Trapped Cash in China

Solutions for cash repatriation

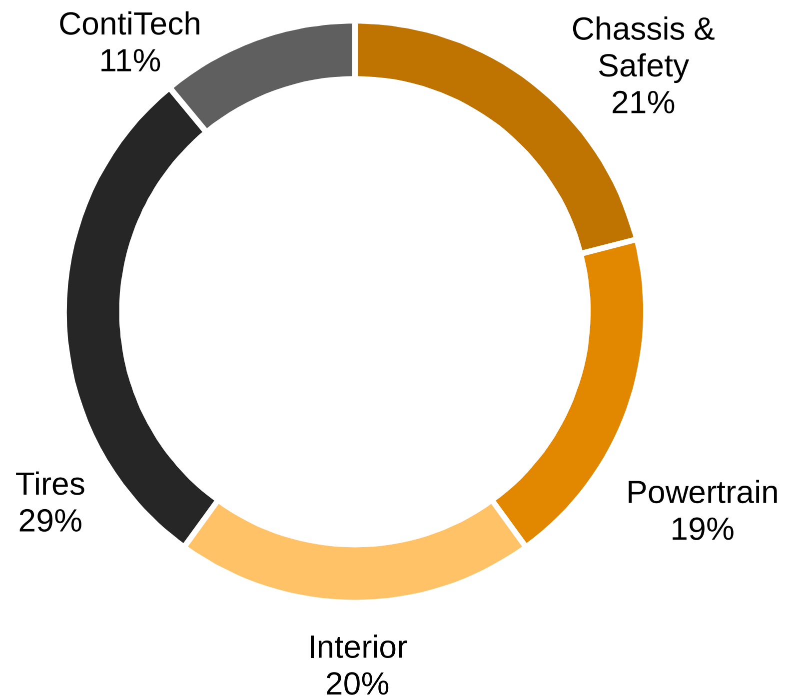
February 2014

Agenda

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 %



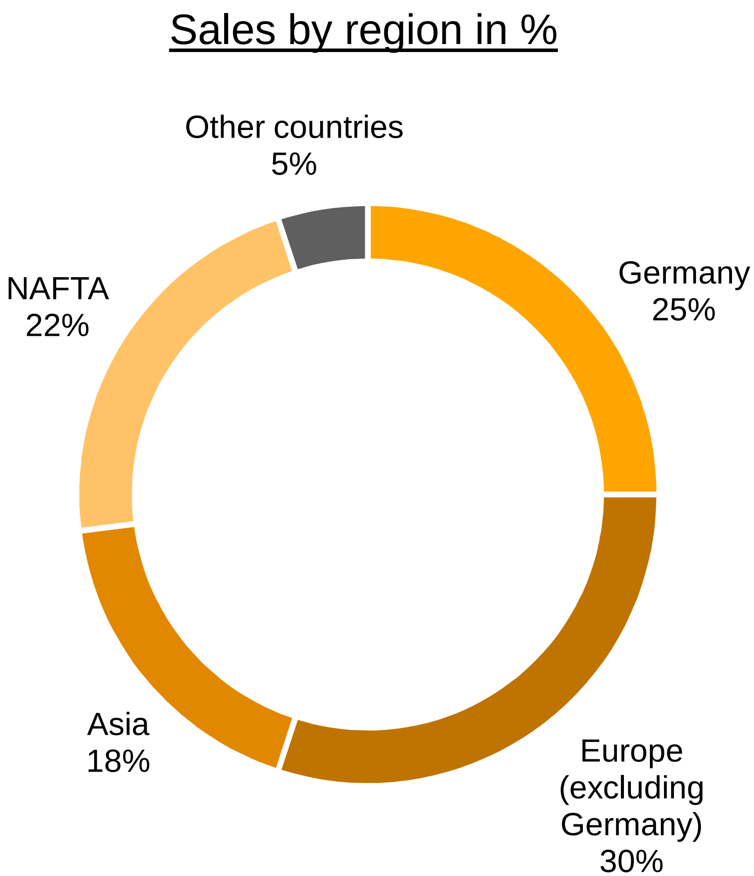
Status: December 31, 2012

Continental Corporation
Key Figures for 2012

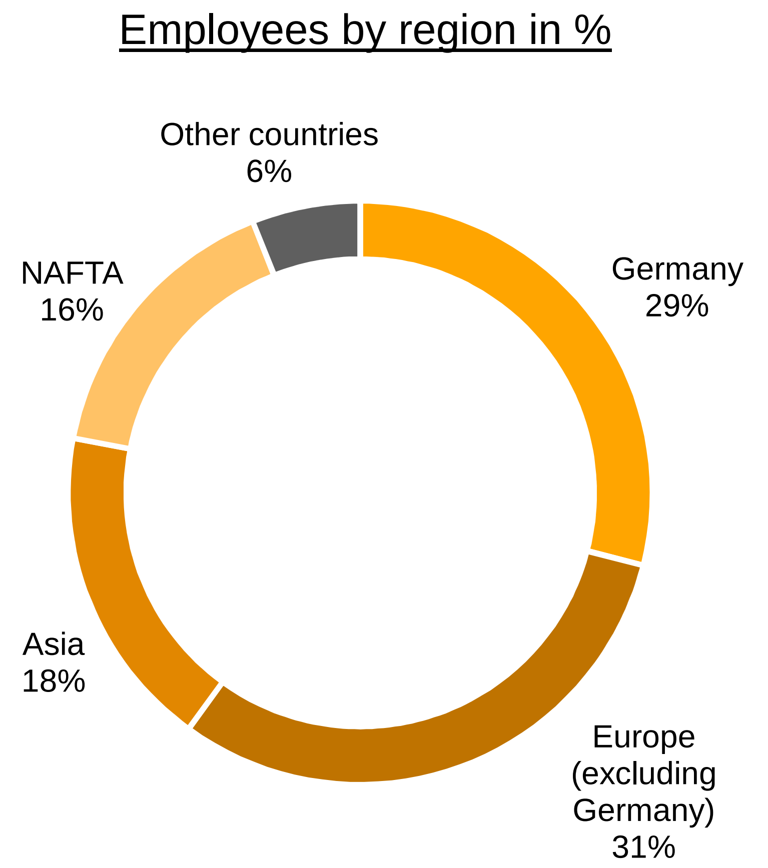
	2012	2011
Sales	**€32.7 billion**	€30.5 billion
EBIT*	**€3,073.4 million**	€2,596.9 million
Adjusted EBIT**	**€3,522.4 million**	€3,040.9 million
Employees	**169,639**	163,788

*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



Worldwide: €32.7 billion



Worldwide: 169,639

