 million to €351.9 million (PY: €251.4 million). Inventories increased by €47.7 million to €203.7 million (PY: €156.0 million). Operating receivables increased by €91.8 million to €346.5 million (PY: €254.7 million) as at the reporting date due to the significant year-on-year improvement in business. Operating liabilities increased by €39.0 million to €198.3 million (PY: €159.3 million).

Non-current assets amounted to €397.8 million (PY: €436.2 million), down by €38.4 million from the previous year, mainly due to the decrease in property, plant and equipment by €40.5 million to €379.5 million (PY: €420.0 million).

Changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets in the Commercial Vehicle Tires division.

In the 2010 fiscal year, exchange rate effects increased total operating assets in the Commercial Vehicle Tires division by €40.7 million (PY: €33.6 million).

Average operating assets in the Commercial Vehicle Tires division were virtually unchanged from fiscal year 2009 with a decrease of only €6.3 million to €628.4 million (PY: €634.7 million).

Capital expenditure (additions)

Additions to the Commercial Vehicle Tires division increased by €10.7 million year-on-year to €51.2 million (PY: €40.5 million). Capital expenditure amounted to 3.6% (PY: 3.8%) of sales.

Important additions were made in the Commercial Vehicle Tires division in order to improve quality and optimize the production for truck tires. Investments were focused on the locations in Slovakia, Brazil and the U.S.A.

Employees

The increase in the number of employees due to the positive market development was more than offset by the decrease due to the structural measures introduced back in 2009. In total, the number of employees declined by 438 to 7,156 (PY: 7,594).

Development in the Divisions: ContiTech

- Sales up 28.6%
- Sales up 26.4% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 63.9%

Sales up 28.6%
Sales up 26.4% before changes in the scope of consolidation and exchange rate effects
Sales of the ContiTech division increased by 28.6% year-on-year to €3,095.3 million (PY: €2,406.1 million). Before changes in the scope of consolidation and exchange rate effects, sales rose by 26.4%. All business units but one achieved high double-digit growth rates. With a 37% jump in sales, the automotive OE sector contributed the most to business performance. We achieved a 21% sales increase in the automotive replacement business and a 19% increase in non-automotive business.

Adjusted EBIT up 63.9%
The ContiTech division's adjusted EBIT was up in 2010 compared with 2009 by €154.8 million, or 63.9%, to €396.9 million (PY: €242.1 million), equivalent to 12.9% (PY: 10.2%) of adjusted sales.

EBIT up 118.2%
Compared with the previous year, the ContiTech division reported an increase in EBIT of €200.2 million, or 118.2%, to €369.6 million in 2010 (PY: €169.4 million). The return on sales increased to 11.9% (PY: 7.0%).

The return on capital employed (EBIT as a percentage of average operating assets) amounted to 34.8% (PY: 16.8%).

The increase in raw material prices had a negative impact of approximately €78 million on the ContiTech division in 2010 compared with average prices for 2009.

Special effects in 2010
The antitrust proceedings initiated in 2007 against Dunlop Oil & Marine Ltd., U.K., a subsidiary of ContiTech AG, in the area of offshore hoses, resulted in further expenses of €20.8 million.

Impairment losses of €2.1 million were reported in the ContiTech division.

The cost-cutting program initiated worldwide in response to the economic crisis led to expenses for severance payments of €2.7 million in 2010.

There were also negative one-time effects totaling €0.3 million primarily due to restructuring expenses and income from disposals of companies.

For the ContiTech division, total expense from special effects amounted to €25.9 million in 2010.

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., U.K., a subsidiary of ContiTech AG, in the area of offshore hoses, resulted in further expenses of €6.2 million in 2009.

The initial consolidation of the conveyor belt company Kolubara Univerzal D.O.O., Serbia, led to a gain of €0.7 million from the negative balance.

ContiTech in € millions	2010	2009	Δ in %
Sales	3,095.3	2,406.1	28.6
EBITDA	468.2	274.0	70.9
in % of sales	15.1	11.4	
EBIT	369.6	169.4	118.2
in % of sales	11.9	7.0	
Research and development expenses	60.7	58.0	4.7
in % of sales	2.0	2.4	
Depreciation and amortization[1]	98.6	104.6	-5.7
thereof impairment[2]	2.1	3.7	-43.2
Operating assets (at December 31)	1,036.7	970.6	6.8
EBIT in % of operating assets (at December 31)	35.7	17.5	
Operating assets (average)	1,060.7	1,006.7	5.4
EBIT in % of operating assets (average)	34.8	16.8	
Capital expenditure[3]	100.3	82.8	21.1
in % of sales	3.2	3.4	
Number of employees at the end of the year[4]	25,833	22,079	17.0
Adjusted sales[5]	3,070.4	2,381.2	28.9
Adjusted operating result (adjusted EBIT)[6]	396.9	242.1	63.9
in % of adjusted sales	12.9	10.2	

1 Excluding impairments on financial investments.
2 Impairment also includes necessary reversals of impairment losses.
3 Capital expenditure on property, plant and equipment, and software.
4 Excluding trainees.
5 Before changes in the scope of consolidation.
6 Before amortization of intangible assets from the purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

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 unneeded provision from the sale of the Benecke-Kaliko business unit's furniture covering business led to a reversal of €0.2 million.

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

Procurement

The trend in prices of raw materials, as described for the Tire divisions, also applies to ContiTech, although natural rubber prices have much less impact here.

The broad product portfolio and the significant growth rates in the different business units presented a challenge for ContiTech to ensure the availability of certain raw materials to meet customer requirements.

A balance of central material procurement that can generate synergy effects and flexible local procurement ensures optimum procurement results for the ContiTech division.

Research and development

Research and development expenses rose by €2.7 million or 4.7% year-on-year to €60.7 million (PY: €58.0 million), or 2.0% (PY: 2.4%) of sales.

Depreciation and amortization

Depreciation and amortization fell year-on-year by €6.0 million to €98.6 million (PY: €104.6 million) and amount to 3.2% of sales (PY: 4.3%). This included impairment losses totaling €2.1 million (PY: €3.7 million) in 2010.

Operating assets

Operating assets in the ContiTech division increased year-on-year by €66.1 million to €1,036.7 million as of December 31, 2010 (PY: €970.6 million).

The key factor in this development was the increase in working capital by €101.7 million to €523.1 million (PY: €421.4 million). Inventories increased by €67.3 million to €360.5 million (PY: €293.2 million). Operating receivables increased by €135.8 million to €509.0 million (PY: €373.2 million) as at the reporting date due to the significant year-on-year improvement in business. Operating liabilities increased by €101.4 million to €346.4 million (PY: €245.0 million).

Non-current assets amounted to €675.7 million (PY: €657.1 million), up by €18.6 million from the previous year, mainly due to the increase in property, plant and equipment by €18.4 million to €559.0 million (PY: €540.6 million).

ContiTech Transportbandsysteme GmbH, Hanover, Germany, acquired a Metso Minerals (Deutschland) GmbH plant in Moers, Germany, as part of an asset deal, leading to an increase in operating assets of €10.4 million. In March 2010, ContiTech AG, Hanover, Germany, gained control of ContiTech Fluid Shanghai, Co. Ltd., Shanghai, China, (previously an investment accounted for using the equity method) due to a change in the partnership agreement. The initial consolidation led to the addition of €5.2 million in operating assets. There were no other changes in the scope of consolidation or asset deals with notable additions or disposals of operating assets in the ContiTech division in fiscal year 2010. Only two smaller companies were sold in the Benecke-Kaliko Group.

In the 2010 fiscal year, exchange rate effects increased total operating assets in the ContiTech division by €25.1 million (PY: €11.1 million).

Average operating assets in the ContiTech division increased by €54.0 million to €1,060.7 million as compared with fiscal year 2009 (€1,006.7 million).

Capital expenditure (additions)

Additions to the ContiTech division increased by €17.5 million to €100.3 million (PY: €82.8 million). Capital expenditure amounted to 3.2% (PY: 3.4%) of sales.

In addition to rationalization and expansion investments in Germany, manufacturing capacity, especially for the Fluid Technology business unit, was expanded at the Romanian and Hungarian sites. In the Air Spring Systems, Fluid Technology and Vibration Control business units, investments were made in China to expand and install production capacity for the Asian market.

Employees

The number of employees in the ContiTech division increased by 3,754 compared with the previous year to 25,833 (PY: 22,079). Volume increases in all areas and the production expansion of several business units in Mexico, Brazil and China are responsible for the increase in staff numbers. The acquisition of the Flexowell business in the Conveyor Belt Group and the initial consolidation of ContiTech Fluid Shanghai, China, led to an increase in staff numbers, while the disposals of ContiTech Formpolster GmbH and Benoac GmbH in the Benecke-Kaliko Group had the opposite effect.

Net Assets, Financial and Earnings Position of the Parent Company

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

Unlike the consolidated financial statements, the annual financial statements of Continental AG are prepared in accordance with the German commercial law (German Commercial Code or *Handelsgesetzbuch – HGB*, and German Stock Corporation Act or *Aktiengesetz – AktG*). 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 *HGB* since the future development and related risks and opportunities of the parent company and 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, 2010**	**Dec. 31, 2009**
Assets in € millions		
Intangible assets	6.6	16.3
Property, plant and equipment	3.3	3.5
Investments	11,075.4	11,108.9
Non-current assets	**11,085.3**	**11,128.7**
Inventories	0.4	0.8
Receivables and other assets	7,019.9	6,103.9
Short-term securities	0.0	332.3
Cash and cash equivalents	325.1	201.4
Current assets	**7,345.4**	**6,638.4**
Prepaid expenses and deferred charges	**57.5**	**89.2**
Total assets	**18,488.2**	**17,856.3**
Shareholders' equity and liabilities in € millions		
Common stock	512.0	432.6
Capital reserves	4,179.1	3,144.6
Revenue reserves	54.7	54.7
Accumulated profits (PY: Accumulated losses)	61.1	-993.7
Shareholders' equity	**4,806.9**	**2,638.2**
Provisions	**645.5**	**696.2**
Liabilities	**13,035.7**	**14,521.9**
Deferred income	**0.1**	**—**
Total equity and liabilities	**18,488.2**	**17,856.3**
Gearing ratio in %	119.4	292.2
Equity ratio in %	26.0	14.8

Due to the carve-out of Continental AG's tire activities into a subsidiary in the previous year, the income statement for fiscal year 2010 can be compared with that of the previous year to a very limit extent only, since sales, the cost of sales and key other operating expenses in connection with the operating tire business in fiscal year 2010 are no longer included in the income statement of Continental AG. In 2009, these figures for January 1 to July 31, 2009 were still included in the income statement. In contrast, the profit transfer from Continental Caoutchouc-Export-GmbH reported in the financial result of Continental AG includes the profit transfer from Continental Reifen Deutschland GmbH in the amount of €232.2 million (PY: €37.8 million). After the tire activities were carved out in the previous year, Continental AG mainly took on the holding functions for the Continental Corporation.

Total assets increased year-on-year by €631.9 million to €18,488.2 million (PY: €17,856.3 million), mostly due to the increase in receivables from associated companies by €910.1 million and the increase in cash and cash equivalents by €123.7 million. Contrary to this, current securities fell by €332.3 million.

Financial assets fell by €33.5 million year-on-year to €11,075.4 million (PY: €11,108.9 million) and now make up 59.9% of total assets after 62.2% in the previous year.

Prepaid expenses fell by €31.7 million to €57.5 million.

On the liabilities side, liabilities to banks decreased by €4,882.2 million year-on-year to €4,171.5 million (PY: €9,053.7 million), corresponding to 53.9%. This reduction is partly due to the capital increase against cash contributions resolved by the Executive Board of Continental AG and approved by the Supervisory Board on January 6, 2010. The net proceeds of €1,056.0 million were used to repay part of tranche B of the VDO loan due in August 2010. Liabilities to banks were also reduced due to the four bonds issued via Conti-Gummi Finance B.V., Amsterdam, Netherlands, which were placed on the market with a total volume of €3.0 billion. These were provided to Continental AG via corporation loans, thus increasing liabilities to associated companies by €3,384.5 million. Liabilities were therefore reduced by net €1,486.2 million as of the balance sheet date.

Statement of income of Continental Aktiengesellschaft in € millions	**2010**	**2009**
Sales	**27.6**	**1,191.1**
Cost of sales	26.4	924.3
Gross margin on sales	**1.2**	**266.8**
Selling expenses	0.1	91.3
General and administrative expenses	60.3	79.0
Other operating income	95.1	171.2
Other operating expenses	337.9	318.5
Net income from financial activities	1,443.5	-512.7
Earnings before taxes	**1,141.5**	**-563.5**
Extraordinary result	**-2.7**	**—**
Income taxes	-84.0	-90.5
Net income (PY: Net loss)	**1,054.8**	**-654.0**
Accumulated losses brought forward from the previous year	-993.7	-339.7
Accumulated profits (PY: Accumulated losses)	**61.1**	**-993.7**

Subscribed capital increased by €79.4 million and capital reserves increased by €1,034.5 million due to the capital increase against cash contributions.

Sales were down €1,163.5 million to €27.6 million (PY: €1,191.1 million), corresponding to a decrease of 97.7% (PY: decrease of 54.1%) due to the carve-out of the tire activities. The sales reported for fiscal year 2010 are due to the activities of the Chassis & Safety division at the site in Hanover-Stöcken, Germany.

The cost of sales decreased by €897.9 million to €26.4 million (PY: €924.3 million) due to the carve-out of the tire activities. The gross margin on sales fell by 99.5% or €265.6 million to €1.2 million (PY: €266.8 million).

As in the previous year, other operating income and other operating expenses particularly include 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 (€259.3 million), Continental Automotive GmbH, Hanover (€524.9 million) and Continental Caoutchouc-Export-GmbH, Hanover (€1,323.7 million) offset loss assumptions from UMG Beteiligungsgesellschaft mbH, Hanover (€104.4 million). In fiscal year 2010, Continental Caoutchouc-Export-GmbH, Hanover, received a one-time dividend distribution of €1.0 billion from Continental Global Holding Holding Netherlands B.V., Amsterdam, Netherlands, via the profit transfer from CAS-One Holdinggesellschaft mbH, Hanover.

The deterioration of the net interest expense by €72.0 million to €581.5 million is due to the higher (compared with the previous year) margin of the VDO loan agreement and the forward start facility resulting from the rating downgrades over the course of 2009 and the renegotiation of the conditions of the VDO loan concluded in May 2010 and December 2009. The net interest amount was also influenced by the issue of four loans via Conti-Gummi Finance B.V., Amsterdam, Netherlands, and the related corporate loan, while the fact that the market interest rate was lower as compared with the previous year had a positive effect.

Tax expense of €84.0 million is a result of current expenses in Germany and a lack of applicable volumes of non-imputable foreign withholding tax. After taking into account this tax expense, Continental AG posted net income for the year of €1,054.8 million (PY: net loss of €654.0 million). The after-tax return on equity was 21.9% (PY: -24.8%).

After the inclusion of the retained losses brought forward from the previous year (€993.7 million), net retained earnings were €61.1 million.

A proposal will be made to the Annual Shareholders' Meeting on April 28, 2011 that no dividend be paid for fiscal year 2010.

We expect a continued positive development of the subsidiaries' operating results in fiscal year 2011. Net interest will be at the same level as the previous year against the background of the repayment of parts of the VDO loan via bonds and the resulting slight increase in the interest burden despite the targeted debt reduction.

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Report Pursuant to Section 289 (4) and Section 315 (4) of the German Commercial Code (*Handelsgesetzbuch – HGB*)

1. The subscribed capital of the company amounted to €512,015,316.48 as of the balance sheet date and was 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 F. W. 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 whose acquisition, 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 German Securities Trading Act (*Wertpapierhandelsgesetz)* under Note 39 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 German Stock Corporation Act (*Aktiengesetz – AktG*) in conjunction with Section 31 of the German Co-determination Act (*Mitbestimmungsgesetz*). Accordingly, the Supervisory Board is responsible for the appointment and dismissal of members 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 *Aktiengesetz* to assign to the Supervisory Board the power to make amendments soley affecting the version of the Articles of Incorporation.

In accordance with Article 20, Paragraph 2 of the Articles of Incorporation, resolutions of the Shareholders' Meeting to amend 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 contingent 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 contingent capital of up to €111.5 million. If the Executive Board issues bonds with warrants 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 contingent 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 contingent 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 codified 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 original 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.

   The bonds issued by a subsidiary of Continental AG, Conti-Gummi Finance B.V. Amsterdam, Netherlands ("issuer"), on July 16, 2010, September 13, 2010 and October 5, 2010 at a nominal amount of €750 million, €1,000 million, €625 million and €625 million respectively and guaranteed by Continental AG allow each bondholder to demand that the issuer redeem or acquire the bonds held by the bondholder at a price established in the bond conditions in the event of a change of control at Continental Aktiengesellschaft. The bond conditions define a change of control as one person or several persons acting in concert (pursuant to Section 2 (5) of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz – WpÜG*) holding more than 50% of the voting rights in Continental AG by means of acquisition or as a result of a merger or other form of combination with the participation of Continental AG. The holding of voting rights by Schaeffler GmbH, its legal successor or its associated companies is not a change of control within the meaning of the bond conditions.

   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 connection 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 23. The Remuneration Report is a part of the Management Report.

Supplementary Report

As of February 8, 2011, there were no events or developments that could have materially affected the measurement and presentation of individual asset and liability items at December 31, 2010.

Dependent Company Report

Final declaration from the Executive Board's report on relations with affiliated companies pursuant to Section 312 of the German Stock Corporation Act (*Aktiengesetz – AktG*)
In fiscal 2010, Continental AG was a dependent company of Schaeffler GmbH, 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 2010 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 (*Handelsgesetzbuch – HGB*) is available to our shareholders on our website at www.continental-corporation.com/corporate-governance.

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 risks identifiable which would endanger the existence of the company that are likely to occur.

Risk management and internal control system

Pursuant to Section 289 (5) and 315 (2) of the German Commercial Code (*Handelsgesetzbuch – HGB*) the main characteristics of the internal control and risk management system in respect of the accounting process must be described. 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 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 Management Committee. In its scope and organizational structure, it is focused on company-specific needs.

Continental has expressed 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. The purpose of the compliance organization and these regulations, guidelines and instruction letters is 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, 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. The Supervisory Board and the Audit Committee monitor and review its effectiveness. The risk management and internal control systems include all subsidiaries that are essential to the consolidated financial statements with their relevant accounting processes.

Risk reporting

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 and 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 controls in the business processes (e.g. purchase to pay, order to cash, HR, asset management and IT permissions) are controlled on a quarterly basis and reviewed with respect to their effectiveness.

Corporate functions such as Compliance, HR, Quality, Law, Purchasing, and 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.

Continental AG has set up a Compliance & Anti-Corruption Hotline to give the 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 bribery or antitrust behavior, but also accounting manipulation, can be reported anonymously via the hotline where permissible by law. 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 regularly report any changes to previously reported risks plus any new developments that could turn into material risks as part of their 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 Management 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 Compliance & Risk Management Committee monitors and consolidates the identified risks at the corporation level. It regularly reports to the Executive Board and recommends further measures if needed. 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 €6.48 billion as of December 31, 2010. 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 adjusted EBITDA) and a minimum interest cover ratio (calculated as the ratio of Continental's adjusted consolidated EBITDA to consolidated net interest). The maximum leverage ratio decreases gradually from 4.75 for the reference period ended on December 31, 2009, to 3.00 for the reference period to end on June 30, 2012. The interest cover ratio must not fall below 2.25 in the period to end on March 31, 2011, or below 2.50 in the subsequent periods.

In view of the 2009 economic crisis and its effects on Continental's business activities and earnings situation if the current upswing does not prove to be long term, as well as the other market and operational risks described below, Continental may not be able to comply with the financial covenants described above. Should Continental fail in one of these obligations, the creditors are entitled to declare their facilities immediately due and payable. In this case, the facilities granted under the VDO loan agreement will become due for payment immediately and/or all credit lines will be canceled. As of December 31, 2010, the leverage ratio was 1.89 and the interest cover ratio was 4.98.

In August 2012, tranche C of a total nominal amount of €3.98 billion as well as outstanding amounts under the revolving credit facility in the VDO loan agreement will become due for payment. Continental plans to enter into refinancing negotiations with the banks granting the facilities in the course of 2011. 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, or in the event of another substantial disruption of the global or European financial markets, 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 on 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 occurs when one person or several persons acting in concert (pursuant to Section 2 (5) of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz – WpÜG*)) acquire more than 50% of the voting rights in the company or gain control of the company by means of a domination agreement (*Beherrschungsvertrag*) pursuant to Section 291 of the German Stock Corporation Act (*Aktiengesetz – 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 pursuant to Section 291 *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 debt level and the turbulence on the financial markets.

Continental faces liquidity risks arising from tight credit markets and its existing financial liabilities. Since Continental continues to hold relatively high levels of debt (net indebtedness amounting to €7,317.0 million as of December 31, 2010), tighter credit markets (including the market for high-yield bonds) could make it difficult for the company to obtain financing on commercially reasonable terms. In addition, due to the downgrade of Continental's credit rating in June and August 2009 and in May 2010, Continental may be unable to continue its factoring programs under which it factored invoices to banks in the past or to continue 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 could adversely impact the availability and cost of additional financing for Continental and also 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 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 net equity-to-debt ratio also decreased substantially. In the course of 2008 and 2009, Continental's equity ratio decreased due to the effects of the financial crisis and the resulting economic downturn on Continental's business and earnings situation 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. In May 2010, Standard & Poor's reduced Continental's rating further from B+ to "B Stable Outlook", in particular due to the influence of major shareholder Schaeffler on Continental's credit standing and Continental's forthcoming financing need for 2012. After Continental successfully placed the first high-yield bond, Moody's changed its forecast in July 2010 from "negative" to "stable". Its rating downgrade makes it more difficult for Continental to refinance at economically reasonable conditions. 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.

It is not known if the recovery of the global economy and production in the automotive sector is sustainable. If the upturn proves not to be sustainable, this could have negative effects on Continental's liquidity and lead to a further deterioration of its credit rating. 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, Continental also faces risks in connection with its other financing agreements, especially a loan from the European Investment Bank ("EIB"), which amounted to €300.0 million as of the end of 2010, a promissory note of €110.0 million, the bond of €750.0 million (due for repayment in 2015) that Continental issued in July 2010, the bond of €1,000.0 million that Continental issued in September 2010 (due in 2017), and the two bonds issued in October 2010 of €625.0 million each (due in 2016 and 2018, respectively). 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 covenants of the loan agreement with the EIB, an example of a change-of-control is when one person or several persons acting in concert (pursuant to Section 2 (5) *WpÜG*) acquire more than 50% of the voting rights in the company or gain control of the company by means of a domination agreement pursuant to Section 291 *AktG*. In this case, the EIB may request information on the change-of-control from the company. If the 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, the 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 million 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 could result in losses.

Risks related to the markets in which Continental operates

Continental could be exposed to significant risks in connection with a global financial and economic crisis.

Continental generates a large percentage (approximately 72%) 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.

During the most recent global economic crisis, automotive sales and production deteriorated substantially, resulting in a sharp decline in demand for Continental's products from its OEM customers. At present it is not known if the current upturn is sustainable. If this is not the case, automobile production could fall again and remain at a low level for an extended period of time, especially in Europe and the NAFTA region, where Continental generated approximately 79% of its sales in 2010. A prolonged 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. Tax increases that reduce consumers' disposable income could be another factor to weaken global demand on the vehicle markets. Especially in the member countries of the European Union, tax increases are a likely reaction to the increase in public debt due to the various aid programs for banks and the EU's "rescue parachute" for its member states. Furthermore, Continental's five largest OEM customers (BMW, Ford, Daimler, VW and General Motors) generated approx. 39% of the Continental Corporation's sales in 2010. 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 customers 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. Most of these programs, which were designed to stimulate the economy by boosting vehicle sales, have lapsed. 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.

Continental operates in a cyclical industry.
Global production of vehicles and, as a result, sales to OEM customers (from whom Continental currently generates approximately 72% 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 to fixed 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. 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 can 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. 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.

While the lower prices for natural and synthetic rubber in 2009 had a positive impact on Continental's earnings situation, price increases since the third quarter of 2009 have led to increased costs of €405 million at a price level of over $3 per kilogram of natural rubber and over $80 per barrel of crude oil. As long as Continental is able to pass on these additional costs by increasing its selling prices, it is possible that the positive effects of the price increases will not end until after the period of additional costs. In this case, the additional costs may not be compensated for at the time they arise. 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 earnings situation.

Continental generates by far the greatest share of its total sales in Europe and, in particular, in Germany.

In 2010, Continental generated 60% of its total sales in Europe, of which 27% were generated in Germany. By comparison, 19% of Continental's total sales in 2010 were generated in NAFTA, 16% in Asia, and 5% in other countries. As a consequence, in the event of an economic downturn in Europe or in Germany in particular, Continental's business and earnings situation 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. In the current global economic situation, adverse changes in the geographical distribution of automotive demand could also cause Continental to suffer. The current recovery in automotive production is driven mainly by strong demand from the Asian and North American markets, while the demand in Europe is relatively low. It is unknown if the strong demand from Asia and North America is sustainable. If demand falls there and is not compensated for by an increase on another regional market, this could adversely impact demand for Continental products.

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 72% 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 CO2 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 earnings situation. 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, 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 the same 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 can result in losses. 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 euros 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 (consisting mainly of Siemens VDO businesses acquired in 2007), 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. Continental has not yet succeeded in remedying all of the problems identified within the Powertrain division by implementing these measures. In particular, 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 2009 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.

After the Powertrain division’s adjusted EBIT passed the break-even point in 2010, the medium-term objective remains to generate a reported EBIT margin of 8% in this division by 2015. However, the problems described could make achieving this goal more difficult. 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 still 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 contractual trust arrangements (CTAs) 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. Among other stipulations, the purchase agreement contains a number of regulations on the sale and transfer of the shares to ContiTech AG. Under certain conditions, these authorize the Continental Pension Trust (i) to obligate ContiTech 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 funds 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 or 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 income. Moreover, vehicle manufacturers are increasingly requiring a contribution from their suppliers for potential product liability, warranty and recall claims. In addition, Continental has long 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 could leave Continental, especially in view of the uncertainty about the effects of the stake held by Schaeffler on the corporate strategy.

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, 2010, the pension obligations amounted to €3,342.8 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, 2010, Continental's net pension obligations (pension obligations less pension plan assets) amounted to €1,563.0 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 fluctuations 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 plans. 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, 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 situation and earnings situation 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 the joint venture or associated company in question 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 heavily 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 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.
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 result in severe damage and loss. Such far-reaching negative consequences can also arise from political unrest or instability, especially in emerging economies. 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. Furthermore, 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 Várzea Paulista (Brazil). For example, since the closure of the Mayfield plant in 2005, the competent environmental authority has sought 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 con-

tamination, 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 also applies 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 trade 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 of 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 could be threatened with fines and claims for damages for alleged or actual antitrust behavior.

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, South Korea and Canada). Apart from the ongoing proceedings in Brazil, all other proceedings have been concluded or, as in the case of Canada, have not been pursued. In Brazil, 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 countries with the risk of fines for the infringement of antitrust law. In addition, DOM may be subject to claims for damages by third parties due to the infringement of antitrust 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. Proceedings have also been initiated in the English High Court and further claims in the United Kingdom have been threatened. There is also a risk that claims for damages may be filed in other countries (e.g. Japan, South Korea, Australia and 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. On August 18, 2010, the Brazilian national competition authorities determined an "invitation to cartel" and imposed a fine of BRL12 million (about €5.3 million) on CBIA. CBIA dismisses the accusations and has filed an appeal at the responsible court. However, third parties may also claim damages from CBIA resulting from the infringement of Brazilian antitrust law. On October 2, 2006, South African antitrust authorities received a complaint from a third party accusing several South African tire manufacturers of alleged antitrust behavior, including Continental Tyre South Africa (Pty.) Limited ("CTSA"), a joint venture that is 74% owned by Continental. On August 31, 2010, the South African antitrust authorities came to the conclusion that CTSA had violated South African antitrust law and referred the matter to the responsible antitrust court for a decision. CTSA denies the allegation of infringements of South African antitrust law. However, the antitrust court could impose a fine of up to 10% of CTSA's sales. In addition, third parties may also claim damages from CTSA resulting from the infringement of South African competition law.

