

# Financial Report as of September 30, 2008



Q3

## Continental's Share Price Performance

The downward trend on the capital markets that started at the end of the second quarter continued in the third quarter. First indications of an impact of the global financial crisis on the real economy in the U.S.A. as well as in Europe led to a 9.2% drop in the leading German stock index DAX, which closed at 5,831 points on September 30, 2008. The index was thus down 27.7% on the beginning of the year. The American Dow Jones Industrial index lost 4.4% in value in the third quarter, closing at 10,851 points. This represents a decrease of 18.2% for the year so far.

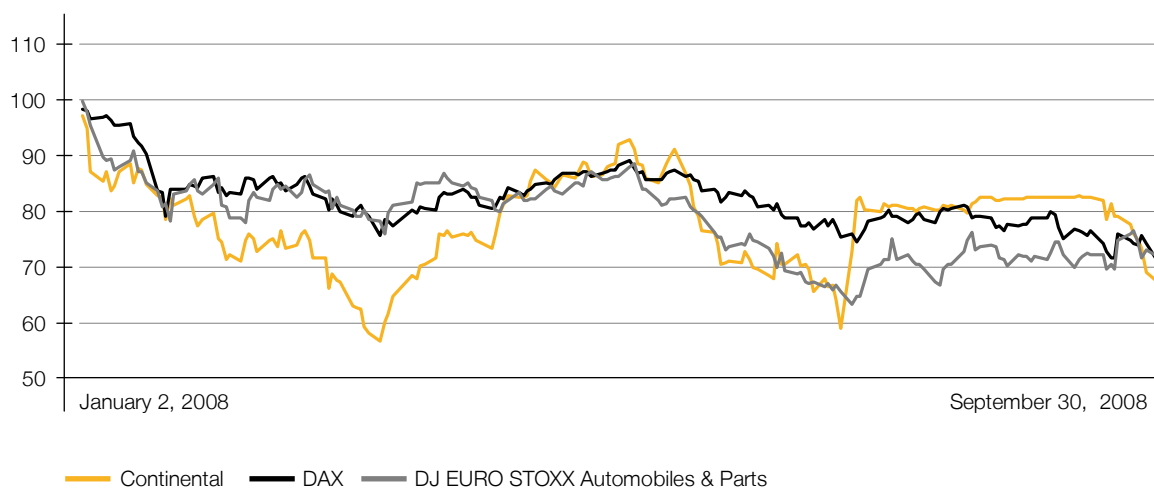
Boosted by the strong absolute value of index heavy-weight Volkswagen's share, the European industrial index for the automotive sector countered the general downward trend and was able to increase 2.0% to 254 points in the quarter, despite numerous profit warnings in the sector. However, all index stocks recorded high single-digit declines except for the VW share. Since the beginning of the year, the index lost 28.4% in value.

Continental share performance was affected in the third quarter by the public takeover offer of Schaeffler KG.

After the investment agreement between Continental AG and Schaeffler KG was signed on August 20, 2008, the offer price was increased to €75.00 per share via a parallel purchase. As a result, the price of the Continental share rose further, fluctuating between €70.48 and €74.18 per share until the expiry of the additional offer period on September 16, 2008. In the framework of the voluntary takeover offer, more than 82% of Continental's shareholders tendered their shares to Schaeffler KG for a price of €75.00. After the expiry of the additional offer period, the share price fell, closing at €58.30 per share on September 30, representing a 10.7% decrease for the third quarter and a drop of 34.5% for the year so far. The Continental share thus underperformed the DAX by 6.8 percentage points and the European industrial index for the automotive sector by 6.1 percentage points.

At the start of the fourth quarter, there was a dramatic plunge in share prices on the global stock markets as a result of the tentative highpoint of the international financial crisis, and the Continental share was drawn into this trend, again recording significant losses.

### Share Price Performance



# Key Figures for the Continental Corporation

in € millions	January 1 to September 30		Third Quarter	
	2008	2007	2008	2007
Sales	19,146.0	11,920.5	5,892.0	3,906.6
EBITDA	2,371.2	1,869.1	596.4	605.5
in % of sales	12.4	15.7	10.1	15.5
EBIT before amortization of intangible assets from PPA	1,411.2	1,356.6	273.5	433.3
in % of sales	7.4	11.4	4.6	11.1
EBIT	1,075.1	1,337.6	162.7	426.1
in % of sales	5.6	11.2	2.8	10.9
Net income attributable to the shareholders of the parent	363.5	825.2	2.4	251.5
Earnings per share (in €)	2.24	5.63	0.01	1.71
EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO)	1,494.9	1,356.6	300.1	433.3
in % of sales	7.8	11.4	5.1	11.1
Adjusted EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) <sup>1</sup>	1,569.6	1,402.4	341.9	457.9
in % of sales	8.2	11.8	5.8	11.7
Free cash flow	123.8	61.6	- 29.0	77.1
Net indebtedness at September 30	10,807.1	1,442.0		
Gearing ratio in %	146.0	27.8		
Total equity	7,400.6	5,191.6		
Equity ratio in %	27.4	42.9		
Number of employees at September 30 <sup>2</sup>	146,496	89,375		

<sup>1</sup> Before special effects.

<sup>2</sup> Excluding trainees.

## Key Figures for the Groups

Automotive Group in € millions	January 1 to September 30		Third Quarter	
	2008	2007	2008	2007
Sales	11,975.5	5,011.7	3,492.0	1,583.9
EBITDA	1,299.7	731.7	272.0	238.0
in % of sales	10.9	14.6	7.8	15.0
EBIT before amortization of intangible assets from PPA	645.0	503.9	52.3	162.2
in % of sales	5.4	10.1	1.5	10.2
EBIT	313.6	488.7	- 56.9	156.3
in % of sales	2.6	9.8	- 1.6	9.9
Depreciation and amortization <sup>1</sup>	986.1	243.0	328.9	81.7
Capital expenditure <sup>2</sup>	763.3	272.4	257.5	117.9
Number of employees at September 30 <sup>3</sup>	87,156	32,318		
Adjusted EBIT before amortization of intangible assets from PPA <sup>4</sup>	748.1	528.1	116.4	167.4
in % of sales	6.2	10.5	3.3	10.6
Adjusted EBIT <sup>4</sup>	416.7	512.9	7.2	161.5
in % of sales	3.5	10.2	0.2	10.2
EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO)	728.7	503.9	78.9	162.2
in % of sales	6.1	10.1	2.3	10.2
Adjusted EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) <sup>4</sup>	831.8	528.1	143.0	167.4
in % of sales	6.9	10.5	4.1	10.6

Rubber Group in € millions	January 1 to September 30		Third Quarter	
	2008	2007	2008	2007
Sales	7,182.6	6,918.0	2,404.1	2,325.9
EBITDA	1,103.6	1,174.9	336.8	380.8
in % of sales	15.4	17.0	14.0	16.4
EBIT before amortization of intangible assets from PPA	800.1	891.9	234.1	285.0
in % of sales	11.1	12.9	9.7	12.3
EBIT	795.3	888.1	232.5	283.7
in % of sales	11.1	12.8	9.7	12.2
Depreciation and amortization <sup>1</sup>	308.3	286.8	104.3	97.1
Capital expenditure <sup>2</sup>	348.5	286.5	122.9	105.9
Number of employees at September 30 <sup>3</sup>	59,085	56,817		
Adjusted sales <sup>5</sup>	6,932.2	6,855.3	2,310.9	2,294.2
Adjusted EBIT before amortization of intangible assets from PPA <sup>4</sup>	772.5	913.9	217.9	303.0
in % of sales	11.1	13.3	9.4	13.2
Adjusted EBIT <sup>4</sup>	767.7	910.1	216.3	301.7
in % of sales	11.1	13.3	9.4	13.2

<sup>1</sup> Excluding write-downs of investments.

<sup>2</sup> Capital expenditure on property, plant, equipment and software.

<sup>3</sup> Excluding trainees.

<sup>4</sup> Automotive Group: Before special effects; Rubber Group: Before changes in the scope of consolidation and before special effects.

<sup>5</sup> Before changes in the scope of consolidation.

# Corporate Management Report as of Sept. 30, 2008

## **Changes in the Executive Board**

### **Formation of the Automotive Group/Rubber Group**

The Supervisory Board of Continental AG made forward-looking personnel decisions on August 23, 2008. Effective September 1, Dr. Karl-Thomas Neumann was appointed new chairman of the Executive Board. He has been a member of the Continental Executive Board since October 2005 and succeeded Manfred Wennemer, who left the company after he and the Supervisory Board mutually agreed on releasing him from his responsibilities with effect from August 31, 2008. Executive Board member Dr. Alan Hippe was appointed vice chairman of the Executive Board.

On September 30, 2008, the Executive Board opened up broader future options by reorganizing the tasks of its members to concentrate on two core areas of business. Since October 1, 2008, Continental Executive Board chairman Dr. Karl-Thomas Neumann has managed the Automotive Group, consisting of the Chassis & Safety, Interior and Powertrain divisions. On the same day, vice chairman Dr. Alan Hippe took over as head of the Rubber Group, made up of the Passenger and Light Truck Tires, Commercial Vehicle Tires and ContiTech divisions.

Dr. Alan Hippe continues to hold the position of CFO and remains responsible for the Passenger and Light Truck Tires division within the Rubber Group. Heinz-Gerhard Wentz took over the position of Gerhard Lerch as head of the ContiTech division, who retired as planned. Wentz maintains his position as Executive Board member for HR and Director of Labor Relations for the company. The Commercial Vehicle Tires division in the Rubber Group continues to be headed by Dr. Hans-Joachim Nikolin, who is also responsible for purchasing as well as quality and the environment in the Corporation's Executive Board. His term of office was extended until May 2014.

### **Investment Agreement with the Schaeffler Group**

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. With this agreement, the dispute regarding the public takeover offer by the Franconian family-owned company was settled. Former Chancellor Dr. Gerhard Schröder was won as a guarantor for compliance with the obligations of the Schaeffler Group in the interest of all stakeholders of Continental.

The open-ended investment agreement that cannot be terminated by the parties before spring 2014 contains several provisions to safeguard the interests of Continental AG, its shareholders, employees and customers. Schaeffler KG committed itself to increase the offer price per Continental share from €70.12 to €75.00.

The shareholders had until September 16, 2008 to accept the improved offer.

In addition, Schaeffler undertook to limit its position to a minority shareholding in Continental AG (maximum of 49.99%) during the next four years, to support the ongoing strategy and business policies of Continental AG's Executive Board while maintaining its current market and brand appearance, and to not demand a sale of operations or seek other significant restructuring measures.

