



Powertrain Review

Powertrain Strategy 2020+

Ticker: CON
ADR-Ticker: CTTAY
Twitter: @Continental_IR
<http://www.continental-ir.com>

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Agenda

- 1 Current Status of Business**
- 2 Changing Market Environment**
- 3 Adapted ICE Strategy**
- 4 Adapted Electrification Strategy (AES)**
- 5 Summary**

Continental's Powertrain Business – Strategy 2020+

Current Status: Powertrain Business back on Track...

› Order Intake:

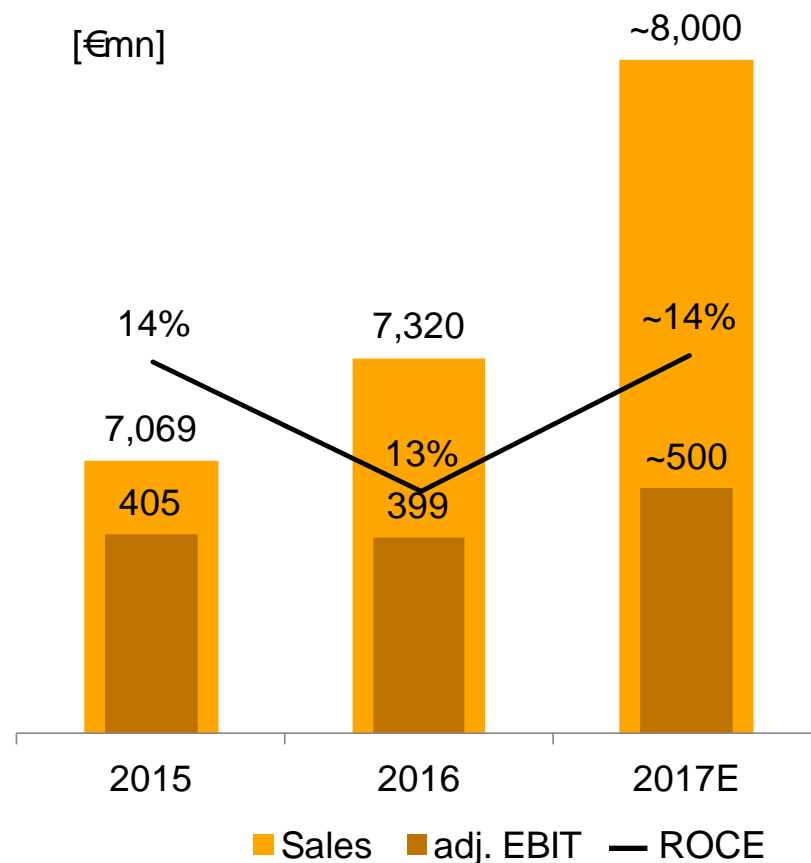
- › Acquired €11.5bn in 2016
- › Positive YOY development in all business units
- › Expect further growth in order intake for 2017

› Sales:

- › Will reach ~ €8bn in 2017 (~ +9% YOY)
- › Adj. EBIT at ~ €500mn in 2017

› Cash flow/ Return on Investment:

- › Powertrain generates positive free cash flow, can finance capex needs internally
- › Since 2015 Powertrain exceeds the required cost of capital (WACC ass. 10% pre tax)
- › **ROCE back at 14% in 2017**



... but decreasing Diesel share and increasing EV share require further action!

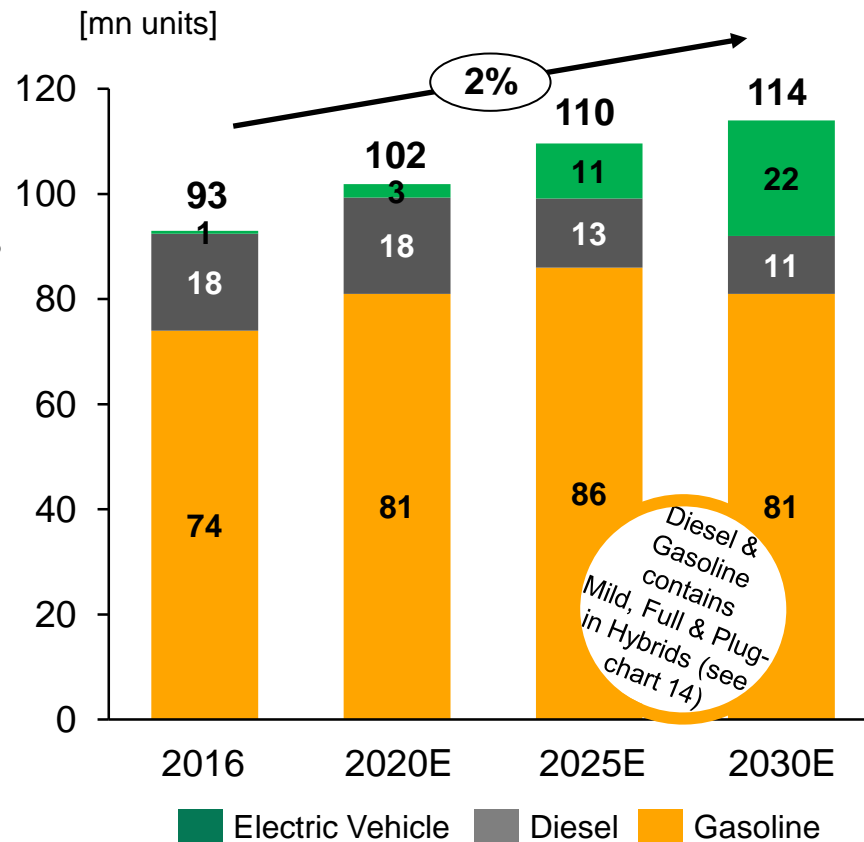
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Engine Roadmap 2016-2030