On February 24, 2010, the European Commission conducted searches at several companies which manufacture wire harnesses for automotive purposes, including S-Y Systems Technologies Europe GmbH ("S-Y"), Regensburg, Germany. S-Y is a joint venture in which Continental and the Japanese company Yazaki, a wire harness manufacturer, each own 50%. The European Commission announced that it has indications that the companies in question have violated EU antitrust law. However, it is not clear whether the European Commission will impose fines against S-Y or Continental. Searches are a preliminary step in investigations into antitrust behavior and are not indicative of the outcome. If the European Commission determines that S-Y or Continental can be accused of antitrust behavior, it could impose a fine based on the severity and the duration of the violations not to exceed 10% of the previous year's sales of the participating company. Even if the European Commission determines that only S-Y exhibited antitrust behavior, it cannot be ruled out that the parent companies may be included in the fine due to joint and several liability. Continental has conducted internal audits in certain business units to check compliance with antitrust law. These audits revealed anticompetitive behavior with respect to one product group. Continental took measures to end this behavior. There is a risk that antitrust authorities may conduct investigations due to this behavior and impose fines and that third parties, especially customers, may file claims for damages. The amount of such fines and any subsequent claims is unknown from the current perspective, but could be significant. It also cannot be ruled out that future internal audits may reveal further actual or potential violations of anti-trust law that in turn could result in fines and claims for damages. In addition, alleged or actual antitrust behavior could seriously disrupt the relationships with our business partners.

Continental might be exposed to tax risks regarding the use of tax loss and interest carryforwards in connection with changes in the shareholder structure of the company.
Section 8c of the German Corporate Income Tax Act (*Körperschaftssteuergesetz – KStG*) provides for pro-rata elimination of tax loss and interest carryforwards and current losses as a rule 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, carryforwards and current losses are as a rule 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 related to the assessment periods up to and including 2003. A routine tax audit for the company and its German subsidiaries is currently being conducted by the German tax authorities for the assessment periods of 2004 to 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 34

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 is set to grow again in 2011. In January 2011, the IMF forecast growth of 4.4% for the global economy. The slowdown as against 2010 (global economic growth of 5.0%) is mainly due to savings programs in the eurozone, the end of stimulus programs and the anticipated interest rate hikes to curb inflation in emerging and developing economies.

The IMF is estimating growth of 2.5% in the advanced economies in 2011 (2010: 3.0%). In addition to the eurozone, the advanced economies include Japan and the United States according to the IMF. While the U.S.A. is expected to profit from the $600 billion monetary aid program launched by the Fed in November 2010 in the current year, the end of government stimulus programs in Japan will mean a decline in economic growth there to 1.6% (2010: 4.3%). Meanwhile, an increase of 3.0% is expected for the U.S.A. (2010: 2.8%). Within the eurozone, for which the IMF is anticipating growth of 1.5% for 2011 (2010: 1.8%), Germany will see the strongest rise in 2011 as well at 2.2%.

The emerging and developing economies, which include the countries of Central and Eastern Europe, China, India, Russia and Brazil, are expected to experience a decline in GDP growth from 7.1% in 2010 to 6.5% in 2011. Only Russia is expected to post a rise in GDP to 4.5% (2010: 3.7%), due largely to the rising oil and gas prices plus the effects of the aid programs, such as those for the automotive industry, extending into the current year. However, a drop in the immense growth of 2010 is forecast for the remaining BRIC nations of China, India and Brazil. This will be due to the measures planned to curb inflation. Nonetheless, growth in China and India will significantly outstrip that of the global economy. China, now the second largest economy in the world after the U.S.A. and ahead of Japan, is expected to grow twice as fast, i.e. by 9.6% in 2011. The IMF is forecasting growth for India of 8.4% (2010: 9.7%). For Brazil, the BRIC nation with the third-highest inflation rate in 2010 (5.9%), the IMF is predicting a rise in GDP of 4.5% (2010: 7.5%). In addition to rising interest rates, this deceleration is due to the end of government aid programs and the substantial appreciation of the Brazilian real (16% as against the euro in 2010), which is expected to slow exports.

The IMF is forecasting a similar situation for 2012 with comparably robust growth in the global economy of 4.5%.

Germany

The German economy in general is forecast to grow by more than 2% in 2011. The IMF is predicting growth in Germany at 2.2% for 2011 (2010: 3.6%). Thus, Germany will also post the strongest economic growth among the core European countries in 2011. However, some economists are warning against overstating this figure as, in their opinion, much of the growth forecast for 2011 results from a “statistical overhang” of 2010’s economic performance and the true growth rate (without the statistical overhang) is only 0.7%. Growth in 2011 will benefit from the consistently high level of export activity and increasingly from renewed domestic demand. According to many forecasts, the unemployment rate will drop to nearly 7.0% and the number of the registered unemployed will decline to less than 3 million, which will boost private consumer spending significantly. However, the recent rise in inflation to 2.6% is cause for concern in Germany, as higher interest rates could stifle economic activity in the eurozone overall, combined with negative impacts on exports.

Western Europe and the eurozone

The balancing act in the eurozone, between budget shake-up and spending discipline on the one hand and appropriate economic growth on the other, will also dominate economic events in 2011. The discussion has gone far enough that some experts are advocating the departure of some countries from the monetary union or dividing the common eurozone into north and south. The background to such thoughts are questions of how much longer the “strong” euro nations are willing to keep paying off the debts of the “weaker” ones and for how long the strict budgets being pursued by the governments of the weaker nations (PIIGS states: Portugal, Italy, Ireland, Greece and Spain) can stand up to the unrest and resistance in their own countries. It should not be forgotten that, by creating the eurozone, the “strong” euro nations came to enjoy advantages that would otherwise not have been afforded (e.g. other countries became unable to use devalutation to strengthen their own competitive position). Until it can come up with a solution, the EU has bought itself some time with the €750 billion rescue fund set up in November. An extension of the facilities in place until 2013 and the design of a European Stability Mechanism (ESM) then set to replace this are currently being discussed intensively.

However, the fact remains that the savings measures so essential in the PIIGS nations, some of which are quite drastic, will limit growth in the eurozone in the coming years. Hence, the IMF is forecasting growth in the economic output of the eurozone of 1.5% in 2011 (2010: 1.8%).

Central and Eastern Europe
Given the high national deficits, some of which are extremely high, budget consolidation will remain the dominant issue in Central and Eastern Europe. Within the CE3 nations (Hungary, Poland and the Czech Republic), Poland still has the best growth prospects. According to a study by Deutsche Bank, Poland will see the strongest rise in economic performance within Europe in 2011 with 3.9%. Independent observers are growing increasingly concerned with the government measures recently taken in Hungary. After transferring pension assets to the state, the freedom of the press and the independence of the courts and central bank were also curtailed, spurring the rating agency Moody’s to downgrade the country’s credit rating by two whole categories. Meanwhile, the outlook for the Czech Republic remained robust in the opinion of Deutsche Bank and should amount to 2.3% in 2011. Core inflation is still the lowest in Europe in these countries.

Russia
A crucial factor for the performance of the Russian economy will be the trends in oil and gas prices in 2011. The price of oil climbing back to above $100 for Brent oil in the wake of the recent democracy protests in Egypt should have a positive effect on Russian economic performance. The harvest losses due to poor weather conditions – extensive grain-growing regions were destroyed by drought in the summer of 2010 – had a highly negative effect on inflation in 2010. However, curbing this with interest rate hikes could negatively impact the value of the ruble and thereby Russian exports. Economic growth would then increasingly have to be carried by domestic demand, which appears questionable at the very least given the unemployment rate of more than 7%. As the Russian government is also grappling with a public deficit of almost 5%, funds for further economic aid programs are limited. The IMF is forecasting economic growth for Russia of 4.5% for 2011 (2010: 3.7%).

America
Despite injections of enormous levels of funding, the largest economy in the world has not yet succeeded in sparking a clear recovery on its own labor market. The unemployment rate fell by only 0.6 percentage points in 2010 to 9.4%. In their Global Economic Outlook, analysts at Deloitte project that – even creating 200,000 jobs per month – it would take from today to 2020 for the unemployment rate in the U.S.A. to drop back below 6%. With private consumer spending accounting for 70% of total economic performance, the unemployment rate is a matter of particularly high significance in the U.S.A. In addition, the budget deficit is continuing to climb to a very high level of recently 8.9% of GDP, due in no small part to the Fed’s $600 billion monetary aid program. While the housing market stabilized in 2010, this took extensive tax incentives. According to the Case-Shiller Home Price Index, home prices declined in 16 of 20 major cities in 2010. In spite of concerns that the inventory cycle will not allow for any further significant stimulus for the U.S. economy in 2011, the IMF is forecasting an increase in economic growth for the U.S.A. of 0.2 percentage points year-on-year to 3.0% in 2011.

Asia
Despite the intensive discussion of the actual value of the renminbi, **China** is allowing only limited appreciation of its currency as against others. As a result, exports will remain the driving factor for economic growth – which the IMF is forecasting at 9.6% for 2011

– in what is now the world's second-largest economy. Exports to the triad (Europe, NAFTA and Japan) still account for more than 90% of the total figure, though the contribution from the emerging nations of India, Brazil and Russia is rising constantly and saw double-digit growth rates in 2010. In future, the redistribution of wealth away from coastal regions and further inland could represent a stabilizing factor for internal demand. The constant rise in inflation, recently to 4.6%, is cause for concern in all emerging nations. The more restrictive interest rate policy of the Chinese central bank (in response to rising inflation) is expected to continue in 2011 as, in spite of raising interest rates to currently 1.9%, this level is still far below the rate of inflation, which means that interest rates in China are still negative in real terms.

India has the highest level of inflation within the BRIC nations. Driven by the rapid rise in food prices, inflation remained in double digits for much of 2010, significantly above the central bank's target of 6%. The bank responded by raising interest rates a total of six times in 2010 to 6.25% and introducing maximum prices for certain foods (such as onions). On the other hand, so much liquidity was tapped from the economy by the record number of IPOs and the auctioning off of the state-owned telephone company and bandwidths that the Indian central bank lowered the liquidity reserve for commercial banks to 1% to pump more money into circulation. As a result of this and on account of the high inflation, further interest rate hikes are also expected in 2011. Another critical factor is the rapid increase in national debt, which rose by more than 70% in 2010 to around 6% of GDP. In order to continue to safeguard exports, a key pillar of its economic performance, India will conclude several far-reaching trade agreements with New Zealand and Canada in the course of 2011. A trade and investment agreement is being negotiated with the EU. The IMF is forecasting economic growth for India for 2011 of 8.4%.

Declining nominal wages, the end of government subsidization programs and the strength of its currency will significantly slow economic growth in **Japan** in 2011. Furthermore, the export giant is increasingly facing competition from Korean, Thai and Chinese manufacturers, as a result of which the single most important pillar of the Japanese economy – exports – is dwindling. The conventional monetary stimuli have been largely exhausted by reducing interest rates to almost 0%. Japan also has the highest public deficit in terms of GDP among the advanced economies – around 200% of economic output. Consequently, the IMF is forecasting economic growth of just 1.6% for Japan in (2010: 4.3%).

Industry development

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, though the BRIC nations also accounted for an 11% share of sales in 2010. 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.

Most independent market observers are currently assuming a rise in global car production of between 4% and 5% to 75 million cars in 2011. Alongside the Asian markets of India and China, this growth will be driven by NAFTA. Only a slight increase in production is expected in Europe. However, the situation has increasingly brightened in Europe in recent months as the drop in new registration figures after the suspension/expiration of sales stimulus measures was not as severe as originally feared. The German Association of the Automotive Industry (VDA), for example, is forecasting a rise in production of almost 5% in the current year to 5.8 million units in Germany. Within Europe, German production accounts for around a third of all cars manufactured. CSM, a leading research institute, is anticipating an increase in production of around 100,000 units to 18.7 million cars. New registration estimates for NAFTA are currently ranging between 13.0 million and 14.5 million vehicles (passenger cars and light trucks). A consensus on production of 13 million vehicles emerged at the Detroit Motor Show in January 2011. Despite the cutbacks in tax benefits for new vehicles and the restriction on the number of new licenses to be issued, China is still the world's most important market for vehicle production after Europe. Following speculation that other mega cities in China could follow Beijing's example, this has recently been rejected by other provinces. At the start of the year, Beijing had limited the number of licenses for new car registrations to 240,000 to curb the boom in traffic volumes. However, vehicle owners are still allowed to buy new vehicles. The number of new registrations in Beijing has recently risen to more than 800,000 vehicles. In our opinion, this discussion makes it clear that China has many mechanisms by which to control the number of new vehicles manufactured, which appears essential in light of the rapid surge in traffic volumes and the associated environmental impact. However, it is also a fact that strong economic growth in the past has always gone hand-in-hand with a rise in new registrations and therefore production as well. Hence, high single-figure growth in production to around 16.5 million vehicles is also expected in 2011 in China. Overall, growth in production in the BRIC nations in 2011 is forecast at over 10% to 25 million vehicles.

Production of light vehicles in millions of units**

	2010*	2011	2012
Total Europe	18.6	18.7	19.6
Western Europe	13.0	13.0	13.4
Eastern Europe	5.6	5.7	6.3
NAFTA	11.9	12.9	13.9
South America	4.1	4.3	4.6
Asia	35.1	37.3	40.6
Africa and Middle East	2.1	2.2	2.4
Worldwide	**71.8**	**75.5**	**81.2**

Source: CSM *preliminary figures **passenger cars, station wagons, and light commercial vehicles (<6t)

According to Global Insight, a leading forecast institute, significant production growth is also predicted for the commercial vehicle markets in 2011. In Europe, Global Insight is forecasting a rise of 125,000 new vehicles in 2010 with a further acceleration of new commercial vehicles manufactured by 155,000 units to 550,000. The projected increase in North America is even higher with a climb to 328,000 units. According to its latest forecast for all markets, Global Insight is anticipating growth in global commercial vehicle production of almost 7% to 3.46 million vehicles.

Production of heavy vehicles in thousands of units**

	2010*	2011	2012
Total Europe	395	550	707
Western Europe	283	402	514
Eastern Europe	112	148	193
NAFTA	254	328	446
South America	247	248	267
Asia	2,342	2,332	2,485
Worldwide	**3,238**	**3,459**	**3,905**

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

The passenger tire replacement markets staged an unprecedented recovery in 2010. External forecast institutes such as LMC are also predicting a continuation of 2010's positive performance in 2011. After growth of around 8% in 2010, the passenger tire replacement market is expected to expand by a further 7% in 2011. The current largest markets, Europe and NAFTA, are each expected to grow by 4% in 2011. Growth of nearly 12% is forecast for Asia. Thus, Asia would replace NAFTA as the world's second-largest passenger tire replacement market in 2011.

Replacement sales of passenger, light truck and 4x4 tires

in millions of units	2010*	2011	2012
Western and Central Europe	280.4	292.6	305.7
NAFTA	255.2	263.8	276.4
Asia	239.2	267.6	299.3
South America	52.3	55.3	58.8
Other markets	106.1	115.0	119.6
Worldwide	**933.1**	**994.3**	**1,059.8**

Source: LMC World Tyre Forecast Service, 2010 *preliminary figures

According to external estimates for 2011, the truck tire replacement markets are expected to enjoy just as strong growth as the passenger tire replacement markets. At 7%, however, the world's largest market of Asia is not expected to post the strongest surge. According to LMC, this will be seen in Europe with an increase of more than 8% in 2011. Meanwhile, LMC anticipates growth of only 4% for NAFTA on account of the strong increases in the original equipment business. In terms of growth rates, the South America region will take second place in 2011, also with an increase of 8%. Worldwide, growth on the commercial vehicle tire replacement market is expected to amount to 7%.

Replacement sales of truck tires

in millions of units	2010*	2011	2012
Western and Central Europe	17.9	19.4	20.9
NAFTA	18.0	18.8	19.8
Asia	66.0	70.8	74.8
South America	11.6	12.5	13.5
Other markets	17.9	19.0	20.0
Worldwide	**131.5**	**140.5**	**149.0**

Source: LMC World Tyre Forecast, 2010 *preliminary figures

Raw material markets

The dramatic rise in rubber prices, particularly for natural rubber, which accelerated towards the end of the fourth quarter of 2010, has also continued in 2011. In addition to the bad weather in Thailand and Indonesia, the reason for the surge in the price of natural rubber, which shot up by 45% in the fourth quarter of 2010 alone, was the early winter, which further hampered the rubber tree harvest. Around 70% of the world's natural rubber is cultivated in Indonesia, Thailand and Malaysia. After climate conditions settle in these countries, the imbalance between supply and demand is not expected to last, hence prices are expected to stabilize in the medium term. However, the trend in the price of natural rubber over the last three years has shown how difficult it is to predict its development. In its latest forecast, the IMF predicted the price of oil as the average of various quotations (UK Brent, Dubai, West Texas Intermediate) at $89.50 per barrel for 2011 and $89.75 per barrel in 2012. Commodities such as steel and other base metals are fixed on the basis of multi-month contracts or play a subordinate role in the earnings performance of the Continental Corporation.

Outlook for the Continental Corporation

Expected development of business

For 2011, we are forecasting a rise in global car production to 75 million units. In what are currently our most important markets – NAFTA and Europe – we are anticipating an increase in production of 4% to almost 32 million vehicles. In Asia, where the Automotive Group already generates a 21% share of sales, we are assuming a rise in production in the high single-digit range to more than 37 million units. In particular, risks lie in the possible effects of the debt crisis in Europe, or a downturn in the U.S. economy as a result of the end of monetary incentives or the persistently high unemployment rate in the U.S.A.

In light of this background, we are forecasting sales growth for the **Automotive Group** of 10% to around €17.5 billion in 2011. As a result of the restructuring measures initiated in 2009, particularly in the Powertrain and Interior divisions, adjusted EBIT should also continue to improve in 2011. The objective for the Chassis & Safety division in 2011 will be to match the previous year's high adjusted EBIT margin. This objective will be more difficult to achieve due to the first-time full consolidation of certain Chinese Automotive activities, since their earnings contributions were in part already taken into account in previous years under an associated company. For the Interior division, we are expecting the positive development of the division's operating results to continue. After breaking even on operations in 2010, the Powertrain division is expected to post an adjusted EBIT margin of at least 2%. Achieving this goal will be largely dependent on the successful implementation of turnaround objectives and the successful management of start-ups in the coming quarters. In the past year alone, the Powertrain division acquired orders with a lifetime business volume of €7.9 billion, or 1.7 times the sales volume achieved in 2010.

As a result of the high demand, the supply situation for electronic components will remain tense, which already resulted in higher freight costs in 2010. We currently feel that this problem is manageable, as our suppliers will have further capacity at their disposal from the second half of 2011 at the latest. However, if other industries that use the same parts also perform well, further special shipments cannot be ruled out in 2011.

For 2011 we are assuming growth on the passenger tire replacement markets in Europe and North America of 4% and 3% respectively. The positive performance of the truck original equipment markets will also continue in 2011. A positive trend is similarly expected in the truck tire replacement markets of Europe and North America. The further significant increases in the costs of raw materials present a substantial burden. The price hikes implemented at the start of 2011 to compensate the additional costs in 2010 will not be enough to offset the latest rise in the price of rubber to over \$6.00/kg. If prices stabilize at a level of more than \$5.50 per kilo, this would mean gross additional expenses of at least €700 million in 2011 as well. This will affect the Commercial Vehicle Tires division in particular, as 15 times more natural rubber goes into a truck tire than into a car tire. The cumulative additional expense for the Rubber Group would thus amount to more than €1 billion in 2010 and 2011.

In light of the positive volume prospects and the price increases needed to absorb the impact of higher raw material prices, we are also forecasting a sales increase of 10% to more than €11 billion for the **Rubber Group** in 2011. Given the dramatically higher expense caused by the increased raw material prices, we are aiming to maintain the previous year's solid adjusted EBIT level of around €1.5 billion. Future trends in the price of natural rubber entail both risks and opportunities for the operative earnings of the Tire divisions in particular. A further significant rise would put our targets at risk. However, a considerable drop in prices would benefit us only with a time lag of three to six months. Given the dramatic increase in the price of raw materials, a great deal of effort will be required to achieve an acceptable EBIT in the current year, particularly in the Commercial Vehicle Tires division. The ContiTech division, which is much less dependent on natural rubber than the Tire divisions, is striving to further improve its EBIT in 2011 in spite of the anticipated additional costs from the equally sharp increase in prices for synthetic rubber and chemicals. Considerable efforts will also be needed in the Passenger and Light Truck Tires division if it is to repeat the previous year's earnings level. The price hikes implemented at the start of the year will not be sufficient to compensate for the additional expenses in 2011. If the average price for a kilogram of natural rubber turns out to be \$5.50, we will again have to respond with substantial price increases. Nonetheless, the Passenger and Light Truck Tires division also has opportunities resulting to a large extent from a further volume and mix improvement. The harsh winter and good sales of winter tire inventories in the 2010/2011 season have again created favorable conditions for the 2011/2012 winter tire season. And as usual, we are constantly striving to enhance efficiency in all divisions in order to soften some of the price pressure from our original equipment customers and wage increases.

For the **corporation**, we are planning a sales increase of 10% to more than €28.5 billion in 2011. In spite of the additional expenses caused by rising raw material prices – especially in the Rubber Group – of more than €700 million, we are forecasting an adjusted consolidated EBIT margin of 9.7% in 2011, matching the previous year's level. Special effects will amount to significantly less than €100 million. Depreciation and amortization will rise slightly on the whole in 2011, although amortization from the purchase price allocation will remain stable at around €450 million. Other depreciation and amortization will increase slightly to €1.3 billion on account of the sharp rise in the investment volume in 2010. Given the VDO loan repayments through bonds and the resulting slight increase in interest expense, net interest will be at the same level as the previous year despite the reduction in indebtedness. The tax rate will drop to below 40% in 2011.

Investments will continue to increase in 2011 as well on account of the significant growth in business. The planned volume of around €1.5 billion will be distributed evenly between the Automotive and the Rubber Group.

In the Automotive Group, investments in 2011 will focus on the last stage in the industrialization of our latest braking technology and the expansion of hydraulic brake system production in the U.S.A. In light of the steady rise in demand for safety-relevant driver assistance systems, production in Lindau, Germany, will be expanded significantly for a German customer. The Powertrain division will invest in ramping up production for diesel injectors in Germany and high-pressure gasoline injectors in Italy. Furthermore, the HEV (Hybrid Electric Vehicle) business unit will invest in the expansion of battery management systems in Hungary. The Interior division will invest in increasing capacity for body controllers at various locations. The Instrumentation and Driver HMI unit will significantly boost its capacity in Brazil, Romania and China. There are also plans to improve the infrastructure of our electronic components plants.

In the Tire divisions, investments in 2011 will focus primarily on expanding capacity in Brazil and North America. However, the divisions will also react to the consistently strong demand in Europe by boosting existing capacity. Furthermore, we are expecting a decision regarding a plant in Russia in the course of the first half of the year. The ContiTech division will expand its capacities in Romania and Germany in the Fluid Technology business unit. The division will invest in the expansion of existing capacity at locations in China, Mexico and Brazil.

It remains our declared goal to further reduce the corporation's indebtedness. In spite of the greater investment volume and the expenses for building-up working capital as a consequence of the continuing positive business trend, we are anticipating a further substantial reduction in **net indebtedness** of around €500 million to less than €7.0 billion in 2011. As announced last year, the restructuring measures introduced in 2009 will again in 2011 have a negative effect on free cash flow in an amount of roughly €300 million. The covenants of the current loan agreements require that the ratio of net indebtedness to EBITDA do not exceed a factor of 3.50 at the end of 2011. This figure was already around 2.0 at the end of 2010. We are expecting a further improvement in the leverage ratio to less than 2.0 by the end of 2011. Other than the short-term maturities, which are virtually all covered by cash and cash equivalents, the largest individual item falling due in the current year is a promissory note of €110 million.

A proposal will be made to the Annual Shareholders' Meeting on April 28, 2011, that no dividend be paid for fiscal year 2010. The gearing ratio could thus drop below 100% already in the second half of 2011. This means that – a year earlier than originally planned – Continental could achieve a risk profile based on selected ratios that is typically found for companies with an investment grade rating.

In terms of production figures, **2011** began where 2010 left off: According to initial estimates, the production volume in NAFTA and Europe in the first quarter of 2011 was again slightly higher than the fourth quarter of 2010, and therefore significantly higher than the same quarter of the previous year. This development will also benefit from the timing of this year's Easter holidays as they fall in the second quarter. Given the low comparative figures for the same period of the previous year, both groups may therefore see significant year-on-year increases in key performance figures for the first quarter. Owing to seasonal effects, net indebtedness will again increase substantially in the first quarter. From the second quarter, growth rates for sales and EBIT will then normalize as the baseline effects decrease. According to the standard season curve, net indebtedness will not decrease significantly until the second half of the year. Continental will issue the report on its first-quarter 2011 performance on May 5, 2011.

To replace the maturing components of the VDO loan, we are aiming to **renegotiate** the facilities in place until August 2012 before the end of the first half of 2011. Following the renegotiation of the VDO loan in December 2009, the capital increase in January 2010 and the subsequent refinancing of €3.0 billion in bank liabilities via the bond market, we are confident that these negotiations will also end successfully. Our goal will be to extend the terms of the committed credit lines and to obtain better conditions than the current ones in light of the substantial improvement in the company's risk profile.

The **outlook for 2012** is currently also positive. In the opinion of independent market observers, the volume of new vehicles manufactured is set to rise to over 81 million units, which would correspond to nearly 8% growth. Solid single-digit increases are also forecast for the tire markets in 2012. In its January 2011 World

Economic Outlook Update, the IMF put growth for the global economy in 2012 at 4.5%. If this scenario proves correct, our Automotive Group should still be able to expand five percentage points ahead of sales growth in our core markets. The Rubber Group is also expected to enjoy high single-digit growth in sales against the backdrop described above. Based on EBIT, we are aiming for double-digit adjusted EBIT margins for the Chassis & Safety and Interior divisions. The Powertrain division will gradually improve its EBIT margin to 8% by 2014/2015. Our goal in the Rubber Group will be to consolidate our very solid margins in the Passenger and Light Truck Tires division, depending on the burden resulting from raw material costs. The goal for the Commercial Vehicle Tires division is to achieve an EBIT margin of 8% throughout the cycle. The EBIT margin in the ContiTech division should stabilize at the level of 11% to 12% in the long term. Investment volume will be in the range of 5% to 6% of sales in 2012 as well. As no significant non-recurring expenses are currently expected for free cash flow in 2012, Continental should be able to achieve a significant reduction in its net indebtedness in 2012 as well. By the end of 2012, the relevant credit metrics should be more than solidly proportionate to the company's risk profile.

Consolidated Financial Statements

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 net assets, financial and earnings position of the corporation, as well as further information provided in accordance with the provisions of the German Commercial Code (*Handelsgesetzbuch – HGB*).

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 as well as for internal reporting, is reliable. This includes standardized guidelines at corporation level for accounting and risk management in accordance with Section 91 (2) of the German Stock Corporation Act (*Aktiengesetz – AktG*) 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 of the Supervisory Board engaged KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, as the auditor for the 2010 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 auditor issued the report presented on the following page.

The consolidated financial statements, the management report for the corporation and Continental AG, the auditor's report, and the risk management system will be discussed in detail by the Audit Committee of the Supervisory Board together with the auditor. These documents relating to the annual financial statements and these reports will then be discussed with the entire Supervisory Board, also in the presence of the auditor, at the meeting of the Supervisory Board held to approve the financial statements.