A further element of the agreement is the obligation of Schaeffler to compensate Continental AG up to a total amount of €522 million for possible negative effects resulting from a change-of-control in connection with existing financing agreements of Continental AG as well as for negative tax effects resulting from Schaeffler's shareholding.

In addition, Schaeffler KG undertook, in the event it resells part of its minority stake in Continental within the next four years, to grant a pre-emptive right to a buyer nominated by the guarantor, if the sale to such buyer is in the best interest of Continental AG and Schaeffler KG. In addition, it was agreed that there will be no changes to Continental AG's form of incorporation, its corporate seat, headquarters or business units, its listing on the stock exchange, its dividend policy or an increase of its gearing ratio against the wishes of Continental AG.

Schaeffler KG will not conduct or support, without the consent of Continental's Executive Board, any measures directed at changing the current collective bargaining or plant agreements or abolishing the employees' codetermination rights based on parity in the Supervisory Board of Continental AG.

Without undue delay after completion of the takeover offer, both parties will examine the possibilities for strategic cooperation projects between the Schaeffler Group and the Continental Corporation, particularly in the Powertrain division, based on the principles of an alliance of

equals between two productive and independent companies.

### **Three Classes of Continental Shares Traded**

Until the voluntary offer has been completed, three different classes of Continental shares will be traded.

All shares not tendered to Schaeffler KG, neither within the acceptance period of July 31 to August 27, nor within the additional acceptance period of September 3 to September 16, will continue to be traded under ISIN code DE00054390004. All Continental shares tendered within the acceptance period will be traded under ISIN code DE000A0WMHE4. All Continental shares tendered within the additional acceptance period will be traded under ISIN code DE000A0WMHF1. Tendered shares shall remain the property of the shareholder until the offer has been completed. The shareholder may dispose of the shares any time. On October 22, 2008, Schaeffler KG's holding amounted to 10.53% according to its notification of voting rights released on the same date. Continental AG published the notification of voting rights on October 23, 2008.

### **Outlook Adapted to Worsening Economic Environment**

On September 13, 2008, we announced that Continental AG no longer expects to fully attain the goals it set for fiscal 2008 in view of the substantial worsening of the economic environment on the vehicle markets in North America and Europe once again in the third quarter and the unchanged high burdens from increasing raw material prices. Conditions deteriorated significantly in some areas, especially in the Automotive Group, compared to the good development in the first six months of this year. They also impacted the Rubber Group, although not to the same extent.

### **Economic Climate**

The dominant topic in the third quarter was the financial crisis which no longer hit only U.S. banks and insurance companies but the European credit economy as well. The bankruptcy of the U.S. investment bank Lehman Brothers triggered a domino effect on the global finance markets on September 15. The U.S. \$700 billion rescue package as well as numerous concerted liquidity assistance measures from various central banks and a 50-basis-point interest rate cut on the part of the European Central Bank and the Federal Reserve (ECB to 3.75%;

Fed to 1.5%) went up in smoke on the markets. It was not until the middle of October when the G7 and other countries initiated rescue programs for the recapitalization of the bank sector and as a stop-gap for the confidence crisis that the measures showed initial effects. Stock markets worldwide stabilized, but at a level about one third lower than at the beginning of the year. However, in broad sectors of the credit markets there was no noticeable relief by the end of October. The reluctance when granting intrabank loans was documented by the high short-term interest rates on the money market. Credit issuers had to accept high risk surcharges for capital market issues.

This development put an abrupt end to the rapid increase in raw material prices. The oil price fell to approximately \$100 per barrel by the end of September, a decrease of 45% from its record price reached on July 3. In the course of October, it even dropped below the \$70 mark. The background for this price trend is the fear of a global recession owing to the financial crisis as well as a significant strengthening of the U.S. dollar against the euro, which traded at 1.34 at the beginning of the fourth quarter, although in April the rate still stood at 1.60.

It is difficult, however, to predict the consequences of the financial crisis for the real economy. Surveys such as the ZEW index or the IFO index indicate a dampening of economic expectations. Fall forecasts of the leading economic institutes predict growth of just 0.2% for Germany instead of 1.4% for 2009. In view of the substantial price decline on the raw materials markets, inflation is forecasted to drop to 2.3% as a positive aspect.

The data from the U.S.A. also indicate a slight drop in the inflation rate in comparison to August. The impact of the financial crisis in the U.S.A. is however more evident. Industrial production in September was down 2.8% on the previous month, representing a decrease of 4.5% in comparison to the same period of 2007. Capacity is only being utilized to 76.4%, a level that is 4.6 percentage points below the long-standing average of the last 35 years.

The financial crisis and high oil prices had already left their mark on the automotive industry in the first half of 2008, and this was all the more evident in the third quarter. New vehicle registrations were down approximately 20% in the U.S.A. and some 10% in Europe. At mid-

year, the decreases were still just 10% and 2% respectively. Growth slowed to an ever greater extent in the emerging markets as well. Manufacturers responded to consumer reluctance with further production cuts. Numerous profit warnings in the automotive sector were the result of the in part dramatic deterioration in the economic environment in July and August. Whereas the high oil price is cited as the main reason for consumer reluctance in the first six months, the development on the global finance markets must also be made responsible for reduced purchasing in the third quarter.

Our production volumes in the U.S.A. and in Europe that we corrected mid-year could thus again prove to be too high. Several market observers expect that light vehicle output in the U.S.A. will drop below 13 million by the end of the year, and will at the very best stagnate in Europe. This would mean that global production volumes would even fall this year, following last year's growth of 5.4%. Mid-year we were anticipating that the 2007 growth would be halved.

## Earnings, Financial and Net Assets Position of the Continental Corporation

### Earnings Position

#### Sales Up 60.6%

Consolidated sales for the first nine months of 2008 rose by 60.6% to €19,146.0 million (Q1-Q3 2007: €11,920.5 million). This increase resulted both from organic growth and from changes in the scope of consolidation, especially from the acquisition of Siemens VDO. Exchange rate changes had an offsetting effect.

#### EBIT before Amortization of Intangible Assets from PPA and before Depreciation of Tangible Assets from PPA (only Siemens VDO) Up 10.2%

It is no longer possible to separately identify the depreciation of tangible assets from PPA (purchase price allocation) for Siemens VDO and for the other acquisitions transacted in the past. For this reason, a rough estimate was made for Siemens VDO based upon the euro value as of November 30, 2007. According to this estimate, depreciation of tangible assets from PPA (only Siemens VDO) in the first nine months of 2008 totaled €83.7 million for the Corporation.

Consolidated EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) was up in the first nine months of 2008 compared with the same period of last year by €138.3 million, or 10.2%, to €1,494.9 million (Q1-Q3 2007: €1,356.6 million), and was equivalent to 7.8% (Q1-Q3 2007: 11.4%) of sales. Before special effects, EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) rose by €167.2 million, or

11.9%, to €1,569.6 million (Q1-Q3 2007: €1,402.4 million). The adjusted return on sales amounted to 8.2% (Q1-Q3 2007: 11.8%).

#### EBIT before Amortization of Intangible Assets from PPA Up 4.0%

In the first nine months of 2008, the Corporation improved its EBIT before amortization of intangible assets from PPA compared with the same period of last year by €54.6 million, or 4.0%, to €1,411.2 million (Q1-Q3 2007: €1,356.6 million), equivalent to 7.4% (Q1-Q3 2007: 11.4%) of sales.

#### EBIT Down 19.6%;

#### EBIT Adjusted for Special Effects Down 16.9%

EBIT was down €262.5 million on the previous year to €1,075.1 million, a decrease of 19.6% (Q1-Q3 2007: €1,337.6 million). The return on sales fell to 5.6% (Q1-Q3 2007: 11.2%). Before special effects, EBIT declined by €233.6 million or 16.9% to €1,149.8 million (Q1-Q3 2007: €1,383.4 million). The adjusted return on sales amounted to 6.0% (Q1-Q3 2007: 11.6%).

The increase in raw material prices had a negative impact of approximately €205 million on the Corporation in the first nine months of 2008 compared with the prices for the first nine months of 2007. This affected primarily the tire divisions.

**Special Effects in the First Nine Months of 2008**

Unutilized provisions of €1.1 million were reversed in the period under review as part of the winding up of restructuring activities at the plant in Angers, France. This was partially offset by restructuring expenses of €0.3 million from the continuing integration of Motorola's automotive electronics business.

At the plant in Wetzlar, Germany, production for the Interior division will be shut down due to a lack of orders. Research and development (R&D) activities are to remain in Wetzlar. This led to restructuring expenses in the amount of €18.6 million in the period under review.

Also in the Interior division, the product portfolio was reviewed in conjunction with the acquisition of Siemens VDO and business sections in the non-OE sector were identified that do not belong to our core business. The sale process was initiated for one of these business sections and led to a recognition of impairment losses in the amount of €26.3 million.

Production at the plant in Rambouillet, France, is to be relocated. R&D activities as well as administration are to remain at the location. This led to restructuring expenses in the Interior division in the amount of €43.3 million in the period under review.

In addition, restructuring expenses of €4.8 million were incurred in the first nine months of 2008 for the Interior division, primarily for the research and development location in Munich, Germany.

The electric motors activities were sold – primarily under an asset deal – to the Brose Group with effect from April 1, 2008. This sale generated an overall gain of €6.0 million for the Powertrain division.

The sensors business of the Chassis & Safety and Powertrain divisions at the Dortmund location in Germany will be closed due to reductions in volumes and a lack of follow-up orders. This led to restructuring expenses in the amount of €14.6 million in the period under review.

In connection with the transfer of the R&D activities of the Chassis & Safety and Powertrain divisions, restructuring expenses of €2.3 million were incurred at the Elkhart plant in the U.S.A. in the period under review.

Expenses amounting to €3.6 million resulted primarily from the scrapping of unusable machinery as part of the winding up of the restructuring measures at the tire plants in Charlotte and Mayfield, U.S.A.

Unutilized provisions of €3.0 million were reversed in the ContiTech division in the period under review as part of the winding up of restructuring activities, primarily for Roulunds, Denmark, and ContiTech Schlauch, Northeim, Germany, as well as in connection with the sale of the Benecke-Kaliko unit's furniture covering business.

The sale of the Benecke-Kaliko unit's furniture covering business resulted in a gain of €4.7 million in the ContiTech division.

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

The total consolidated net expense from special effects amounted to €74.7 million in the first nine months of 2008.

**Special Effects in the First Nine Months of 2007**

The continuing integration of Motorola's automotive electronics business resulted in expenses of €17.5 million and restructuring expenses of €2.5 million in the first nine months of 2007.