Status: December 31, 2012

Continental Corporation
Key Figures for 2013 and Outlook

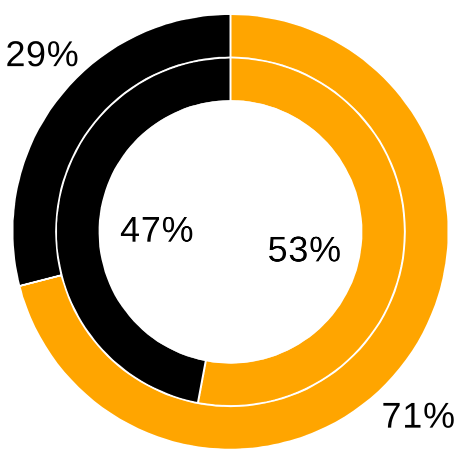
	2013E	2014E
Consolidated sales & adj. EBIT[1] margin	€~33.3 bn ~11.2%	To increase to around €35 bn Comfortably achieve adj. EBIT[1] margin >10%
Automotive Group adj. EBIT[1]	€~20 bn €~1.6 bn	March 6, 2014
Rubber Group adj. EBIT[1]	€~13.3 bn €~2.2 bn	March 6, 2014
Raw material cost impact	Relief of about €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 AG

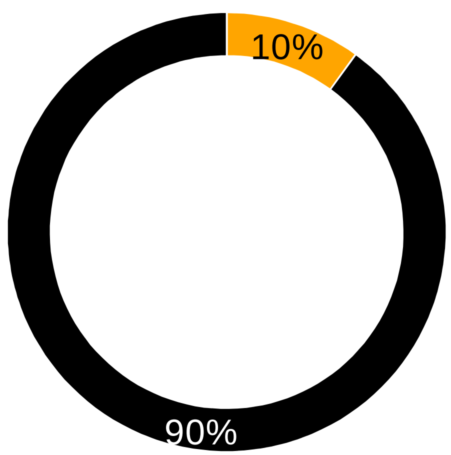
Continental Corporation
Latest Acquisition supports Non-OE Automotive Business[1]