Hanover, February 8, 2011

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, 2010. 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 15, 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Bartels-Hetzler	Dr. Thümler
Wirtschaftsprüfer	Wirtschaftsprüfer

Consolidated Statements of Income and Comprehensive Income

in € millions	See Note	2010	2009
Sales		**26,046.9**	**20,095.7**
Cost of sales		-20,267.6	-16,082.0
Gross margin on sales		**5,779.3**	**4,013.7**
Research and development expenses		-1,450.4	-1,356.3
Selling and logistics expenses		-1,311.0	-1,123.2
Administrative expenses		-645.7	-607.1
Other expenses and other income	6	-517.7	-1,903.0
At-equity share in earnings of associates	8	76.5	-73.2
Other income from investments	8	4.2	8.7
Earnings before interest and taxes		**1,935.2**	**-1,040.4**
Interest income	9	22.6	30.3
Interest expense[1]	9	-719.8	-751.1
Net interest expense		**-697.2**	**-720.8**
Earnings before taxes		**1,238.0**	**-1,761.2**
Income tax expense	10	-592.1	154.3
Net income		**645.9**	**-1,606.9**
Non-controlling interests		-69.9	-42.3
Net income attributable to the shareholders of the parent		576.0	-1,649.2
Undiluted earnings per share in €	**36**	**2.88**	**-9.76**
Diluted earnings per share in €	**36**	**2.88**	**-9.76**

[1] Including gains and losses from foreign currency translation, from changes in the fair value of derivative instruments, as well as from available-for-sale assets.

in € millions	See Note	2010	2009[1]
Net income		**645.9**	**-1,606.9**
Difference from currency translation[2]		443.9	132.1
Difference from currency translation[2]		443.6	131.6
Reclassification adjustments to profit and loss		0.2	0.2
Portion for At Equity accounted investees		0.1	0.3
Financial assets available for sale		-0.6	1.2
Fair value adjustments		-0.6	1.2
Reclassification adjustments to profit and loss		0.0	0.0
Cash flow hedges	29	31.8	-33.1
Fair value adjustments		31.8	-33.1
Deferred taxes on other comprehensive income		-12.1	9.3
Other comprehensive income		**463.0**	**109.5**
Total comprehensive income		**1,108.9**	**-1,497.4**
Attributable to non-controlling interests		100.7	36.0
Attributable to the shareholders of the parent		1,008.2	-1,533.4

[1] The comparative figures at December 31, 2009, are shown adjusted accordingly.
[2] Including non-controlling interests.

Consolidated Balance Sheets

Assets

in € millions	See Note	Dec. 31, 2010	Dec. 31, 2009
Goodwill	11	5,643.6	5,536.6
Other intangible assets	11	1,723.3	2,068.7
Property, plant and equipment	12	6,098.7	5,784.3
Investment property	13	19.9	19.3
Investments in associates	14	440.4	398.0
Other investments	15	7.0	8.0
Deferred tax assets	16	680.7	728.9
Deferred pension charges	25	73.8	70.8
Long-term derivative instruments and interest-bearing investments	29	157.9	78.4
Other long-term financial assets	17	29.5	18.9
Other assets	18	13.1	12.7
Non-current assets		**14,887.9**	**14,724.6**
Inventories	19	2,637.8	2,076.0
Trade accounts receivable	20	4,454.0	3,648.1
Other short-term financial assets	17	213.3	184.9
Other assets	18	536.5	540.5
Income tax receivable	27	123.4	94.2
Short-term derivative instruments and interest-bearing investments	29	44.3	25.8
Cash and cash equivalents	21	1,471.3	1,712.8
Assets held for sale	22	22.0	42.3
Current assets		**9,502.6**	**8,324.6**
Total assets		**24,390.5**	**23,049.2**

Total Equity and Liabilities

in € millions	See Note	Dec. 31, 2010	Dec. 31, 2009
Common stock		512.0	432.6
Capital reserves		4,149.0	3,139.5
Retained earnings		1,212.4	636.4
Other reserves		-13.8	-435.9
Equity attributable to the shareholders of the parent		**5,859.6**	**3,772.6**
Non-controlling interests		343.3	289.1
Total equity	**23**	**6,202.9**	**4,061.7**
Provisions for pension liabilities and other post-employment benefits	25	1,404.5	1,345.0
Deferred tax liabilities	16	207.7	196.5
Long-term provisions for other risks	26	325.4	351.7
Long-term portion of indebtedness	28	7,752.4	5,967.7
Other long-term financial liabilities	30	0.8	—
Other long-term liabilities	32	39.4	36.2
Non-current liabilities		**9,730.2**	**7,897.1**
Trade accounts payable	31	3,510.5	2,819.5
Income tax payable	27	697.9	644.7
Short-term provisions for other risks	26	1,164.0	1,342.9
Indebtedness	28	1,238.1	4,744.8
Other short-term financial liabilities	30	1,203.4	880.3
Other liabilities	32	643.5	648.1
Liabilities held for sale	33	0.0	10.1
Current liabilities		**8,457.4**	**11,090.4**
Total equity and liabilities		**24,390.5**	**23,049.2**

Consolidated Cash Flow Statements

in € millions	See Note	2010	2009
EBIT		1,935.2	-1,040.4
Interest paid		-725.6	-757.2
Interest received		22.6	30.5
Income tax paid	10, 27	-493.0	-204.8
Dividends received		47.4	73.3
Depreciation, amortization and impairments	6, 11, 12, 13	1,652.4	2,631.6
At-equity share in earnings of associates and accrued dividend income from other investments, incl. impairments	8	-80.7	64.5
Gains from the disposal of assets, subsidiaries and business units		-6.6	-12.1
Other non-cash items	1	-19.8	64.5
Changes in			
inventories	19	-443.2	549.8
trade accounts receivable	20	-611.1	-280.4
discounted notes		-7.0	6.5
trade accounts payable	31	564.4	319.1
pension and post-employment provisions	25	38.2	714.8
other assets and liabilities		-24.0	267.4
Cash provided by operating activities		**1,849.2**	**2,427.1**
Proceeds on disposal of property, plant and equipment, and intangible assets	11, 12	46.3	77.1
Capital expenditure on property, plant and equipment, and software	11, 12	-1,242.6	-859.4
Capital expenditure on intangible assets from development projects and miscellaneous	11	-81.5	-51.6
Proceeds on the disposal of subsidiaries and business units	5	20.6	143.8
Acquisition of subsidiaries and business units	5	-25.1	-97.8
Interest-bearing advances		—	1.1
Cash used for investing activities		**-1,282.3**	**-786.8**
Cash flow before financing activities (free cash flow)		**566.9**	**1,640.3**
Changes in short-term debt		-276.6	-1,169.1
Proceeds from the issuance of long-term debt		3,084.3	40.6
Principal repayments on long-term debt		-4,706.6	-378.3
Successive purchases		-25.8	—
Proceeds from the issuance of shares	24	1,056.0	—
Shareholder contributions		—	23.7
Dividends paid and repayment of capital to non-controlling interests		-35.2	-33.0
Cash used for financing activities		**-903.9**	**-1,516.1**
Change in cash and cash equivalents		**-337.0**	**124.2**
Cash and cash equivalents at January 1		1,712.8	1,569.4
Effect of exchange rate changes on cash and cash equivalents		95.5	19.2
Cash and cash equivalents at December 31		**1,471.3**	**1,712.8**

Consolidated Statements of Changes in Total Equity

in € millions	Number of shares[1] (thousands)	Common stock	Capital reserves	Retained earnings	Successive share purchases[2]	Other comprehensive income – Difference from currency translation	Other comprehensive income – Difference from financial instruments[3]	Subtotal	Non-controlling interests	Total
At January 1, 2009	**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[4]	—	—	17.9	—	—	—	—	**17.9**	—	**17.9**
Successive purchases[2]	—	—	—	—	-1.0	—	—	**-1.0**	-9.1	**-10.1**
Changes in non-controlling interests[5]	—	—	—	—	—	—	—	**—**	30.7	**30.7**
Switch to the euro in Slovakia	—	—	—	68.4	—	-68.4	—	**—**	—	**—**
Shareholder contributions	—	—	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**
Net income	—	—	—	576.0	—	—	—	**576.0**	69.9	**645.9**
Comprehensive income	—	—	—	—	—	410.6	21.6	**432.2**	30.8	**463.0**
Net profit for the period	**—**	**—**	**—**	**576.0**	**—**	**410.6**	**21.6**	**1,008.2**	**100.7**	**1,108.9**
Dividends paid/declared	—	—	—	—	—	—	—	**—**	-34.4	**-34.4**
Issuance of shares[4]	31,000	79.4	1,009.5	—	—	—	—	**1,088.9**	—	**1,088.9**
Successive purchases[2]	—	—	—	—	-10.1	—	—	**-10.1**	-16.8	**-26.9**
Changes in non-controlling interests[5]	—	—	—	—	—	—	—	**—**	4.7	**4.7**
At December 31, 2010	**200,006**	**512.0**	**4,149.0**	**1,212.4**	**-44.5**	**134.6**	**-103.9**	**5,859.6**	**343.3**	**6,202.9**

See Notes 2, 5, 23 and 24 to the consolidated financial statements.

1 Shares outstanding.

2 Successive acquisitions of shares of fully consolidated companies.

3 The difference from financial instruments, including deferred taxes, is mainly due to changes in the market value of the cash flow hedges on interest and currency.

4 Includes the expenditure resulting from stock option plans, the compensation offer for granted and not yet exercised stock options. The net proceeds from the capital increase, net of tax effects, are also included in 2010.

5 Changes in non-controlling interests from consolidation changes or capital increases.

Notes to the Consolidated Financial Statements

1. 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 decisive. The segments are also evaluated under the management approach.

Activities of the Continental Corporation are divided into the following divisions:

- **Chassis & Safety** with its core competence in the areas of driver assistance, brakes, driving dynamics, passive safety and sensors.
- **Powertrain** represents innovative and efficient system solutions for vehicle powertrains.
- **Interior** combines all activities relating to the presentation and management of information in the vehicle.
- **Passenger and Light Truck Tires** develops and manufactures tires for compact, medium-size, and full-size passenger cars, as well as for SUVs, vans, motorcycles and bicycles.
- **Commercial Vehicle Tires** offers a wide range of truck, bus, industrial and off-road tires for the most diverse service areas and application requirements.
- **ContiTech** develops and produces functional parts, components and systems for the automotive industry and for other key industries.

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 'assets' of the liabilities side of the balance sheet.

Capital expenditure relates to additions to property, plant and equipment, and software as well as additions to capitalized finance leases and capitalized borrowing costs in line with IAS 23.

Depreciation, amortization and impairment relate to goodwill, other intangible assets, property, plant and equipment, and investment property. This figure does not include impairments on financial investments.

Non-cash expenses/income mainly include the changes in provisions for pension liabilities – except for contributions to/withdrawals from the associated funds – and the profit or loss of and impairments on associates. This item also includes carrying amount adjustments in profit and loss on the VDO loan. The previous year's figures are presented comparably.

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.

Segment report by division for 2010

in € millions	Chassis & Safety	Powertrain	Interior	Passenger and Light Truck Tires
Sales to external customers	5,746.9	4,663.1	5,506.7	5,803.8
Intercompany sales	28.5	67.7	11.4	17.0
Sales (total)	**5,775.4**	**4,730.8**	**5,518.1**	**5,820.8**
EBIT (segment result)	569.0	-198.1	197.0	993.3
as % of sales	9.9	-4.2	3.6	17.1
– thereof at-equity share in earnings of associates	19.3	-0.4	45.5	11.8
Capital expenditure[1]	247.1	301.5	191.3	404.3
as % of sales	4.3	6.4	3.5	6.9
Depreciation and amortization[2]	322.7	466.3	422.1	247.7
– thereof impairment[3]	3.8	36.6	-4.8	7.2
Internally generated intangible assets	11.9	22.9	39.7	—
Significant non-cash expenses/income	25.3	15.8	35.4	10.5
Segment assets	5,214.0	4,336.2	5,764.1	3,650.5
– thereof investments in associates	80.8	118.7	164.0	67.3
Operating assets (at December 31)	3,940.5	2,997.8	4,370.5	2,351.3
ROCE in % (at December 31)	14.4	-6.6	4.5	42.2
Operating assets (average)	3,997.0	3,112.2	4,402.8	2,422.9
ROCE in % (average)	14.2	-6.4	4.5	41.0
Segment liabilities	1,273.5	1,338.4	1,393.6	1,299.2
Number of employees at December 31[4]	30,495	26,614	29,614	28,276

in € millions	Commercial Vehicle Tires	ContiTech	Other/Con-solidation	Continental Corporation
Sales to external customers	1,351.3	2,975.1	—	26,046.9
Intercompany sales	76.5	120.2	-321.3	—
Sales (total)	**1,427.8**	**3,095.3**	**-321.3**	**26,046.9**
EBIT (segment result)	50.1	369.6	-45.7	1,935.2
as % of sales	3.5	11.9	—	7.4
– thereof at-equity share in earnings of associates	-0.4	0.2	0.5	76.5
Capital expenditure[1]	51.2	100.3	0.7	1,296.4
as % of sales	3.6	3.2	—	5.0
Depreciation and amortization[2]	92.1	98.6	2.9	1,652.4
– thereof impairment[3]	12.8	2.1	—	57.7
Internally generated intangible assets	—	—	—	74.5
Significant non-cash expenses/income	-4.6	13.1	28.1	123.6
Segment assets	968.3	1,588.6	-15.9	21,505.8
– thereof investments in associates	2.5	1.0	6.1	440.4
Operating assets (at December 31)	631.3	1,036.7	-45.3	15,282.8
ROCE in % (at December 31)	7.9	35.7	—	12.7
Operating assets (average)	628.4	1,060.7	-44.0	15,580.0
ROCE in % (average)	8.0	34.8	—	12.4
Segment liabilities	337.0	551.9	29.4	6,223.0
Number of employees at December 31[4]	7,156	25,833	240	148,228

[1] Capital expenditure on property, plant and equipment, and software.
[2] Excluding impairments on financial investments.
[3] Impairment also includes necessary reversals of impairment losses.
[4] Excluding trainees.

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[3]	370.4	488.0	90.6	24.6
Internally generated intangible assets	12.0	13.3	23.7	—
Significant non-cash expenses/income	57.6	-28.2	-94.3	16.9
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[4]	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[3]	15.7	3.7	—	993.0
Internally generated intangible assets	—	—	—	49.0
Significant non-cash expenses/income	-7.8	2.7	-74.5	-127.6
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[4]	7,594	22,079	221	134,434

[1] Capital expenditure on property, plant and equipment, and software.
[2] Excluding impairments on financial investments.
[3] Impairment may also include necessary reversals of impairment losses.
[4] Excluding trainees.

Reconciliation of EBIT to net income

in € millions	2010	2009
Chassis & Safety	569.0	-102.5
Powertrain	-198.1	-943.2
Interior	197.0	-516.0
Passenger and Light Truck Tires	993.3	536.4
Commercial Vehicle Tires	50.1	-50.1
ContiTech	369.6	169.4
Other/consolidation	-45.7	-134.4
EBIT	**1,935.2**	**-1,040.4**
Net interest expense	-697.2	-720.8
Earnings before income taxes	**1,238.0**	**-1,761.2**
Income tax expense	-592.1	154.3
Net income	**645.9**	**-1,606.9**
Non-controlling interests	-69.9	-42.3
Net income attributable to the shareholders of the parent	**576.0**	**-1,649.2**

Segment report by region

in € millions	Germany	Europe excluding Germany	NAFTA	Asia	Other countries	Continental Corporation
Sales to external customers 2010	**7,092.6**	**8,507.7**	**4,836.7**	**4,167.1**	**1,442.8**	**26,046.9**
Sales to external customers 2009	5,823.5	6,911.9	3,546.2	2,795.8	1,018.3	20,095.7
Capital expenditure 2010[1]	**330.2**	**408.5**	**172.0**	**317.6**	**68.1**	**1,296.4**
Capital expenditure 2009[1]	241.9	312.9	109.7	145.1	50.5	860.1
Segment assets at December 31, 2010	**9,569.2**	**5,166.0**	**3,205.4**	**2,549.4**	**1,015.8**	**21,505.8**
Segment assets at December 31, 2009	10,390.7	4,303.0	2,916.9	1,558.9	835.1	20,004.6
Number of employees at December 31, 2010[2]	**46,136**	**47,230**	**21,155**	**24,175**	**9,532**	**148,228**
Number of employees at December 31, 2009[2]	44,290	43,817	18,747	19,586	7,994	134,434

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

Reconciliation of total assets to operating assets

in € millions	Dec. 31, 2010	Dec. 31, 2009
Total assets	**24,390.5**	**23,049.2**
– cash and cash equivalents	1,471.3	1,712.8
– current and non-current derivatives, interest-bearing investments	202.2	104.2
– other financial assets	30.0	48.1
Less financial assets	**1,703.5**	**1,865.1**
Less other non-operating assets	**383.8**	**370.1**
– deferred tax assets	680.7	728.9
– income tax receivable	123.4	94.2
Less income tax receivable	**804.1**	**823.1**
Plus discounted bills for trade accounts receivable	**6.7**	**13.7**
Segment assets	**21,505.8**	**20,004.6**
Total liabilities and provisions	**18,187.6**	**18,987.5**
– current and non-current indebtedness	8,990.5	10,712.5
– interest payable	199.4	146.0
Less financial liabilities	**9,189.9**	**10,858.5**
– deferred tax liabilities	207.7	196.5
– income tax payable	697.9	644.7
Less income tax liabilities	**905.6**	**841.2**
Less other non-operating liabilities	**1,869.1**	**1,866.0**
Segment liabilities	**6,223.0**	**5,421.9**
Operating assets	**15,282.8**	**14,582.7**

2. General Information and Accounting Principles

Continental Aktiengesellschaft (Continental AG), 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 (HRB No. 3527) of the Hanover Local Court (*Amtsgericht*). 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 1 on Segment Reporting. Upon resolution of the Executive Board of February 8, 2011, the consolidated financial statements of Continental AG for 2010 were approved and will be submitted to the electronic German Federal Gazette (*elektronischer Bundesanzeiger*) and published there.

The consolidated financial statements of Continental AG as of December 31, 2010 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 German Commercial Code (*Handelsgesetzbuch – HGB*). The term IFRS also includes the International Accounting Standards (IAS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the former Standing Interpretations Committee (SIC). All International Financial Reporting Standards mandatory for fiscal year 2010 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 are presented 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 2010 or 2009. 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 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 on a preliminary basis only. 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 a not yet completed measurement and the corresponding purchase price allocation, the goodwill is allocated preliminarily 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 ‘non-controlling 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 non-controlling 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 non-controlling interests at the time that offer is made is recognized directly in equity.

In Germany, offers to purchase non-controlling interests are required by law particularly in connection with management and profit and loss pooling agreements, in accordance with the redemption obligations under Section 305 of the German Stock Corporation Act (*Aktiengesetz – AktG*).

Once control has been obtained, any differences arising from successive purchases of shares from non-controlling interests between the purchase price and the carrying amount of those non-controlling interests are recognized directly in equity.

Where there are successive purchases of shares resulting in control, the difference between the carrying amount and the fair value at the time of first-time consolidation is recognized in profit and loss under other income and expenses.

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. No companies are included in the consolidated financial statements using the proportionate consolidation method.

Companies that are dormant or have only a low level of business activity and therefore no significant impact on the net assets, financial and earnings position 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 pro rata earnings or losses are recognized as necessary based on estimated amounts. Goodwill arising from first-time consolidation is reported using the equity method. Goodwill is not amortized but the carrying amount of investments in associates consolidated using the equity method is tested for impairment if there are relevant indications.

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 on the elimination of intercompany transactions are carried in the amount derived from the average 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 euro at the year-end middle rates. The statement of income is translated at the average exchange rates for the period. Differences resulting from currency translation are recognized in accumulated other comprehensive income until the disposal of the subsidiary, without recognizing deferred taxes.

In the standalone 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 into euros for subsidiaries whose functional currencies are not the euro 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, 2010	Dec. 31, 2009	2010	2009
Brazil	BRL	2.22	2.51	2.33	2.85
Switzerland	CHF	1.25	1.48	1.38	1.51
China	CNY	8.82	9.84	8.99	9.52
Czech Republic	CZK	25.12	26.41	25.29	26.46
United Kingdom	GBP	0.86	0.89	0.86	0.89
Hungary	HUF	277.90	270.44	275.30	280.55
Japan	JPY	108.82	133.07	116.54	130.22
South Korea	KRW	1,501.40	1,680.02	1,533.80	1,773.59
Mexico	MXN	16.59	18.85	16.77	18.80
Malaysia	MYR	4.13	4.93	4.28	4.91
Philippines	PHP	58.00	66.56	59.84	66.32
Romania	RON	4.28	4.24	4.21	4.24
U.S.A.	USD	1.34	1.44	1.33	1.39
South Africa	ZAR	8.89	10.66	9.72	11.70

Revenue recognition

Only sales of products resulting from the ordinary business activities of the company are shown as revenue. Continental recognizes revenue for product sales when there is proof or an agreement to the effect that delivery has been made and the risks have transferred to the customer. In addition, it must be possible to reliably measure the amount of revenue and the recoverability of the receivable must be assumed.

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 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 current 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 from 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 marketed (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 AG 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, development costs are recognized as an asset only as of the date of nomination as supplier and fulfillment of a specific preproduction 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 and shown as current and non-current assets or liabilities.

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, 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, impaired.

Property, plant and equipment
Property, plant and equipment is carried at cost less straight-line depreciation. If necessary, additional impairments are recognized on 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 as part of the acquisition cost. This also applies to finance leases, investment property and intangible assets.

As soon as an asset is available for its intended use, subsequent cost is capitalized only 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 be repaired and serviced only 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 leases property, plant and equipment, especially buildings. If the substantial risks and rewards from the use of the leased asset are controlled by Continental, 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, property, plant and equipment, investment property and goodwill as soon as there is an indication (triggering event) 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 (value in use). 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 for intangible assets, property, plant and equipment, and investment property.

Capitalized goodwill is tested for impairment once per year in the fourth quarter at the level of cash-generating units. Cash-generating units are the strategic business units that come below the segments (sub-segments) and are the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The impairment test is performed by comparing the carrying amount of the business unit including its goodwill and the recoverable amount of the business unit. The recoverable amount in this case is the value in use calculated on the basis of discounted cash flows before taxes. An impairment loss is recognized to the extent the carrying amount exceeds the recoverable amount for the business unit. If the reasons for this cease to apply in future, impairment losses on goodwill are not reversed.

The expected cash flows for the business units are derived from long-term planning that covers the next five years and is approved by the management. 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 addition to these current market forecasts, past developments and experience are also taken into account. The perpetuity beyond the period of 5 years is extrapolated using the expected growth rates for the individual business units.

Annual impairment testing was performed on the basis of the bottom-up business plan for the next five years approved by management in the period under review. Based on the corporation's financing, a uniform interest rate of 10.7% before taxes was used to discount cash flows. This pre-tax WACC is based on a target capital structure that was defined by comparison with a relevant peer group. The risk-free interest rate is 3.5% and the market risk premium 4.5%. The bonds issued this year were used to determine borrowing costs.

The average sustainable growth rate applied in the year under review was 0.90% (PY: 0.92%). The average growth rate used for the Rubber Group was 0.50% (PY: 0.50%) and for the Automotive Group 1.17% (PY: 1.16%). 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% (PY: 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 average growth rates for the fields of business in which the cash-generating units operate.

The goodwill impairment test for 2010 did not identify any impairment requirements (PY: €875.8 million). Assuming a 0.5 percentage point increase in the discount rate to 11.2%, impairment would have been €15.2 million. Reducing growth rates by 0.5 percentage points would have resulted in impairment requirements of €3.6 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 of one entity and a financial liability or equity instrument of another entity. 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 AG. 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 impairments. 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. Reversals of impairments on debt instruments are taken to profit and loss. 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 the changes 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.

Embedded derivatives

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. Separable embedded derivatives are measured at fair value.

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 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 sells some of its trade receivables 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 allowances.

Other Assets

Other assets are recognized at cost. Allowances are recognized as appropriate to reflect any possible risk related to recoverability.

Accounting for income taxes

Income taxes are measured using the concept of 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. and Canada in particular.

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 to stock options is based on the fair value of the options at the date of grant, using the Monte Carlo simulation model. The fair value of the option is recognized in capital reserves and in profit or loss over the vesting period.

On the announcement of compensation offers for stock options for employees, the offers accepted are posted against other liabilities at fair value, reducing the capital reserves.

Virtual stock options issued are recognized at fair value using the Monte Carlo simulation model. The expenses are recognized in personnel expenses, the associated liabilities are reported in other financial liabilities until the end of the holding 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 rates; 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 liabilities and 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 cash flow statement shows 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, highly liquid financial investments that can be readily converted into known cash amounts and are subject to an insignificant risk of changes 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 (l) of the German Commercial Code (*Handelsgesetzbuch – HGB*) 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 2010 and have been adopted accordingly:

IFRIC 12, *Service Concessions 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 had no significant effect on the 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 as to 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 had no effect on the 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 had no significant effect on the 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 (including the amendments to IFRS 5 and IAS 10, *Events after the Reporting Period*) 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 had no significant effect on the 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. Agreements within 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 (including the corresponding amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards*) is to be applied, at the latest, as from the commencement date of the first financial year starting after October 31, 2009. IFRIC 18 had no significant effect on the 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. The revised IFRS 1 had no effect on the 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 to IFRS 1 are to be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2009. The amendments had no effect on the consolidated financial statements of Continental AG.

The amendments to IFRS 2, *Share-based Payment,* 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 shall be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2009. 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 had no significant effect on the 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 required to be applied to business combinations taking place in annual periods beginning on or after July 1, 2009. Its application affected the accounting treatment of acquisitions in 2010.

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 required to be applied for annual periods starting on or after July 1, 2009, and had an effect on transactions in 2010.

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 had no significant effect on the consolidated financial statements of Continental AG.

With the first Annual Improvement Project (*Improvements to IFRSs, May 2008)* of the IASB, the following amendments became effective:

- 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 had no significant effect on the consolidated financial statements of Continental AG.

With the second Annual Improvement Project (*Improvements to IFRSs, April 2009*) of the IASB, the following amendments became effective:

- 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 shall be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2009. The amendment had no significant effect on the consolidated financial statements of Continental AG.

- The amendment to IFRS 5, *Non-current Assets Held for Sale and Discountinued 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. The amendment shall be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2009. The amendment had no significant effect on the 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 shall be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2009. The amendment had no significant effect on the 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 shall be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2009. The amendment had no significant effect on the 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 shall be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2009. The amendment had no significant effect on the 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 shall be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2009. The amendment had no significant effect on the 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 had no significant effect on the 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 shall be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2009. The amendment had no effect on the 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. 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. The amendments shall be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2009. The amendments had no significant effect on the 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 shall be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2009. The amendments had no significant effect on the consolidated financial statements of Continental AG.

- Another amendment to IAS 39, *Financial Instruments: Recognition and Measurement*, 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 improvement project) shall be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2009. The amendment had no effect on the 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 shall be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2009. The amendment had no significant effect on the 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 shall be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2009. The amendment had no significant effect on the consolidated financial statements of Continental AG.

The following interpretations and standards have already been endorsed by the EU but will not take effect until a later date:

The amendments to IFRIC 14, *Prepayments of a Minimum Funding Requirement*, 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 are to be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2010. 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. The interpretation and the corresponding amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, are to be applied, at the latest, as from the commencement date of the first financial year starting after June 30, 2010. IFRIC 19 is not expected to have any effect on the future consolidated financial statements of Continental AG.

The amendment to IFRS 1, *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*, clarifies that first time adopters may apply the transition provisions of IFRS 7, *Financial Instruments: Disclosures*. The amendment to IFRS 1 and the corresponding amendment to IFRS 7 are to be applied at the latest, as from the commencement date of the first financial year starting after June 30, 2010. It is not expected that the amendment will have any 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 and the corresponding amendment to IFRS 8, *Operating Segments*, are to be applied, at the latest, as from the commencement date of the first financial year starting after December 31, 2010.

It is not expected that the revised IAS 24 will have any significant effect on the future consolidated financial statements of Continental AG.