To optimize the organization of production and to improve the cost structure in the Electric Drives business unit in Germany, the company's Haldensleben location was closed at the end of 2007, apart from remaining minor winding-up activities. This resulted in restructuring expenses in the amount of €4.2 million in the first nine months of 2007.

Our U.S. tire company Continental Tire North America (CTNA) amended its coverage of healthcare costs for retirees in 2006. In an interim decision, the competent court of first-instance had upheld in part a class-action lawsuit brought against this measure. In the meantime, the legal proceedings have been brought to a close with a settlement consisting primarily of a one-time contribution to a special health benefits fund without modifying the implemented plan changes. This led to charges in the amount of €17.6 million in the Passenger and Light Truck Tires division and €1.0 million in the Commercial Vehicle Tires division in the third quarter of 2007.



In addition, the ContiTech division incurred restructuring expenses of €3.0 million, primarily for Roulunds, Denmark, in the first nine months of 2007.

The total consolidated net expense from special effects amounted to €45.8 million in the first nine months of 2007.

#### **Research and Development Expenses**

Compared with September 30, 2007, research and development expenses increased by 110.1% to €1,212.5 million (Q1-Q3 2007: €577.0 million), corresponding to 6.3% (Q1-Q3 2007: 4.8%) of sales. €1,041.3 million of that sum was attributable to the Automotive Group (Q1-Q3 2007: €420.3 million), corresponding to 8.7% (Q1-Q3 2007: 8.4%) of sales. The main reason for this increase is the change in the scope of consolidation due to the acquisition of Siemens VDO. The Rubber Group accounted for €171.2 million (Q1-Q3 2007: €156.7 million), corresponding to 2.4% (Q1-Q3 2007: 2.3%) of sales.

#### **Net Interest Expense**

At -€509.7 million, net interest expense rose by €446.1 million in the first nine months of 2008 compared with the same period of last year (Q1-Q3 2007: -€63.6 million).

This increase was mainly due to the financing of the acquisition of Siemens VDO. Interest expense rose year-on-year by €424.2 million to €531.7 million. In addition, exchange rate effects totaling €34.8 million, for the most part with no effect on cash, had a negative impact in 2008.

#### **Net Income Attributable to the Shareholders of the Parent**

Net income attributable to the shareholders of the parent was down 56.0% to €363.5 million (Q1-Q3 2007: €825.2 million), with earnings per share lower at €2.24 (Q1-Q3 2007: €5.63).

### **Financial Position**

#### **Cash Flow**

At €929.7 million, net cash flow from operating activities as of September 30, 2008 was €219.0 million higher than on September 30, 2007 (€710.7 million).

In the first three quarters of 2008, free cash flow stood at €123.8 million (Q1-Q3 2007: €61.6 million), up €62.2 million on the same period of 2007. Tax refunds amounting to €148.8 million from the retroactive merger of Siemens VDO Automotive AG into Continental Automotive GmbH, as well as the €230.0 million of cash flow provided by the sale of the Electric Motors activities to the Brose Group, had a positive effect. The higher average level of working capital resulting from seasonal fluctuations (€106.5 million higher than in the first nine months of 2007) as well as interest payments due to purchase price financing for the acquisition of Siemens VDO had a negative impact.

At €1,075.1 million, EBIT was down €262.5 million (Q1-Q3 2007: €1,337.6 million).

In the first nine months of 2008, total cash outflows resulting from investment activities amounted to €805.9 million (Q1-Q3 2007: €649.1 million).

#### **Financing**

At €10,807.1 million, the net indebtedness of the Corporation on September 30, 2008 was €49.3 million lower than on December 31, 2007.

The gearing ratio of 146.0%, which is down on the gearing ratio of 158.3% at the end of 2007, is a result of the higher shareholders' equity at the end of September, 2008.

Net indebtedness at €10,807.1 million, was €9,365.1 million higher than on September 30, 2007, due primarily to the payment for the acquisition of Siemens VDO. In contrast, the capital increase at the end of October 2007 had a positive effect amounting to €1,478.8 million.

The syndicated loan taken out to finance the purchase price was drawn upon in the amount of €9,334.2 million as of September 30, 2008. For tranche C with a nominal value of €5,000.0 million due in August 2012, there were interest hedges at the end of September 2008 amounting to €3,125.0 million. The resulting average fixed interest rate to be paid is 4.19% plus margin. The one-year

extension option for tranche A due in August 2008 was exercised for a partial amount of €800.0 million.

In August 2008, the Continental Corporation borrowed €110 million through its financing subsidiary Conti-Gummi Finance B.V. (CGF) under a promissory loan.

In the third quarter of 2008, conversion rights were exercised extensively under the convertible bond issued by CGF in May 2004 for €400 million. The outstanding amount decreased from €377.1 million to €28.1 million, contributing to a reduction in net indebtedness. The bond was paid back in full on October 23, 2008.

As of September 30, 2008, Continental had at its disposal liquidity reserves of nearly €1 billion as well as unused committed credit lines in volumes exceeding €2 billion.

#### **Dividend Payment**

The dividend of €2.00 per share for fiscal 2007 (€2.00 for 2006) decided upon by the Annual Shareholders' Meeting on April 25, 2008, was paid out starting on April 28, 2008. The total dividend payment amounted to €323.4 million (€293.1 million for fiscal 2006).

#### **Capital Expenditure (Additions)**

In the first three quarters of 2008, €1,123.1 million (Q1-Q3 2007: €560.4 million) was invested in property, plant, equipment and software, corresponding to a capital expenditure ratio after nine months of 5.9% (Q1-Q3 2007: 4.7%).

€763.3 million (Q1-Q3 2007: €272.4 million) of the above sum, corresponding to 6.4% (Q1-Q3 2007: 5.4%) of sales, was attributable to the Automotive Group. It invested mainly in production facilities for the manufacture of new products and implementation of new technologies, whereby primary investments were in technologies for electronic brake and safety systems, as well as engine and transmission systems. In addition, manufacturing capacities in low-cost countries were expanded further.

The Rubber Group invested €348.5 million (Q1-Q3 2007: €286.5 million) which is equivalent to 4.9% (Q1-Q3 2007: 4.1%) of sales. The tire divisions also continued to expand capacity for ultra-high-performance tires at their low-cost locations. Key investment priorities were the further expansion of the tire plant in Brazil and of the

production capacities in Slovakia and Portugal. Capacity was also expanded in the Mt. Vernon plant in the U.S.A. ContiTech invested in rationalizing production processes and in new products. Production capacities in Hungary, Romania, Chile, Brazil and India were expanded.

#### **Net Assets Position**

At €26,981.1 million, total assets on September 30, 2008 were €14,889.9 million higher than on the same date in 2007. This increase resulted especially from additions in the scope of consolidation, due mainly to the acquisition of Siemens VDO in December 2007, as well as the Matador Group in November 2007.

Total assets were down €756.5 million compared with December 31, 2007. This decline was attributable to a €323.6 million decrease in other intangible assets, as well as a €1,230.8 million decrease in cash and cash equivalents. In particular, repayments of short-term loans led to a €1,273.5 million reduction in gross indebtedness. As a result of seasonal fluctuations, there was an increase in inventories and amounts receivable totaling €921.1 million.

#### **Employees**

As of September 30, 2008, Continental's employees numbered 146,496, a decrease of 5,158 compared with the end of 2007. The sale of the electric motors activities reduced the workforce by 4,557. The Interior and Powertrain divisions reduced their staff mainly as a result of decreases in volumes. Higher production volumes in the Chassis & Safety and Passenger and Light Truck Tires divisions led to a rise in staff numbers. The number of employees in the Commercial Vehicle Tires division was almost on par with the previous year's figure. The decline in the workforce in the ContiTech division resulted mainly from the sale of Phoenix Dichtungstechnik. Compared with the reporting date for 2007, there were 57,121 more employees.

## Development of the Continental Corporation

in € millions	January 1 to September 30		Third Quarter	
	2008	2007	2008	2007
Sales	19,146.0	11,920.5	5,892.0	3,906.6
EBITDA	2,371.2	1,869.1	596.4	605.5
in % of sales	12.4	15.7	10.1	15.5
EBIT before amortization of intangible assets from PPA	1,411.2	1,356.6	273.5	433.3
in % of sales	7.4	11.4	4.6	11.1
EBIT	1,075.1	1,337.6	162.7	426.1
in % of sales	5.6	11.2	2.8	10.9
Net income attributable to the shareholders of the parent	363.5	825.2	2.4	251.5
Earnings per share (in €)	2.24	5.63	0.01	1.71
Research and development expenses	1,212.5	577.0	372.9	187.8
Depreciation and amortization <sup>1</sup>	1,296.1	531.5	433.7	179.4
Capital expenditure <sup>2</sup>	1,123.1	560.4	391.6	224.4
Number of employees at September 30 <sup>3</sup>	146,496	89,375		
Adjusted EBIT before amortization of intangible assets from PPA <sup>4</sup>	1,485.9	1,402.4	315.3	457.9
in % of sales	7.8	11.8	5.4	11.7
Adjusted EBIT <sup>4</sup>	1,149.8	1,383.4	204.5	450.7
in % of sales	6.0	11.6	3.5	11.5
EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO)	1,494.9	1,356.6	300.1	433.3
in % of sales	7.8	11.4	5.1	11.1
Adjusted EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) <sup>4</sup>	1,569.6	1,402.4	341.9	457.9
in % of sales	8.2	11.8	5.8	11.7
Net indebtedness at September 30	10,807.1	1,442.0		
Gearing ratio in %	146.0	27.8		

<sup>1</sup> Excluding write-downs of investments. <sup>2</sup> Capital expenditure on property, plant, equipment and software. <sup>3</sup> Excluding trainees.

<sup>4</sup> Before special effects.