- › Engine roadmap expectation has changed
 - › Stronger decline of diesel engines
 - › Prolonged stability of gasoline engines
 - › Stronger increase of pure EVs



Source: Continental estimates

MHEV: Mild Hybrid Electric Vehicle

FHEV: Full Hybrid Electric Vehicle

PHEV: Plug-in Hybrid Electric Vehicle

Agenda

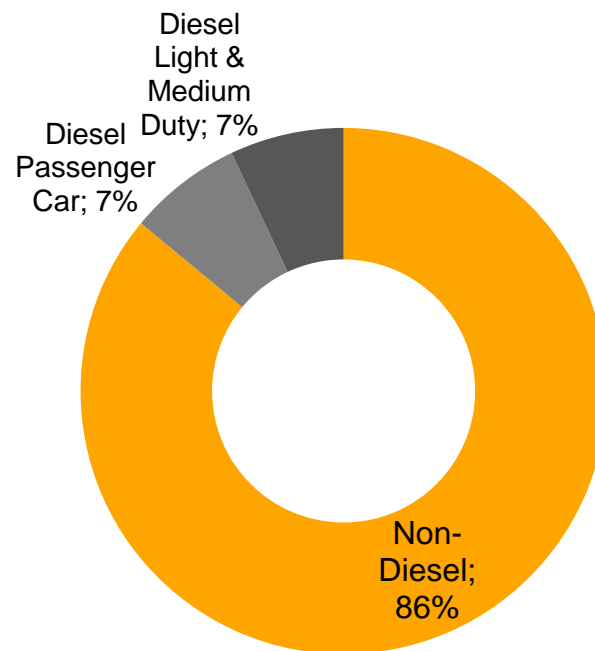
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Adapted ICE Strategy – Consequences of Diesel Decline

- › Positive impact on gasoline-related business
 - › Through the medium term the loss in share of diesel engines will be replaced by gasoline engines in passenger cars
 - › As gasoline engines need to be further enhanced (turbocharger, direct injection, 48V)
- › Diesel passenger cars will drop disproportionately while small and medium duty vehicles will remain diesel propelled
- › Diesel passenger cars only 7% of total Continental Powertrain business
- › Mechanics & hydraulics related to Diesel order intake in 2016 amounted to only €80mn

Diesel share of Powertrain business 2016



Diesel decline has limited impact on Continental's Powertrain business!

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Adapted ICE Strategy

- › **ICE components** have to be divided in **two main categories**:
 - a) **Mechanics and hydraulics** as they will be mainly affected through substitution by an increase in electrification
 - b) **Electronics** as they remain largely immune, i.e. will be redeployed and increase in installation with growing electrification
- › The last European combustion engine platform still to be introduced around 2023 for the next decade of production and likely as the last generation
- › After 2023 any required improvement in performance/emission reduction most likely to come from improved electronics and enhanced software algorithms which present attractive business opportunities for the remaining life cycle of the ICE

Continental well positioned for these developments with Electronics being already the majority of today's business

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Adapted ICE Strategy

a) Mechanics and hydraulics

› Selective growth strategy:

- › The last European combustion engine platform still to be introduced around 2023 for the next decade of production and likely as the last generation
- › Due to unique position in after treatment systems and advanced performance attributes (pressure, accuracy, and combustion) of existing products (injectors, turbo and pumps), we are already positioned to participate in the next last generation of ICE

› Focus on cash generation

- › Leverage existing product technologies
- › Leverage existing footprint
- › De-emphasize base R&D
- › Re-use strategy to further improve efficiency