The amendment to IAS 32, *Financial Instruments: Presentation*, 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 following amendment is still pending endorsement by the EU. However its effective date would have been within the reporting period:

Under the IASB's third Annual Improvement Project (*Improvements to IFRSs, May 2010*) the following amendments would also have been effective:

- The amendments to IAS 21, The Effects of Changes in Foreign Exchange Rates, IAS 28, Investments in Associates, and IAS 31, Interests in Joint Ventures) arise as a result of amendments to IAS 27, Consolidated and Separate Financial Statements, (Business Combination Phase II). The transition requirements of the individual standards are adjusted. The amendments are required to be applied for annual periods beginning on or after July 1, 2009. It is not expected that the amendments will 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:

As a result of the amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, existing references to the date of January 1, 2004, are replaced with a reference to the date of transition to IFRS. Furthermore, rules have been included for cases in which an entity is not able to satisfy all IFRS regulations due to hyperinflation. The amendment is required to be applied for annual periods beginning on or after July 1, 2011. It is not expected that the amendments will have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IAS 12, *Income Taxes*, also result in modifications concerning the application of the SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*. The amendments contain a partial clarification regarding the treatment of temporary tax differences when using the fair value model in IAS 40. The amendments are required to be applied retrospectively for annual periods beginning on or after January 1, 2012. It is not expected that the amendments will have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 7, *Financial Instruments: Disclosures – Transfers of Financial Assets*, improve the disclosure requirements of IFRS 7 in order to help users to understand transfer transactions of financial assets and to evaluate the related risk exposures and their effect on the financial position of the entity that transferred the assets. Inter alia the amendment clarifies that also in the case an entity derecognizes financial assets in their entirety, disclosures (qualitative and quantitative information) have to be made about contractual rights or obligations which the entity retains or obtains in the transfer transaction. The amendments are required to be applied for annual periods beginning on or after July 1, 2011. It is not expected that the amendments will 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'). Furthermore IFRS 9 introduces 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. With regard to embedded derivatives IFRS 9 adopt the IAS 39 concept only for hosts that are assets outside the scope of IFRS 9. Requirements on classification and measurement of financial liabilities and requirements for derecognition of financial assets and liabilities were added to IFRS 9 in October 2010. Thereby the existing requirements of IAS 39, *Financial Instruments: Recognition and Measurement*, for derecognition were adopted. New requirements affect the accounting of financial liabilities when choosing the fair value option: The portion of the change in the fair value due to changes in the entity's own credit risk should be presented in other comprehensive income (OCI). IFRS 9 (including 2010 supplements) 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.

With the third Annual Improvement Project (*Improvements to IFRSs, May 2010*) of the IASB, the following amendments will also become effective at a later date:

- The amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, clarify for first-time adopters (during the period covered by its first IFRS financial statements) that a change in accounting policies or changes in the use of IFRS 1 exemptions after publishing a set of IAS 34, *Interim Financial Reporting*, interim financial information result in explanations of those changes and adjustments of the reconciliations (equity and total comprehensive income). Furthermore the amendments to IFRS 1 extend the scope of the exemption to use a "deemed cost". The deemed cost exemption is therefore extended to revaluations triggered by an event such as initial public offering or privatization that occur after the date of transition to IFRSs, but during the period covered by the first IFRS financial statements. IFRS first-time adopters which hold items of property, plant and equipment or intangible assets for use in operations subject to rate regulation may elect to use the previous GAAP carrying amount of such items at the date of transition to IFRSs as deemed cost. The exemption will be applied on an item-by-item basis. First-time adopters which use the exemption shall test for impairment in accordance with IAS 36, *Impairment of Assets*, each item at the date of transition to IFRSs. The amendments are required to be applied for annual periods beginning on or after January 1, 2011. It is not expected that the amendments will have any effect on the future consolidated financial statements of Continental AG.

- The amendments to IFRS 3, *Business Combination*, clarify the transitional requirements for contingent consideration from a business combination that occurred before the effective date of IFRS 3 (2008). Furthermore the amendments define that only non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership instruments' proportionate share in the recognized amounts of the acquiree's net identifiable assets. All other components shall be measured at their acquisition-date fair values or other measurement basis required by IFRSs. Furthermore the amendments clarify that all share-based payment transactions that are part of a business combination are within the scope of the application guidance. For this reason the guidance applies also to share-based payment transactions which are voluntary replaced or unreplaced. The amendments are required to be applied for annual periods beginning on or after July 1, 2010. It is not expected that the amendments will have any significant effect on the future consolidated financial statements of Continental AG.

- The amendments to IFRS 7, *Financial Instruments: Disclosures*, include several clarifications and amendments to required disclosures about nature and extent of risks arising from financial instruments. The amendments are required to be applied for annual periods beginning on or after January 1, 2011. It is not expected that the amendments will have any significant effect on the future consolidated financial statements of Continental AG.

- The amendments to IAS 1, *Presentation of Financial Statements*, clarify that the analysis of other comprehensive income (OCI) by item (reconciliation between the carrying amount at the beginning and the end of the period for each component of equity) can be presented either in the statement of changes in equity or in the notes. The amendments are required to be applied for annual periods beginning on or after January 1, 2011. It is not expected that the amendments will have any significant effect on the future consolidated financial statements of Continental AG.

- The amendments to IAS 34, *Interim Financial Reporting*, modify the wording of IAS 34 in order to place greater emphasis on the disclosure principles which determine what information should be disclosed in an interim financial report. Furthermore examples are added to the list (not exhaustive) of events and transactions for which disclosures would be required if they are significant (i.e. fair value measurement). The amendments are required to be applied for annual periods beginning on or after January 1, 2011. It is not expected that the amendments will have any effect on the future consolidated financial statements of Continental AG.

- The amendment to IFRIC 13, *Customer Loyalty Programmes*, clarifies the term “fair value” for the measurement of award credits. The amendment is required to be applied for annual periods beginning on or after January 1, 2011. It is not expected that the amendment will have any effect on the future consolidated financial statements of Continental AG.

Other announcements

With the release of the first chapters (chapter 1 and 3) regarding the objective and qualitative characteristics of financial information in 2010, the first phase of the IASB and FASB’s project to develop a common conceptual framework (*conceptual framework project*) is completed.

4. Companies Consolidated

In addition to the parent company, the consolidated financial statements include 429 (PY: 433) domestic and foreign companies in which Continental AG holds a direct or indirect interest of more than 20.0% of the voting rights. 308 (PY: 310) of these are fully consolidated and 121 (PY: 123) are accounted for using the equity method. The previous year's figures are presented comparably.

The number of companies consolidated decreased in total by four year-on-year. Seven companies were acquired, seven companies were formed and two previously unconsolidated units were consolidated for the first time. Seven companies were sold and four were liquidated. In addition, the companies consolidated were reduced by six companies as a result of mergers and three companies were deconsolidated.

In particular, the additions to the scope of consolidation in 2010 included the first-time consolidation of Continental Automotive Corporation Korea Ltd., Seoul, South Korea, new companies in the Automotive division and the acquisition of a European tire sales group. The entities no longer included in the scope of consolidation essentially relate to the disposal of two minor business activities of the ContiTech division held for sale, the disposal of a company of Passenger and Light Truck Tires division in Hungary and disposals in the Automotive Group. The effects are shown under Note 5.

40 (PY: 38) companies whose assets and liabilities, expenses and income, individually and combined, are not material for the net assets, financial position and results of operations of the corporation, are not included in consolidation. 36 (PY: 34) of these are affiliated companies, 16 (PY: 18) of which are currently inactive. A further four (PY: four) companies not included in consolidation are associated companies, one of which is currently inactive, as in the previous year. The previous year's figures are presented comparably.

Further information on equity investments and an overview of the German corporations and partnerships that utilized the exemption provisions of Section 264 (3) of the German Commercial Code (*Handelsgesetzbuch – HGB*) and Section 264b *HGB* can be found in Note 40.

5. Acquisition and Sale of Companies and Business Units

Metso Minerals

To strengthen the Conveyor Belt Group business unit, ContiTech Transportbandsysteme GmbH, Hanover, Germany, acquired the plant of Metso Minerals - (Deutschland) GmbH, in Moers, Germany, as part of an asset deal. The plant produces conveyor belt systems predominantly for use in mining and power plants.

The purchase agreement was concluded on May 3, 2010. The initial consolidation was on May 1, 2010. The purchase price totaled €10.2 million, which equals the share of the purchase price which was settled with cash funds. The incidental acquisition costs of €0.2 million were recognized as other operating expenses.

The assets and liabilities reported for the first time in the consolidated balance sheet were recognized in the following amounts (in € millions):

Metso Minerals	Carrying amount immediately before acquisition	Fair value at date of initial consolidation
Intangible assets	0.2	2.6
Property, plant and equipment	2.3	3.9
Investments	0.1	0.7
Inventories	1.7	1.8
Accounts receivable	1.8	1.8
Other current assets	0.1	0.1
Pension provisions	0.0	0.0
Net deferred taxes	0.0	-0.2
Trade accounts payable	-0.2	-0.2
Other current liabilities	-0.3	-0.3
Net assets	**5.7**	**10.2**
Purchased net assets	**5.7**	**10.2**
Purchase price		10.2
Negative balance		**0.0**

On the basis of this preliminary purchase price allocation, the increase in the value of intangible assets and property, plant and equipment resulted in an insignificant negative difference, which was recognized by ContiTech Transportbandsysteme GmbH as other operating income.

The acquired intangible assets primarily include the customer base, patents and brand names. The financial assets acquired include 50% of shares in Bando-Scholtz Corp., Kakogawa, Japan, a joint venture with Bando Chemical Industries, Ltd., Kobe, Japan, which exclusively sells the products of the acquired business operations on several Asian markets.

Since May 2010, Metso's business has contributed €8.1 million to sales and €0.7 million to EBIT. The transaction was an asset deal; the contribution to net income attributable to the shareholders of the parent and the effects that would have arisen from a purchase as of January 1, 2010 cannot be determined.

ContiTech Fluid Shanghai

As a result of a change in the shareholder agreement in March 2010, ContiTech AG, Hanover, Germany, obtained control of ContiTech Fluid Shanghai, Co. Ltd., Shanghai, China, which had previously been held as an interest carried at equity.

The company is assigned to the ContiTech division and strengthens the position of ContiTech's hose business in the growth region of Asia.

The initial consolidation was on March 31, 2010. The transaction took place without the payment of a purchase price.

The assets and liabilities included for the first time in the consolidated balance sheet were recognized in the following amounts (in € millions):

ContiTech Fluid Shanghai	Carrying amount immediately before acquisition	Fair value at date of initial consolidation
Intangible assets	0.0	0.8
Property, plant and equipment	1.0	1.1
Inventories	2.5	2.5
Accounts receivable	5.8	5.8
Other current assets	0.0	0.0
Cash and cash equivalents	1.3	1.3
Net deferred taxes	0.2	0.0
Indebtedness	-1.1	-1.1
Trade accounts payable	-4.7	-4.7
Other current liabilities	-1.2	-1.2
Net assets	**3.8**	**4.5**
Non-controlling interests	1.9	2.2
Purchased net assets	**1.9**	**2.3**
Shares previously held		2.3
Balance		**0.0**

The revaluation of the previously held shares to the fair value resulted in an insignificant gain, which was recognized in other operating income.

The intangible assets primarily include customer relationships.

Since April 2010, ContiTech Fluid Shanghai's business has contributed €15.4 million to sales and €0.3 million to net income attributable to the shareholders of the parent. If this transaction had been completed on January 1, 2010, the Continental Corporation's reported sales for 2010 would have been €4.6 million higher, net income attributable to the shareholders of the parent €0.1 million higher, and earnings per share would not have changed significantly.

Acquisitions of non-controlling interests and business units

In the reporting period, the total purchase price of €6.2 million was paid to acquire the remaining 49% of shares in Avtoelektronika-Elkar (Avtel), Kaluga, Russia.

The increased shareholding from previously 51% to currently 60% in Continental Automotive Corporation, Yokohama, Japan, and Continental Automotive Corp. Lian Yun Gang Co. Ltd., Lian Yun Gang, China, has strengthened Continental's position on the components and systems market, particularly for brake systems, and allows the marketing of an expanded product portfolio. Continental AG increased its shareholding by way of unilateral capital increases on the one hand and the acquisition by Continental Automotive Corporation, Yokohama, Japan, of shares from its prior joint venture partner, Nisshinbo Holdings Inc., Tokyo, Japan, at a purchase price of €16.7 million, on the other. The corresponding agreements were effective as of April 1, 2010. The companies are assigned to the Chassis & Safety division. The respective difference between the purchase price, capital increase and non-controlling interests of €0.8 million for the Chinese company and -€6.3 million for the Japanese entity was recognized directly in equity.

To consolidate its position on the Chinese market for drive belts, ContiTech AG, Hanover, Germany, acquired the 40% of residual shares in ContiTech-Jiebao Power Transmission Systems Co., Ltd., Ninghai, China, previously in other ownership, for a purchase price of €4.4 million. The purchase agreement was effective as of May 17, 2010. The company is assigned to the ContiTech division. The difference between the purchase price and the non-controlling interests of -€3.3 million was recognized directly in equity.

To strengthen the position of the ContiTech division's conveyor belt business on the Eastern European market, the 30% of shares previously held by third parties in Kolubara Univerzal D.O.O., Veliki Crljeni, Serbia, were acquired in two stages for a purchase price of €4.8 million. The transaction was completed on August 11, 2010. The company is assigned to the ContiTech division. The difference between the purchase price and the non-controlling interests of €0.1 million was recognized directly in equity.

Due to internal restructuring, the Sensorics business of Continental Automotive Electronics LLC, Chongwongun, South Korea, was transferred to Continental Automotive Corporation Korea Ltd., Seoul, South Korea, as a result of which the latter is now considered material and was fully consolidated as of September 1, 2010. The company is assigned to the Chassis & Safety division. The difference resulting from the carrying amount of shares at historical cost and the fair value of the assets and liabilities amounted to €1.5 million, of which €0.9 million was recognized as other operating income at Continental Automotive Corporation Korea Ltd. and €0.6 million was assigned to the minority shareholder.

Purchase prices totaling €7.6 million were paid for acquisitions related to the acquisition of a European tire distribution group and asset deals in the same area. Of this amount, €5.7 million was capitalized as goodwill and €1.0 million as intangible assets. There were no further adjustments of the carrying amounts immediately before acquisition, whereby due to the immateriality of the individual transactions, detailed purchase price allocations were not foreseen.

The effects of these transactions, including the corresponding preliminary purchase price allocation on the net assets, financial position and results of operations of the Continental Corporation as of December 31, 2010, are not material.

Disposals of companies and business units

The Public Transport Solutions business segment was identified as a non-core business area following a portfolio review in fiscal year 2008. 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 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. The audit of the final closing account by a neutral expert in July 2010 resulted in a further expense for the Interior division of €5.6 million (PY: €4.5 million). The purchase price adjusted on this basis was settled in October 2010, thereby concluding the sale of this segment.

The effects of the final purchase price allocation from the sale of VDO Automotive Huizhou Co. Ltd, Huizhou, China, in February 2010, which led to proceeds of €25.3 million after withholding taxes, are immaterial. The disposal of two minor business activities of the ContiTech division held for sale and of a company of the Passenger and Light Truck Tires division in Hungary also had no material effect on the net assets, financial position and results of operations of the Continental Corporation as of December 31, 2010.

Notes to the Consolidated Income Statements

6. Other Expenses and Income

in € millions	2010	2009
Other expenses	-645.2	-1,974.3
Other income	127.5	71.3
Other expenses and other income	**-517.7**	**-1,903.0**

Expenses

The other expenses relate primarily to:

in € millions	2010	2009
Expenses for specified warranty risks	186.4	170.8
Special bonuses	79.1	22.2
Litigation and environmental risks	70.7	15.4
Impairment on property, plant and equipment, and intangible assets	65.6	117.2
Restructuring measures without impairment	55.7	460.0
Expenses for termination benefits	39.4	116.7
Adjustments of the VDO loan	27.4	64.5
Losses on the sale of property, plant and equipment, and from scrapping	18.9	14.8
Realized and unrealized foreign currency exchange losses	6.9	27.4
Losses on the sale of subsidiaries and business units	5.7	5.6
Valuation allowances for doubtful accounts	5.3	33.9
Goodwill impairment	—	875.8
Other	84.1	50.0
Other expenses	**645.2**	**1,974.3**

In particular, the decline in other operating expenses of €1,329.1 million to €645.2 million (PY: €1,974.3 million) results from the absence of goodwill impairment in the reporting period (PY: €875.8 million) and a strong decline in restructuring expenses and impairment losses by a total of €455.9 million to €121.3 million (PY: €577.2 million).

The previous year's figures for individual items are presented comparably; the 'Other' item has been adjusted accordingly.

The previous year's intra-year goodwill impairment test as of September 30, 2009, which was performed due to a triggering event, led to an impairment 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. As in the fourth quarter of 2009, the annual impairment test in the fourth quarter of 2010 did not identify any impairment requirements. Please see Note 2.

The adjustment of surplus production capacity in Europe required in the previous year in line with current market conditions led to the discontinuation of passenger car 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 previous year. In the reporting year, the company incurred further restructuring expenses of €16.9 million in this context.

It was resolved in the previous year to close the Huntsville location in the U.S.A. by the end of 2010. By closing the location 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.

Owing to the massive slumps in demand on the European commercial vehicles market in the wake of the economic crisis, Continental AG was forced to scale back production capacity at all European commercial vehicle tire plants in 2009. A production cell maintained in Hanover-Stöcken, Germany, was ultimately discontinued. This resulted in restructuring expenses and impairment losses of €34.6 million in the Commercial Vehicle Tires division in 2010.

In the previous year, the closure of the compounding and rubberization activities in Traiskirchen, Austria, led to restructuring expenses and impairment losses of €12.9 million in the Passenger and Light Truck Tires division. Additional restructuring expenses and impairment losses totaling €6.0 million also arose in the reporting period.

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 in 2009. 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 previous year.

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 leading to total expenses of €44.7 million were implemented in 2009. This primarily related to impairments on production lines and the settlement of supplier claims. Further restructuring expenses of €11.9 million were incurred in 2010. These primarily related to impairment losses on production lines, which were partially offset by the provisions for supplier claims no longer required.

In total, there were impairment losses on property, plant and equipment, and intangible assets amounting to €65.6 million in 2010, €35.5 million of which related to restructuring measures.

The expenses for specific guarantee risks amounted to €186.4 million in the reporting period (PY: €170.8 million). Please also see Notes 26 and 34.

The expenses for litigation and environmental risks rose to €70.7 million (PY: €15.4 million). The antitrust proceedings initiated in 2007 against Dunlop Oil & Marine Ltd., Grimsby, U.K., a subsidiary of ContiTech AG, in the area of offshore hoses, resulted in further expenses of €20.8 million (PY: €6.2 million) in the ContiTech division in the year under review. Please also see Notes 26 and 34.

The special remuneration relates to expenses from stock option plans in the amount of €17.3 million (PY: €21.1 million), the long-term incentive plan in the amount of €22.6 million (PY: €1.1 million) and the Conti Special Bonus of €39.2 million (PY: none).

The cost-cutting program initiated worldwide in 2008 in response to the economic crisis led to expenses for severance payments of €39.4 million (PY: €116.7 million). The expenses relate to various individual workforce adjustment measures which did not have the scope of a restructuring measure.

In the year under review, expenses of €6.9 million (PY: €27.4 million) were incurred as a result of foreign currency translations from operating receivables and liabilities in foreign currencies not classified as indebtedness.

The Interior division incurred expenses totaling €5.6 million (PY: €4.5 million) for further settlement activities in connection with the disposal of a business unit in 2010.

Losses of €18.9 million (PY: €14.8 million) arose on sales of equipment and scrapping activities in the period under review.

The cost resulting from allowances on receivables is €5.3 million (PY: €33.9 million).

Owing to the expected increase in cash outflows for the VDO loan owing to rising margins, the carrying amount of this loan was adjusted in profit and loss in 2009 and June 2010. This led to an expense for the carrying amount adjustment in 2010 of €27.4 million (PY: €64.5 million).

The 'Other' item also includes expenses for other taxes, contractual penalties and other compensation from customer and supplier claims.

Income

The other income relates primarily to:

in € millions	2010	2009
Adjustments of the VDO loan	47.2	—
Gain from the reimbursement of customer tooling expenses	20.2	9.5
Reversals of restructuring provisions	19.8	6.9
Gain on the sale of property, plant and equipment	11.1	13.5
Impairment reversals	7.9	—
Gain on the sale of subsidiaries and business units	3.8	10.6
Gain on the reversal of post-employment benefit obligations	—	11.4
Other	17.5	19.4
Other income	**127.5**	**71.3**

The €56.2 million rise in other operating income to €127.5 million (PY: €71.3 million) results in particular from the carrying amount adjustments of the VDO loan. Owing to the forecasted increase in cash outflows for the VDO loan owing to rising margins, the carrying amount of this loan was initially adjusted in profit and loss in 2009 and June 2010. These deferrals will be amortized over the term of the loan reducing expenses accordingly. This amortization resulted in a positive effect of €37.6 million in 2010. As a result of the partial repayment of the VDO loan, the carrying amount adjustments on the repayment amounts were reversed pro rata. The extensive use of the net proceeds from the bonds placed at the end of September 2010 in excess of the total nominal amount of €1,250.0 million resulted in a further partial repayment of a nominal amount of €100.0 million in December 2010. In total, these special reversals resulted in income of €9.6 million.

The previous year's figures for individual items are presented comparably; the 'Other' item has been adjusted accordingly.

In 2010, reimbursements of €20.2 million (PY: €9.5 million) for customer tooling were received.

The reversal of restructuring provisions resulted in income of €19.8 million in 2010 (PY: €6.9 million), particularly at the locations of Huntsville, U.S.A., as well as Karben and Wetzlar, both in Germany.

The reversals of impairments on property, plant and equipment in an amount of €7.9 million (PY: none) related mainly to the Huntsville, U.S.A. location. In the period under review, different uses within the corporation were found for some of the property, plant and equipment were impaired there in 2009.

Income of €11.1 million (PY: €13.5 million) was generated from the sale of property, plant and equipment during the period under review.

Following the sale of our North American OTR activities to Titan Tire Corporation in 2006, the Commercial Vehicle Tires division generated income of €3.3 million.

In the previous year, 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 an overall gain of €10.5 million for the Powertrain division.

The income of €11.4 million from the reversal of post-employment benefit obligations in the previous year relates to positive effects on earnings as a result of the early departure of employees from the company in the context of the plant closure of the plant in Clairoix, France.

Other income includes income from license agreements. In addition, government grants amounting to €23.0 million (PY: €8.3 million) that were not intended for investments in non-current assets were recognized in income in the 'Other' item as well as in the function cost items.

7. Personnel Expenses

The following total personnel expenses are included in the income statement:

in € millions	2010	2009
Wages and salaries	4,707.3	4,142.5
Social security contributions	958.6	862.6
Pension and post-employment benefit costs	225.8	194.7
Personnel expenses	**5,891.7**	**5,199.8**

The rise in personnel expenses is particularly due to recruitment activities owing to the increase in business activities in the year under review. Please also see the remarks in the Management Report. The average number of employees in 2010 was 142,695 (PY: 133,416). As of the end of the year, there were 148,228 (PY: 134,434) employees in the Continental Corporation.

8. Income from Investments

in € millions	2010	2009
Share in earnings of associates	77.0	46.8
Impairments on investments in associates	-0.5	-120.0
At-equity share in earnings of associates	**76.5**	**-73.2**
Income from other investments	4.2	9.1
Other investments and loans	0.0	-0.4
Other income from investments	**4.2**	**8.7**

Please see Note 14 for impairments 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 €77.0 million (PY: €46.8 million).

9. Net Interest Expense

in € millions	2010	2009
Interest income	**22.6**	**30.3**
Interest and similar expenses	-747.2	-750.1
Financial lease cost	-5.6	-7.7
Gains from foreign currency translation	33.0	22.9
Gains/losses from changes in the fair value of derivative instruments	6.9	-5.4
Gains from financial assets available for sale	0.7	—
Interest cost for long-term provisions and liabilities	-9.1	-11.5
Capitalized interest	1.5	0.7
Interest expenses	**-719.8**	**-751.1**
Net interest expense	**-697.2**	**-720.8**

The decline in net interest expense as against the previous year is essentially due to the largely non-cash exchange rate effects and the effects of changes in the fair value of derivatives. These effects accounted for a total of €40.6 million in 2010 (PY: €17.5 million) – taking into account the gains on financial assets available for sale. The gains from foreign currency translation resulted partly from the strength of the Brazilian real against the euro and the U.S. dollar and the weakness of the Hungarian forint against the euro.

Interest expense, excluding the effects of foreign currency translation, changes in the fair value of derivative instruments and gains from the disposal of financial assets available for sale, declined by €8.2 million compared with the previous year to €760.4 million (PY: €768.6 million).

As in previous years, the amount of interest expenses and thereby the amount of the net interest expense was essentially due to the utilization of the VDO loan agreement in 2010. Utilization of the VDO loan decreased significantly over the course of 2010. In particular, this resulted from the successful capital increase in January 2010 with net proceeds before tax effects of €1,056.0 million and the four bonds with a total volume of €3.0 billion placed in the third quarter of 2010 through Conti-Gummi Finance B.V., Amsterdam, Netherlands. The net proceeds from these transactions were used for the partial repayment of the utilization of the VDO loan and for the repayment of the loan borrowed to refinance tranche B of the VDO loan which matured in August 2010 (forward start facility). The additional cost of financing relating to the amounts repaid was reversed to profit and loss and resulted in a total expense of €36.8 million. A further negative effect in interest expenses resulting from the VDO loan and the forward start facility was the higher margin level for these loans as against the previous year, which was due to the rating downgrades over 2009 and in May 2010 and the renegotiation of the conditions of the VDO loan in December 2009, while the fact that the market interest rate was lower as compared with the previous year had a positive effect.

The bonds placed in the third quarter of 2010 resulted in total interest expenses of €73.6 million in 2010.

10. Income Tax Expense

The domestic and foreign income tax expense of the corporation is as follows:

in € millions	2010	2009
Current taxes (domestic)	-101.5	-103.4
Current taxes (foreign)	-404.0	-292.9
Deferred taxes (domestic)	-93.6	246.4
Deferred taxes (foreign)	7.0	304.2
Income tax expense	**-592.1**	**154.3**

The average domestic tax rate for 2010 was 30.0%, as in the previous year. 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	2010	2009
Net income before tax	**1,238.0**	**-1,761.2**
Non-deductible goodwill impairment	—	-875.8
Net income before tax and goodwill impairment	**1,238.0**	**-885.4**
Expected tax expense/gain at the domestic tax rate	-371.4	265.6
Foreign tax rate differences	101.1	84.0
Non-deductible expenses and non-imputable withholding taxes	-94.3	-37.7
Non-recognition of deferred tax assets unlikely to be realized	-273.6	-178.9
Incentives and tax holidays	47.5	36.1
Taxes for previous years	-39.2	22.1
Tax effect of companies consolidated at equity	19.2	11.4
First-time recognition of deferred tax assets likely to be realized	14.0	—
Effects from disposals and impairment of business units and investments	-0.1	-36.0
Other	4.7	-12.3
Reported tax expense/gain	**-592.1**	**154.3**
Effective tax rate in % (PY: before goodwill impairment)	**47.8**	**17.4**

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. This resulted from the allowance on the limitation of deductible interest brought forward required in Germany amounting to €120.1 million, of which €68.9 million was for previous years, as well as from the allowances on deferred tax assets at foreign entities totaling €234.3 million, €11.8 million of which was for previous years. Further information on this can be found in Note 16. In the prior-year period, the amount was influenced mainly by valuation allowances of losses and interest carry-forwards in the German tax group 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 AG, represent harmful share acquisitions pursuant to Section 8c of the German Corporate Income Tax Act (*Körperschaftssteuergesetz – KStG*).

The results of investments and joint ventures accounted for using the equity method included in net income resulted in tax relief of €19.2 million in the year under review (PY: €11.4 million).

The rise in non-deductible expenses and non-imputable withholding tax resulted partly from non-imputable foreign withholding taxes in Germany on account of a lack of imputing volume. In 2010, taxes for previous years relate to the settlement of outstanding tax obligations from previous years.

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.

Among other things, the 'Other' item includes other local minimum taxes and opposing effects from changes in the tax rate.

The previous year's figures are presented comparably.