Continental AG / ContiTech

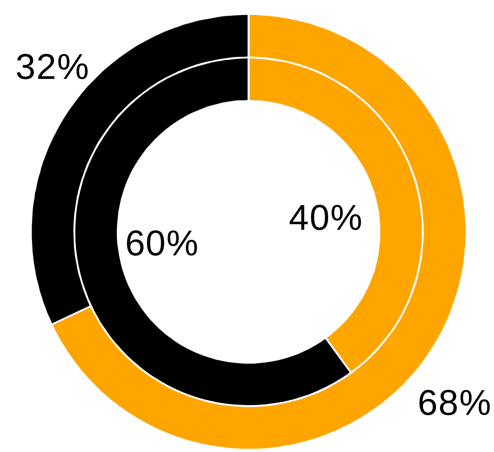


Outer Circle: Continental AG
Inner Circle: ContiTech

Veyance[2]



Continental AG pro Forma



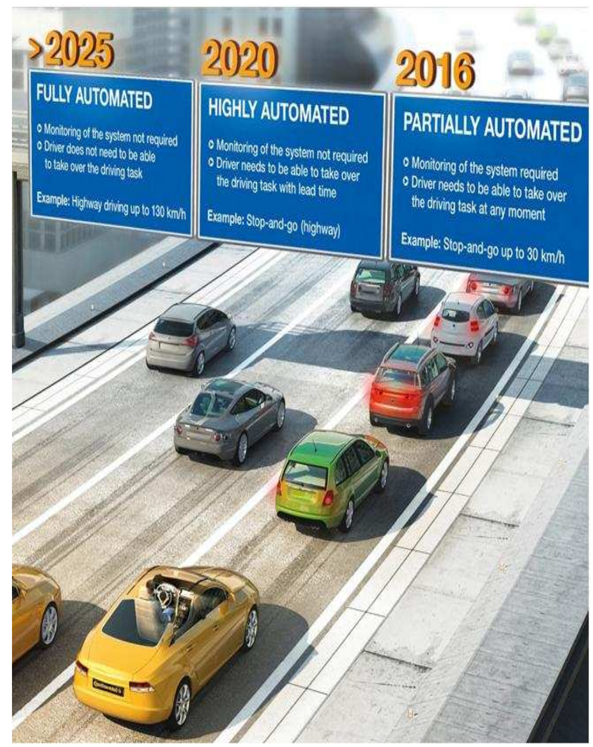
Outer Circle: Continental AG
Inner Circle: ContiTech

[1] Based on 2012 data
[2] Veyance Technologies Inc.