## Reconciliation of Cash Flow to the Change in Net Indebtedness

in € millions	January 1 to September 30		Third Quarter	
	2008	2007	2008	2007
Cash provided by operating activities	929.7	710.7	293.5	364.8
Cash used for investing activities	- 805.9	- 649.1	- 322.5	- 287.7
<b>Cash flow before financing activities (free cash flow)</b>	<b>123.8</b>	<b>61.6</b>	<b>- 29.0</b>	<b>77.1</b>
Dividends paid	- 323.4	- 293.1	—	—
Dividends paid and repayment of capital to minority interests	- 33.5	- 9.4	- 25.8	- 2.4
Proceeds from the issuance of shares	1.0	7.7	- 0.6	7.3
Non-cash changes	277.9	- 4.4	207.6	14.6
Other	9.1	- 34.2	17.2	- 32.8
Foreign exchange effects	- 5.6	10.8	1.9	8.9
<b>Change in net indebtedness</b>	<b>49.3</b>	<b>- 261.0</b>	<b>171.3</b>	<b>72.7</b>

## Development of the Divisions

Chassis & Safety in € millions	January 1 to September 30		Third Quarter	
	2008	2007	2008	2007
Sales	4,119.6	3,448.9	1,224.4	1,074.5
EBITDA	644.0	586.2	186.8	196.5
in % of sales	15.6	17.0	15.3	18.3
EBIT before amortization of intangible assets from PPA	433.8	422.7	116.2	143.1
in % of sales	10.5	12.3	9.5	13.3
EBIT	394.7	421.2	103.2	142.5
in % of sales	9.6	12.2	8.4	13.3
Depreciation and amortization <sup>1</sup>	249.3	165.0	83.6	54.0
Capital expenditure <sup>2</sup>	233.1	178.8	84.6	75.6
Number of employees at September 30 <sup>3</sup>	28,234	21,518		
Adjusted EBIT before amortization of intangible assets from PPA <sup>4</sup>	440.3	422.7	122.7	143.1
in % of sales	10.7	12.3	10.0	13.3
Adjusted EBIT <sup>4</sup>	401.2	421.2	109.7	142.5
in % of sales	9.7	12.2	9.0	13.3
EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO)	435.8	422.7	116.7	143.1
in % of sales	10.6	12.3	9.5	13.3
Adjusted EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) <sup>4</sup>	442.3	422.7	123.2	143.1
in % of sales	10.7	12.3	10.1	13.3

<sup>1</sup> Excluding write-downs of investments.

<sup>2</sup> Capital expenditure on property, plant, equipment and software.

<sup>3</sup> Excluding trainees.

<sup>4</sup> Before special effects.

### Chassis & Safety

#### Sales Volumes

In the Electronic Brake Systems business unit, sales of electronic brake systems fell 1.6% to 11.5 million units in the first nine months of 2008.

In our Hydraulic Brake Systems business unit, sales volumes of brake boosters increased by 5.3% to 10.5 million units in the first three quarters of 2008 compared with the same period of last year. Sales of brake calipers dropped to 25.1 million units, a decline of 3.4%.

#### Sales Up 19.4%

Sales of the Chassis & Safety division increased in the first nine months of 2008 to €4,119.6 million, up 19.4% compared with the same period of last year (Q1-Q3 2007: €3,448.9 million). This increase resulted both from organic growth and from changes in the scope of con-

solidation, especially from the acquisition of Siemens VDO. Exchange rate changes had an offsetting effect.

#### EBIT before Amortization of Intangible Assets from PPA and before Depreciation of Tangible Assets from PPA (only Siemens VDO) Up 3.1%

It is no longer possible to separately identify the depreciation of tangible assets from PPA for Siemens VDO and for the other acquisitions transacted in the past. For this reason, a rough estimate was made for Siemens VDO based upon the euro value as of November 30, 2007. According to this estimate, depreciation of tangible assets from PPA (only Siemens VDO) in the first nine months of 2008 totaled €2.0 million for the Chassis & Safety division.

The Chassis & Safety division's EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) was up in

the first nine months of 2008 compared with the same period of last year by €13.1 million, or 3.1%, to €435.8 million (Q1-Q3 2007: €422.7 million), and was equivalent to 10.6% (Q1-Q3 2007: 12.3%) of sales.

**EBIT before Amortization of Intangible Assets from PPA Up 2.6%**

In the first nine months of 2008, the Chassis & Safety division improved its EBIT before amortization of intangible assets from PPA compared with the same period of last year by €11.1 million, or 2.6%, to €433.8 million (Q1-Q3 2007: €422.7 million), equivalent to 10.5% (Q1-Q3 2007: 12.3%) of sales.

**EBIT Down 6.3%;  
Adjusted EBIT Down 4.7%**

Compared with the same period of last year, the Chassis & Safety division reported an decrease in EBIT of €26.5 million, or 6.3%, to €394.7 million (Q1-Q3 2007: €421.2 million). The return on sales fell to 9.6% (Q1-Q3 2007: 12.2%). Before special effects, EBIT declined by €20.0 million or 4.7% to €401.2 million (Q1-Q3 2007: €421.2 million). The adjusted return on sales amounted to 9.7% (Q1-Q3 2007: 12.2%).

**Special Effects in the First Nine Months of 2008**

The sensors unit at the Dortmund location in Germany is being closed due to reductions in volumes and a lack of follow-up orders. This led to restructuring expenses in the Chassis & Safety division in the amount of €6.1 million in the period under review.

In connection with the transfer of the R&D activities at the Elkhart plant in the U.S.A., restructuring expenses of €0.4 million were incurred by the Chassis & Safety division in the period under review.

For the first nine months of 2008, the total adverse impact of special effects on the Chassis & Safety division amounted to €6.5 million.

**Special Effects in the First Nine Months of 2007**

There were no special effects for the first three quarters of 2007.

Powertrain in € millions	January 1 to September 30		Third Quarter	
	2008	2007	2008	2007
Sales	3,283.3	688.0	912.9	237.7
EBITDA	189.2	38.3	- 4.8	9.8
in % of sales	5.8	5.6	- 0.5	4.1
EBIT before amortization of intangible assets from PPA	- 47.3	6.6	- 84.4	- 1.0
in % of sales	- 1.4	1.0	- 9.2	- 0.4
EBIT	- 176.4	1.0	- 127.5	- 2.7
in % of sales	- 5.4	0.1	- 14.0	- 1.1
Depreciation and amortization <sup>1</sup>	365.6	37.3	122.7	12.5
Capital expenditure <sup>2</sup>	337.8	56.4	120.0	24.6
Number of employees at September 30 <sup>3</sup>	26,503	5,179		
Adjusted EBIT before amortization of intangible assets from PPA <sup>4</sup>	- 43.4	21.4	- 74.4	1.8
in % of sales	- 1.3	3.1	- 8.1	0.8
Adjusted EBIT <sup>4</sup>	- 172.5	15.8	- 117.5	0.1
in % of sales	- 5.3	2.3	- 12.9	0.0
EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO)	- 5.8	6.6	- 71.6	- 1.0
in % of sales	- 0.2	1.0	- 7.8	- 0.4
Adjusted EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) <sup>4</sup>	- 1.9	21.4	- 61.6	1.8
in % of sales	- 0.1	3.1	- 6.7	0.8

<sup>1</sup> Excluding write-downs of investments.

<sup>2</sup> Capital expenditure on property, plant, equipment and software.

<sup>3</sup> Excluding trainees.

<sup>4</sup> Before special effects.

## Powertrain

### Sales Volumes

Significant volume decreases were recorded in North America by the Engine Systems (injection systems installed in light and medium commercial vehicles), Transmissions (transmission control units) and Sensors & Actuators business units. The positive trend for electronic control units and injection systems for diesel and gasoline engines in Europe and Asia could not compensate for these decreases.

### Sales Up 377.2%

Sales of the Powertrain division increased in the first nine months of 2008 to €3,283.3 million, up 377.2% compared with the same period of last year (Q1-Q3 2007: €688.0 million). This increase resulted both from organic growth and from changes in the scope of consolidation,

especially from the acquisition of Siemens VDO. Exchange rate changes had an offsetting effect.

### EBIT before Amortization of Intangible Assets from PPA and before Depreciation of Tangible Assets from PPA (only Siemens VDO) Down 187.9%

It is no longer possible to separately identify the depreciation of tangible assets from PPA for Siemens VDO and for the other acquisitions transacted in the past. For this reason, a rough estimate was made for Siemens VDO based upon the euro value as of November 30, 2007. According to this estimate, depreciation of tangible assets from PPA (only Siemens VDO) in the first nine months of 2008 totaled €41.5 million for the Powertrain division.

The Powertrain division's EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) was down in the first nine months of 2008 compared with the same period of last year by €12.4 million, or 187.9%, to -€5.8 million (Q1-Q3 2007: €6.6 million), and was equivalent to -0.2% (Q1-Q3 2007: 1.0%) of sales. Before special effects, EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) fell by €23.3 million, or 108.9%, to -€1.9 million (Q1-Q3 2007: €21.4 million). The adjusted return on sales amounted to -0.1% (Q1-Q3 2007: 3.1%).

#### **EBIT before Amortization of Intangible Assets from PPA Down 816.7%**

In the first nine months of 2008, the Powertrain division reported a decrease in EBIT before amortization of intangible assets from PPA compared with the same period of last year of €53.9 million, or 816.7%, to -€47.3 million (Q1-Q3 2007: €6.6 million), representing -1.4% (Q1-Q3 2007: 1.0%) of sales.

#### **EBIT Down €177.4 million; Adjusted EBIT Down 1,191.8%**

The Powertrain division reported a decrease in EBIT of €177.4 million to -€176.4 million compared with the same period of last year (Q1-Q3 2007: €1.0 million). The return on sales fell to -5.4% (Q1-Q3 2007: 0.1%). Before special effects, EBIT declined by €188.3 million or 1,191.8% to -€172.5 million (Q1-Q3 2007: €15.8 million). The adjusted return on sales amounted to -5.3% (Q1-Q3 2007: 2.3%).

#### **Special Effects in the First Nine Months of 2008**

Unutilized provisions of €0.7 million were reversed in the period under review as part of the winding up of restructuring activities at the plant in Angers, France. This was partially offset by restructuring expenses of €0.2 million from the continuing integration of Motorola's automotive electronics business.

The electric motors activities were sold – primarily under an asset deal – to the Brose Group with effect from April 1, 2008. This sale generated a total gain of €6.0 million for the Powertrain division on that date.

The sensors unit at the Dortmund location in Germany is being closed due to reductions in volumes and a lack of follow-up orders. This led to restructuring expenses in the Powertrain division in the amount of €8.5 million in the period under review.

In connection with the transfer of the R&D activities restructuring expenses of €1.9 million were incurred at the Elkhart plant in the U.S.A. by the Powertrain division in the period under review.

The impact of special effects on the Powertrain division reduced earnings for the first three quarters of 2008 by a total of €3.9 million.

#### **Special Effects in the First Nine Months of 2007**

In the Powertrain division, the continuing integration of Motorola's automotive electronics business resulted in expenses of €9.1 million and restructuring expenses of €1.5 million during the first nine months of 2007.

To optimize the organization of production and to improve the cost structure in the Electric Drives business unit in Germany, the company's Haldensleben location was closed at the end of 2007, apart from remaining minor winding-up activities. This resulted in restructuring expenses in the amount of €4.2 million in the first nine months.