Notes to the Consolidated Balance Sheets

11. 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, 2009					
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 initial consolidation of subsidiaries	**23.0**	—	13.6	—	**13.6**
Restatements from assets held for sale	**—**	—	-0.3	—	**-0.3**
Transfers	**—**	0.5	12.0	-12.5	**—**
Disposals[1]	**-10.0**	0.0	-0.6	-0.1	**-0.7**
Amortization	**—**	-21.0	-506.4	—	**-527.4**
Impairments	**-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**
Net change in 2010					
Book value	**5,536.6**	59.1	1,998.1	11.5	**2,068.7**
Foreign currency translation	**100.2**	-0.3	47.1	0.1	**46.9**
Additions[1]	**1.1**	74.5	41.1	8.0	**123.6**
Additions from initial consolidation of subsidiaries	**5.7**	—	4.6	—	**4.6**
Reclassification to assets held for sale	**—**	—	0.0	—	**0.0**
Transfers	**—**	—	6.3	-6.3	**0.0**
Disposals	**—**	0.0	-0.8	-0.1	**-0.9**
Amortization	**—**	-13.6	-504.8	—	**-518.4**
Impairments	**—**	—	-1.2	—	**-1.2**
Book value	**5,643.6**	**119.7**	**1,590.4**	**13.2**	**1,723.3**
At December 31, 2010					
Cost	**8,059.4**	167.3	3,587.4	13.2	**3,767.9**
Accumulated amortization	**-2,415.8**	-47.6	-1,997.0	—	**-2,044.6**
Book value	**5,643.6**	**119.7**	**1,590.4**	**13.2**	**1,723.3**

[1] The disposals of/additions to goodwill include later adjustments to the purchase price.

The acquisition of companies and business units in the tire retail operations in 2010 resulted in an addition to goodwill totaling €5.7 million.

The remaining carrying amount of goodwill relates principally to the acquisitions of Siemens VDO (2007), Continental Teves (1998), the automotive electronics business from Motorola (2006), Continental Temic (2001), Phoenix AG (2004), AP Italia (2007) and the Thermopol Group (2007).

The goodwill and the other intangible assets are allocated to the corporation's divisions as follows:

	Goodwill		Other intangible assets	
in € millions	**Dec. 31, 2010**	**Dec. 31, 2009**	**Dec. 31, 2010**	**Dec. 31, 2009**
Chassis & Safety	2,330.9	2,299.5	230.8	265.4
Powertrain	1,007.3	976.0	590.3	726.6
Interior	2,201.6	2,164.0	834.7	1,003.3
Passenger and Light Truck Tires	19.9	16.3	32.1	36.9
Commercial Vehicle Tires	8.6	6.1	5.0	6.1
ContiTech	75.3	74.7	25.3	23.3
Other/consolidation	—	—	5.1	7.1
Continental Corporation	**5,643.6**	**5,536.6**	**1,723.3**	**2,068.7**

Additions to purchased intangible assets from the initial consolidation of subsidiaries related mainly to customer relationships and technology-based assets from the acquisitions during the fiscal year. The remaining additions mainly relate to software in the amount of €34.2 million (PY: €20.0 million) and brand names.

Amounts shown under internally generated intangible assets represent capitalized development costs. Of the total amount of development costs incurred in 2010, €74.5 million (PY: €49.0 million) met the criteria for recognition as an asset in accordance with IAS 38.

Amortization on intangible assets amounted to €518.4 million (PY: €527.4 million), €414.7 million (PY: €421.9 million) of which is included in the consolidated income statement under the cost of sales and €103.7 million (PY: €105.5 million) of which is included in administrative expenses.

The acquired intangible assets include carrying amounts not subject to amortization of €81.0 million (PY: €80.6 million). 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 €68.2 million (PY: €67.4 million), which is amortized on a straight-line basis.

In addition to amortization, there were also impairment losses on software and customer relationships of €1.2 million. Amortization expense was recognized in other income and expenses.

For further information on impairments, please see Note 6.

12. 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, 2009					
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	49.4	309.1	51.7	424.5	**834.7**
Additions from initial 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**
Impairments	-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**
Net change in 2010					
Book value	1,754.4	3,122.4	312.9	594.6	**5,784.3**
Foreign currency translation	67.2	142.8	16.9	28.8	**255.7**
Additions[3]	79.4	449.8	95.3	629.7	**1,254.2**
Additions from initial consolidation of subsidiaries	2.0	2.8	1.3	0.0	**6.1**
Amounts disposed of through disposal of subsidiaries	-0.2	0.0	-0.2	-0.1	**-0.5**
Reclassification to/from assets held for sale[2]	-16.3	-0.3	0.2	-0.6	**-17.0**
Transfers	70.0	246.2	115.2	-433.5	**-2.1**
Disposals	-6.8	-25.7	-2.4	-17.3	**-52.2**
Depreciation	-108.1	-825.3	-142.1	0.0	**-1,075.5**
Impairments	-10.8	-21.1	-1.9	-20.5	**-54.3**
Book value	**1,830.8**	**3,091.6**	**395.2**	**781.1**	**6,098.7**
At December 31, 2010					
Cost	2,962.7	9,654.2	1,557.7	826.7	**15,001.3**
Accumulated depreciation	-1,131.9	-6,562.6	-1,162.5	-45.6	**-8,902.6**
Book value	**1,830.8**	**3,091.6**	**395.2**	**781.1**	**6,098.7**
thereof finance leases	50.9	16.6	0.1	—	67.6

[1] Investment property is presented separately under Note 13.
[2] Reclassifications to assets held for sale amount to -€17.5 million (PY: -€4.9 million); reclassifications from assets held for sale amount to €0.5 million (PY: €3.0 million).
[3] The additions include €1.5 million (PY: €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 ContiTech Fluid Shanghai Co. Ltd., Shanghai, China, which was previously accounted for using the equity method, the acquisition of the plant in Moers of Metso Minerals (Deutschland) GmbH, Bochum, Germany, as part of an asset deal as well as other acquisitions in the fiscal year. Please see Note 5.

Production capacity for new products and production technologies was built up systematically in all business units of the Chassis & Safety division. Important additions related to the creation of new production capacity for the next generation of electronic braking systems. Investments were made in a new plant in Changshu, China, for the production of hydraulic braking systems. In the Powertrain division, capacity was increased in the Engine Systems business unit for the production of engine injection systems. Investments were made in the establishment of a new plant in Amata City, Thailand. The Transmission business unit expanded its production of transmission control units. In particular, production capacity was increased at the Tianjin location in China. Investments in the Interior division focused primarily on expanding production capacity for Body & Security and Instrumentation & Driver HMI. These investments relate to manufacturing capacity at the German plants and in the U.S.A., Mexico, Brazil, the Czech Republic, Romania and China.

The Passenger and Light Truck Tires division invested in the construction of a new plant to produce passenger and light truck tires at the Hefei location in China. Furthermore, production capacity was expanded in Europe and South America, and quality assurance and cost-cutting measures were performed. Key additions in the Commercial Vehicle Tires division related to quality improvement and manufacturing optimization in truck tire production. Investments focused on locations in Slovakia, Brazil and the U.S.A. In addition to rationalization and expansion investments in Germany, the ContiTech division further expanded manufacturing capacity for the Fluid Technology business unit at its plant in Romania and Hungary. 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.

For disclosures on impairments and reversals of impairments, please see Note 6.

Government investment grants of €13.9 million (PY: €5.3 million) were deducted directly from cost.

In the context of the adoption of IAS 23, €1.5 million (PY: €0.7 million) was capitalized as borrowing costs. The weighted capitalization rate was 4.4% (PY: 2.2%).

The reclassifications to assets held for sale related mainly to the property in Costa Rica. The reversal relates to the reclassification of property, plant and equipment used once again by the corporation.

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 five to ten years for technical equipment and are based on interest rates of between 5.1% and 8.8%. A lease with a term of ten years was concluded for the new passenger and light truck tire factory in Hefei, China. The agreement is recognized as a finance lease and includes a purchase option regarding the plant that can be exercised after 36 months. There are no renewal or purchase options in the other contracts.

The collateral package provided to the lending banks consists of guarantees by certain subsidiaries, the pledging of shares in the guaranteed subsidiaries, certain account balances and the transfer of internal claims. This does not affect property, plant and equipment.

There are amounts of €7.9 million (PY: €8.0 million) secured by property, plant and equipment for land charges, mortgages and similar securities.

13. Investment Property

The corporation's land and buildings accounted for as investment property changed as follows in the year under review:

in € millions	2010	2009
Cost at January 1	33.0	30.4
Accumulated depreciation at January 1	-13.7	-10.5
Net change		
Book value at January 1	**19.3**	**19.9**
Foreign currency translation	0.1	0.0
Disposals	0.0	-4.7
Reclassifications	3.6	5.0
Depreciation	-0.9	-0.8
Impairments	-2.2	-0.1
Book value at December 31	**19.9**	**19.3**
Cost at December 31	33.2	33.0
Accumulated depreciation at December 31	-13.3	-13.7

The fair value – determined using the gross rental method – of land and buildings accounted for as investment property at December 31, 2010, amounted to €24.2 million (PY: €24.3 million). Rental income in 2010 amounted to €4.2 million (PY: €3.7 million), while the associated maintenance costs amounted to €1.8 million (PY: €1.3 million).

The reclassifications relate to individual real estate no longer used by the corporation but held for the purpose of generating rental income. Furthermore, reclassifications also include assets held for sale for which further use has been found within the corporation.

An impairment loss of €2.2 million was recognized on two land and building complexes that cannot currently be leased.

14. Investments in Associates

in € millions	2010	2009
At January 1	**398.0**	**718.3**
Additions	12.6	0.4
Disposals	-2.1	-126.6
Changes in the consolidation method, and transfers	-2.3	-59.4
Share of earnings	77.0	46.8
Impairments	-0.5	-120.0
Dividends received	-43.3	-59.4
Foreign exchange effects	1.0	-2.1
At December 31	**440.4**	**398.0**

In particular, additions include €10.0 million for capital increases at Emitec Gesellschaft für Emissionstechnologie mbH, Lohmar, Germany, and €1.8 million in Continental Automotive Infotronics Private Limited, Chennaiach, India, and €0.7 million for Bando-Scholtz Corp., Kakogawa, Japan, as part of the acquisitions of the Metso Minerals business.

The disposals include €1.2 million for the sale of 1.0% of shares in Shanghai Automotive Brake Systems, Co. Ltd., Shanghai, China, and €0.9 million for the sale of Optrex Europe GmbH, Babenhausen, Germany.

The changes in consolidation method relate to Conti-Tech Fluid Shanghai, Co. Ltd., Shanghai, China, which was fully consolidated in the year under review.

The impairment test of the carrying amount of the associated company VIPO a.s., Partizánske, Slovakia, led to a further impairment requirement of €0.5 million (PY: €0.8 million).

The principal investments in associates for the Automotive divisions relate to S-Y-Systems Technologies Europe GmbH, Regensburg, Germany; Emitec GmbH, Lohmar, Germany; Shanghai Automotive Brake Systems Co. Ltd., Shanghai, China; SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany; and IAV GmbH Ingenieurgesellschaft Auto und Verkehr, Berlin, Germany; and for the Tire divisions, MC Projects B.V., Amsterdam, Netherlands, together with the respective subsidiaries of these companies.

The unaudited key figures taken from the last two available annual financial statements for the principal associates specified are summarized as follows (amounts are stated at 100%).

- Sales €4,036.4 million (PY: €4,369.2 million)
- Annual profit €83.9 million (PY: €102.0 million)
- Total assets €1,407.6 million (PY: €1,217.4 million)
- Liabilities €887.3 million (PY: €807.9 million)

The figures for the associated companies not included in consolidation using the equity method are as follows based on the last available annual financial statements:

- Sales €0.7 million (PY: €0.8 million)
- Annual loss/profit -€0.1 million (PY: €0.1 million)
- Total assets €1.7 million (PY: €1.5 million)
- Liabilities €1.4 million (PY: €1.0 million)

15. Other Investments

in € millions	Shares in affiliated companies	Other investments	Total
At January 1, 2009	**7.2**	**7.0**	**14.2**
Foreign currency translation	0.0	0.0	**0.0**
Disposals	-5.8	0.0	**-5.8**
Impairments	-0.4	0.0	**-0.4**
At December 31, 2009	**1.0**	**7.0**	**8.0**
Foreign currency translation	0.0	0.0	**0.0**
Additions	0.1	0.0	**0.1**
Disposals	0.0	-1.0	**-1.0**
Changes in the consolidation method	-0.1	0.0	**-0.1**
At December 31, 2010	**1.0**	**6.0**	**7.0**

Other investments are carried at cost as their fair value cannot be determined reliably, particularly because there are no listings for these shares on the capital markets. There is no intention to sell these at the current time. The disposals in the year under review relate to the sale of the shares in GKH Gemeinschaftskraftwerk Hannover GmbH, Hanover, Germany, in the amount of €1.0 million. This transaction resulted in an insignificant gain.

16. Deferred Taxes

Deferred tax assets and liabilities are composed of the following items:

in € millions	Dec. 31, 2010	Dec. 31, 2009
Intangible assets	-27.4	-53.8
Property, plant and equipment	-36.8	-75.1
Inventories	42.1	52.9
Other assets	19.0	-5.0
Pension obligations less deferred pension charges	69.9	73.2
Other provisions	102.5	176.4
Indebtedness	44.6	122.2
Other differences	86.1	7.9
Allowable tax credits	29.0	28.2
Tax losses carried forward and limitation of interest deduction	144.0	205.5
Net deferred taxes	**473.0**	**532.4**
Deferred tax assets	680.7	728.9
Deferred tax liabilities	207.7	196.5

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 decline in deferred tax assets on losses carried forward in the year under review is due to their utilization or expiring in the amount of €119.3 million (PY: €424.4 million). This was countered by new losses carried forward arising and the reversal of allowances.

In 2010, individual corporation companies and tax groups that recorded a loss reported total deferred tax assets of €375.6 million (PY: €515.8 million), which arose from current losses, loss carryforwards and a surplus of deferred tax assets. Taking into account realizable tax strategies and on the assumption that future taxable income is expected, it is sufficiently probable that these net deferred tax assets can be realized.

As of December 31, 2010, the corporate tax losses carried forward amounted to €2,463.4 million (PY: €2,380.5 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.

In total, €1,009.5 million (PY: €672.3 million) of deferred tax assets were written down as it is currently not deemed sufficiently likely that they will be utilized. €777.3 million (PY: €584.8 million) of this relates to allowances on losses and interest carried forward. In particular, this related to the U.S.A. (€395.1 million; PY: €353.0 million), Mexico (€47.6 million; PY: €49.8 million), Canada (€28.7 million; PY: €16.7 million) and Italy (€19.9 million; PY: €18.6 million). A further €256.3 million (PY: €108.5 million) relates to the German tax group. €120.1 million (PY: none) of this relates to interest carried forward that is currently deemed unlikely to be used in future, and a further €108.5 million (PY: €108.5 million) in losses and interest carried forward from 2008 that, in the opinion of the German financial authorities, which is not shared by Continental, can no longer be used under Section 8c *KStG* on account of the change in owner in 2008 and 2009. As a result of the positive performance in Brazil, the allowance on losses carried forward was reversed (PY: allowance of €13.2 million) as it now appears reasonably likely that they will be used.

No deferred tax assets were reported for losses carried forward abroad in the amount of €31.7 million (PY: €31.7 million).

As of December 31, 2010, the interest carried forward in Germany amounted to €453.4 million (PY: €260.1 million).

In addition, allowances of €37.2 million (PY: €13.1 million) were recognized on imputable tax credit in Malaysia as it is currently not deemed sufficiently likely that the credit will be utilized.

The cumulative amount of deferred taxes for items taken directly to equity decreased from €56.3 million in the previous year to €44.2 million.

The deferred tax liabilities from retained earnings of foreign companies amount to a total of €58.2 million (PY: €58.7 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.

17. Other Financial Assets

in € millions	Dec. 31, 2010		Dec. 31, 2009	
	Maturity		Maturity	
	up to 1 year	over 1 year	up to 1 year	over 1 year
Amounts receivable from related parties	35.8	—	45.0	—
Loans to third parties	—	29.5	—	18.9
Amounts receivable from employees	27.4	—	20.8	—
Amounts receivable from suppliers	2.1	—	2.2	—
Amounts receivable for customer tooling	111.5	—	67.5	—
Other amounts receivable	36.5	—	49.4	—
Other financial assets	**213.3**	**29.5**	**184.9**	**18.9**

The receivables from related parties are mainly attributable to receivables from operating service business with associates and shareholders.

Loans to third parties mainly comprise tenants' loans for individual properties and include loans to customers with various maturities. Some of the loans have been granted free of interest, 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 rise of €44.0 million as against the previous year results from Automotive units.

Other financial receivables include guarantee deposits in particular.

The carrying amounts of the other financial assets correspond essentially to their fair values. Valuation allowances amounting to a total of €4.3 million (PY: €3.6 million) were recognized for the probable default risk on other assets. Expenses of €0.9 million (PY: €0.8 million) were incurred in the period under review.

18. Other Assets

in € millions	Dec. 31, 2010		Dec. 31, 2009	
	Maturity		Maturity	
	up to 1 year	over 1 year	up to 1 year	over 1 year
Tax refund claims (incl. VAT and other taxes)	310.1	—	299.2	—
Prepaid expenses	55.6	—	51.7	—
Others	170.8	13.1	189.6	12.7
Other assets	**536.5**	**13.1**	**540.5**	**12.7**

The tax refund claims result primarily from sales tax receivables from the purchase of production materials. The rise resulted mainly from increasing operating activities, and was partially offset by a tax liability that was reported for the first time in the year under review since the appropriate requirements had been fulfilled. Please see Note 32.

In particular, prepaid expenses include rent and maintenance services paid for in advance and license fees. Among other things, the 'Others' item includes other deferred or advanced costs.

Valuation allowances amounting to €1.3 million (PY: €1.1 million) were recognized for the probable default risk on other assets. No expenses were incurred in the year under review (PY: €0.1 million).

19. Inventories

in € millions	Dec. 31, 2010	Dec. 31, 2009
Raw materials and supplies	1,036.4	757.2
Work in progress	324.4	248.5
Finished goods and merchandise	1,305.7	1,079.7
Advances to suppliers	4.6	10.8
Advances from customers	-33.3	-20.2
Inventories	**2,637.8**	**2,076.0**

Valuation allowances recognized for inventories in the year under review amounted to €15.2 million (PY: €56.8 million). Inventories include amounts written down (gross inventories) of €260.7 million (PY: €245.5 million).

20. Trade Accounts Receivable

in € millions	Dec. 31, 2010	Dec. 31, 2009
Trade accounts receivable	4,570.9	3,789.4
Allowances for doubtful accounts	-116.9	-141.3
Trade accounts receivable	**4,454.0**	**3,648.1**

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. Corresponding expenses as well as derecognitions and impairment reversals are recognized in the allowances for doubtful accounts.

Accordingly, the individual valuation allowances and general portfolio allowances for trade accounts receivable developed as follows in the year under review:

in € millions	**2010**	**2009**
At January 1	**141.3**	**141.2**
Additions	36.4	55.7
Utilizations	-33.6	-36.0
Reversals	-31.1	-21.8
Amounts disposed of through disposal of subsidiaries	-0.1	—
Foreign currency translation	4.0	2.2
At December 31	**116.9**	**141.3**

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. The trade receivables have a maturity of less than one year.

The factoring program concluded by Continental AG with Norddeutsche Landesbank Luxembourg S.A., Luxembourg, and Coface Finanz GmbH, Mainz, Germany, in November 2010 runs until September 30, 2011, and replaces the program with Skandifinanz Bank AG, Zurich, Switzerland, that originally ran to March 24, 2011. Compared to the previous program with Skandifinanz Bank AG, the new program provides for an €80.0 million greater financing volume of €230.0 million. As of December 31, 2010, receivables of €280.0 million (PY: Skandifinanz Bank AG: €149.6 million) were sold under this program which were offset by liabilities of €224.0 million (PY: Skandifinanz Bank AG: €149.6 million). Of the receivables sold, €115.1 million (PY: Skandifinanz Bank AG: €25.4 million), were already settled by way of payment by the end of the year. The cash deposited to cover any claims on the part of the lending banks not covered amounted to €16.8 million (PY: Skandifinanz Bank AG: €29.0 million).

In December 2010, Continental AG concluded a new factoring agreement with Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main, Germany, with a financing volume of €150.0 million. Receivables can be sold by the corporation companies Continental Benelux SPRL, Belgium, Continental Automotive Benelux BVBA, Belgium, Continental France SNC, France, Continental Automotive France SAS, France, and Continental Automotive Rambouillet France SAS, France. As of December 31, 2010, the volume of the receivables sold was €144.9 million. The liabilities associated with the accounts receivable sold amounted to €82.8 million. Of the receivables sold, €39.8 million were already settled by way of payment by the end of the year.

In the U.S.A., the existing factoring program with Wells Fargo Bank N.A. (formerly Wachovia Bank National Association), Atlanta, U.S.A., was expanded to include the partner Bank of Nova Scotia, Houston, U.S.A., and the financing volume was increased to $150.0 million in this context. In October 2010, the agreement was extended until October 28, 2011 with the option of a further year. The program can be used by Continental Tire The Americas LLC, Charlotte, U.S.A., and Continental Automotive Systems, Inc., Auburn Hills, U.S.A. As of December 31, 2010, the volume of the receivables sold was €74.7 million (PY: €69.4 million). The liabilities associated with the accounts receivable sold amounted to €74.7 million (PY: €69.4 million). Further accounts receivable in the amount of €294.9 million (PY: €187.5 million) were also deposited as collateral.

The trade accounts receivable for which specific valuation allowances have not been made are broken down into the following maturity periods:

in € millions		thereof:		overdue in the following maturity periods				
Dec. 31, 2010	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]	3,698.1	3,342.4	177.8	53.1	49.7	17.9	12.6	44.6
Dec. 31, 2009								
Trade accounts receivable[1]	2,864.6	2,487.2	199.3	62.9	56.7	20.0	11.7	26.8

[1] The difference of €872.8 million (PY: €924.8 million) versus the first table in this Note results from receivables amounting to €879.5 million (PY: €938.5 million) for which individual valuation allowances are recognized, as well as from notes payable amounting to €6.7 million (PY: €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.

As of December 31, 2010, four companies of the Continental Corporation assigned trade receivables with a total amount of €397.7 million (PY: €391.6 million) as collateral for a loan for Continental AG from the European Investment Bank. The need to collateralize the loan arose from the deterioration of the Continental Corporation's rating in 2009. At the time of the most recent report on assigned accounts receivable, these amounted to €625.1 million. The difference results from payments up until December 31, 2010, which were not offset by new accounts receivable.

In the previous year, the contractual terms of trade accounts receivable with a carrying amount of €1.8 million were renegotiated, since they would otherwise have been overdue. In the period under review, there were no comparable circumstances.

As of December 31, 2010, the receivables include €0.1 million (PY: none) from the percentage-of-completion method. As in the previous year, receivables do not include advance payments by customers. In 2010, the accumulated costs and profits of construction contracts in process on the balance sheet date amounted to €3.5 million (PY: -€1.1 million). Sales from construction contracts were recognized in the amount of €3.5 million (PY: €66.5 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.

21. 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 an insignificant risk of changes in value.

For information on the interest rate risk and the sensitivity analysis for financial assets and liabilities, please see Note 29.

22. Assets Held for Sale

in € millions	Dec. 31, 2010	Dec. 31, 2009
Assets of business units held for sale	—	38.2
Property, plant and equipment held for sale	22.0	4.1
Assets held for sale	**22.0**	**42.3**

€15.5 million of assets available for sale relate to the Powertrain division's property at our location in Costa Rica reclassified from property, plant and equipment in the year under review. There is no option for this property to be used further within the corporation. There were impairment requirements of €7.7 million in connection with its forthcoming disposal.

Other assets relate especially to smaller properties held for sale.

The business units classified as held for sale in the previous year were derecognized in the year under review. The participation in Siemens VDO Automotive Huizhou Co. Ltd., Huizhou, China, of the Interior division, was sold to Desay Industry Development Limited in February 2010. Two minor business activities of the ContiTech division were also sold in 2010. Please see Note 5.

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.

An overview of liabilities related to the assets held for sale can be found under Note 33.

The assets of the assets and business units held for sale after impairment losses comprise:

in € millions	Dec. 31, 2010	Dec. 31, 2009
Non-current assets	—	3.9
Other investments	—	26.5
Inventories	—	2.0
Trade accounts receivable	—	2.1
Other current assets	—	3.7
Cash and cash equivalents	—	0.0
Assets of business units held for sale	**—**	**38.2**

23. Total Equity

Number of shares outstanding	2010	2009
At January 1	169,005,983	169,005,983
Capital increase against cash contributions	31,000,000	—
At December 31	**200,005,983**	**169,005,983**

On January 6, 2010, the Executive Board of Continental AG resolved – with the approval of the Supervisory Board – an increase in the share capital of €432,655,316.48 by a nominal amount of €79,360,000.00 by issuing 31,000,000 new shares from authorized capital (Authorized Capital 2007). The common stock of the company therefore amounted to €512,015,316.48 at the balance sheet date (PY: €432,655,316.48) and is composed of 200,005,983 (PY: 169,005,983) no-par-value shares with a notional value of €2.56 per share.

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. offered 24.55 million shares at a price of €35.00 to 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, 2010, 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 institutions already mentioned.

Existing shareholders could exercise their subscription rights from January 12 to January 25, 2010 (inclusive), 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 year 2009.

On January 26, 2010, Continental AG reported that more than 99% of free float shareholders utilized their subscription rights. In total, net proceeds of €1,056.0 million were generated before tax effects. Transaction costs of €57.8 million were deducted from equity, countered by €17.3 million from deferred taxes. The capital increase served to repay Continental AG's liabilities from the VDO loan.

Authorized capital stock of €70.6 million for the issuance of new shares against cash and/or non-cash contributions is still available to the company as of the balance sheet date until April 23, 2012, from the authorization amount of €187.5 million originally adopted on April 24, 2007, following a capital increase from authorized capital in 2007 and after issuing 31,000,000 shares against cash contributions.

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.

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. As in the previous year, no subscription rights were exercised in 2010. 34,700 (PY: 49,900) subscription rights expired in 2010, as a result of which 67,800 subscription rights were still outstanding as of the balance sheet date.

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. As in the previous year, no subscription rights were issued in 2010, while 9,900 expired (PY: 39,850). Thus, 56,200 subscription rights are still outstanding as of the balance sheet date.

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. The offer was limited to January 2009, hence no subscription rights were redeemed in fiscal year 2010 (PY: 1,769,300).

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 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 €20.0 million to grant subscription rights derived from the 2008 stock option plan.

The conditional capital III of €43.5 million resolved by the Annual Shareholders' Meeting on April 23, 2009, in line with Article 4(8) of the Articles of Association serves to grant new shares to the holders of convertible bonds and/or bonds with warrants, participation rights and/or income bonds, where they are issued by April 22, 2014, on the basis of the authorization granted by the Annual Shareholders' Meeting on April 23, 2009.

The change in conditional capital is shown in the table below:

in € thousands	2010	2009
Conditional capital at January 1	209,394	**170,654**
Additions	—	43,500
Expiration of subscription rights granted	-114	-230
Redemption of subscription rights granted	—	-4,530
Conditional capital at December 31	**209,280**	**209,394**

Under the German Stock Corporation Act (*Aktiengesetz*), the dividends distributable to the shareholders are based solely on Continental AG's net retained earnings as at December 31, 2010, of €61.1 million (PY: retained losses of €993.7 million), as reported in the annual financial statements prepared in accordance with the German Commercial Code. The Annual Shareholders' Meeting will propose not distributing a dividend in order to strengthen the equity base and reduce financial indebtedness and to carry the net retained earnings forward to new account. No dividend was distributed in 2010 for fiscal year 2009 on account of the retained losses in the previous year.

24. Share-Based Payment

The equity instruments made available for share-based payment programs are disclosed in Note 23 on Total Equity.

The expenses from the stock option plans are recognized in personnel expenses and reported in other expenses. These amounted to €17.3 million in the year under review (PY: €21.1 million).

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 and enabled the issue of up to 3.9 million subscription rights. 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.