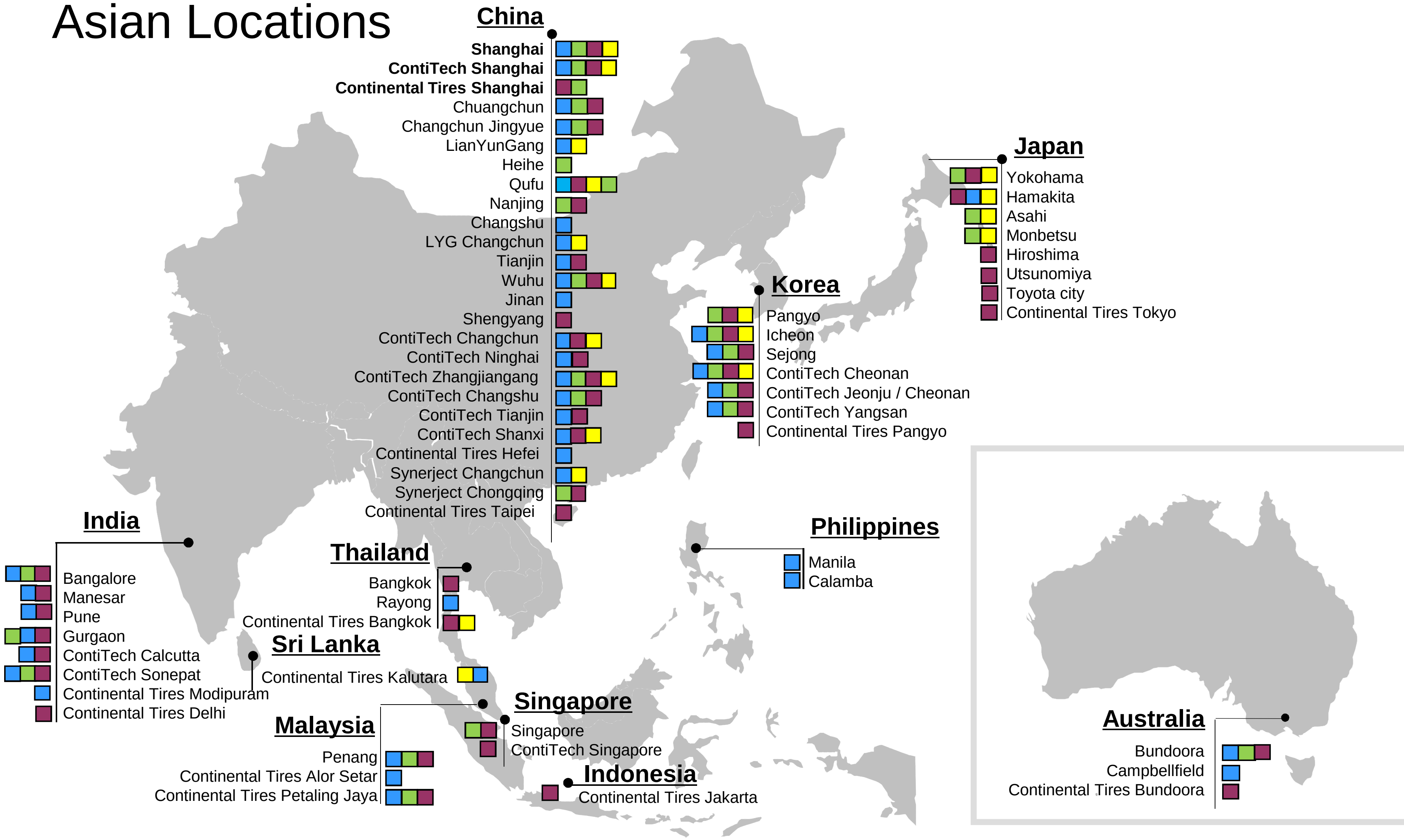
Non OE Business | OE Business

Continental Corporation
Mobility of the Future: Automated Driving

- 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.



Continental Corporation
Asian Locations



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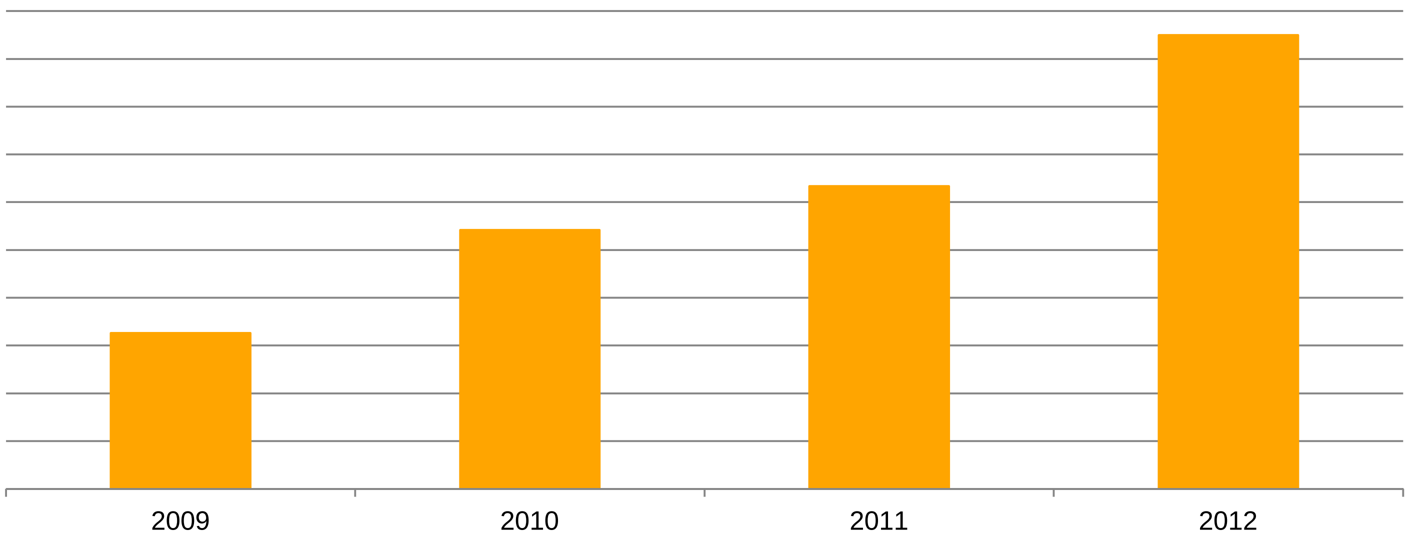
Challenge: Increasing Liquidity in China