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Adapted ICE Strategy

b) Electronics

› Aggressive growth strategy

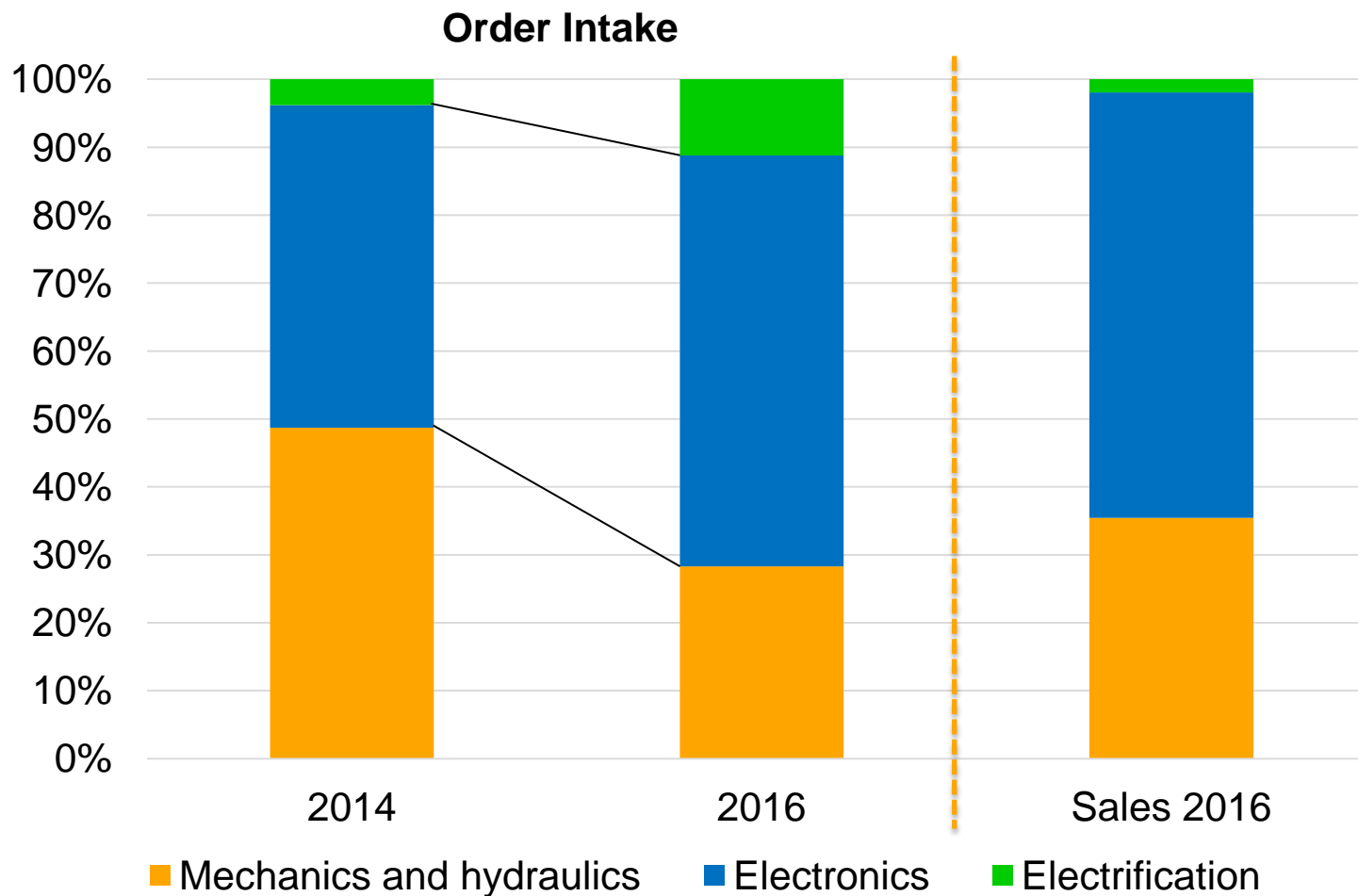
- › Advanced electronic components, especially integrated architectures
 - › to improve the ICE performance, hybridization, energy management and emissions to comply with stricter legislation for CO₂ and Real Driving Emissions (RDE), or
 - › for full electric vehicles as well as automated driving
- › Products to benefit: smart sensors, ECUs, TCUs and smart actuators

› Focus to keep leading market position

- › Requires growth capex
- › Requires high level of R&D

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Adapted ICE Strategy



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Adapted ICE Strategy – Summary