Continental AG's variable stock option plans include a performance target as a prerequisite for the exercise of stock options. Subscription rights may be exercised only 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 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.

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.

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, the plan features a cap on possible capital gain.

Stock option plan 2004	2010		2009	
in € millions	Number of sub-scription 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	1,767.6	95.72	1,844.5	95.13
Forfeited	3.3	118.65	49.9	102.51
Expired[2]	481.1	68.87	—	—
Outstanding at December 31	1,283.2	105.73	1,767.6	95.72
Exercisable on December 31[3]	1,283.2	105.73	1,083.5	81.24

[1] The average exercise hurdle is given since no subscription rights were exercised in the period under review or in the previous year.
[2] In the period under review, this price does not reflect the stock options already redeemed.
[3] Of the subscription rights exercisable on December 31, 67,800 can still be exercised. The other subscription rights are assignable to the redemption offer for the previous periods.

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 one year (PY: one year and six months). The maximum remaining duration of the 2004 stock option plan is one year and six months.

No stock options were issued in either the reporting period or the previous year's reporting period. For the 2006 tranche, the exercise price ranges between €39.62 and €91.13, and for the 2007 tranche between €51.59 and €118.65.

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. 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 be exercised only 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 DAX 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 2004 stock option plan. In agreement with the 2004 stock option plan, a ceiling has been imposed on the achievable capital gain.

The weighted average remaining option duration is two years and four months (PY: three years and four months) and corresponds to the maximum remaining duration of the entire 2008 stock option plan.

Stock option plan 2008	2010		2009	
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	1,183.7	89.95	1,223.5	89.95
Forfeited	9.9	89.95	39.9	89.95
Outstanding at December 31[2]	1,173.8	89.95	1,183.7	89.95
Exercisable on December 31	—	—	—	—

[1] The average exercise hurdle is given since no subscription rights were exercised in the period under review or in the previous year.
[2] A total of 1,117,550 subscription rights from the previous periods are assignable to the redemption offer.

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, 2010 in €	**32.06**	**36.18**
Fair value at balance sheet date December 31, 2009 in €	**29.50**	**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 was 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 for the first time in fiscal year 2008. The acceptance period ran until mid-January 2009. The majority 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 of €1.2 million was recognized as a provision at the end of the reporting period. Information on Executive Board remuneration can be found in the Remuneration Report.

25. 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, 2010	Dec. 31, 2009
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	1,196.4	1,156.8
Provisions for other post-employment benefits	180.3	168.5
Provisions for similar obligations	27.8	19.7
Pension obligations	**1,404.5**	**1,345.0**
Deferred pension charges (difference between pension obligations and related funds)	**73.8**	**70.8**

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 U.K., Austria, France, Mexico, Italy, and Ireland.

Separate pension funds exist to fully or partially finance the company's pension obligations for many of the plans. These pension fund assets may be used to settle pension obligations only. The principal funds are in the U.S.A. and the U.K., 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.

In the previous year, 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 due to certain warranty risks.

in € millions	Dec. 31, 2010	Dec. 31, 2009
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	1,196.4	1,156.8
Deferred pension charges (difference between pension obligations and related funds)	73.8	70.8
Net amount recognized	**1,122.6**	**1,086.0**

The pension provisions increased by €39.6 million compared with the previous year. The increase is essentially due to current pension expenses, which were not offset by the pension payments made or contributions to pension plans. Deferred pension charges representing the net assets from pension obligations and related funds increased by €3.0 million, largely as a result of contributions to pension funds in the U.K.

The pension obligations for Germany, the U.S.A. and Canada, the U.K. 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	2010					2009				
	Germany	USA/C	UK	Other	Total	Germany	USA/C	UK	Other	Total
Defined benefit obligation at January 1	1,760.2	935.4	194.9	165.9	**3,056.4**	1,621.5	855.8	164.1	159.5	**2,800.9**
Foreign currency differences	—	80.2	6.1	7.9	**94.2**	—	8.8	16.3	5.7	**30.8**
Current service cost	51.0	6.0	2.6	12.0	**71.6**	52.9	7.1	3.0	10.4	**73.4**
Interest cost on defined benefit obligation	87.2	55.2	11.0	10.0	**163.4**	86.5	53.6	10.7	10.2	**161.0**
Plan amendments	—	-2.1	—	3.4	**1.3**	—	—	—	0.0	**0.0**
Actuarial gains/losses from changes in assumptions	44.6	24.3	20.9	13.9	**103.7**	61.3	65.2	13.0	10.1	**149.6**
Actuarial gains/losses from experience adjustments	18.6	1.0	1.6	-0.2	**21.0**	22.4	-1.4	-4.9	-2.4	**13.7**
Curtailments/settlements	—	-4.4	—	-0.9	**-5.3**	—	4.3	0.0	-15.5	**-11.2**
Net changes in the scope of consolidation	-3.2	—	—	0.3	**-2.9**	-2.3	—	—	3.5	**1.2**
Employee contributions	—	0.1	0.9	0.3	**1.3**	—	0.1	1.1	0.3	**1.5**
Other changes	—	—	-0.5	0.8	**0.3**	—	—	1.3	0.1	**1.4**
Benefit payments	-82.5	-60.5	-6.9	-12.3	**-162.2**	-82.1	-58.1	-9.7	-16.0	**-165.9**
Defined benefit obligation at December 31	**1,875.9**	**1,035.2**	**230.6**	**201.1**	**3,342.8**	**1,760.2**	**935.4**	**194.9**	**165.9**	**3,056.4**

The reconciliation of the changes in the plan assets from the beginning to the end of the year is as follows:

in € millions	2010					2009				
	Germany	USA/C	UK	Other	Total	Germany	USA/C	UK	Other	Total
Fair value of plan assets at January 1	689.3	675.6	175.9	79.1	**1,619.9**	1,337.0	617.7	148.2	69.1	**2,172.0**
Foreign currency translation	—	59.1	5.6	5.0	**69.7**	—	8.4	14.7	4.4	**27.5**
Expected return on plan assets	28.8	52.5	11.7	5.1	**98.1**	51.6	45.1	10.3	4.2	**111.2**
Actuarial gains/losses from plan assets	-6.8	25.2	12.3	-0.2	**30.5**	11.3	56.4	0.5	0.5	**68.7**
Employer contributions	0.3	21.7	23.8	11.8	**57.6**	0.6	6.0	9.5	8.7	**24.8**
Employee contributions	—	0.1	0.9	0.3	**1.3**	—	0.1	1.1	0.3	**1.5**
Curtailments/settlements	0.0	—	—	—	**0.0**	—	—	—	-2.7	**-2.7**
Other changes	—	—	-0.5	0.5	**0.0**	-570.7	—	1.3	-0.2	**-569.6**
Benefit payments	-25.2	-60.0	-6.9	-5.2	**-97.3**	-140.5	-58.1	-9.7	-5.2	**-213.5**
Fair value of plan assets at December 31	**686.4**	**774.2**	**222.8**	**96.4**	**1,779.8**	**689.3**	**675.6**	**175.9**	**79.1**	**1,619.9**
Actual return on plan assets	22.0	77.7	24.0	4.9	**128.6**	62.9	101.5	10.8	4.7	**179.9**

€3,271.3 million (PY: €2,989.6 million) of the defined benefit obligation at December 31, 2010 relates to plans that are fully or partially funded and €71.5 million (PY: €66.8 million) relates to plans that are unfunded.

In the previous year, there was a refund from the CTAs in Germany totaling €112.1 million 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.

In the year under review, the changes due to changes in the consolidated companies relate to Benoac Fertigteile GmbH, Peine, Germany, ContiTech Formpolster GmbH, Hanover, Germany, and Continental Automotive Corporation Korea Ltd., Seoul, South Korea. In the previous year, the changes in the consolidated companies resulted from the interests acquired in ERCO, Synerject, Eu-Retec and Kolubara.

Plan assets in Germany include the CTA assets amounting to €273.3 million (PY: €267.8 million), pension contribution fund assets of €325.2 million (PY: €334.8 million), and insurance annuity contracts amounting to €87.8 million (PY: €86.7 million). €1.1 million (PY: €2.5 million) of the actuarial gains and losses on plan assets in Germany resulted from official retirement funds and -€7.8 million (PY: €8.8 million) from the CTAs.

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, 2010, 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 €325.2 million (PY: €334.8 million) on December 31, 2010. The pension funds are subject to an effective interest rate of 3.50%, for which Continental AG is ultimately liable under the German Company Pensions Law (*Betriebsrentengesetz*). Under this law, the pension obligations constitute a defined benefit pension plan; 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, 2010					Dec. 31, 2009				
	Germany	USA/C	UK	Other	Total	Germany	USA/C	UK	Other	Total
Funded status[1]	**-1,189.5**	**-261.0**	**-7.8**	**-104.7**	**-1,563.0**	**-1,070.9**	**-259.8**	**-19.0**	**-86.8**	**-1,436.5**
Unrecognized actuarial losses	121.3	267.0	35.7	23.5	**447.5**	51.2	265.9	29.9	9.5	**356.5**
Unrecognized past service cost from plan amendments	—	0.0	—	4.3	**4.3**	—	0.1	—	0.8	**0.9**
Asset limitation	—	-2.5	-8.9	—	**-11.4**	—	-2.5	-8.1	—	**-10.6**
Reclassification to liabilities held for sale	—	—	—	—	**—**	3.7	—	—	—	**3.7**
Net amount recognized	**-1,068.2**	**3.5**	**19.0**	**-76.9**	**-1,122.6**	**-1,016.0**	**3.7**	**2.8**	**-76.5**	**-1,086.0**

[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, 2010					Dec. 31, 2009				
	Germany	USA/C	UK	Other	Total	Germany	USA/C	UK	Other	Total
Deferred pension charges	—	48.6	19.0	6.2	**73.8**	—	58.9	5.8	6.1	**70.8**
Pension and post-employment provisions	-1,068.2	-45.1	—	-83.1	**-1,196.4**	-1,016.0	-55.2	-3.0	-82.6	**-1,156.8**
Net amount recognized	**-1,068.2**	**3.5**	**19.0**	**-76.9**	**-1,122.6**	**-1,016.0**	**3.7**	**2.8**	**-76.5**	**1,086.0**

The pension plan of Continental Automotive Trading UK Ltd., Birmingham, U.K., 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, 2010, this present value is €0.0 million (PY: €0.0 million).

The pension plan of Continental Automotive Canada, Inc., Mississauga, Canada, also reports plan assets that the Continental Corporation cannot fully utilize. At December 31, 2010, this present value is €0.0 million (PY: €0.1 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 valuation factors at December 31 of the year have been used:

in %	2010				2009			
	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other
Discount rate	5.30	5.37	5.00	5.51	5.40	5.61	5.50	6.19
Expected long-term return on plan assets	4.76	7.40	5.84	6.91	4.76	7.43	6.44	6.34
Long-term rate of compensation increase	3.00	3.05	3.90	3.97	3.50	3.05	3.90	3.96

[1] Excluding the pension contribution funds.

Net pension cost can be summarized as follows:

in € millions	2010					2009				
	Germany	USA/C	UK	Other	Total	Germany	USA/C	UK	Other	Total
Current service cost	51.0	6.0	2.6	12.0	**71.6**	52.9	7.1	3.0	10.4	**73.4**
Interest on defined benefit obligation	87.2	55.2	11.0	10.0	**163.4**	86.5	53.6	10.7	10.2	**161.0**
Expected return on plan assets	-28.8	-52.5	-11.7	-5.1	**-98.1**	-51.6	-45.1	-10.3	-4.2	**-111.2**
Amortization of actuarial gains/losses	0.0	19.9	5.2	1.2	**26.3**	-3.5	26.6	3.4	0.8	**27.3**
Amortization of past service cost, as well as other pension income/cost	—	-2.0	—	0.1	**-1.9**	—	0.1	—	0.2	**0.3**
Curtailments/settlements	—	-4.4	—	-0.9	**-5.3**	—	4.3	0.0	-12.8	**-8.5**
Effect of change of asset ceiling	—	-0.3	0.6	—	**0.3**	—	1.3	0.3	—	**1.6**
Net pension cost	**109.4**	**21.9**	**7.7**	**17.3**	**156.3**	**84.3**	**47.9**	**7.1**	**4.6**	**143.9**

Curtailments and settlements in 2009 and 2010 result in particular from the effects of closing the locations in Clairoix, France, and in Huntsville, U.S.A.

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, 2010				Dec. 31, 2009			
	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other
1% increase								
Effects on service and interest costs	-1.7	3.3	-0.3	1.3	-2.1	2.1	-0.4	-1.0
Effects on benefit obligation	-155.1	-101.3	-37.1	-22.3	-147.6	-91.8	-31.2	-16.9
1% decrease								
Effects on service and interest costs	1.3	-4.4	0.8	5.3	3.9	-3.0	0.6	1.4
Effects on benefit obligation	189.7	121.5	48.1	25.4	181.5	110.2	40.3	22.2

[1] Excluding the pension contribution funds.

Changes in the discount rate 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 actuarial 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, the underlying expected returns of the individual asset classes reflecting empirical values, as well as the selection of the external fund managers.

The portfolio structures of the pension plan assets at the measurement date for fiscal years 2010 and 2009, as well as the planned portfolio structure for fiscal year 2011, are as follows:

in %	Planned structure 2011				2010				2009			
Type of asset	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other
Equity instruments	19	50	50	12	9	50	33	11	6	51	42	13
Debt securities	81	43	50	74	63	43	61	74	27	43	54	48
Real estate	—	4	0	4	2	4	2	3	2	3	2	3
Cash, cash equivalents and other	—	3	0	10	26	3	4	12	65	3	2	36
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 2010 and 2009 is as follows:

in %	2010				2009			
Type of asset	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other
Equity instruments	7.10	8.79	7.89	6.26	7.10	8.67	8.00	7.18
Debt securities	4.18	5.32	4.80	7.48	4.03	5.36	5.50	7.02
Real estate	—	5.30	8.00	4.42	—	6.37	8.00	5.34
Cash, cash equivalents and other	—	3.77	3.89	4.50	—	3.77	5.00	4.97
Long-term return	**4.76**	**7.40**	**5.84**	**6.91**	**4.76**	**7.43**	**6.44**	**6.34**

[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.

Employer contributions to pension funds

The following table shows the cash contributions made by the company to the pension funds for 2010 and 2009 as well as the expected contributions to the pension funds for 2011:

in € millions	2011 (expected)	2010	2009
Germany	0.3	0.3	0.6
USA/C	50.3	21.7	6.0
UK	14.1	23.8	9.5
Other	10.3	11.8	8.7
Total	**75.0**	**57.6**	**24.8**

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					
2009	82.1	58.1	9.7	16.0	**165.9**
2010	82.5	60.5	6.9	12.3	**162.2**
Benefit payments as expected					
2011	97.7	134.4	5.5	11.1	**248.7**
2012	119.3	117.5	6.0	9.7	**252.5**
2013	104.6	60.6	6.8	10.5	**182.5**
2014	112.9	57.4	7.2	13.5	**191.0**
2015	116.4	58.4	7.9	13.1	**195.8**
Total of years 2016 to 2020	629.3	302.0	51.0	91.1	**1,073.4**

The expected pension payments from 2011 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 2011 and 2012.

For the current and four preceding reporting periods, the amounts of the defined benefit obligation, plan assets, deficit, as well as the experience adjustments to plan liabilities and to plan assets are as follows:

in € millions	2010	2009	2008	2007	2006
Defined benefit obligation	3,342.8	3,056.4	2,800.9	2,889.0	2,418.8
Plan assets	1,779.8	1,619.9	2,171.9	2,551.6	1,907.1
Deficit	-1,563.0	-1,436.5	-629.0	-337.4	-511.7
Experience adjustments to plan liabilities	124.7	163.3	-87.6	-216.1	-31.3
Experience adjustments to plan assets	30.5	68.7	-347.6	-28.9	18.4

The increase in the deficit in the previous year 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	2010	2009
Change in defined benefit obligation		
Defined benefit obligation at January 1	191.1	180.0
Foreign currency translation	15.9	0.3
Current service cost	1.3	2.5
Interest cost on defined benefit obligation	11.6	11.8
Actuarial gains/losses from changes in assumptions	6.9	15.3
Actuarial gains/losses from experience adjustments	0.4	8.2
Curtailments/settlements	-1.4	-8.9
Benefit payments	-14.9	-18.1
Defined benefit obligation at December 31	**210.9**	**191.1**
Unrecognized actuarial losses	39.8	34.4
Unrecognized income from plan amendments	-9.2	-11.8
Amount recognized on December 31	**180.3**	**168.5**

The increase in the defined benefit obligation is mainly attributable to currency effects. The interest cost for defined benefit obligations offset in part the benefit payments.

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 €9.7 million at December 31, 2009 (PY: €11.0 million) is recognized 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 valuation factors at December 31 were used:

in %	2010	2009
Discount rate	5.48	5.79
Rate of increase in healthcare and life insurance benefits in the following year	7.27	7.70
Long-term rate of increase in healthcare and life insurance benefits	4.99	4.98

The net cost of healthcare and life insurance benefit obligations can be broken down as follows:

in € millions	2010	2009
Current service cost	1.3	2.5
Interest cost on defined benefit obligation	11.6	11.8
Amortization of actuarial gains/losses	5.6	-1.1
Amortization of vested prior plan amendments	-3.1	-3.0
Curtailments/settlements	-1.4	-8.9
Net loss	**14.0**	**1.3**

The expenses from curtailments and settlements in the year under review result primarily from a tire location in the U.S.A.

In the previous year, the income from curtailments and settlements resulted primarily from an Automotive Group location 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	2010	2009
1% increase		
Effects on net cost	0.3	0.4
Effects on benefit obligation	6.0	4.8
1% decrease		
Effects on net cost	-0.3	-0.3
Effects on benefit obligation	-5.1	-4.0

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	2010	2009
1% increase		
Effects on service and interest costs	0.7	0.6
Effects on benefit obligation	-18.4	-16.4
1% decrease		
Effects on service and interest costs	-0.8	-0.6
Effects on benefit obligation	22.3	19.4

The following table shows the payments made for other post-employment benefits in 2010 and the previous year, as well as the undiscounted expected benefit payments for the next five years:

Benefits paid in € millions	
2009	18.1
2010	14.9
Benefit payments as expected	
2011	15.9
2012	15.8
2013	15.8
2014	15.6
2015	15.5
Total of years 2016 to 2020	75.6

The amounts for the defined benefit obligation, deficit and experience adjustments to plan liabilities for the current and four preceding reporting periods are as follows:

in € millions	2010	2009	2008	2007	2006
Defined benefit obligation	210.9	191.1	180.0	208.8	188.3
Deficit	-210.9	-191.1	-180.0	-208.8	-188.3
Experience adjustments to plan liabilities	7.3	23.5	23.3	-7.6	47.8

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 the fiscal year, the expenses for these obligations were €0.9 million (PY: €1.2 million).

The provision for obligations similar to pensions climbed by €8.1 million in fiscal year 2010. This essentially results from a plan similar to a pension recognized in the U.S.A. for executive staff. The remainder from the agreement reached with the U.S. union in 2008 on a compensatory payment of €9.7 million (PY: €11.0 million) will be paid over the next five years.

Defined contribution pension plans
Excluding social security contributions, the expenses for the defined contribution pension plans to which Continental Corporation contributes amounted to €37.9 million in 2009 (PY: €20.4 million). The rise in the year under review predominantly results from the higher contributions to defined contribution pension plans in the U.S.A.

26. Provisions for Other Risks

in € millions	Dec. 31, 2010		Dec. 31, 2009	
	Current	Non-current	Current	Non-current
Restructuring provisions	311.7	—	501.1	—
Litigation and environmental risks	—	153.6	—	130.3
Flexible early retirement contracts	—	68.2	—	89.1
Anniversary and other long-service benefits	—	61.9	—	63.9
Warranties	658.4	—	679.1	—
Other provisions	193.9	41.7	162.7	68.4
Provisions for other risks	**1,164.0**	**325.4**	**1,342.9**	**351.7**

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, 2010	**501.1**	**130.3**	**89.1**	**63.9**	**679.1**	**231.1**
Additions	55.7	62.3	55.8	2.1	387.4	144.7
Utilizations	-235.3	-37.0	-76.6	-6.3	-301.4	-67.7
Net changes in the scope of consolidation	-0.2	0.0	0.0	0.0	0.1	0.0
Reversals	-19.8	-12.4	-7.4	-5.1	-123.0	-85.5
Interest	2.0	2.5	7.3	7.0	0.5	3.1
Foreign currency translation	8.2	7.9	0.0	0.3	15.7	9.9
At December 31, 2010	**311.7**	**153.6**	**68.2**	**61.9**	**658.4**	**235.6**

The additions to the restructuring provisions mainly relate to further restructuring expenses for the closures of the location in Clairoix, France, and the previously maintained production cell for commercial vehicle tires in Hanover-Stöcken, Germany. Please see Note 6.

Utilizations primarily relate to the implementation of restructuring measures decided in previous years – in particular at the locations in Clairoix, France; Hanover-Stöcken, Germany; and Huntsville, U.S.A.

As in the previous year, the additions to the provisions for litigation and environmental risks relate in particular to product liability risks from the tire activities. Further additions relate to legal risks in connection with the proceedings against Continental Brasil Industria Automotiva Lda, Guaralhos, Brazil.

In particular, utilizations relate to the product liability risks from tire activities mentioned above and payments in connection with the rulings by the antitrust authorities against Dunlop Oil & Marine Ltd, Grimsby, U.K. The reversals mainly relate to expired patent risks due in part to patent duration in the Automotive Group.

Provisions for the flexible early retirement contracts were measured using a discount rate of 2.5% (PY: 4.0%). 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 1.5 percentage points.

Provisions for anniversary and other long-service benefits were measured using a discount rate of 4.7% (PY: 5.5%). 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 0.7 percentage points.

The changes in provisions for warranties include utilization amounting to €352.3 million (PY: €186.9 million), and additions of €483.7 million (PY: €257.5 million), in particular for specific provisions in the Automotive Group.

Please see Note 5 for information on changes in the scope of consolidation.

The antitrust proceedings initiated in 2007 against Dunlop Oil & Marine Ltd., Grimsby, U.K., a subsidiary of ContiTech AG, in the area of offshore hoses resulted in further expenses of €20.8 million in the ContiTech division. The other provisions also comprise provisions for risks from operations, including in connection with fixed supply and acceptance agreements.

27. Income Tax Liabilities

Tax liabilities changed as follows:

in € millions	2010	2009
At January 1	**644.7**	**507.8**
Additions	583.9	444.7
Utilizations and advance payments for the current fiscal year	-476.3	-276.3
Reversals	-71.1	-35.7
Additions from the initial consolidation of subsidiaries	0.2	-0.6
Foreign currency translation	16.5	4.8
At December 31	**697.9**	**644.7**

In addition to the utilizations 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 rise in income tax liabilities resulted in particular from units outside of Germany. In this context, there is also a €29.2 million increase in income tax receivables from €94.2 million to €123.4 million caused by higher advance payments.

28. Indebtedness

in € millions	Dec. 31, 2010			Dec. 31, 2009		
		Maturity			Maturity	
	Total	up to 1 year	over 1 year	Total	up to 1 year	over 1 year
Bonds	**2,988.5**	—	2,988.5	**5.2**	2.5	2.7
Bank loans and overdrafts[1]	**5,144.9**	729.6	4,415.3	**10,096.3**	4,424.1	5,672.2
Derivative financial instruments	**234.0**	19.4	214.6	**205.1**	7.2	197.9
Financial lease liabilities	**149.0**	18.8	130.2	**107.4**	16.6	90.8
Liabilities from factoring/asset-backed securitization programs	**381.5**	381.5	—	**219.0**	219.0	—
Other indebtedness[2]	**92.6**	88.8	3.8	**79.5**	75.4	4.1
Indebtedness	**8,990.5**	**1,238.1**	**7,752.4**	**10,712.5**	**4,744.8**	**5,967.7**

[1] Thereof €7.9 million (PY: €8.0 million) secured by land charges, mortgages and similar securities.

[2] In 2010, other indebtedness includes €86.5 million (PY: €73.4 million) drawn down from the commercial paper program and €0.9 million (PY: €0.7 million) in liabilities on bills drawn and issued.

Bond issues

Issuer/type	Amount of issue in € millions	Carrying amount at Dec. 31, 2010	Stock market value at Dec. 31, 2010	Coupon p.a.	Issue/maturity and fixed interest until	Issue price
CGF Euro Bond	750.0	732.3	814.4	8,500%	2010/ 07.2015	99.00%
CGF Euro Bond	625.0	619.7	636.8	6,500%	2010/ 01.2016	98.86%
CGF Euro Bond	1,000.0	1,003.9	1,040.2	7,500%	2010/ 09.2017	99.33%
CGF Euro Bond	625.0	629.7	638.6	7,125%	2010/ 10.2018	99.25%
Continental Tire Andina S.A. US $ Bonds	2.9	2.9	2.8	Floating	miscellaneous	97.61%[1]
	3,002.9	**2,988.5**	**3,132.8**			

[1] Average issue price.

The change in the value of the bonds from €5.2 million at the end of 2009 to €2,988.5 million at the end of fiscal year 2010 is due to the four bonds with a total volume of €3.0 billion placed by Conti-Gummi Finance B.V., Amsterdam, Netherlands, in the third quarter of 2010. All bonds are denominated in euros and participate in the extensive collateral package that was granted to the lending banks for the VDO loan in line with the renegotiations described below. The five-year bond of €750.0 million with an interest rate of 8.5% p.a. was placed in July 2010, the seven-year bond of €1,000.0 million with an interest rate of 7.5% p.a. was placed at the beginning of September 2010, and the two other bonds were placed at the end of September 2010, each in the amount of €625.0 million but with different maturities. The first bond matures in January 2016 and has an interest rate of 6.5% p.a., while the second matures in October 2018 and has an interest rate of 7.125% p.a. Interest payments on the bonds are made semi-annually in arrears. The issue conditions of all four bonds grant the issuer the option of early repayment. In line with IAS 39, these options were measured as an embedded derivative (please see Note 29).

Breakdown of credit lines and available financing from banks

in € millions		Dec. 31, 2010			Dec. 31, 2009				
Company	**Type[1]**	**Amount of issue**	**Book value**	**Fair value**	**Amount of issue**	**Book value**	**Fair value**	**Interest**	**Maturity**
CAG, Conti Automotive,			296.8	303.3		683.9	683.9		2011[2]
CRoA, CGF,			—	—		3,497.1	3,497.1	Euribor +	2010
Conti Benelux	SEL	6,484.9	4,000.2	4,158.3	11,000.0	4,999.1	4,999.1	margin	2012
Conti Automotive			40.0	40.2	40.0	40.0	39.1	3.90%	2011
	LBL	55.0	15.0	15.2	15.0	15.0	14.4	3.76%	2011
CGF			60.0	61.4		59.9	60.2	6.21%	2011
	PL	110.0	50.0	50.0	110.0	49.9	47.0	Euribor + margin	2011
Conti Temic Electronics			11.2	11.4		26.4	26.4	USD-Libor + margin	2012
	LBL	33.6	22.4	22.7	55.6	29.2	29.2	4.54%[9]	2011
Conti Mabor	LBL	5.7	5.7	5.6	11.4	11.4	10.3	Euribor + margin	2011[3]
CRoA	LBL	37.4	37.4	38.6	34.7	34.7	34.4	5.53%	2011
Conti Automotive	LBL	20.0	20.0	20.4	20.0	20.0	19.1	4.38%	2012
Conti Teves	LBL	20.9	20.9	21.9	29.2	29.2	28.4	5.34%	2012[7]
Conti Brazil	LBL	14.4	14.4	13.6	22.4	22.4	19.1	8.24%[4]	2012[8]
CAG			—	—		99.9	100.1	6.42%	2010[5]
	LBL	300.0	299.7	319.0	400.0	299.6	298.1	6.64%[6]	2012
Conti Brazil			11.4	11.3	15.3	15.3	13.5	3.44%[10]	2013[7]
	LBL	22.6	11.2	11.6	13.9	13.9	13.0	4.78%	2013[7]
CT Fluid Hungary	LBL	22.4	22.4	23.1	29.2	29.2	27.4	4.35%	2013[7]
Conti Tire China Production	LBL	12.1	12.1	12.2	—	—	—	EUR-Libor + margin	2015
CAS Changshu	LBL	11.3	11.3	10.1	10.2	10.2	10.2	5.18%	2014
Various bank lines		775.3	182.8	182.8	532.1	110.0	110.0	mainly variable	mainly < 1 year
Credit lines and available financing from banks		**7,925.6**			**12,339.0**				
Liabilities to banks			**5,144.9**	**5,332.7**		**10,096.3**	**10,080.0**		

[1] SEL: syndicated euro loan; LBL: long-term bank loan; PL: promissory loan.
[2] The credit line permits an extension of any drawdown until August 2012.
[3] Annual redemption payments.
[4] Average interest rate (PY: 8.23%).
[5] Originally to mature in 2012. Early repayment of €100.0 million in January 2010.
[6] Interest rate at December 31, 2009: 6.34%.
[7] Semi-annual redemption payments.
[8] Monthly redemption payments.
[9] Average interest rate (PY: 4.91%).
[10] Average interest rate (PY: 3.44%).