- 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



Agenda

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 – Sep 2012
- **Scheme Launched**
- People's Bank of China (PBoC)Shanghai HQ launched RMB Cross-border Lending Scheme

2 – Oct 2012
- **1st Round Application**
  - Submit company introduction & RMB cross-border lending plan to PBoC.

Nov 2012

Dec 2012

3 – Jan 2013
- **Final Official Application**

4 – Feb 2013
- **Official Approval**
  - PBoC's official approval document received on **22nd February, 2013**.

5 – Mar 2013
- **1st RMB ICO Loan**
  - Execute Continental's first RMB ICO loan on **25th March, 2013**.

- 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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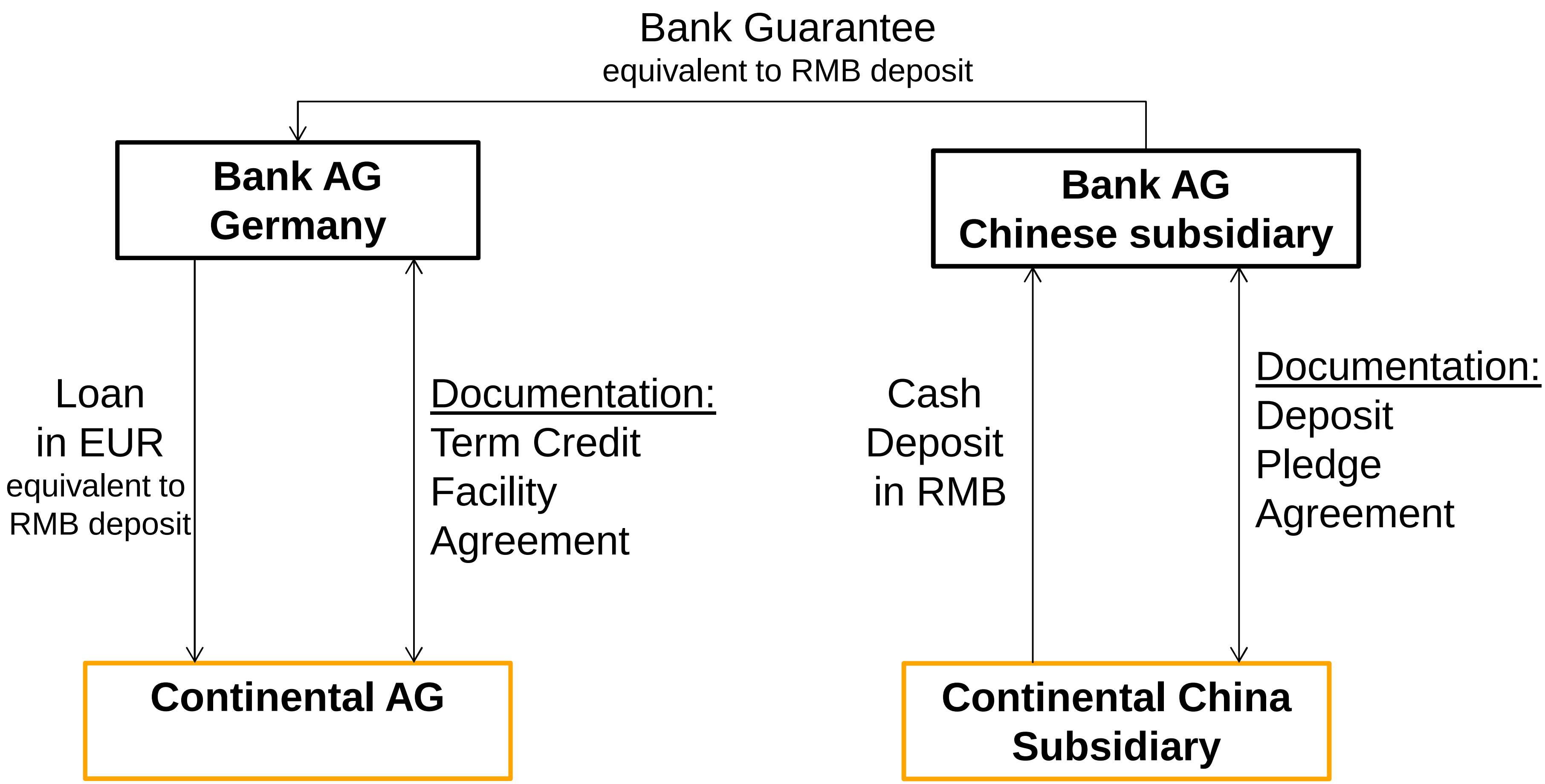
Reciprocal Lending
Structure