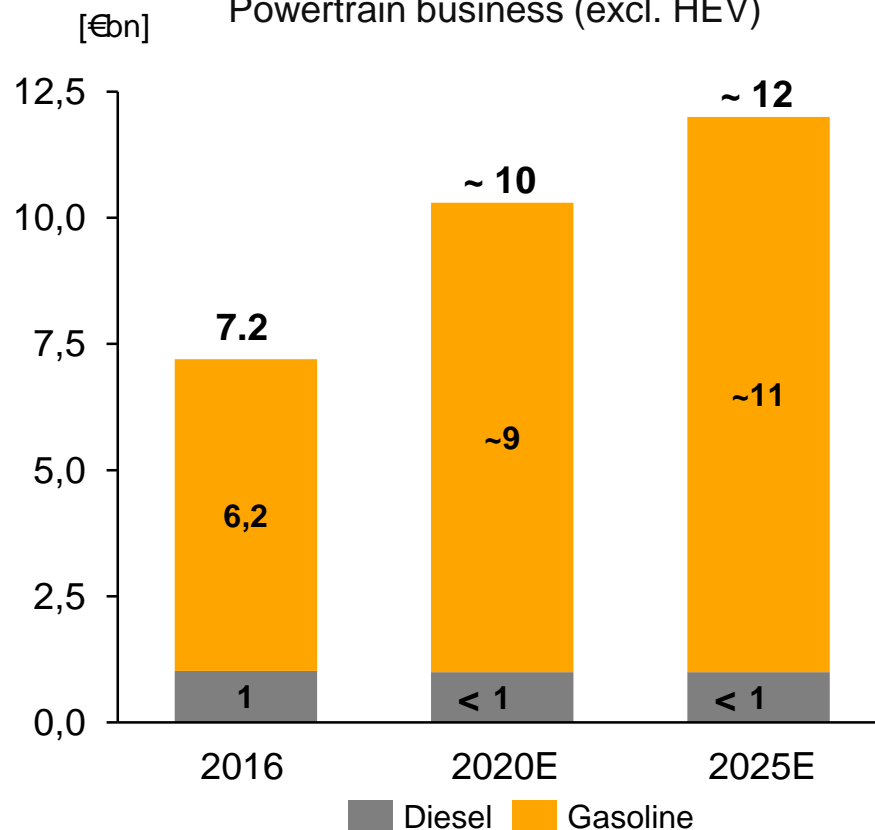
2016-2025

- › With prolonged growth in gasoline engine related business and specifically in electronics, ICE related business (excl. HEV) to grow to ~ €12bn in sales
- › Expected EBIT margin of 10% (excl. HEV) starting 2019 and to be sustained further on

2025-2030

- › In between 2025 to 2030: approx. €2bn sales at risk due to expected reduction of passenger car ICE
- › Compensation to come from HEV business

Sales development of ICE related Powertrain business (excl. HEV)



Remains a very attractive business over the next 15 years!

Agenda

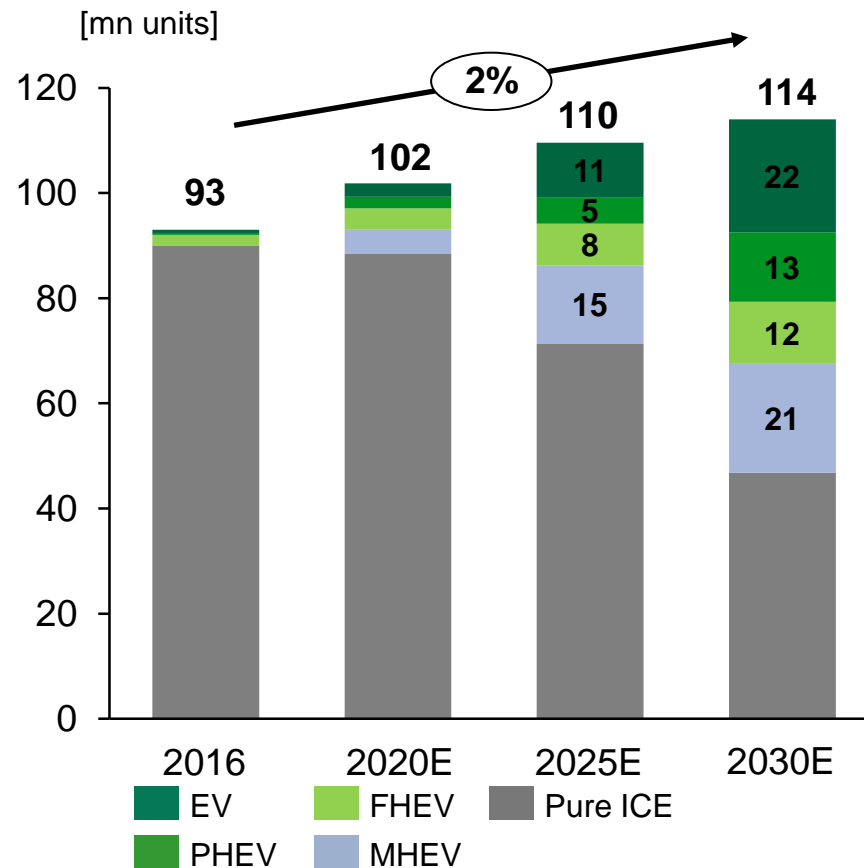
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AES: Engine Roadmap 2016-2030 – Electrification View