The amounts for the prior year are presented comparably.

Explanation of company names

- CAG, Continental Aktiengesellschaft, Hanover, Germany
- CAS Changshu, Continental Automotive Systems Changshu, Co. Ltd., Changshu, China
- CGF, Conti-Gummi Finance B.V., Amsterdam, Netherlands
- Conti Automotive, Continental Automotive GmbH, Hanover, Germany
- Conti Benelux, Continental Benelux S.A., Zaventem, Belgium
- Conti Brazil, Continental do Brasil Produtos Automotivos Ltda., Varzea Paulista, Brazil
- Conti Mabor, Continental Mabor Indústria de Pneus S.A., Lousado, Portugal
- Conti Temic Electronics, Continental Temic Electronics (Phils.), Inc., Manila, Philippines
- Conti Tire China Production, Continental Tires (Hefei) Co. Ltd., Hefei, China
- CRoA, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.
- Conti Teves, Continental Teves Hungária Kft., Veszprém, Hungary
- CT Fluid Hungary, ContiTech Fluid Automotive Hungária Kft., Mako, Hungary

On December 31, 2010, credit lines and available financing from banks amounted to €7,925.6 million (PY: €12,339.0 million). Of these, a nominal amount of €2,774.2 million was not drawn down as of the reporting date (PY: €2,196.3 million). The share of long-term credit lines in this nominal amount was €2,196.7 million (PY: €1,803.9 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, 2010, by Continental AG and Continental Rubber of America, Corp. (CRoA), Wilmington, U.S.A., and valued at a total of €4,297.0 million (PY: €9,180.1 million). As of the end of 2010, the amount promised under this loan was €6,484.9 million (PY: €11.0 billion). The significant reduction of the VDO loan is due to several effects: A material effect was the capital increase in January 2010 and the resulting reduction in net indebtedness. Continental generated net proceeds before tax effects from the capital increase of €1,056.0 million, which, in line with contract requirements, was used to partially repay tranche B of the VDO loan, which matured in August 2010. With the capital increase, Continental also established the conditions for the provision of a forward start facility (FSF) with a maximum volume of €2,500.0 million to refinance tranche B in August 2010. This connection was a component of the refinancing package to improve the finance and capital structure that was agreed in December 2009 in the framework of the successful conclusion of the renegotiation of the VDO loan. In the summer of 2010, in light of the positive market environment and the strong demand for its bonds, Continental implemented a further component of the refinancing package and, in the third quarter of 2010, placed four bonds with a total volume of €3.0 billion through Conti-Gummi Finance B.V., Amsterdam, Netherlands. The net proceeds from these were used for the partial repayment of the utilization of the VDO loan and for the repayment of loan borrowed to refinance tranche B of the VDO loan which matured in August 2010 (forward start facility). Also, a further repayment of tranche C of the VDO loan was made with a nominal amount of €100.0 million in December 2010 in view of the positive business performance.

For tranche C, due in August 2012, there were still interest hedges as of the end of 2010 amounting to €3,125.0 million. The resulting average fixed interest rate to be paid is 4.19% plus margin.

Due in particular to the higher expected cash flows for the VDO loan as a result of rising margins, the carrying amount was adjusted in profit and loss in 2009 and in June 2010. At the end of 2010, the value of these adjustments totaled €44.7 million (PY: €64.5 million). This deferral will be amortized over the term of the loan and reduces expenses accordingly.

Against the backdrop of the global economic crisis, the need emerged for the first time at the end of 2008 to adjust selected conditions of the agreement for the VDO loan in line with the changing economic environment. A concept prepared by Continental AG was submitted to the banking syndicate in December 2008 and was approved by almost all lending banks in January 2009. Although Continental AG reacted well to the effects of the global crisis and, in particular, succeeded in creating and maintaining sufficient liquidity, a further need for adjustment of selected financial covenants associated with the VDO loan emerged at the end of 2009. The result of the renegotiations for the VDO loan, which were concluded successfully at the end of 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 restrictions of the scope for dividend payments 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.

In 2010, the agreed financial covenants were complied with as of the respective quarterly balance sheet date.

Please see Note 29 about the structure of maturities of indebtedness.

Financial lease liabilities

The future payment obligations resulting from financial leases are shown in the following tables:

December 31, 2010 in € millions	**2011**	**2012**	**2013**	**2014**	**2015**	**from 2016**	**Total**
Minimum lease payments	25.4	26.6	62.1	9.8	9.8	58.1	**191.8**
Interest component	6.6	5.9	8.5	4.1	3.8	13.9	**42.8**
Financial lease liabilities	**18.8**	**20.7**	**53.6**	**5.7**	**6.0**	**44.2**	**149.0**

December 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**

The fair value of the financial lease liabilities is €166.3 million (PY: €120.4 million). The effective interest rate of the leasing contracts lies between 5.1% and 8.8% (PY: between 5.5% and 8.7%).

Minimum lease payments in 2013 result mainly from a purchase option for the new passenger and light truck tire factory in Hefei, China.

29. 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, 2010	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2009
Other investments	AfS	7.0	7.0	8.0	8.0
Derivative instruments and interest-bearing investments					
Derivative instruments accounted for as hedging instruments	n/a	–	–	–	–
Derivative instruments not accounted for as hedging instruments	HfT	78.0	78.0	4.2	4.2
Financial assets available for sale	AfS	85.2	85.2	75.7	75.7
Other receivables with a financing character	LaR	39.0	39.0	24.3	24.3
Trade accounts receivable	LaR	4,454.0	4,454.0	3,648.1	3,648.1
Other financial assets	LaR	242.8	242.8	203.8	203.8
Cash and cash equivalents					
Cash and cash equivalents	LaR	1,431.6	1,431.6	1,334.8	1,334.8
Financial assets available for sale	AfS	39.7	39.7	378.0	378.0
Financial assets		**6,377.3**	**6,377.3**	**5,676.9**	**5,676.9**
Indebtedness					
Derivative instruments accounted for as hedging instruments	n/a	214.4	214.4	197.7	197.7
Derivative instruments not accounted for as hedging instruments	HfT	19.6	19.6	7.4	7.4
Liabilities from financial leases	n/a	149.0	166.3	107.4	120.4
Other indebtedness	FLAC	8,607.5	8,939.6	10,400.0	10,383.7
Trade accounts payable	FLAC	3,510.5	3,510.5	2,819.5	2,819.5
Other financial liabilities	FLAC	1,204.2	1,204.2	880.3	880.3
Financial liabilities		**13,705.2**	**14,054.6**	**14,412.3**	**14,409.0**
Aggregated according to categories as defined in IAS 39:					
Financial assets held for trading (HfT)		78.0		4.2	
Loans and receivables (LaR)		6,167.4		5,211.0	
Available for sale (AfS)		131.9		461.7	
Financial liabilities held for trading (HfT)		19.6		7.4	
Financial liabilities measured at amortized cost (FLAC)		13,322.2		14,099.8	

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.

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 for which hedge accounting is not applied 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 a 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, 2010	Level 1	Level 2	Cost
Other investments	AfS	7.0	—	—	7.0
Financial assets available for sale	AfS	124.9	115.1	9.8	0.0
Derivative instruments not accounted for as hedging instruments	HfT	78.0	—	78.0	—
Financial assets valued at fair value		**209.9**	**115.1**	**87.8**	**7.0**
Derivative instruments accounted for as hedging instruments	n/a	214.4	—	214.4	—
Derivative instruments not accounted for as hedging instruments	HfT	19.6	—	19.6	—
Financial liabilities valued at fair value		**234.0**	**—**	**234.0**	**—**

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		**465.9**	**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**	**—**	**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	2010	2009
Loans and receivables	20.8	—	19.2	-5.3	34.7	19.3
Financial assets available for sale	1.8	0.7	—	—	2.5	2.4
Financial assets and financial liabilities held for trading	—	6.2	—	—	6.2	-5.8
Financial liabilities at amortized cost	-745.7	—	-16.9	—	-762.6	-792.8
Net gains and losses	**-723.1**	**6.9**	**2.3**	**-5.3**	**-719.2**	**-776.9**

Interest income from financial instruments is reported in net interest expense (see Note 9). No interest income was generated from impaired financial assets.

The valuation allowance for loans and receivables results from trade accounts receivable. 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 -€0.6 million in 2010 (PY: €1.2 million); the amount taken from equity and recognized in income during the fiscal year was €0.0 million (PY: €0.0 million).

Collateral

As of December 31, 2010, a total of €1,725.7 million (PY: €619.1 million) of financial assets had been pledged as collateral. As in the previous year, collateral mainly consists of trade accounts receivable; the remainder relates to pledged cash or other financial assets in the year under review. Trade receivables sold under factoring programs as well as the aforementioned collateral in the form of trade receivables are shown in Note 20.

As agreed in the renegotiation of the VDO loan, Continental AG and selected subsidiaries granted the lending banks a collateral package. This consists of guarantees by certain subsidiaries, the pledging of shares in the guaranteeing subsidiaries, certain account balances and the transfer of internal claims. No further collateral was provided in this context. The bonds issued in the year under review with a total volume of €3.0 billion and a defined portion of the bilateral lines of credit with banks in the corporation also participate in this collateral package.

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 receipts and payments 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 allowed to use only 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 foreign exchange and interest rate committee convenes weekly to review and initiate hedging measures. These may not exceed 30% of the 12-month exposure per currency without the express permission of the Executive Board.

Financial foreign currency risks

In addition, currency risks also result from external and internal loan agreements that 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 table below shows the overall effect as measured using this approach, as well as the individual effects resulting from the euro and the U.S. dollar, as major transaction currencies, on the difference from currency translation from financial instruments in equity and on net income. The increase of the effect on the total equity results primarily from the provision of a loan denominated in euros by Continental AG to a foreign subsidiary, which is recognized as a net investment in a foreign operation.

in € millions	2010		2009	
	Total equity	Net income	Total equity	Net income
Local currency +10%				
Total	**52.3**	**25.8**	**0.0**	**-7.0**
thereof EUR	52.3	0.5	0.0	-23.1
thereof USD	—	29.5	—	29.5
Local currency -10%				
Total	**-52.3**	**-25.8**	**0.0**	**7.0**
thereof EUR	-52.3	-0.5	0.0	23.1
thereof USD	—	-29.5	—	-29.5

Effects of translation-related currency risk

A large number of the subsidiaries are located outside the euro currency zone. 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 pose the risk of rising interest rates for liabilities and falling interest rates for interest-bearing financial investments. 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 net indebtedness is the subject of these activities. All interest rate hedges serve exclusively to manage identified interest rate risks. One of the goals is to keep around 50% to 75% of gross interest-bearing debt at a fixed 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 considered only 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	2010	2009
Fixed-interest instruments		
Financial assets	44.9	3.2
Financial liabilities	-6,917.3	-3,995.6
Floating-rate instruments		
Financial assets	1,550.6	1,809.6
Financial liabilities	-1,839.2	-6,511.8
Fair value of derivative instruments		
Financial assets	78.0	4.2
Financial liabilities	-234.0	-205.1
Net indebtedness	**-7,317.0**	**-8,895.5**

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 2010 would have led to a decline in net interest expense by €20.3 million (PY: €0.7 million) and led to an increase in the difference from financial instruments in equity of €50.1 million (PY: €80.4 million).

A decrease in interest rates of 100 basis points would have improved net interest expense by €32.0 million (PY: €0.6 million) and led to a decrease in the difference from financial instruments in equity of €49.2 million (PY: €85.1 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. The effects on net interest expense result in particular from the measurement of the options for the early repayment of the bonds issued by Conti-Gummi Finance B.V., Amsterdam, Netherlands (please also see the comments on the recognition of embedded derivatives).

Cash flow – sensitivity analysis

An increase in interest rates of 100 basis points in 2010 would have led to a decline in net interest expense by €2.9 million (PY: €47.0 million), while a decline in interest rates of 100 basis points would have led to an improvement in net interest expense of €2.9 million (PY: €47.0 million). The effects result essentially from floating-rate financial instruments in the currencies euro, U.S. dollar, Chinese renminbi and Korean won.

This analysis is based on the assumption that all other variables, and in particular exchange rates, remain unchanged. The same assumption applies to 2009.

in € millions	2010	2009
Interest rate increase +100 BP		
Total	**-2.9**	**-47.0**
thereof EUR	-8.8	-54.6
thereof CNY	2.4	2.5
thereof KRW	1.1	0.7
thereof USD	0.3	1.1
Interest rate decline -100 BP		
Total	**2.9**	**47.0**
thereof EUR	8.8	54.6
thereof CNY	-2.4	-2.5
thereof KRW	-1.1	-0.7
thereof USD	-0.3	-1.1

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 entered into with selected banks only. 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 bilateral and syndicated loans, particularly the VDO loan of nominally €6,484.9 million (PY: €11.0 billion). Furthermore, around a third of gross indebtedness is financed on the capital market in the form of bonds. 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 AG 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 28.

The following undiscounted cash outflows result in the next five years and after from the financial liabilities of €13,705.2 million (PY: €14,412.3 million):

December 31, 2010 in € millions	2011	2012	2013	2014	2015	thereafter	Total
Other indebtedness incl. interest payments[1]	-1,692.0	-4,760.1	-247.2	-239.3	-989.3	-2,556.7	**-10,484.6**
Derivative instruments[2]	-28.2	-203.9	-0.0	—	—	—	**-232.1**
Financial lease liabilities	-25.4	-26.6	-62.1	-9.8	-9.8	-58.1	**-191.8**
Trade accounts payable	-3,510.5	—	—	—	—	—	**-3,510.5**
Other financial liabilities	-1,203.4	-0.8	—	—	—	—	**-1,204.2**

[1] Includes a drawdown payable in 2011 from a credit line valid until 2012 with an amount of €303.3 million.
[2] Excludes embedded derivative instruments as they do not give rise to cash outflows.

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.

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. However, default risk cannot be excluded with absolute certainty, and any remaining risk is addressed by establishing portfolio 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 entered into with partners with proven creditworthiness only or that collateral is provided or trade credit insurance is agreed. Please see Note 20 for information on determining creditworthiness. Financial assets that are neither past due nor impaired accordingly have a prime credit rating.

Further information about risks and risk management can be found in the "Risk Report" section of the Management Report.

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.

As of December 31, 2010, positive fair values of €67.6 million (PY: none) and negative fair values of -€0.8 million (PY: none) were recognized for embedded derivatives. These essentially related to the reporting of call options for the bonds issued by Conti-Gummi Finance B.V., Amsterdam, Netherlands, in 2010. The options were measured using the Black model. Both a change in risk-free interest rates and a change in the credit rating risk of Continental AG by way of credit default swap rates observable on the market were taken into account in the calculation. The recognized amortized cost of the bonds was increased by the first-time recognition of the embedded options. The following overview shows the fair values and nominal values of the free-standing derivatives as of the balance sheet date.

in € millions	Dec. 31, 2010		Dec. 31, 2009	
Fair value	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Cash flow hedges (effective)				
Cross-currency interest rate swaps	—	-99.5	—	-52.0
Interest rate swaps	—	-114.9	—	-145.7
Other derivatives				
Cross-currency interest rate swaps	4.7	—	2.4	—
Interest rate swaps	—	-0.1	—	-0.3
Interest rate options	—	—	—	-0.3
Currency forwards	5.7	-18.7	1.8	-6.8
Total fair value	**10.4**	**-233.2**	**4.2**	**-205.1**
thereof long-term	4.7	-213.8	2.5	-197.9
thereof short-term	5.7	-19.4	1.7	-7.2
Nominal values				
Cash flow hedges	3,175.0		3,175.0	
Cross-currency interest rate swaps	45.0		64.8	
Interest rate swaps	2.5		13.7	
Interest rate options	—		10.0	
Currency forwards	809.8		834.7	
Total of nominal values	**4,032.3**		**4,098.2**	

In the case of highly effective and longer term hedges, Continental usually 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 €3,125.0 million, 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, 2010, marking to market of these financial instruments therefore resulted in an expense of €150.8 million (PY: €182.6 million) before tax that was recognized directly in equity. The interest payments and repayments 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, 2009	Fair value changes	Reversals	Dec. 31, 2009/ Jan. 1, 2010	Fair value changes	Reversals	Dec. 31, 2010
Effective change in fair value	-149.5	-33.8	0.7	-182.6	31.8	—	-150.8
Deferred taxes	47.0	9.8	-0.3	56.5	-9.7	—	46.8
Other comprehensive income	**-102.5**	**-24.0**	**0.4**	**-126.1**	**22.1**	**—**	**-104.0**

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.

30. Other Financial Liabilities

in € millions	Dec. 31, 2010			Dec. 31, 2009		
	Total	Current	Non-current	Total	Current	Non-current
Liabilities to related parties	**10.7**	9.9	0.8	**24.9**	24.9	—
Interest payable	**196.9**	196.9	—	**131.6**	131.6	—
Liabilities for payroll and personnel related costs	**519.7**	519.7	—	**318.2**	318.2	—
Liabilities for selling expenses	**436.4**	436.4	—	**351.7**	351.7	—
Termination benefits	**37.9**	37.9	—	**39.6**	39.6	—
Purchase prices payable on company acquisitions	**0.0**	0.0	—	**4.6**	4.6	—
Other liabilities	**2.6**	2.6	—	**9.7**	9.7	—
Other financial liabilities	**1,204.2**	**1,203.4**	**0.8**	**880.3**	**880.3**	**—**

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 and the interest ceilings for the bonds issued.

Liabilities for selling expenses relate in particular to obligations from bonus agreements with customers, as well as granted, deferred price reductions.

The other financial liabilities are due within one year.

2009 long-term incentive plan

In 2009, 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. The first target criterion consists of the weighted average of the Conti Value Contribution (CVC) of the Continental Corporation over a period of four fiscal years and 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. The second target criterion 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.

2010 long-term incentive plan
Tranche 2010/14, with a term of four years, was issued in 2010. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2010/14 tranche was resolved on September 6, 2010.

The basic features of the 2010/14 tranche are the same as those of the 2009 LTI plan. The first target criterion consists of the weighted average of the Conti Value Contribution (CVC) of the Continental Corporation over a period of four fiscal years. The weighted average in terms of the 2010 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 second target criterion 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 LTI plan granted in 2010 is classified and assessed as “other long-term employee benefits” under IAS 19.

The expenses from the long-term bonus commitments are recognized in personnel expenses and reported in other expenses. These amounted to €22.6 million in the year under review (PY: €1.1 million) for the incentive plan described here.

31. Trade Accounts Payable

Trade payables amounted to €3,510.5 million (PY: €2,819.5 million) at the end of the fiscal year. 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. For information on the liquidity risk, currency risk and the sensitivity analysis for trade accounts payable, please see Note 29.

32. Other Liabilities

in € millions	Dec. 31, 2010			Dec. 31, 2009		
	Total	Current	Non-current	Total	Current	Non-current
Liabilities for workers' compensation	**64.7**	38.1	26.6	**58.9**	35.3	23.6
Liabilities for social security	**107.8**	107.8	—	**90.8**	90.8	—
Liabilities for vacation	**113.1**	113.1	—	**92.9**	92.9	—
Liabilities for VAT and other taxes	**168.8**	168.8	—	**220.7**	220.7	—
Deferred income	**54.1**	44.0	10.1	**28.6**	19.4	9.2
Others	**174.4**	171.7	2.7	**192.4**	189.0	3.4
Other liabilities	**682.9**	**643.5**	**39.4**	**684.3**	**648.1**	**36.2**

The increase in the deferred income entry is due primarily to an advance payment received from a customer for a development project.

The reduction of VAT and other taxes resulted mainly from a tax liability that was reported for the first time in the year under review since the appropriate requirements had been fulfilled. This affects the tax refund claims by the same amount. Please see Note 18.

33. Liabilities Held for Sale

There was no reclassification into liabilities held for sale in 2010.

The smaller units of the ContiTech division held for sale in 2009 that do not constitute the core business of the Continental Corporation were sold in the year under review.

The liabilities held for sale comprise the following items:

in € millions	Dec. 31, 2010	Dec. 31, 2009
Provisions	—	4.7
Trade accounts payable	—	3.1
Other liabilities	0.0	2.3
Liabilities held for sale	**0.0**	**10.1**

Note 22 includes an overview of the assets held for sale, as well as other information.

Other Disclosures

34. Litigation and Compensation Claims

Continental AG 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 or 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
The issue of the proceedings regarding rescission and nullification by Phoenix AG shareholders brought against the resolutions adopted at the Annual 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, have been concluded since 2009. Proceedings regarding the appropriateness of settlement and compensatory payment under the management and profit and loss pooling agreement and the exchange ratio established in the merger agreement are still pending at Hamburg Regional Court (*Landgericht*). In the proceedings, an expert appointed by the court submitted an opinion dated December 7, 2009, which comes to the conclusion that the valuation of ContiTech AG that 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. There will be a hearing on the expert's conclusions before the Hamburg Regional Court at the end of March 2011. They are not binding for the court. Continental does not consider the opinion to be convincing and is of the opinion that the settlement and compensatory payment under the management and profit and loss pooling agreement and the exchange ratio established in the merger agreement were set correctly. However, an increase in the amounts paid to the minority shareholders after completion of these proceedings cannot be ruled out.

The actions of rescission and nullification by shareholders of ContiTech AG against resolutions adopted at the Annual Shareholders' Meeting of the company on August 22, 2007, regarding the approval of the conclusion of a management and profit and loss pooling agreement between this company as the controlled company and ContiTech-Universe Verwaltungs-GmbH as the controlling company and regarding the squeeze-out of minority shareholders were concluded in 2009 by a dismissal which is final. Proceedings regarding the appropriateness of the settlement and compensatory payment under the management and profit and loss pooling agreement and the settlement for the squeeze-out are pending at the Hanover Regional Court.

Claims against resolutions adopted at the Annual Shareholders' Meeting of Continental AG
Several shareholders had brought actions for rescission and nullification against the resolutions adopted at the Annual 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), exclud-

ing subscription rights and creating a conditional capital III). The Hanover Regional Court (*Landgericht*) dismissed these claims as unfounded on December 3, 2009. The appeals lodged against this by individual claimants were dismissed by the Higher Regional Court (*Oberlandesgericht*) of Celle on May 19, 2010. The further appeal to the Federal High Court was not granted.

Furthermore, shareholders had brought actions for rescission and nullification against the resolutions adopted at the Annual Shareholders' Meeting of Continental AG on April 23, 2009, under agenda item 5 (election of the Supervisory Board) regarding the election of certain Supervisory Board members. With its judgment on March 17, 2010, the Hanover Regional Court (*Landgericht*) declared the resolution by which Rolf Koerfer was elected as a member of the Supervisory Board null and void and dismissed the other claims. The company has filed an appeal against this judgment. The Higher Regional Court of Celle suspended the legal dispute pursuant to Section 148 of the German Code of Civil Procedure (*Zivilprozessordnung – ZPO*) in a decision on October 20, 2010, until the final resolution of the following action pending before the Hanover Regional Court.

One shareholder has also brought an action for rescission and nullification against the resolution adopted on April 28, 2010, under agenda item 8 of the Annual Shareholders' Meeting of Continental AG regarding the approval of the resolution of the Annual Shareholders' Meeting on April 23, 2009, to elect Rolf Koerfer as a member of the Supervisory Board. There will be an oral hearing on this action before the Hanover Regional Court at the beginning of March 2011.

Regulatory proceedings

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 antitrust 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 DoJ investigations, additional investigations against the company for the infringement of national antitrust law were opened in other jurisdictions (Brazil, Japan, Australia, South Korea and Canada). Apart from the ongoing proceedings in Brazil, all other proceedings have been concluded or, as in the case of Canada, have not been pursued. In Brazil, DOM may still be subject to fines to be imposed by the national competition authorities in relation to the marine 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 to a settlement of \$6.5 million with the plaintiffs in a U.S. class-action lawsuit. Proceedings have also been initiated at the English High Court and further claims in the United Kingdom have been threatened. There is also a risk of claims for damages in other jurisdictions (e.g. Japan, South Korea, Australia and Brazil).

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 August 18, 2010, the Brazilian national competition authorities determined an "invitation to cartel" and imposed a fine of BRL 12 million (about €5.3 million) on CBIA. CBIA denies the accusations and has filed an appeal with the competent court. However, third parties may also claim damages from CBIA resulting from the infringement of Brazilian antitrust law.

On October 2, 2006, the South African antitrust authorities received a complaint from a third party accusing several South African tire manufacturers of alleged antitrust behavior, including Continental Tyre South Africa (Pty.) Limited ("CTSA"), a joint venture that is 74% owned by Continental. On August 31, 2010, the South African antitrust authorities came to the conclusion that CTSA had violated South African antitrust law and referred the matter to the competent Competition Tribunal for a decision. CTSA denies all allegations of infringements of South African antitrust law. However, the tribunal could impose a fine of up to 10% of CTSA's sales. In addition, third parties may also claim damages from CTSA resulting from the infringement of South African competition law.

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 has lodged an appeal against the judgment.

On February 24, 2010, the European Commission conducted searches at several companies which manufacture wiring harnesses for automotive purposes, including S-Y Systems Technologies Europe GmbH ("S-Y"), Regensburg, Germany. S-Y is a joint venture in which Continental and Japanese company Yazaki, a wiring harness manufacturer, each own 50%. The European Commission announced that it has indications that the companies in question have violated EU antitrust law. However, it is not clear whether the European Commission will impose fines against S-Y or Continental. Searches are a preliminary step in investigations into antitrust behavior and are not indicative of the outcome.

Audit of the consolidated financial statements for fiscal year 2008 by the German Financial Reporting Enforcement Panel

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 the management report for Continental AG and for the corporation for fiscal year 2008 pursuant to Section 342b (2) Sentence 3 No. 3 of the German Commercial Code (*HGB*). This was done by way of spot checks. For details, please see our comments in the 2009 Annual Report. After completing its audit, the FREP informed us of the following finding on July 26, 2010:

"The value of the goodwill reported in the consolidated financial statements of Continental AG as of December 31, 2008, which was reported at €6.4 billion after recognition of impairment of €1.2 billion, is not proven in its full amount in methodic terms and on the basis of the assumptions made using the impairment test performed. The following impairment test led to a further impairment totaling €876 million in the 2009 consolidated financial statements. The impairment test for goodwill as of December 31, 2008, is in breach of IAS 36.33."

The Executive Board of Continental AG has resolved to accept this error finding. The error finding regarding the impairment test is limited to its methodology. The FREP was unable to determine the amount of further impairment. As part of the review process, the impairment test carried out in fiscal year 2009, which led to a further impairment of goodwill in the amount of €875.8 million in 2009, was also available to the FREP. With regard to this impairment test, the FREP saw no reason to initiate an examination with cause in response to the circumstances, i.e. that the goodwill as of December 31, 2009 was reported at an appropriate amount.

In accordance with IAS 8.43 in conjunction with IAS 8.5, the Executive Board of Continental AG considers a retrospective restatement of the consolidated financial statements as of December 31, 2008 to be impracticable as, in particular, a retrospective restatement would require extensive estimates and it is impossible to differentiate objectively between information that was available at the time and developments that have actually occurred since then. There are also no effects on the 2010 consolidated financial statements as any errors had already been compensated for by the end of 2009. At the end of September 2010, Germany's Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) ordered that the FREP's finding be disclosed in an announcement pursuant to Section 37q (2) Sentence 1 of the German Securities Trading Act (*Wertpapierhandelsgesetz – WpHG*), which was complied with directly.