The impact of special effects on the Powertrain division reduced earnings for the first three quarters of 2007 by a total of €14.8 million.

Interior in € millions	January 1 to September 30		Third Quarter	
	2008	2007	2008	2007
Sales	4,683.0	909.7	1,387.4	284.6
EBITDA	466.5	107.2	90.1	31.8
in % of sales	10.0	11.8	6.5	11.2
EBIT before amortization of intangible assets from PPA	258.4	74.6	20.5	20.2
in % of sales	5.5	8.2	1.5	7.1
EBIT	95.3	66.5	- 32.6	16.5
in % of sales	2.0	7.3	- 2.3	5.8
Depreciation and amortization <sup>1</sup>	371.2	40.7	122.7	15.3
Capital expenditure <sup>2</sup>	192.3	37.3	52.8	17.8
Number of employees at September 30 <sup>3</sup>	32,419	5,621		
Adjusted EBIT before amortization of intangible assets from PPA <sup>4</sup>	351.1	84.0	68.1	22.6
in % of sales	7.5	9.2	4.9	7.9
Adjusted EBIT <sup>4</sup>	188.0	75.9	15.0	18.9
in % of sales	4.0	8.3	1.1	6.6
EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO)	298.6	74.6	33.8	20.2
in % of sales	6.4	8.2	2.4	7.1
Adjusted EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) <sup>4</sup>	391.3	84.0	81.4	22.6
in % of sales	8.4	9.2	5.9	7.9

<sup>1</sup> Excluding write-downs of investments.

<sup>2</sup> Capital expenditure on property, plant, equipment and software.

<sup>3</sup> Excluding trainees.

<sup>4</sup> Before special effects.

## Interior

### Sales Volumes

In the Body & Security business unit, sales volumes were up substantially for access control systems and body electronics. We sold 13.1 million instrument clusters in the Instrumentation & Displays business unit. We were also able to substantially increase sales figures for digital tachographs in the Commercial Vehicles & Aftermarket business unit.

### Sales Up 414.8%

Sales of the Interior division increased in the first nine months of 2008 to €4,683.0 million, up 414.8% compared with the same period of last year (Q1-Q3 2007: €909.7 million). This increase resulted both from organic growth and from changes in the scope of consolidation, especially from the acquisition of Siemens VDO. Exchange rate changes had an offsetting effect.

### EBIT before Amortization of Intangible Assets from PPA and before Depreciation of Tangible Assets from PPA (only Siemens VDO) Up 300.3%

It is no longer possible to separately identify the depreciation of tangible assets from PPA for Siemens VDO and for the other acquisitions transacted in the past. For this reason, a rough estimate was made for Siemens VDO based upon the euro value as of November 30, 2007. According to this estimate, depreciation of tangible assets from PPA (only Siemens VDO) in the first nine months of 2008 totaled €40.2 million for the Interior division.

The Interior division's EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) was up in the first nine months of 2008 compared with the same period of last year by €224.0 million, or 300.3%, to €298.6



million (Q1-Q3 2007: €74.6 million), and was equivalent to 6.4% (Q1-Q3 2007: 8.2%) of sales. Before special effects, EBIT before amortization of intangible assets from PPA and before depreciation of tangible assets from PPA (only Siemens VDO) rose by €307.3 million, or 365.8%, to €391.3 million (Q1-Q3 2007: €84.0 million). The adjusted return on sales amounted to 8.4% (Q1-Q3 2007: 9.2%).

#### **EBIT before Amortization of Intangible Assets from PPA Up 246.4%**

In the first nine months of 2008, the Interior division improved its EBIT before amortization of intangible assets from PPA compared with the same period of last year by €183.8 million, or 246.4%, to €258.4 million (Q1-Q3 2007: €74.6 million), equivalent to 5.5% (Q1-Q3 2007: 8.2%) of sales.

#### **EBIT Up 43.3%; Adjusted EBIT Up 147.7%**

Compared with the same period of last year, the Interior division reported an increase in EBIT of €28.8 million, or 43.3%, to €95.3 million (Q1-Q3 2007: €66.5 million). The return on sales fell to 2.0% (Q1-Q3 2007: 7.3%). Before special effects, EBIT rose by €112.1 million, or 147.7%, to €188.0 million (Q1-Q3 2007: €75.9 million). The adjusted return on sales amounted to 4.0% (Q1-Q3 2007: 8.3%).

#### **Special Effects in the First Nine Months of 2008**

Unutilized provisions of €0.4 million were reversed in the period under review as part of the winding up of restructuring activities at the plant in Angers, France. This was partially offset by restructuring expenses of €0.1 million from the continuing integration of Motorola's automotive electronics business.

At the plant in Wetzlar, Germany, production is to be shutdown due to a lack of orders. Research and development activities are to remain in Wetzlar. This led to restructuring expenses in the amount of €18.6 million in the period under review.

The product portfolio was reviewed in conjunction with the acquisition of Siemens VDO and business sections in the non-OE sector were identified that do not belong to our core business. The sale process was initiated for one of these business sections and led to a recognition of impairment losses in the amount of €26.3 million.

Production at the plant in Rambouillet, France, is to be relocated. R&D activities as well as administration are to remain at the location. This led to restructuring expenses in the amount of €43.3 million in the period under review.

In addition, restructuring expenses of €4.8 million were incurred in the first nine months of 2008, primarily for the research and development location in Munich, Germany.

For the first nine months of 2008, the total adverse impact of special effects on the Interior division amounted to €92.7 million.

#### **Special Effects in the First Nine Months of 2007**

The continuing integration of Motorola's automotive electronics business resulted in expenses of €8.4 million and restructuring expenses of €1.0 million in the first nine months of 2007.

For the first nine months of 2007, the total adverse impact of special effects on the Interior division amounted to €9.4 million.

Passenger and Light Truck Tires in € millions	January 1 to September 30		Third Quarter	
	2008	2007	2008	2007
Sales	3,861.8	3,646.6	1,326.0	1,256.6
EBITDA	627.7	680.9	192.7	222.6
in % of sales	16.3	18.7	14.5	17.7
EBIT before amortization of intangible assets from PPA	456.9	527.6	134.3	170.4
in % of sales	11.8	14.5	10.1	13.6
EBIT	454.8	526.7	133.5	170.1
in % of sales	11.8	14.4	10.1	13.5
Depreciation and amortization <sup>1</sup>	172.9	154.2	59.2	52.5
Capital expenditure <sup>2</sup>	198.2	157.8	68.5	57.1
Number of employees at September 30 <sup>3</sup>	27,010	24,594		
Adjusted sales <sup>4</sup>	3,700.8	3,646.6	1,266.7	1,256.6
Adjusted EBIT before amortization of intangible assets from PPA <sup>5</sup>	460.2	545.2	139.7	188.0
in % of sales	12.4	15.0	11.0	15.0
Adjusted EBIT <sup>5</sup>	458.1	544.3	138.9	187.7
in % of sales	12.4	14.9	11.0	14.9

<sup>1</sup> Excluding write-downs of investments.

<sup>2</sup> Capital expenditure on property, plant, equipment and software.

<sup>3</sup> Excluding trainees.

<sup>4</sup> Before changes in the scope of consolidation.

<sup>5</sup> Before changes in the scope of consolidation and before special effects.

## Passenger and Light Truck Tires

### Sales Volumes

In the replacement business, we substantially increased the volumes sold in The Americas in the first three quarters of 2008 compared with the same period of 2007. This was accompanied by significant market share gains. Volumes sold in the European replacement business were also higher than the previous year's level. Sales volumes for the original equipment business improved on a global basis compared with the same period of 2007, with declines in the NAFTA region being more than offset by increased volumes in Europe.

### Sales Up 5.9%;

### Sales Up 4.6% before Consolidation and Exchange Rate Changes

Sales of the Passenger and Light Truck Tires division rose in the first nine months of 2008 to €3,861.8 million, up 5.9% compared with the same period last year (Q1-Q3 2007: €3,646.6 million). Before changes in the scope of consolidation and exchange rate effects, sales increased by 4.6%.

### EBIT before Amortization of Intangible Assets from PPA Down 13.4%

In the first nine months of 2008, the Passenger and Light Truck Tires division's EBIT before amortization of intangible assets from PPA was down compared with the same period of last year by €70.7 million, or 13.4%, to €456.9 million (Q1-Q3 2007: €527.6 million), and was equivalent to 11.8% (Q1-Q3 2007: 14.5%) of sales.

### EBIT Down 13.7%;

### Adjusted EBIT Down 15.8%

Compared with the same period of last year, the Passenger and Light Truck Tires division reported a decrease in EBIT of €71.9 million or 13.7% to €454.8 million (Q1-Q3 2007: €526.7 million). The return on sales fell to 11.8% (Q1-Q3 2007: 14.4%). Before changes in the scope of consolidation and special effects, EBIT was down by €86.2 million, or 15.8%, to €458.1 million (Q1-Q3 2007: €544.3 million). The adjusted return on sales fell to 12.4% (Q1-Q3 2007: 14.9%).

The increase in raw material prices had a negative impact of approximately €112 million on the Passenger and Light Truck Tires division's earnings in the first nine months of 2008 compared with the prices for the first nine months of 2007.

#### **Special Effects in the First Nine Months of 2008**

Expenses amounting to €3.6 million resulted primarily from the scrapping of unusable machinery as part of the winding up of the restructuring measures at the tire plants in Charlotte and Mayfield, U.S.A.

#### **Special Effects in the First Nine Months of 2007**

Our U.S. tire company Continental Tire North America (CTNA) amended its coverage of healthcare costs for retirees in 2006. In an interim decision, the competent court of first-instance had upheld in part a class-action lawsuit brought against this measure. In the meantime, the legal proceedings have been brought to a close with a settlement consisting primarily of a one-time contribution to a special health benefits fund without modifying the implemented plan changes. This led to charges in the Passenger and Light Truck Tires division in the amount of €17.6 million in the third quarter.

Commercial Vehicle Tires in € millions	January 1 to September 30		Third Quarter	
	2008	2007	2008	2007
Sales	1,070.9	1,069.9	385.5	363.5
EBITDA	95.5	140.3	27.2	43.9
in % of sales	8.9	13.1	7.1	12.1
EBIT before amortization of intangible assets from PPA	35.8	83.4	7.0	24.9
in % of sales	3.3	7.8	1.8	6.9
EBIT	35.1	83.2	6.8	24.9
in % of sales	3.3	7.8	1.8	6.9
Depreciation and amortization <sup>1</sup>	60.4	57.1	20.4	19.0
Capital expenditure <sup>2</sup>	70.1	56.9	24.8	21.9
Number of employees at September 30 <sup>3</sup>	8,361	8,244		
Adjusted sales <sup>4</sup>	1,015.2	1,022.8	365.3	347.4
Adjusted EBIT before amortization of intangible assets from PPA <sup>5</sup>	37.9	87.1	10.8	26.8
in % of sales	3.7	8.5	3.0	7.7
Adjusted EBIT <sup>5</sup>	37.2	86.9	10.6	26.8
in % of sales	3.7	8.5	2.9	7.7

<sup>1</sup> Excluding write-downs of investments.