› Versus previous expectation:

- › More variants of hybridization due to decline in Diesel
- › Stronger increase in pure Electric Vehicles
- › 2030: close to 60% of the market will be electrified



Source: Continental estimates

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Adapted Electrification Strategy (AES)

- › Already well positioned
 - › 48V fluid-cooled
 - › High Performance and high Power Electronics
 - › Selective full electric motor / inverter axle machines (from 70 to 150kw)
 - › **Continental spend in electrification totals €1bn (2011-2016)**
- › Strategy is aggressive growth with an expanded product portfolio range
 - › Will spend additional €300mn (cumulative until 2021) in order to expand product portfolio to include
 - › Additional 48V systems (12kW and 25kW)
 - › Expansion of motor product range to 250-270kW
 - › Expansion of inverter product range to ultra high voltage (> 500V)
 - › Charging systems (conductive, inductive, fast)
 - › Battery management systems and components for thermal management systems

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AES – Market still lacks maturity

Reasons market has failed to establish as viable business field in the past

Key driver has been legislation as opposed to consumer acceptance

Accordingly high expectations, but unrealized critical volumes

No clear trend or requirements to standardize solutions for mild hybrids and high voltage

Cost degression and range still insufficient to make full electric vehicle attractive

Mild Hybrid



48V “cost optimized” (10-12kW)



48V “CO₂ optimized” (15kW)



48V “inner city driving” (25kW)