Proceedings against the end of tire production at the plant in Clairoix, France

A large number of employees at Continental France SNC, Sarreguemines, France, have filed claims at labor courts in Compiègne and Soissons, France, against this corporation company and, in some cases, against Continental AG as well. The plaintiffs seek damages in connection with the cessation of passenger tire production at the plant in Clairoix, France. At the current time, the prospects for success of these claims cannot be estimated in terms of reasons or sums.

35. Non-Recognized Contingent Liabilities and Other Obligations

in € millions	Dec. 31, 2010	Dec. 31, 2009
Liabilities on bills of exchange	6.7	13.7
Liabilities on guarantees	107.9	109.7
Liabilities on warranties	11.4	10.1
Other contingent liabilities	66.8	76.8
Non-recognized contingent liabilities and other obligations	**192.8**	**210.3**

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 in particular a guarantee for a larger project of a business segment disposed of in the previous year in the amount of €62.8 million (PY: €68.1 million). To the best of our knowledge, the underlying obligations will be fulfilled in all cases. It is not expected that guarantees or warranties will be called upon.

The Continental Corporation 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 the Continental Corporation is legally liable.

The Continental Corporation 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 the Continental Corporation'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 2010, expenses for operating leases and rental agreements amounted to €152.1 million (PY: €142.4 million).

Open purchase commitments for property, plant and equipment amounted to €254.1 million (PY: €297.3 million).

Future liabilities relating to these agreements with an original or remaining term of more than one year as of December 31, 2010, 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 in the following table for 2011 and cumulatively for the years 2012 through 2015, and likewise cumulatively from 2016.

December 31, 2010/in € millions	2011	2012 to 2015	from 2016
Operating leases and rental agreements	145.6	308.1	95.2

December 31, 2009/in € millions	2010	2011 to 2014	from 2015
Operating leases and rental agreements	152.1	261.8	115.8

36. Earnings per Share

Earnings per share are calculated as shown below:

in € millions/millions of shares	2010	2009
Net income attributable to the shareholders of the parent	576.0	-1,649.2
Weighted average number of shares issued	200.0	169.0
Undiluted earnings per share in €	**2.88**	**-9.76**

in € millions/millions of shares	2010	2009
Diluted net income attributable to the shareholders of the parent[1]	576.0	-1,649.2
Diluted weighted average number of shares[2]	200.0	169.0
Diluted earnings per share in €	**2.88**	**-9.76**

[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 or 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 or the previous year.

37. Events after the Balance Sheet Date

As of February 8, 2011, there were no events or developments that could have materially affected the measurement and presentation of individual asset and liability items at December 31, 2010.

38. Auditor’s Fees

Since its merger with KPMG Europe LLP at the reporting date of October 1, 2007, KPMG LLP (U.K.) constitutes an affiliated company of KPMG Germany as defined under Section 271 (2) of the German Commercial Code (*Handelsgesetzbuch – HGB*). Since joining KPMG Europe LLP at the reporting date of October 1, 2008, KPMG Switzerland and KPMG Spain constitute affiliated companies of KPMG Germany as defined under Section 271 (2) *HGB*. The disclosure requirement for audit and consultancy fees of KPMG Switzerland and KPMG 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 Belgium constitutes an affiliated company of KPMG Germany as defined under Section 271 (2) *HGB*. The disclosure requirement for audit and consultancy fees of KPMG Belgium relates to services performed after March 31, 2009.

Since joining KPMG Europe LLP at the reporting date of October 1, 2009, KPMG Netherlands, KPMG Luxembourg, KPMG Turkey and KPMG Russia constitute affiliated companies of KPMG Germany as defined under Section 271 (2) *HGB*. The disclosure requirement for audit and consultancy fees of KPMG Netherlands, KPMG Turkey and KPMG Russia relates to services performed after September 30, 2009.

In 2010, KPMG Norway and KPMG Saudi Arabia joined KPMG Europe LLP and therefore constitute affiliated companies of KPMG Germany as defined under Section 271 (2) *HGB*.

For fiscal year 2010, a total fee of €8.3 million (PY: €8.0 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 auditor of Continental AG elected by the Annual Shareholders' Meeting:

in € millions	2010	2009
Audit of financial statements	3.5	3.5
Other assurance services	6.8	0.6
thereof assurance services in connection with the capital increase and bond issues[1]	2.6	—
thereof insurance fees in connection with the capital increase and bond issues[1]	3.8	—
Tax advisory services	0.2	0.1
Other services provided to the parent company or its subsidiaries	0.0	0.1
Total	**10.5**	**4.3**

[1] These amounts essentially relate to the directly attributable costs in connection with the capital increase and the issue of bonds in line with IAS 32.37. These have been deducted from equity or, respectively, added to the cost of the bonds and will be recognized in profit and loss over their term.

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	2010	2009
Short-term benefits	9,811	3,443
Service cost relating to post-employment benefits	2,738	888
Payments on termination of employment contract	—	7,430
Share-based payment	6,206	2,248
Total	**18,755**	**14,009**

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.

The total remuneration granted to the Executive Board of Continental AG in 2010 amounted to €15.1 million (PY: €4.4 million). That total remuneration also includes the long-term components of variable remuneration totaling €5.3 million (PY: €0.9 million), which are converted into virtual shares of the company. In 2010, this resulted in the long-term components for 2009 being converted into 25,167 virtual shares.

In 2010, as in 2009, 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 €5.4 million in the year under review (PY: €12.9 million). Provisions for pension obligations for former members of the Executive Board and their surviving dependants amounted to €86.1 million (PY: €77.6 million).

In addition, one member of the Executive Board who left the company in 2008 receives compensation for the period of a restrictive covenant. In the 2010 calendar year, he was paid €0.5 million (PY: €0.7 million) in this context.

Remuneration paid in 2010 to the members of Continental AG's Supervisory Board, including meeting-attendance fees, totaled €1.4 million (PY: €1.2 million), and relate to short-term benefits.

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	2010	2009
Income	81.7	156.6
Expenses	117.3	323.5

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 25 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 on an arm's length basis. The income in the reporting year amounted to €19.1 million, and the expenses to €71.8 million and are included in the transactions with related parties.

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 F. W. 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. The legal successor of Schaeffler KG (now "Schaeffler Holding GmbH & Co. KG") is Schaeffler GmbH. Effective January 1, 2010, Schaeffler Holding transferred its holding in Continental AG to Schaeffler GmbH through Schaeffler Verwaltungs GmbH by way of spin-off in accordance with Section 123 (3) No. 1 of the German Transformation Act (*Umwandlungsgesetz – UmwG*).

Due to the negative impact from losses carried forward in the U.S.A., Continental AG recognized a claim for €20.0 million from Schaeffler KG in January 2009. This was 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 previous year.

Notice in Accordance with the German Securities Trading Act (*Wertpapierhandelsgesetz – WpHG*)

On January 21, 2010, we received notification that the share of voting rights in Continental AG held by Deutsche Bank, Frankfurt am Main, Germany, exceeded the thresholds of 3% and 5% in the voting rights on January 12, 2010 and amounted to 5.3% (10,600,852 shares) on this date. This disclosure requirement is due to Deutsche Bank being a joint syndicate leader in the capital increase of Continental AG entered in the commercial register on January 12, 2010. By way of the same notification, we were informed that the share of voting rights in Continental AG held by Deutsche Bank, Frankfurt am Main, Germany, fell below the thresholds of 5% and 3% in the voting rights on January 14, 2010 and amounted to 0.81% (1,625,989 shares) at this time.

On January 27, 2010 we were notified that:

- the share of voting rights in Continental AG held by Goldman Sachs International, London, U.K., exceeded the thresholds of 3% and 5% of voting rights on January 12, 2010 and amounted to 6.15% (12,306,298 voting rights) at this time.

- the share of voting rights in Continental AG held by Goldman Sachs Holdings (UK), London, U.K., Goldman Sachs Group Holdings (UK), London, U.K., and Goldman Sachs (UK) L.L.C., Wilmington, U.S.A., exceeded the thresholds of 3% and 5% of voting rights on January 12, 2010 and amounted to 6.15% (12,306,298 voting rights) at this time. The shares are attributed to these companies in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by The Goldman Sachs Group, Inc., New York, U.S.A., exceeded the thresholds of 3% and 5% of voting rights on January 12, 2010 and amounted to 6.16% (12,311,347 voting rights) at this time. The shares are attributed to this company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

By way of the same notification, we were informed that

- the share of voting rights in Continental AG held by Goldman Sachs International, London, U.K., fell below the thresholds of 5% and 3% of voting rights on January 14, 2010 and amounted to 1.02% (2,045,705 voting rights) at this time.

- the share of voting rights in Continental AG held by Goldman Sachs Holdings (UK), London, U.K., Goldman Sachs Group Holdings (UK), London, U.K., and Goldman Sachs (UK) L.L.C., Wilmington, U.S.A., fell below the thresholds of 5% and 3% of voting rights on January 14, 2010 and amounted to 1.02% (2,045,705 voting rights) at this time. The shares are attributed to these companies in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by The Goldman Sachs Group, Inc., New York, U.S.A., fell below the thresholds of 5% and 3% of voting rights on January 14, 2010 and amounted to 1.24% (2,475,754 voting rights) at this time. The shares are attributed to this company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

On June 29, 2010, we were notified that:

- the share of voting rights in Continental AG held by Schaeffler GmbH (formerly "Schaeffler Verwaltung Zwei GmbH"), Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% on June 28, 2010 and amounted to 42.17% (84,333,986 voting rights) at this time.

- the share of voting rights in Continental AG held by Schaeffler Verwaltungs GmbH (formerly "Schaeffler Verwaltung Eins GmbH"), Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% on June 28, 2010 and amounted to 42.17% (84,333,986 voting rights) at this time. The shares are attributed to this company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Management GmbH, Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% on June 28, 2010 and amounted to 42.17% (84,333,986 voting rights) at this time. The shares are attributed to this company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Holding GmbH & Co. KG (formerly "Schaeffler KG"), Herzogenaurach, Germany, still exceeded the threshold of 30% on June 28, 2010 and amounted to 42.17% (84,333,986 voting rights) at this time. The shares are attributed to this company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by INA-Holding Schaeffler GmbH & Co. KG (formerly "INA-Holding Schaeffler KG"), Herzogenaurach, Germany, still exceeded the threshold of 30% on June 28, 2010 and amounted to 42.17% (84,333,986 voting rights) at this time. The shares are attributed to this company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Holding LP, Dallas, U.S.A., still exceeded the threshold of 30% of voting rights on June 28, 2010 and amounted to 42.17% (84,333,986 voting rights) at this time. The shares are attributed to this company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Mrs. Maria-Elisabeth Schaeffler, Germany, still exceeded the threshold of 30% of voting rights on June 28, 2010 and amounted to 42.17% (84,333,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Mr. Georg F.W. Schaeffler, U.S.A., still exceeded the threshold of 30% of voting rights on June 28, 2010 and amounted to 42.17% (84,333,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

On December 8, 2010, we were notified that the share of voting rights in Continental AG held by The Capital Group Companies, Inc., Los Angeles, U.S.A., had fallen below the thresholds of 5% and 3% on September 27, 2007 and amounted to 2.52% (3,701,098 shares) at this time. This reduction of voting rights of The Capital Group Companies, Inc., in Continental AG is based on a declaration of independence of The Capital Group Companies, Inc., pursuant to Section 29a (3) *WpHG* and is therefore not the consequence of a sale of shares in Continental AG. Voting right notifications of Capital Research and Management Company are not affected by this notification. The shares are attributed in accordance with Section 22 (1) Sentence 1 No. 6 *WpHG* in conjunction with Section 22 (1) Sentence 2 and 3 *WpHG*.

In 2010 and up to and including February 8, 2011, 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 42.17% of the common stock of the company were attributable to two members of the Supervisory Board – Mrs. Maria-Elisabeth Schaeffler and Mr. Georg F. W. Schaeffler – held as specified in the notification of voting rights on June 29, 2010. In 2010 and up to and including February 8, 2011, 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 accordance with Section 15a German Securities Trading Act (*Wertpapierhandelsgesetz – WpHG*), members of the Executive Board and Supervisory Board of Continental AG and their related parties must disclose the acquisition and disposal of shares of the company and of financial instruments related thereto. In fiscal year 2010, Continental AG gave notice in accordance with Section 15a of the *WpHG* to the effect that two members of the Executive Board purchased a total of 310 shares by exercising subscription rights.

40. List of Shareholdings of the Corporation

Further information on equity investments can be found in the list of the corporation's shareholdings pursuant to Section 313 Sentence 3 of the German Commercial Code (*Handelsgesetzbuch – HGB*), which is published as part of the consolidated financial statements in the electronic German Federal Gazette (*elektronischer Bundesanzeiger*). The consolidated financial statements with the list of the corporation's shareholdings are also made available for inspection by the shareholders in the business premises at the company's headquarters from the date on which the Annual Shareholders' meeting is convened, and from that point in time are available together with the additional documents and information pursuant to Section 124a of the German Stock Corporation Act (*Aktiengesetz – AktG)* online at www.continental-ir.com.

Statutory exemption provisions applying to German companies

The following German companies and partnerships utilized the exemption provisions of Section 264 (3) *HGB* and Section 264b *HGB*.

Company	Registered office
A.D.C. Automotive Distance Control Systems GmbH	Lindau
Alfred Teves Beteiligungsgesellschaft mbH	Frankfurt am Main
Babel Grundstücksverwaltungs GmbH	Schwalbach am Taunus
Benecke-Kaliko AG	Hanover
Beneform GmbH	Peine
CAS München GmbH	Hanover
CAS-One Holdinggesellschaft mbH	Hanover
Conseo GmbH	Hamburg
Conti Temic microelectronic GmbH	Nuremberg
Conti Versicherungsdienst mbH	Hanover
Continental Aftermarket GmbH	Hanover
Continental Automotive GmbH	Hanover
Continental Automotive Grundstücksges. mbH	Frankfurt am Main
Continental Automotive Grundstücksvermietungsges. mbH & Co. KG	Frankfurt am Main
Continental Caoutchouc-Export-GmbH	Hanover
Continental Engineering Services & Products GmbH	Ingolstadt
Continental Engineering Services GmbH	Frankfurt am Main
Continental Mechanical Components Germany GmbH	Roding
Continental Reifen Deutschland GmbH	Hanover
Continental Safety Engineering International GmbH	Alzenau
Continental Teves AG & Co. oHG	Frankfurt am Main
Continental Trading GmbH	Eschborn
ContiTech AG	Hanover
ContiTech Antriebssysteme GmbH	Hanover
ContiTech Elastomer-Beschichtungen GmbH	Hanover
ContiTech Fluid Automotive GmbH	Hamburg
ContiTech Kühner Beteiligungs-GmbH	Hanover
ContiTech Kühner GmbH & Cie. KG	Oppenweiler
ContiTech Luftfedersysteme GmbH	Hanover
ContiTech MGW GmbH	Hannoversch Münden
ContiTech Schlauch GmbH	Hanover

Company	Registered office
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 Verwaltungsges. mbH	Frankfurt am Main
Göppinger Kaliko GmbH	Eislingen
IDM GmbH Industriesensoren	Lindau
IPM GmbH	Hamburg
Max Kammerer GmbH	Frankfurt am Main
OTA Grundstücks- und Beteiligungsverw. GmbH	Frankfurt am Main
Phoenix Beteiligungsgesellschaft mbH	Hamburg
Phoenix Compounding Technology 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 Service GmbH & Co. KG	Hamburg
Phoenix Siebte Verwaltungsgesellschaft mbH	Hamburg
Phoenix Vermögensverwaltungsgesellschaft mbH	Hamburg
REG Reifen-Entsorgungsgesellschaft mbH	Hanover
Steinebronn Beteiligungs-GmbH	Oppenweiler
Temic Automotive Electric Motors GmbH	Berlin
UMG Beteiligungsgesellschaft mbH	Hanover
Union-Mittelland-Gummi- GmbH & Co. Grundbesitz KG	Hanover
Vergölst GmbH	Bad Nauheim

41. German Corporate Governance Code/Declaration in Accordance with Section 161 of the German Stock Corporation Act (*Aktiengesetz*)

The declaration required in accordance with Section 161 of the German Stock Corporation Act (*Aktiengesetz*) was issued by the Executive Board and the Supervisory Board on October 18, 2010 and is available to our shareholders on the following website: www.continental-corporation.com.

Further Information

Responsibility Statement by the Company's Legal Representatives

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, 2011

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 German Commercial Code (*Handelsgesetzbuch*):

Companies with no country specified are located in Germany.

Dr. Elmar Degenhart
Chairman
Corporate Communications
Corporate Quality and Environment
ContiTech AG, Hanover* (Chairman)

José A. Avila
Powertrain Division
Continental Automotive Systems, Inc., Auburn Hills, Michigan, U.S.A.* (until December 31, 2010)

Dr. Ralf Cramer
Chassis & Safety Division
Continental Automotive Corporation, Yokohama, Japan*; Continental Automotive, Inc., Fort Mill, South Carolina, U.S.A.* (since January 1, 2011); Continental Automotive Systems, Inc., Auburn Hills, Michigan, U.S.A.*; Continental Automotive Systems US, Inc., Auburn Hills, Michigan, U.S.A.* (since January 1, 2011); Continental Automotive Systems Holding US, Inc., Auburn Hills, Michigan, U.S.A.* (since January 1, 2011)

Helmut Matschi
Interior Division
SAS Autosystemtechnik Verwaltungs GmbH, Karlsruhe; S-Y Systems Technologies Europe GmbH, Regensburg; ERTICO - ITS Europe, Brussels, Belgium; Continental Automotive Systems, Inc., Auburn Hills, Michigan, U.S.A.* (until December 31, 2010)

Dr. Hans-Joachim Nikolin
Commercial Vehicle Tires Divisions, Purchasing
TÜV Nord AG, Hanover (since August 31, 2010); Continental Reifen Deutschland GmbH, Hanover* (Chairman); 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 Tires the Americas LLC, Fort Mill, South Carolina, U.S.A.*; Continental Tire Holding US LLC, Fort Mill, South 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
Continental Automotive, Inc., Fort Mill, South Carolina, U.S.A.*; Continental Automotive Systems, Inc., Auburn Hills, Michigan, U.S.A.*; Continental Automotive Systems US, Inc., Auburn Hills, Michigan, U.S.A.*; Continental Rubber of America, Corp, Fort Mill, South Carolina, U.S.A.* (all since January 1, 2011)

Nikolai Setzer
Passenger and Light Truck Tires Division
Continental Reifen Deutschland GmbH, Hanover*; Continental Automotive, Inc., Fort Mill, South Carolina* (until December 31, 2010); Continental Tires the Americas LLC, Fort Mill, South Carolina, U.S.A.*; Continental Tire Holding US LLC, Fort Mill, South Carolina, U.S.A.*

Heinz-Gerhard Wente
ContiTech Division
Human Resources, Director of Labor Relations
Benecke-Kaliko AG, Hanover* (Vice Chairman); ContiTech Antriebssysteme GmbH, Hanover* (Chairman); ContiTech Elastomer Beschichtungen GmbH, Hanover* (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* (Chairman); ContiTech Vibration Control GmbH, Hanover* (Chairman); Phoenix Compounding Technology GmbH, Hamburg* (Chairman); ContiTech Fluid Shanghai Co. Ltd, Shanghai, China*; ContiTech Grand Ocean Changchun Co. Ltd., Changchun, China*; ContiTech North America, Inc., Montvale, New Jersey, U.S.A.*; ContiTech Thermopol LLC, Somersworth, New Jersey, U.S.A.*; ContiTech Beattie Corp., Houston, Texas, U.S.A.*

*Consolidated companies pursuant to Section 100 (2) of the German Stock Corporation Act (*Aktiengesetz*).

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 German Commercial Code (*Handelsgesetzbuch*):

Companies with no country specified are located in Germany.

Prof. Dr. Ing. Wolfgang Reitzle, Chairman
President and CEO of Linde AG

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

Michael Deister*
Chairman of the Works Council for the Stöcken Plant

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 (until August 2010); LHI Leasing GmbH, Pullach (Vice Chairman); Norddeutsche Landesbank Luxembourg S.A., Luxembourg (Chairman)**; Skandifinanz Bank AG, Zurich, Switzerland (Chairman of the Board of Directors)**

Hans Fischl*
Chairman of the Works Council for the Regensburg Location, Chairman of the Corporate Works Council of Continental AG and Member of the Central Works Council of Continental Automotive GmbH
Continental Automotive GmbH, Regensburg**

Dr. Jürgen Geißinger
President and CEO of Schaeffler GmbH
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**

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; Heliad Equity Partners GmbH & Co. KGaA, Frankfurt/Main, 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

Rolf Koerfer
Lawyer
GLOBALE Rückversicherungs-AG, Cologne
Member of the Supervisory Board until November 29, 2010

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 und Automotive
Rasselstein GmbH, Andernach

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; Universitätsklinikum Freiburg, Freiburg; Alstom S.A., Paris, France; The Chubb Group of Insurance Companies, New York, U.S.A. (until April 2010)

Hartmut Meine*
District Manager of IG Metall (Metalworkers' Union) for Lower Saxony and Saxony-Anhalt
KME AG, Osnabrück; Volkswagen AG, Wolfsburg

Dirk Nordmann*
Chairman of the Works Council for the Vahrenwald Plant, ContiTech Antriebssysteme GmbH

Artur Otto*
Sales and Marketing Director of Continental Engineering Services
Member of the Supervisory Board since May 1, 2010

Dr. Thorsten Reese*
Head of Corporate Quality and Environment
Member of the Supervisory Board until April 30, 2010

Klaus Rosenfeld
CFO of the Schaeffler Group

Georg F. W. Schaeffler
Partner of the Schaeffler Group
Schaeffler GmbH, Herzogenaurach** (Chairman) (since September 2010)

Maria-Elisabeth Schaeffler
Partner of the Schaeffler Group
Schaeffler GmbH, Herzogenaurach** (since September 2010); Österreichische Industrieholding AG, Vienna, Austria

Jörg Schönfelder*
Chairman of the Works Council for the Korbach Plant
Continental Reifen Deutschland GmbH, Hanover**

Dr. Bernd W. Voss
Member of various Supervisory Boards
Wacker Chemie AG, Munich; ABB Ltd., Zurich, Switzerland

Erwin Wörle*
Chairman of the Works Council of Conti Temic microelectronic GmbH, Ingolstadt
Conti Temic microelectronic GmbH, Nuremberg** (Vice Chairman)

Prof. KR Ing. Siegfried Wolf
Chairman of the Board of Directors of Russian Machines OJSC
Banque Baring Brothers Sturdza SA, Geneva, Switzerland; GAZ Group, Nizhny Novgorod, Russia (Chairman); Österreichische Industrieholding AG, Vienna, Austria; Russian Machines OJSC, Moscow, Russia (Chairman); Siemens Aktiengesellschaft Austria, Vienna, Austria; STRABAG SE, Vienna, Austria; VERBUND AG, Vienna, Austria
Member of the Supervisory Board since December 6, 2010

* Employee representative.
**Consolidated companies pursuant to Section 100 (2) of the German Stock Corporation Act (*Aktiengesetz*).

Members of the Supervisory Board Committees:

1. Chairman's Committee and Mediation Committee required under Section 27 (3) of the German Co-determination Act (*Mitbestimmungsgesetz*)
Prof. Dr. Ing. Wolfgang Reitzle; Werner Bischoff; Hans Fischl; Rolf Koerfer (until November 29, 2010); Georg F. W. Schaeffler (since December 14, 2010)

2. Audit Committee
Dr. Bernd W. Voss, Chairman; Michael Deister; Hartmut Meine (since September 29, 2010); Dr. Thorsten Reese (until April 30, 2010); Klaus Rosenfeld

3. Nomination Committee
Prof. Dr. Ing. Wolfgang Reitzle; Rolf Koerfer (until November 29, 2010); Georg F. W. Schaeffler (since December 14, 2010); Maria-Elisabeth Schaeffler, Dr. Bernd W. Voss

Ten-Year Review – Corporation

		2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Balance sheets											
Non-current assets[1]	in € millions	14,887.9	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
Current assets[2]	in € millions	9,502.6	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
Total assets	in € millions	24,390.5	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
Shareholders' equity (excl. non-controlling interests)	in € millions	5,859.6	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
Non-controlling interests	in € millions	343.3	289.1	264.5	272.9	239.1	220.8	231.0	151.4	92.2	101.4
Total equity, (incl. non-controlling interests)	in € millions	6,202.9	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
Equity ratio[3]	in %	25.4	17.6	22.4	24.7	43.4	36.0	30.3	23.9	20.9	17.2
Capital expenditure[4]	in € millions	1,296.4	860.1	1,595.2	896.9	805.0	871.8	703.0	625.8	620.0	740.8
Net indebtedness	in € millions	7,317.0	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
Gearing ratio	in %	118.0	219.0	189.6	158.3	25.1	13.0	30.0	58.9	110.7	168.2
Income statements											
Sales	in € millions	26,046.9	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
Share of foreign sales	in %	72.8	71.0	68.5	69.2	67.6	65.8	66.8	67.0	68.4	70.4
Cost of sales[5]	in %	77.8	80.0	80.4	75.8	75.3	74.6	75.0	76.5	78.2	82.8
Research and development expenses[5]	in %	5.6	6.7	6.2	5.0	4.5	4.3	4.2	4.3	4.3	4.1
Selling expenses[5]	in %	5.0	5.6	4.9	5.5	5.7	6.1	6.2	6.2	6.4	6.3
Administrative expenses[5]	in %	2.5	3.0	3.2	2.7	3.0	3.1	3.1	3.3	3.4	3.6
EBITA	in € millions	1,935.2	−1,040.4	−296.2	1,675.8	1,601.9	1,507.1	1,157.4	855.2	694.3	32.8
EBITA[5]	in %	7.4	−5.2	−1.2	10.1	10.8	10.9	9.2	7.4	6.1	0.3
Personnel expenses	in € millions	5,891.7	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
Depreciation and amortization[6]	in € millions	1,652.4	2,631.6	3,067.6	814.8	699.6	741.8	667.2	603.1	670.3	891.3
Net income attributable to the shareholders of the parent	in € millions	576.0	−1,649.2	−1,123.5	1,020.6	981.9	929.6	716.2	314.0	226.0	−257.6
Employees (annual average)	in thousands	142.7	133.4	148.4	93.9	81.6	81.1	73.7	66.5	65.1	67.0

[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 non-controlling interests.
[4] Capital expenditure on property, plant and 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 impairments on financial investments.

The information for fiscal years since 2004 has been reported in accordance with IFRS, for the years 2000 to 2003 in accordance with US GAAP.

Glossary of Financial Terms

Continental Value Contribution (CVC). The CVC represents the absolute amount of additional value created, and the Delta CVC represents the change in absolute value creation over the prior 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 resources must be employed more efficiently.

The CVC is measured by subtracting the weighted average cost of capital (WACC) from the ROCE and multiplying this by the average operating assets for the fiscal year. The weighted average cost of capital calculated for the Continental Corporation corresponds to the required minimum return. The cost of capital is calculated as the weighted average ratio of the cost of equity and borrowing costs.

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, EBITDA has been equal to EBIT.

EBITA. EBIT before scheduled goodwill amortization.

EBITDA. Earnings before interest, taxes, depreciation and amortization.

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, 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 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 as recognized in the balance sheet, cash and cash equivalents, the positive fair values of the derivative financial instruments as well as other interest-bearing investments.

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 initial 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 Interpretations 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

2011	
Annual Financial Press Conference	March 3
Analyst Conference	March 3
Annual Shareholders’ Meeting	April 28
Interim Report as of March 31, 2011	May 5
Interim Report as of June 30, 2011	July 29
Interim Report as of September 30, 2011	November 3

2012	
Annual Financial Press Conference	February
Analyst Conference	February
Annual Shareholders’ Meeting	April 27
Interim Report as of March 31, 2012	May
Interim Report as of June 30, 2012	July
Interim Report as of September 30, 2012	November

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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