Reciprocal Lending
Pro’s & Con’s

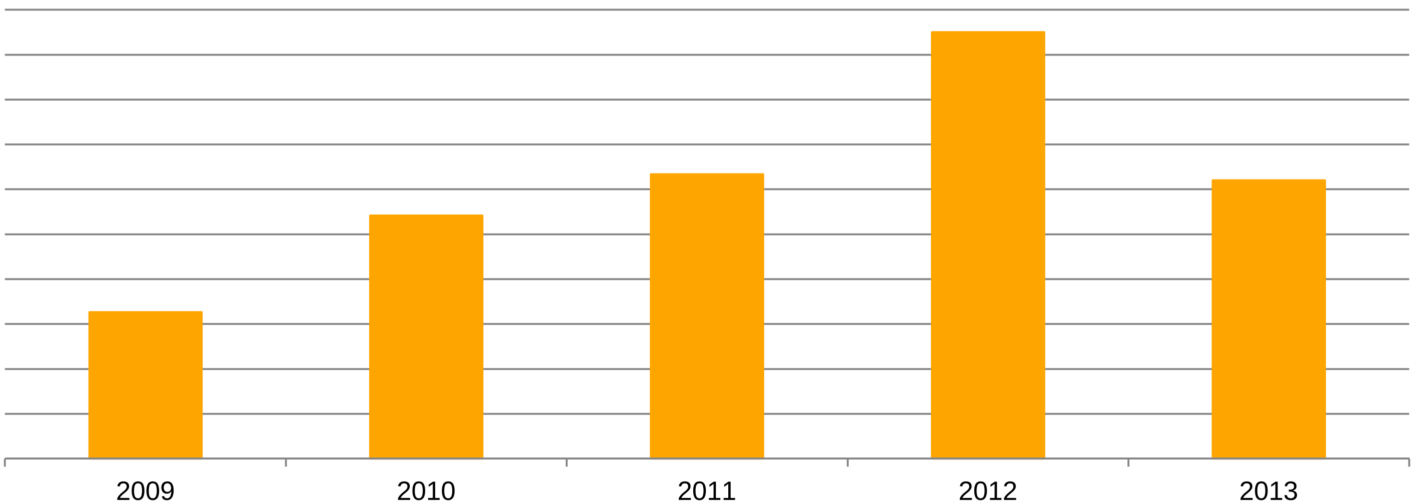
- **Pro’s:**
  - Very flexible tool to share liquidity for periods between 1 and 12 months (depending on individual structure).
  - If need be, structure can be dissolved at short notice.
  - Currently, interest rate on RMB deposit is higher than interest rate on EUR loan.
  - Deposit is denominated 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.

Agenda

Summary and Outlook
Summary

- 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



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!