Trapped Cash in China

Solutions for cash repatriation

February 2014
Agenda

1 Continental Corporation
2 Challenge: Increasing Liquidity in China
3 Dividends
4 Cross-border Intercompany Loans
5 Reciprocal Lending
6 Summary and Outlook
Continental Corporation
Overview 2012

› Since 1871 with headquarters in Hanover, Germany

› Sales of €32.7 billion

› 169,639 employees worldwide

› 291 locations in 46 countries

› One of the top 3 in the automotive supplier industry

Sales by division in %

- Chassis & Safety 21%
- Tires 29%
- Powertrain 19%
- Interior 20%
- ContiTech 11%

Status: December 31, 2012
# Continental Corporation

## Key Figures for 2012

<table>
<thead>
<tr>
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<th>2012</th>
<th>2011</th>
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<tbody>
<tr>
<td>Sales</td>
<td>€32.7 billion</td>
<td>€30.5 billion</td>
</tr>
<tr>
<td>EBIT*</td>
<td>€3,073.4 million</td>
<td>€2,596.9 million</td>
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<tr>
<td>Adjusted EBIT**</td>
<td>€3,522.4 million</td>
<td>€3,040.9 million</td>
</tr>
<tr>
<td>Employees</td>
<td>169,639</td>
<td>163,788</td>
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*Earnings before interest and taxes.

**Before amortization of intangible assets from PPA, changes in the scope of consolidation, and special effects.
Continental Corporation
Sales and Employees by Region in 2012

Sales by region in %
- NAFTA: 22%
- Germany: 25%
- Asia: 18%
- Europe (excluding Germany): 30%
- Other countries: 5%

Employees by region in %
- NAFTA: 16%
- Germany: 29%
- Asia: 18%
- Europe (excluding Germany): 31%
- Other countries: 6%

Worldwide: €32.7 billion
Worldwide: 169,639 employees

Status: December 31, 2012
### Continental Corporation

**Key Figures for 2013 and Outlook**

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<th>2013E</th>
<th>2014E</th>
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| Consolidated sales & adj. EBIT\(^1\) margin | €~33.3 bn  
~11.2% | To increase to around €35 bn
Comfortably achieve adj. EBIT\(^1\) margin >10% |
| Automotive Group adj. EBIT\(^1\)      | €~20 bn  
€~1.6 bn | March 6, 2014 |
| Rubber Group adj. EBIT\(^1\)        | €~13.3 bn  
€~2.2 bn | March 6, 2014 |
| Raw material cost impact | Relief of about €375 mn | Headwind of about €100 mn in 2014 for the Rubber Group |
| Special effects         | -€~90 mn               | About -€50 mn |
| Net interest expense Tax rate      | €~800 mn  
<20% | Net interest result <€400 mn  
<30% |
| Capex                     | €~2 bn  
€~370 mn | Capex at around 6% of sales
PPA amortization will amount to €~190 mn |
| Free cash flow           | >€1.5 bn               | At least €1.2 bn |

\(^1\) Before amortization of intangibles from PPA, consolidation (2013 in comparison to 2012) and special effects
Continental Corporation
Latest Acquisition supports Non-OE Automotive Business

Outer Circle: Continental AG
Inner Circle: ContiTech

1 Based on 2012 data
2 Veyance Technologies Inc.

Non OE Business
OE Business
We are convinced that automated driving will be a key element of future mobility, as it will enhance the safety, efficiency and comfort of individual mobility even further.

Automation will lead to a significant decrease in the number of road traffic casualties and it allows drivers to use their time in the car in other ways and therefore more efficiently.

Our path to automated driving:
- Partially automated driving by 2016.
- Highly automated driving from 2020.
- Fully automated driving from 2025.

In 2012, we became the first automotive supplier to be granted a test license for automated driving on public roads in the U.S. state of Nevada.
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Challenge: Increasing Liquidity in China

- Under Continental’s global policy, there is only one corporate liquidity. Within the framework of local law and regulations, liquidity must be shared within the group.
- Chinese regulation used to be a road blocker for liquidity sharing.
- Despite high investments, Continental’s subsidiaries in China are cash generating. This leads to increasing liquidity in China while Continental is borrowing funds in Europe.

Cash Balance China

![Bar Chart showing cash balance in China from 2009 to 2012]
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Dividends

› Surplus cash can be repatriated through payment of dividends.

› **Pro’s:**
  
  › Appropriate tool to repatriate cash that is not needed for operating purposes.

› **Con’s:**
  
  › Dividend payments trigger withholding tax (10% for payments to Germany).
  
  › Unflexible (“one-way”) tool.
  