High Voltage

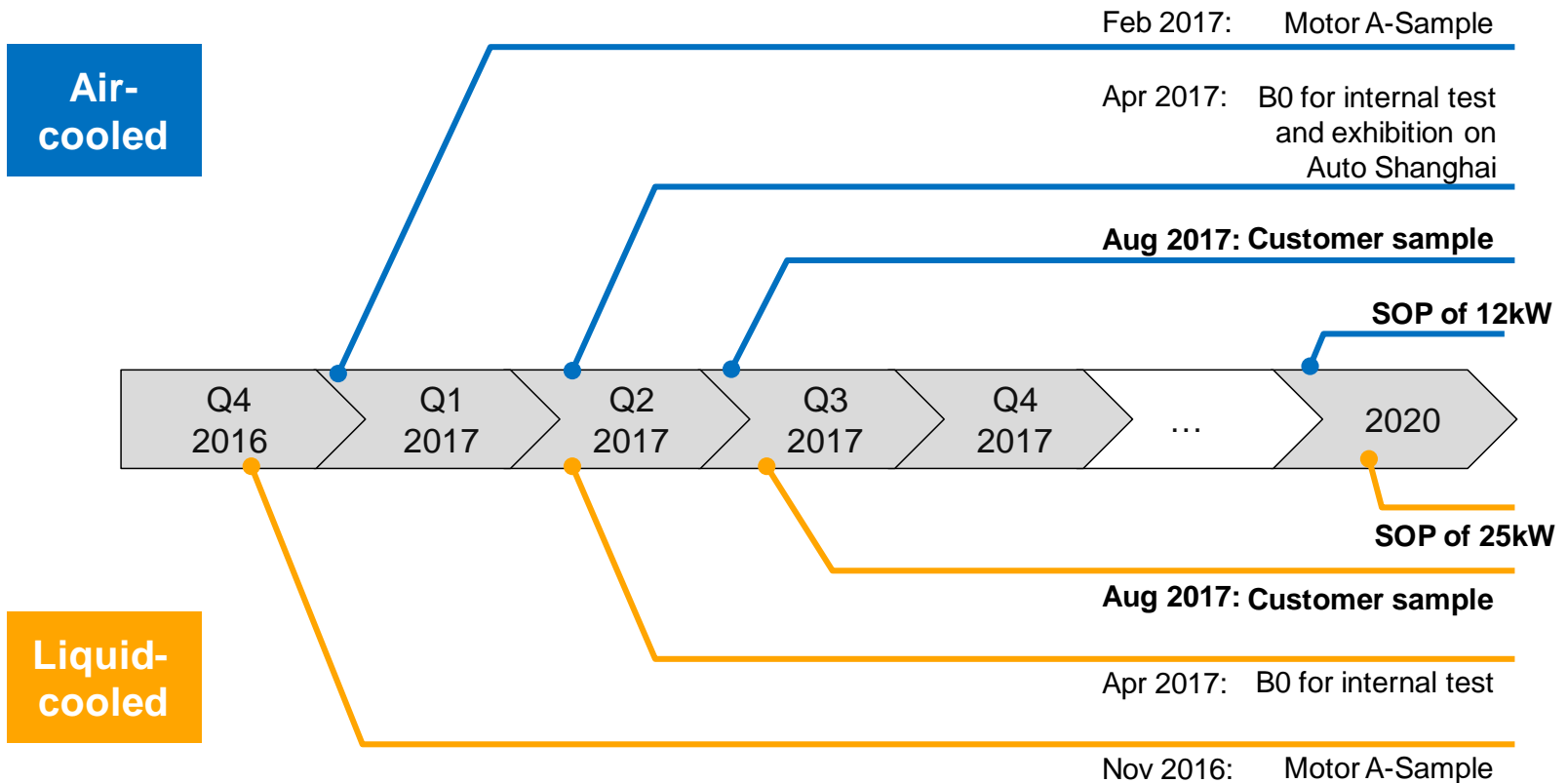


No clear trend visible, ie still high proliferation of unique technical solutions

High investments needed to participate successfully in growth!

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AES – 48V Roadmap in addition to 15kW already in production



SOP = Start of Production
B0 = B sample

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AES – Expansion of High Voltage Product Range