<sup>2</sup> Capital expenditure on property, plant, equipment and software.

<sup>3</sup> Excluding trainees.

<sup>4</sup> Before changes in the scope of consolidation.

<sup>5</sup> Before changes in the scope of consolidation and before special effects.

## Commercial Vehicle Tires

### Sales Volumes

In Europe, volumes sold to vehicle manufacturers were higher than for the same period of 2007, but failed to reach the previous year's level in the replacement business due to a downward market trend. Volumes sold in The Americas region were also below the previous year's level as a result of this downward trend.

### Sales Up 0.1%;

### Sales Up 3.2% before Consolidation and Exchange Rate Changes

The Commercial Vehicle Tires division recorded an increase in sales in the first nine months of 2008 to €1,070.9 million, up 0.1% compared with the same period in 2007 (Q1-Q3 2007: €1,069.9 million). Before changes in the scope of consolidation and exchange rate effects, sales increased by 3.2%.

### EBIT before Amortization of Intangible Assets from PPA Down 57.1%

In the first nine months of 2008, the Commercial Vehicle Tires division's EBIT before amortization of intangible assets from PPA compared with the same period of last year fell by €47.6 million, or 57.1%, to €35.8 million (Q1-Q3 2007: €83.4 million), and was equivalent to 3.3% (Q1-Q3 2007: 7.8%) of sales.

### EBIT Down 57.8%;

### Adjusted EBIT Down 57.2%

Compared with the same period of last year, the Commercial Vehicle Tires division reported in the first nine months of 2008 a decrease in EBIT of €48.1 million or 57.8% to €35.1 million (Q1-Q3 2007: €83.2 million). The return on sales fell to 3.3% (Q1-Q3 2007: 7.8%). Before changes in the scope of consolidation and special effects, adjusted EBIT declined by €49.7 million or 57.2% to €37.2 million (Q1-Q3 2007: €86.9 million), and the adjusted return on sales to 3.7% (Q1-Q3 2007: 8.5%).

The increase in raw material prices had a negative impact of approximately €75 million on the Commercial Vehicle Tires division's earnings in the first nine months of 2008 compared with the prices for the same period of 2007.

#### **Special Effects in the First Nine Months of 2008**

There were no special effects for the first nine months of 2008.

#### **Special Effects in the First Nine Months of 2007**

Our U.S. tire company Continental Tire North America (CTNA) amended its coverage of healthcare costs for retirees in 2006. In an interim decision, the competent court of first-instance had upheld in part a class-action lawsuit brought against this measure. In the meantime, the legal proceedings have been brought to a close with a settlement consisting primarily of a one-time contribution to a special health benefits fund without modifying the implemented plan changes. This led to charges in the Commercial Vehicle Tires division in the amount of €1.0 million in the third quarter.

ContiTech in € millions	January 1 to September 30		Third Quarter	
	2008	2007	2008	2007
Sales	2,372.3	2,310.7	741.4	749.7
EBITDA	380.4	353.8	117.0	114.3
in % of sales	16.0	15.3	15.8	15.2
EBIT before amortization of intangible assets from PPA	307.4	280.9	92.9	89.6
in % of sales	13.0	12.2	12.5	12.0
EBIT	305.4	278.2	92.3	88.7
in % of sales	12.9	12.0	12.4	11.8
Depreciation and amortization <sup>1</sup>	75.0	75.6	24.7	25.6
Capital expenditure <sup>2</sup>	80.3	71.9	29.8	27.0
Number of employees at September 30 <sup>3</sup>	23,714	23,979		
Adjusted sales <sup>4</sup>	2,338.6	2,295.1	727.7	734.1
Adjusted EBIT before amortization of intangible assets from PPA <sup>5</sup>	274.4	281.6	67.5	88.1
in % of sales	11.7	12.3	9.3	12.0
Adjusted EBIT <sup>5</sup>	272.4	278.9	66.9	87.2
in % of sales	11.6	12.2	9.2	11.9

<sup>1</sup> Excluding write-downs of investments.

<sup>2</sup> Capital expenditure on property, plant, equipment and software.

<sup>3</sup> Excluding trainees.

<sup>4</sup> Before changes in the scope of consolidation.

<sup>5</sup> Before changes in the scope of consolidation and before special effects.

## ContiTech

### Sales Up 2.7%;

### Sales Up 3.6% before Consolidation and Exchange Rate Changes

Sales of the ContiTech division increased in the first nine months of 2008 to €2,372.3 million, up 2.7% compared with the same period of last year (Q1-Q3 2007: €2,310.7 million). Before changes in the scope of consolidation and exchange rate effects, sales increased by 3.6%.

The Air Spring Systems and Elastomer Coatings business units as well as the compounding business were the main contributors to this increase in sales. As in 2007, the industrial segments recorded much higher gains in sales than the automotive original equipment segments.

### EBIT before Amortization of Intangible Assets from PPA Up 9.4%

In the first nine months of 2008, the ContiTech division improved its EBIT before amortization of intangible assets from PPA compared with the same period of last year by €26.5 million, or 9.4%, to €307.4 million (Q1-Q3

2007: €280.9 million), equivalent to 13.0% (Q1-Q3 2007: 12.2%) of sales.

### EBIT Up 9.8%;

### Adjusted EBIT Down 2.3%

Compared with the same period of last year, the ContiTech division increased EBIT during the first three quarters of 2008 by €27.2 million, or 9.8%, to €305.4 million (Q1-Q3 2007: €278.2 million). Its return on sales rose to 12.9% (Q1-Q3 2007: 12.0%). Before changes in the scope of consolidation and special effects, EBIT was down by €6.5 million, or 2.3%, to €272.4 million (Q1-Q3 2007: €278.9 million). The adjusted return on sales amounted to 11.6% (Q1-Q3 2007: 12.2%).

The increase in raw material prices had a negative impact of approximately €18 million on the ContiTech division's earnings in the first nine months of 2008 compared with the prices for the first nine months of 2007.

#### **Special Effects in the First Nine Months of 2008**

Provisions no longer required totaling €3.0 million were reversed in the period under review as part of the winding up of restructuring activities, primarily for Roulunds, Denmark, and ContiTech Schlauch, Northeim, Germany, as well as in connection with the sale of the Benecke-Kaliko unit's furniture covering business.

The sale of the Benecke-Kaliko business unit's furniture covering business led to a gain of €4.7 million.

The sale of Phoenix Dichtungstechnik GmbH resulted in a gain of €24.3 million.

In the first nine months of 2008, special effects improved earnings in the ContiTech division by a total of €32.0 million.

#### **Special Effects in the First Nine Months of 2007**

In the first nine months of 2007, the ContiTech division incurred restructuring expenses of €3.0 million, primarily for Roulunds, Denmark.

#### **Report on Expected Developments and Outlook**

After the first nine months, we are expecting sales to reach approximately €25 billion for 2008 as a whole, including in full the sale of our electric motors operations effective April 1, 2008.

For the EBIT margin, we confirm our goal of about 8.5% as corrected on September 13. However, the fourth quarter holds uncertainties due to the declining economy. This targeted EBIT margin figure is before the adjustment in 2008 for amortization and depreciation resulting from the purchase price allocation, and before integration and restructuring expenses.

In the fourth quarter, further restructuring expenses are to be expected in the Automotive Group.

Earnings of the Rubber Group in 2008 will be impacted by about €270 million as a result of raw material price increases.

The capital expenditure ratio will be about 6% this year. Nevertheless, cash flow as well as the extensive conversion and early repayment of the convertible bond due in 2011 will lead to a substantial reduction in net indebtedness in 2008.

# Consolidated Financial Statements as of September 30, 2008

## Consolidated Income Statements

in € millions	January 1 to September 30		Third Quarter	
	2008	2007	2008	2007
<b>Sales</b>	<b>19,146.0</b>	<b>11,920.5</b>	<b>5,892.0</b>	<b>3,906.6</b>
Cost of sales	- 15,307.2	- 8,913.0	- 4,850.9	- 2,925.5
<b>Gross margin on sales</b>	<b>3,838.8</b>	<b>3,007.5</b>	<b>1,041.1</b>	<b>981.1</b>
Research and development expenses	- 1,212.5	- 577.0	- 372.9	- 187.8
Selling and logistics expenses	- 884.7	- 663.3	- 291.5	- 222.7
Administrative expenses	- 559.8	- 323.9	- 179.5	- 101.6
Other income and expenses	- 161.3	- 126.6	- 48.5	- 48.4
At-equity share in earnings of associates	46.3	15.3	12.2	5.3
Other income from investments	8.3	5.6	1.8	0.2
<b>Earnings before interest and taxes</b>	<b>1,075.1</b>	<b>1,337.6</b>	<b>162.7</b>	<b>426.1</b>
Interest income	56.8	35.2	18.1	13.6
Interest expense	- 566.5	- 98.8	- 151.8	- 52.9
<b>Net interest expense</b>	<b>- 509.7</b>	<b>- 63.6</b>	<b>- 133.7</b>	<b>- 39.3</b>
<b>Earnings before taxes</b>	<b>565.4</b>	<b>1,274.0</b>	<b>29.0</b>	<b>386.8</b>
Income tax expense	- 165.7	- 430.3	- 15.5	- 128.6
<b>Net income</b>	<b>399.7</b>	<b>843.7</b>	<b>13.5</b>	<b>258.2</b>
Minority interests	- 36.2	- 18.5	- 11.1	- 6.7
<b>Net income attributable to the shareholders of the parent</b>	<b>363.5</b>	<b>825.2</b>	<b>2.4</b>	<b>251.5</b>
<b>Undiluted earnings per share in €</b>	<b>2.24</b>	<b>5.63</b>	<b>0.01</b>	<b>1.71</b>
<b>Diluted earnings per share in €</b>	<b>2.23</b>	<b>5.39</b>	<b>0.01</b>	<b>1.66</b>