  › Balance sheet of local subsidiary needs to show dividend potential.
  
  › Long lead time to get all local approvals in place.

› Given the disadvantages, Continental was selective in paying dividends over the last years.

› Taking into account the increasing liquidity, Continental, however, decided to pay a larger dividend in 2013 to sustainably reduce cash in China.
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Cross-border Intercompany Loans
Overview

› In the course of the RMB internationalization, China took first steps in 2013 to allow for cross-border intercompany loans denominated in RMB.

› Continental was one of the very first corporates in China to participate in a pilot project in 2013.

› Under this pilot project, a “loan quota” was allocated to Continental by People’s Bank of China (PBOC) early in 2013.

› Under this quota, Continental Germany received the first intercompany loan from China in March 2013.

› Given the success of the pilot project, PBOC increased the loan quota in the second half of 2013.

› Continental made full use of the loan quota and set up 6 intercompany loans between China and Germany in 2013, with the maturity of the loans evenly split over the year.

› Continental’s strong relationship to local Chinese banks helped to get access to the product and to retain goodwill from PBOC.
Cross-border Intercompany Loans
Quota Approval Process

1. **Scheme Launched**
   - People’s Bank of China (PBoC) Shanghai HQ launched RMB Cross-border Lending Scheme

2. **1st Round Application**
   - Submit company introduction & RMB cross-border lending plan to PBoC.

3. **Final Official Application**
   - PBoC’s official approval document received on **22nd February, 2013**.

4. **Official Approval**
   - Execute Continental’s first RMB ICO loan on **25th March, 2013**.

5. **1st RMB ICO Loan**
   - People’s Bank of China (PBoC) Shanghai HQ launched RMB Cross-border Lending Scheme

- Until the end of June 2013, only 10 corporates in China got the pilot qualification.
Cross-border Intercompany Loans
Pro’s & Con’s

› Pro’s:
  › Useful tool to share surplus cash between China and Germany on a temporarily basis.
  › Cost efficient (tax neutral).
  › Intercompany loans can “breathe” as long as loan quota is not exceeded.
  › If approvals (loan quota) are in place, loans can be implemented at short notice.

› Con’s:
  › Limited flexibility (no liquidity sharing on daily basis), but different loans with maturity spread over the year can enhance flexibility.
  › Loans are denominated in RMB => hedging and impact on trading limits to be considered.
  › For Continental, intercompany loans are a milestone in liquidity sharing.
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Reciprocal Lending
Structure

Bank AG
Germany

Bank Guarantee
equivalent to RMB deposit

Bank AG
Chinese subsidiary

Documentation:
Term Credit Facility Agreement

Loan in EUR
equivalent to RMB deposit

Continental AG

Documentation:
Deposit Pledge Agreement

Cash Deposit in RMB

Continental China Subsidiary

February 17, 2014
Dr. Christoph Willeke @ Continental AG
Reciprocal Lending
Pro’s & Con’s

› **Pro’s:**
  
  › Very flexible tool to share liquidity for periods between 1 and 12 months (depending on individual structure).
  
  › If need be, structure can be dissolved at short notice.
  
  › Currently, interest rate on RMB deposit is higher than interest rate on EUR loan.
  
  › Deposit is denominated in RMB, loan is denominated in EUR => no fx risk for Continental.
  
  › No regulatory approvals required.

› **Con’s:**
  
  › Solution offers “virtual” liquidity sharing only, i.e. cash is not effectively moved outside China.
  
  › Counterparty risk for RMB deposit to be considered (netting with loan possible?).
  
  › Continental sees reciprocal lending as an important tool for liquidity sharing.
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In 2013, Continental has used dividend payments, cross-border intercompany loans and reciprocal lending to reduce excess cash in China and to share it within the Group.

The above instruments provide a comprehensive tool box for liquidity sharing and make use of the latest regulatory developments in RMB internationalization.

There is no perfect tool available (yet), but the steps taken in 2013 are a big achievement compared to earlier years.

Cash Balance China

[Bar chart showing cash balance for China from 2009 to 2013]
Summary and Outlook

Outlook

› What’s next?

› Short-term: Further use of available tools, possibly increasing loan quota for intercompany loans and volume under reciprocal lending

› Medium/long-term: Following RMB internationalization and making use of further de-regulation, e.g.
  › Cross-border cash pooling on a daily basis => latest trends in de-regulations to be followed.
  › Evaluating possibilities offered by Shanghai Free Trade Zone.

› What helps?

› Strong local support as well as strong global and local relationships to Chinese banks and to PBOC are key to benefit from further de-regulation in an early stage.
Thank you for your attention!