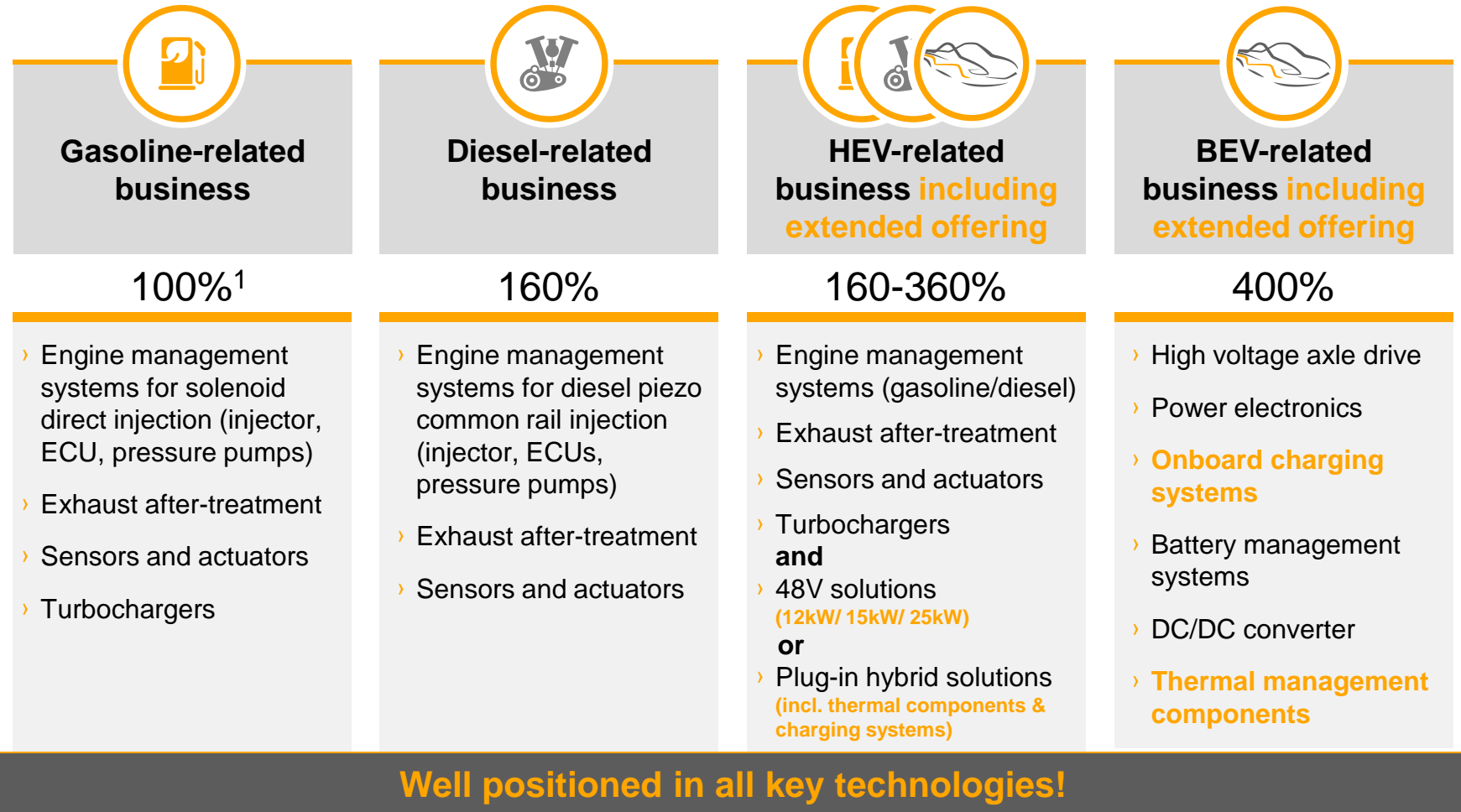
Availability of marketable product

Inverter	<div style="border: 2px solid green; padding: 5px;"> <div style="background-color: #808080; color: white; padding: 2px; display: inline-block;">EPF2.8</div> <div style="background-color: #808080; color: white; padding: 2px; display: inline-block; margin-left: 10px;">EPF2.8+</div> </div>	<div style="background-color: #FFA500; color: white; padding: 2px; display: inline-block;">Next Gen 500V & > 500V</div>	<div style="background-color: #FFA500; color: white; padding: 2px; display: inline-block;">Next Gen New Material</div>	
DC/DC	<div style="background-color: #808080; color: white; padding: 2px; display: inline-block;">EPF2.8</div>	<div style="background-color: #808080; color: white; padding: 2px; display: inline-block;">Next Gen HV DC/DC</div>	<div style="background-color: #FFA500; color: white; padding: 2px; display: inline-block;">Step-up converter</div>	
Charger		<div style="background-color: #FFA500; color: white; padding: 2px; display: inline-block;">Conductive charger</div>	<div style="background-color: #FFA500; color: white; padding: 2px; display: inline-block;">Inductive charger</div>	<div style="background-color: #FFA500; color: white; padding: 2px; display: inline-block;">Grid Interface Box</div>
Motor	<div style="background-color: #808080; color: white; padding: 2px; display: inline-block;">EMR3 base 80-150KW</div>	<div style="background-color: #FFA500; color: white; padding: 2px; display: inline-block;">EMR3 high performance</div>		<div style="background-color: #FFA500; color: white; padding: 2px; display: inline-block;">EMR3 compact</div>
Battery BMS		<div style="background-color: #FFA500; color: white; padding: 2px; display: inline-block;">HV BMS</div>		<div style="background-color: #FFA500; color: white; padding: 2px; display: inline-block;">BJB</div>
	Existing products	2017	2018	>2018

Current product portfolio
 Additional product portfolio

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AES - Relative Value of Continental's Content in Powertrains¹



¹ Value of displayed gasoline content per car is indexed at 100%; all other values read relative to the gasoline content

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Adapted Electrification Strategy – Summary

2016 – 2020

- › HEV-related business will grow to up to €1bn by 2020/21 as currently confirmed in order backlog