## Consolidated Balance Sheets

Assets in € millions	Sept. 30, 2008	Dec. 31, 2007	Sept. 30, 2007
Goodwill	7,277.8	7,289.2	1,733.9
Other intangible assets	2,656.2	2,979.8	235.4
Property, plant, and equipment <sup>1</sup>	6,184.0	5,968.6	3,575.2
Investment properties <sup>1</sup>	26.8	29.5	12.3
Investments in associates	773.4	766.4	133.7
Other investments	13.2	23.8	15.0
Deferred tax assets	260.6	162.6	117.1
Deferred pension charges	95.3	77.5	70.1
Long-term derivative instruments and interest-bearing investments	52.0	19.5	54.3
Other long-term financial assets	34.4	48.0	30.9
Other assets	19.7	19.0	2.2
<b>Non-current assets</b>	<b>17,393.4</b>	<b>17,383.9</b>	<b>5,980.1</b>
Inventories	2,836.3	2,535.9	1,850.2
Trade accounts receivable	4,564.3	3,943.6	2,947.4
Other short-term financial assets	184.5	190.3	136.2
Other assets	634.0	577.3	380.7
Income tax receivable	112.7	257.9	22.2
Short-term derivative instruments and interest-bearing investments	25.6	51.5	15.0
Cash and cash equivalents	968.6	2,199.4	748.9
Assets held for sale	261.7	597.8	10.5
<b>Current assets</b>	<b>9,587.7</b>	<b>10,353.7</b>	<b>6,111.1</b>
<b>Total assets</b>	<b>26,981.1</b>	<b>27,737.6</b>	<b>12,091.2</b>

Total equity and liabilities in € millions	Sept. 30, 2008	Dec. 31, 2007	Sept. 30, 2007
Common stock	432.3	414.0	376.3
Capital reserves	3,090.9	2,808.7	1,362.6
Retained earnings	3,708.5	3,614.4	3,419.0
Other comprehensive income	- 107.6	- 253.9	- 209.3
Minority interests	276.5	272.9	243.0
<b>Total equity</b>	<b>7,400.6</b>	<b>6,856.1</b>	<b>5,191.6</b>
Provisions for pension liabilities and other post-employment benefits	688.3	688.6	522.6
Deferred tax liabilities	490.3	525.2	168.8
Long-term provisions for other risks	438.6	466.0	320.6
Long-term portion of indebtedness	9,623.9	9,872.6	1,338.6
Other long-term financial liabilities	46.8	73.5	—
Other non-current liabilities	51.5	42.4	30.7
<b>Non-current liabilities</b>	<b>11,339.4</b>	<b>11,668.3</b>	<b>2,381.3</b>
Trade accounts payable	2,697.5	2,758.9	1,443.5
Income tax payable	519.2	532.7	479.4
Short-term provisions for other risks	867.3	842.6	507.9
Indebtedness	2,229.4	3,254.2	921.6
Other short-term financial liabilities	1,028.5	902.9	661.5
Other liabilities	784.4	679.1	504.4
Liabilities held for sale	114.8	242.8	—
<b>Current liabilities</b>	<b>8,241.1</b>	<b>9,213.2</b>	<b>4,518.3</b>
<b>Total equity and liabilities</b>	<b>26,981.1</b>	<b>27,737.6</b>	<b>12,091.2</b>
<b>Gearing ratio in %</b>	<b>146.0</b>	<b>158.3</b>	<b>27.8</b>

<sup>1</sup> The comparative figures as of December 31, 2007 and September 30, 2007 for property, plant, and equipment are shown adjusted for the "Investment properties".

## Consolidated Cash Flow Statements

in € millions	January 1 to September 30		Third Quarter	
	2008	2007	2008	2007
EBIT	1,075.1	1,337.6	162.7	426.1
Interest paid	- 448.9	- 79.7	- 160.3	- 28.6
Interest received	54.9	34.0	18.4	13.3
Income tax paid	- 184.6	- 340.8	- 54.8	- 111.3
Dividends received	36.0	8.9	4.3	0.4
Depreciation and amortization	1,296.1	531.5	433.7	179.4
At-equity share in earnings of associates and accrued dividend income from other investments	- 54.6	- 20.9	- 13.9	- 5.6
Gains from the disposal of assets, subsidiaries and business units	- 12.2	- 5.4	- 31.2	- 2.0
Changes in				
inventories	- 318.0	- 279.3	- 65.0	- 62.9
trade accounts receivable	- 617.4	- 622.0	59.9	- 112.9
trade accounts payable	- 86.4	- 19.3	- 139.4	- 2.3
pension and post-employment provisions	24.8	9.0	4.1	14.1
other assets and liabilities	164.9	157.1	75.0	57.1
<b>Cash flow provided by operating activities</b>	<b>929.7</b>	<b>710.7</b>	<b>293.5</b>	<b>364.8</b>
Proceeds on disposal of property, plant, equipment and intangible assets	34.5	12.1	2.4	3.1
Capital expenditure on property, plant, equipment and software	- 1,123.1	- 560.4	- 391.6	- 224.4
Capital expenditure on intangible assets from development projects	- 3.7	- 6.1	- 2.1	- 2.2
Proceeds on disposal of subsidiaries and business units, including surrendered cash and cash equivalents	343.4	1.0	93.5	0.0
Acquisition of subsidiaries and business units, incl. acquired cash and cash equivalents	- 69.4	- 105.1	- 31.9	- 64.2
Interest bearing advances	12.4	9.4	7.2	0.0
<b>Cash used for investing activities</b>	<b>- 805.9</b>	<b>- 649.1</b>	<b>- 322.5</b>	<b>- 287.7</b>
<b>Cash flow before financing activities</b>	<b>123.8</b>	<b>61.6</b>	<b>- 29.0</b>	<b>77.1</b>
Change in indebtedness	- 1,008.7	421.8	- 201.5	- 206.5
Proceeds from the issuance of shares	1.0	7.7	- 0.6	7.3
Dividends paid	- 323.4	- 293.1	—	—
Dividends paid and repayment of capital to minority interests	- 33.5	- 9.4	- 5.9	- 2.4
<b>Cash flow used for/provided by financing activities</b>	<b>- 1,364.6</b>	<b>127.0</b>	<b>- 208.0</b>	<b>- 201.6</b>
<b>Change in cash and cash equivalents</b>	<b>- 1,240.8</b>	<b>188.6</b>	<b>- 237.0</b>	<b>- 124.5</b>
Cash and cash equivalents at the beginning of the reporting period	2,199.4	571.1	1,181.1	885.7
Effect of exchange rate changes on cash and cash equivalents	10.0	- 10.8	24.5	- 12.3
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>968.6</b>	<b>748.9</b>	<b>968.6</b>	<b>748.9</b>

## Consolidated Statements of Changes in Total Equity

	Number of shares	Common stock	Capital reserves	Retained earnings	Other comprehensive income			Subtotal	Minority interest	Total
					successive share purchases	Difference from currency translation	financial instru- ments <sup>1</sup>			
in € millions	(thousands)									
<b>As of Jan. 1, 2007</b>	<b>146,529</b>	<b>375.1</b>	<b>1,340.1</b>	<b>2,886.8</b>	<b>- 22.9</b>	<b>- 107.5</b>	<b>- 0.8</b>	<b>4,470.8</b>	<b>239.1</b>	<b>4,709.9</b>
Net income	—	—	—	825.2	—	—	—	825.2	18.5	843.7
Comprehensive income	—	—	—	—	—	- 62.4	0.8	- 61.6	- 4.5	- 66.1
<b>Net profit for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>825.2</b>	<b>—</b>	<b>- 62.4</b>	<b>0.8</b>	<b>763.6</b>	<b>14.0</b>	<b>777.6</b>
Dividends paid	—	—	—	- 293.1	—	—	—	- 293.1	- 9.4	- 302.5
Issuance of shares <sup>2</sup>	448	1.2	22.6	—	—	—	—	23.8	—	23.8
Successive acquisitions of shares in fully consolidated companies	—	—	—	—	- 16.5	—	—	- 16.5	- 0.7	- 17.2
Reclassification of equity component on the conversion of convertible bonds	—	—	- 0.1	0.1	—	—	—	—	—	—
<b>As of Sept. 30, 2007</b>	<b>146,977</b>	<b>376.3</b>	<b>1,362.6</b>	<b>3,419.0</b>	<b>- 39.4</b>	<b>- 169.9</b>	<b>0.0</b>	<b>4,948.6</b>	<b>243.0</b>	<b>5,191.6</b>
<b>As of Jan. 1, 2008</b>	<b>161,712</b>	<b>414.0</b>	<b>2,808.7</b>	<b>3,614.4</b>	<b>- 35.6</b>	<b>- 218.5</b>	<b>0.2</b>	<b>6,583.2</b>	<b>272.9</b>	<b>6,856.1</b>
Net income	—	—	—	363.5	—	—	—	363.5	36.2	399.7
Comprehensive income <sup>3</sup>	—	—	—	—	—	123.0	21.2	144.2	1.8	146.0
<b>Net profit for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>363.5</b>	<b>—</b>	<b>123.0</b>	<b>21.2</b>	<b>507.7</b>	<b>38.0</b>	<b>545.7</b>
Dividends paid	—	—	—	- 323.4	—	—	—	- 323.4	- 13.6	- 337.0
Issuance of shares <sup>2</sup>	7,141	18.3	324.8	—	—	—	—	343.1	—	343.1
Successive acquisitions of shares in fully consolidated companies <sup>4</sup>	—	—	—	11.3	2.2	—	—	13.5	- 0.2	13.3
Reclassification of equity component on the conversion of convertible bonds	—	—	- 42.6	42.6	—	—	—	—	—	—
Changes in minority interests from consolidation changes or capital increases	—	—	—	—	—	—	—	—	- 20.6	- 20.6
<b>As of Sept. 30, 2008</b>	<b>168,853</b>	<b>432.3</b>	<b>3,090.9</b>	<b>3,708.5</b>	<b>- 33.4</b>	<b>- 95.5</b>	<b>21.4</b>	<b>7,124.1</b>	<b>276.5</b>	<b>7,400.6</b>

<sup>1</sup> Net of deferred tax.

<sup>2</sup> Includes the expenditure and exercise of rights derived from stock option plans and convertible bonds.

<sup>3</sup> The difference from currency translation is mainly attributable to the rise in the exchange rate of the Czech koruna against the euro.  
The difference from financial instruments is mainly due to the change in the market value of the cash flow hedge on interest.

<sup>4</sup> When determining the final purchase price for the acquisition of the Matador Rubber Group there was a further negative balance totaling €11.3 million including additional purchase costs.

