

# Glossary of Financial Terms

The following glossary of financial terms applies to both the Management Report and the Consolidated Financial Statements.

**Adjusted EBIT.** EBIT before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects (e.g. impairment, restructuring, and gains and losses from disposals of companies and business operations). Since it eliminates one-off effects, it can be used to compare operational profitability between periods.

**Adjusted sales.** Sales adjusted for changes in the scope of consolidation.

**American depositary receipt (ADR).** ADRs securitize the ownership of shares and can refer to one, several, or even a portion of a share. ADRs are traded on U.S. stock exchanges in the place of foreign shares or shares that may not be listed on U.S. stock exchanges.

**Capital employed.** The funds used by the company to generate its sales.

**Changes in the scope of consolidation.** Changes in the scope of consolidation include additions and disposals as part of share and asset deals. Adjustments are made for additions in the reporting year and for disposals in the comparative period of the prior year.

**Continental Value Contribution (CVC).** The absolute amount of additional value created. The delta CVC represents the change in absolute value creation compared to the prior year. Delta CVC allows us to monitor the extent to which management units generate value-creating growth or employ resources more efficiently.

The CVC is measured by subtracting the weighted average cost of capital (WACC) from the return on capital employed (ROCE) and multiplying this by the average operating assets for the fiscal year. The WACC calculated for the Continental Corporation corresponds to the required minimum return. The cost of capital is calculated as the weighted average ratio of the cost of equity and borrowing costs.

**Currency swap.** Swap of principal payable or receivable in one currency into similar terms in another currency. Often used when issuing loans denominated in a functional currency other than that of the lender.

**Derivative instruments.** Transactions used to manage interest rate and/or currency risks.

**Dividend payout ratio.** The ratio between the dividend for the fiscal year and the earnings per share.

**EBIT.** Earnings before interest and tax. EBIT is defined as the result of ordinary business activities and is used to assess operational profitability.

**EBITDA.** Earnings before interest, tax, depreciation and amortization. This is defined as the sum of EBIT and depreciation of property, plant, and equipment and amortization of intangible assets (excluding impairment on financial investments). This key figure is used to assess operational profitability.

**Finance lease.** Under a finance lease, the lessor transfers the investment risk to the lessee. This means that the lessor bears only the credit risk and any agreed services. The lessee is the beneficial owner of the leased asset. Finance leases are characterized by a fixed basic term during which the lease may not be terminated by the lessee.

**Free cash flow.** The sum of cash flow arising from operating activities and cash flow arising from investing activities. Also referred to as cash flow before financing activities. Free cash flow is used to assess financial performance.

**Free cash flow before acquisitions.** The sum of cash flow arising from operating activities and cash flow arising from investing activities before acquisitions of companies and business operations. Free cash flow before acquisitions is used to assess financial performance.

**Gearing ratio.** Net indebtedness divided by equity. Also known as the debt to equity ratio. This key figure is used to assess the financing structure.

**Gross domestic product (GDP).** A measure of the economic performance of a national economy. It specifies the value of all goods and services produced within a country in a year.

**Hedging.** Securing a transaction against risks, such as fluctuations in exchange rates, by entering into an offsetting hedge transaction, typically in the form of a forward contract.

**IAS.** International Accounting Standards. Accounting standards developed and resolved by the IASB.

**IASB.** International Accounting Standards Board. Independent standardization committee.

**IFRIC.** International Financial Reporting Interpretations Committee (predecessor of the IFRS IC).

**IFRS.** International Financial Reporting Standards. The standards are developed and resolved by the IASB. In a broad sense, they also include the IAS, the interpretations of the IFRS IC or of the predecessor IFRIC as well as the former SIC.

**IFRS IC.** International Financial Reporting Standards Interpretations Committee.

**Interest rate swap.** The exchange of interest payments between two parties. For example, this allows variable interest rates to be exchanged for fixed interest, or vice versa.

**Net indebtedness.** The net amount of interest-bearing financial liabilities as recognized in the balance sheet, the positive fair values of the derivative instruments, cash and cash equivalents, as well as other interest-bearing investments. This figure is the basis for calculating key figures of the capital structure.

**Operating assets.** The assets less liabilities as reported in the balance sheet, without recognizing the net indebtedness, sale of trade accounts receivable, deferred tax assets, income tax receivables and payables, as well as other financial assets and debts. Average operating assets are calculated as at the end of the quarterly periods and, according to our definition, correspond to the capital employed.

**Operating lease.** A form of lease that is largely similar to rental. Leased assets are recognized in the lessor's balance sheet and capitalized.

**PPA.** Purchase Price Allocation. The process of breaking down the purchase price and assigning the values to the identified assets, liabilities, and contingent liabilities following a business combination. Subsequent adjustments to the opening balance sheet - resulting

from differences between the preliminary and final fair values at the date of initial consolidation - are also recognized as PPA.

**Rating.** Standardized indicator for the international finance markets that assesses and classifies the creditworthiness of a debtor. The classification is the result of an economic analysis of the debtor by specialist rating companies.

**Return on capital employed (ROCE).** The ratio of EBIT to average operating assets for the fiscal year. ROCE corresponds to the rate of return on the capital employed and is used to assess the company's profitability and efficiency.

**SIC.** Standing Interpretations Committee (predecessor to the IFRIC).

**Tax rate.** The ratio of income tax expense to the earnings before tax. It can be used to estimate the company's tax burden.

**Weighted average cost of capital (WACC).** The weighted average cost of the required return on equity and net interest-bearing liabilities.

**Working capital.** Inventories plus trade accounts receivable less trade accounts payable. It does not include receivables from and liabilities to related parties or sale of trade accounts receivable.