## Explanatory Notes to the Consolidated Financial Statements

### Accounting Principles

This Interim Report, as presented, has been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable on the closing date and endorsed by the European Union, as well as the interpretations of the International Financial Reporting Interpretation Committee (IFRIC). The Interim Report was drawn up in compliance with IAS 34, Interim Financial Reporting. The same accounting principles and basis of valuation are applied in the Interim Report as were used in the annual financial statements for 2007. These methods are disclosed in detail in the Annual Report 2007. Processes and systems are and will be introduced at group member companies so that – as opposed to the annual financial statements – no interim adjustments are made to certain accrued fixed cost items. This mainly applies to fixed costs capitalized for finished goods and work-in-

progress inventories, as well as provisions for accrued vacation of hourly and salaried employees. Taxes are calculated based on the estimated, weighted-average annual tax rate expected for the year as a whole, taking into account the tax impact of specific significant items not expected to reoccur in the remainder of the year.

Although certain elements of the Corporation's business are seasonal, the overall comparability of the interim consolidated financial statements is not compromised. All significant effects in the current period are shown in the financial summaries or in the accompanying explanations. Changes in the recognition or valuation of assets and liabilities within the scope of company acquisitions are applied retroactively once the final purchase price allocation has been determined.

### Pension Obligations

Consolidated net pension expenses can be summarized as follows:

in € millions	January 1 to September 30, 2008					January 1 to September 30, 2007				
	Ger-many	U.S.A./CAN	UK	Others	Total	Ger-many	U.S.A.	UK	Others	Total
Current service cost	41.8	6.2	2.8	6.1	56.9	24.4	1.7	3.3	2.9	32.3
Interest on defined benefit obligation	62.5	35.6	8.3	6.1	112.5	46.1	27.3	6.5	2.9	82.8
Expected return on plan assets	- 46.7	- 47.4	- 10.7	- 4.1	- 108.9	- 37.5	- 36.6	- 7.6	- 1.2	- 82.9
Amortization of actuarial gains and losses as well as other costs	0.0	0.2	- 0.1	0.1	0.2	3.0	0.4	0.0	0.3	3.7
Effects of asset limitation and curtailments	—	1.4	0.1	0.0	1.5	—	—	—	—	—
<b>Net periodic pension cost</b>	<b>57.6</b>	<b>- 4.0</b>	<b>0.4</b>	<b>8.2</b>	<b>62.2</b>	<b>36.0</b>	<b>- 7.2</b>	<b>2.2</b>	<b>4.9</b>	<b>35.9</b>

Consolidated net expenses for retirement healthcare and life insurance obligations in the U.S.A. and Canada are made up of the following:

in € millions	January 1 to September 30, 2008	January 1 to September 30, 2007
Current service cost	3.2	1.3
Interest cost on defined benefit obligation	8.4	7.6
Amortization of actuarial gains and losses as well as other costs	- 0.4	- 1.4
Loss on curtailment	—	18.6
<b>Net cost of other post-employment benefits</b>	<b>11.2</b>	<b>26.1</b>

### **Cash Changes in Post-Employment Obligations**

Pension funds exist solely for pension obligations, particularly in Germany, the U.S.A., Canada and the United Kingdom, and not for other benefit obligations. The companies of the Continental Corporation paid €10.2 million (Q1-Q3 2007: €6.0 million) into these pension funds for the period from January 1 to September 30, 2008. In the same period last year, €20.1 million in special contributions was also paid in the U.S.A.

In the period from January 1 to September 30, 2008 payments for retirement benefit obligations totaled €114.5 million (Q1-Q3 2007: €96.7 million). Payments for other post-employment benefits totaled €9.8 million (Q1-Q3 2007: €11.0 million).

### **Companies Consolidated**

In addition to the parent company, the consolidated financial statements include a total of 366 domestic and foreign companies in which Continental Aktiengesellschaft holds a direct or indirect interest of at least 20% of the voting rights. Of these companies, 313 are fully consolidated and 53 are carried at equity.

Since December 31, 2007, the total number of consolidated companies has decreased by five. Three companies were newly formed, and one company was consolidated for the first time. In addition, four companies were acquired and four companies were sold. Furthermore, two companies were deconsolidated, two companies were liquidated, and five companies were merged with other consolidated companies.

Since September 30, 2007, the total number of consolidated companies has increased by 85. The principal additions to the companies consolidated relate to the acquisitions of Siemens VDO Automotive AG and Continental Matador Rubber s.r.o., as well as their respective subsidiaries.

### **Acquisition and Sale of Companies**

Acquisitions in 2008 relate in particular to later purchase costs as part of the acquisition of Siemens VDO, as well as the purchase price payment in connection with the acquisition of the automotive foils business of Alkor GmbH. Moreover, additional shares were acquired in the associated company Alphapeak Ltd, UK, plus further shares in ContiTech AG as a result of the redemption offer to its outside shareholders, as well as shares in

Enax, the Japanese specialist for lithium-ion batteries. In addition, the remaining minority interest in the Greek conveyor belt company IMAS A.E. was acquired. With effect as of July 1, 2008, a further 15% of the shares of the Slovakian company Continental Matador Rubber s.r.o. were also acquired. These acquisitions had no material effect on sales up to September 30, 2008. The effects on net income attributable to the shareholders of the parent are insignificant.

On July 22, 2008 we agreed to purchase 89.66% of the shares in the Istanbul-based company, Oltas SPA, from Koç Holding and other shareholders of the Koç Group in order to significantly improve our market position for commercial vehicle, passenger and light truck tires in Turkey, and thus in the growth region Eastern Europe as a whole. The purchase was completed after the approval of the antitrust authorities in September 2008. Oltas is Continental's exclusive tire distributor for the passenger, light truck and commercial vehicle tire brands Continental, Uniroyal and Barum in Turkey. The initial consolidation on September 1, 2008 as well as the preliminary purchase price allocation had no material effect on the earnings, financial and net assets position of Continental on September 30, 2008.

After the antitrust authorities approved the completion of the acquisition of the Finnish spike manufacturer Tikka Spikes Oy and its Russian affiliate OOO Tikka, the acquisition was completed in September 2008. The purchase agreement had been signed by Continental and Tikka Group Oy on June 18, 2008. The initial consolidation on September 1, 2008 as well as the preliminary purchase price allocation had no material effect on the earnings, financial and net assets position of Continental on September 30, 2008.

Effective April 1, 2008, the electric motors activities of the Powertrain division were sold to the Brose Group for proceeds totaling €249.0 million at the closing date. In addition, the tangible fixed assets of the Benecke-Kaliko unit's furniture coverings business were sold to Renolit AG. Also, Phoenix Dichtungstechnik GmbH was sold effective July 1, 2008 to an investment company for proceeds totaling €41.5 million.

Other sales of participations relate to holdings in HUF Hülsbeck and ETAS acquired with the purchase of Siemens VDO. These sales preliminarily generated revenue

totaling €53.5 million in the third quarter. The difference between the book value and revenue from sales was treated as an adjustment in the opening balance of Siemens VDO with no effect on net income.

In the Interior division, the product portfolio was reviewed in conjunction with the acquisition of Siemens VDO and business sections in the non-OE sector were identified that do not belong to our core business. The sale process was initiated for one of these business sections and led to a recognition of impairment losses in the amount of €26.3 million. The corresponding items, adjusted by the write-down, were reclassified as "Assets held for sale" and "Liabilities held for sale" respectively.

#### **Dividend Payment**

The dividend of €2.00 per share for fiscal 2007 (€2.00 for fiscal 2006) decided upon by the Annual Shareholders' Meeting on April 25, 2008, was paid out starting on April 28, 2008. The total dividend payment amounted to €323.4 million (€293.1 million for fiscal 2006).

#### **Earnings per Share**

Undiluted earnings per share for the first nine months of 2008 amounted to €2.24 (Q1-Q3 2007: €5.63) and €0.01 for the period July 1 to September 30, 2008 (Q3 2007: €1.71). Diluted earnings per share for the first nine months of 2008 amounted to €2.23 (Q1-Q3 2007: €5.39) and €0.01 for the third quarter of 2008 (Q3 2007: €1.66).

#### **Change in Shareholder Structure**

Regarding the explanations of the shareholder structure, we refer to the remarks in the Corporate Management Report as of September 30, 2008.

#### **Contingent Liabilities and Other Financial Obligations**

As of September 30, 2008, there were no significant changes in the non-recognized contingent liabilities and other financial obligations as described in the Annual Report 2007.

#### **Transactions with Related Parties**

In the period under review, there were no significant changes in the nature of transactions with related parties compared with the same period of the previous year.

#### **German Corporate Governance Code**

The annual declaration in accordance with section 161 of the *Aktiengesetz* (German Stock Corporation Act) regarding the German Corporate Governance Code from the Executive Board and Supervisory Board of Continental AG was made permanently available to shareholders on Continental's website. Earlier declarations in accordance with section 161 of the *Aktiengesetz* can also be found on the website.

#### **Segment Reporting**

Regarding the explanations of the development of the six divisions of Continental AG, we refer to the remarks in the Corporate Management Report as of September 30, 2008.

#### **Indebtedness and Net Income from Financial Activities**

Regarding the explanations of indebtedness and the net income from financial activities, we refer to the remarks in the Corporate Management Report as of September 30, 2008.

## **Significant Events after September 30, 2008**

In connection with the 2006 acquisition of Motorola, Inc.'s automotive electronics business, Continental AG initiated arbitration proceedings in 2007 against Motorola to resolve a dispute over Continental's contractual right to decrease the purchase price. On October 1, 2008, the arbitration tribunal in New York, U.S.A., granted Conti-

ental's claim in the full principal amount of \$54.3 million plus interest thereon and certain costs. Motorola has not so far filed an appeal of the award, however the time period for them to potentially file an appeal has not expired.

# Financial Calendar

## 2008

Financial press conference	February 21
Analyst conference	February 21
Annual Shareholders' Meeting	April 25
Interim Report as of March 31, 2008	April 29
Interim Report as of June 30, 2008	July 31
Interim Report as of September 30, 2008	October 30

## 2009

Financial press conference	February
Analyst conference	February
Annual Shareholders' Meeting	April 23
Interim Report as of March 31, 2009	May
Interim Report as of June 30, 2009	August
Interim Report as of September 30, 2009	October

Continental Aktiengesellschaft, P.O.Box 169, 30001 Hanover, Germany  
Vahrenwalder Straße 9, 30165 Hanover, Germany  
Phone +49 511 938-01, Fax +49 511 938-81770, mailservice@conti.de, [www.continental-corporation.com](http://www.continental-corporation.com)

Continental AG is an Official Sponsor of the 2010 FIFA World Cup South Africa™.