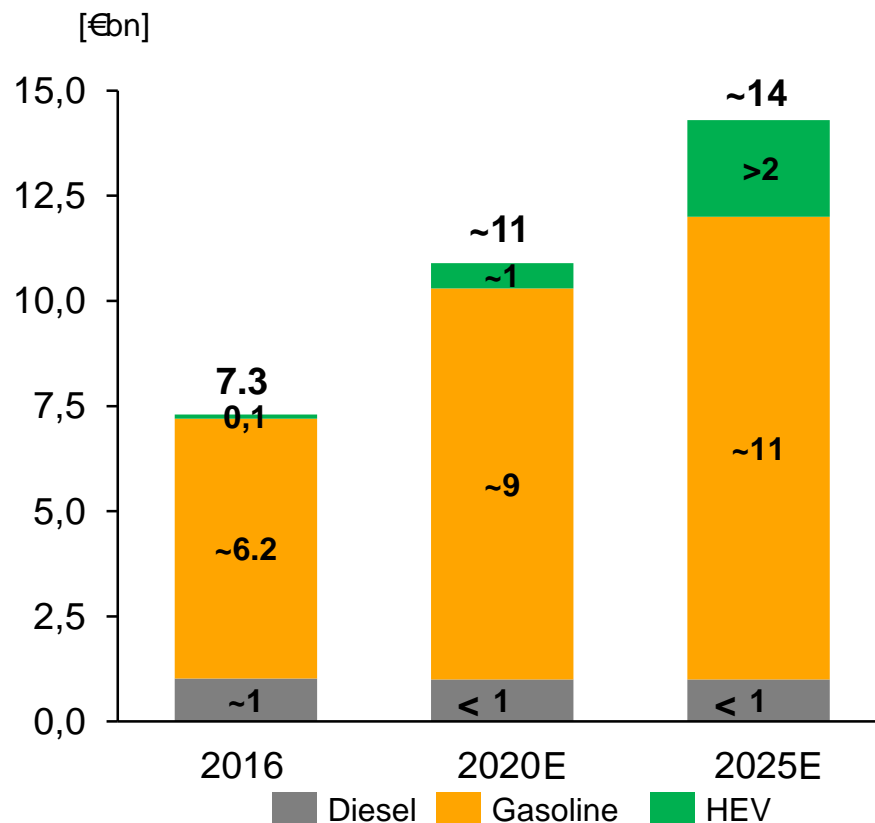
2020 – 2025

- › By spending €300mn cumulative (until 2021) in plant and R&D we are positioning ourselves for up to €2bn additional business opportunity in HEV
- › Due to higher share of commercial vehicle diesel business, diesel sales remains stable despite lower passenger car engine penetration

2025 – 2030

- › HEV-related business will allow to compensate the business at risk from the ICE-related area

Sales development of Powertrain business (incl. HEV)



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Summary

- › Expected **diesel decline with limited impact** on Powertrain business
- › **Significant business opportunities in ICE** technologies over the next decade and **solid level of profitability**
- › Thanks to high share of electronics in ICE Continental foresees a **smooth transition from ICE to EV** until 2030
- › By spending further **€300mn cumulative (until 2021)** in plant and R&D we are positioning ourselves for **up to €2bn additional business opportunity in HEV**

Thank you!

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Financial Calendar

2017

Preliminary figures for fiscal 2016	January 9, 2017
Annual Financial Press Conference	March 2, 2017
Annual Shareholders' Meeting (incl. key data for Q1 2017)	April 28, 2017
Q1 Financial Report	May 9, 2017
Half-Year Financial Report	August 3, 2017
Nine-Month Financial Report	November 9, 2017

2018

Preliminary figures for fiscal 2017	January 2018
Annual Financial Press Conference	March 2018
Annual Shareholders' Meeting (incl. key data for Q1 2018)	April 27, 2018
Q1 Financial Report	May 2018
Half-Year Financial Report	August 2018
Nine-Month Financial Report	November 2018

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Share Data/ADR Data

Share Data

Type of share	No-par value share
Bloomberg Ticker	CON
Reuters Ticker	CONG
German Security Identification Number (WKN)	543 900
ISIN	DE0005439004
Shares outstanding as at December 31, 2016	200,005,983

ADR Data

Ratio (ordinary share: ADR)	1:5
Bloomberg Ticker	CTTAY
Reuters Ticker	CTTAY.PK
ISIN	US2107712000
ADR Level	Level 1
Exchange	OTC
Sponsor	Deutsche Bank Trust Company Americas

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Bond Data

Issuer	Continental AG	Continental Rubber of America, Corp. ¹	Continental AG	Continental AG
Issue	Senior Notes	Senior Notes	Senior Notes	Senior Notes
Principal amount	€750 mn	€500 mn	€600 mn	€750 mn
Offering price	98.950%	99.739%	99.410%	99.228%
Rating at issuance date	Ba2 (Moody's ⁴) BB (S&P) BB (Fitch ²)	BBB (S&P) BBB (Fitch)	BBB+ (S&P) BBB+ (Fitch)	Ba1 (Moody's ⁴) BB (S&P) BBB (Fitch ²)
Current corporation and bond ratings³	BBB+ (Fitch), BBB+ (S&P), Baa1 (Moody's⁴)			
Coupon	3.0% p.a.	0.5% p.a.	0.0% p.a.	3.125% p.a.
Issue date	July 16, 2013	November 19, 2015	December 5, 2016	September 9, 2013
Maturity	July 16, 2018	February 19, 2019	February 5, 2020	September 9, 2020
Interest payment	Semi annual January 16/July 16	Annual February 19, commencing on February 20, 2017	Not applicable	Annual September 9
WKN	A1X24V	A1Z7C3	A2DARM	A1X3B7
ISIN	XS0953199634	DE000A1Z7C39	XS1529561182	XS0969344083
Denomination	€1,000 with min. tradable amount €1,000	€1,000 with min. tradable amount €1,000	€1,000 with min. tradable amount €1,000	€1,000 with min. tradable amount €1,000

¹ Guaranteed by Continental AG

² Non-contracted rating at date of issuance

³ Fitch since October 24, 2016; S&P since May 11, 2016; Moody's since June 30, 2015

⁴ Non-contracted rating since February 1, 2014

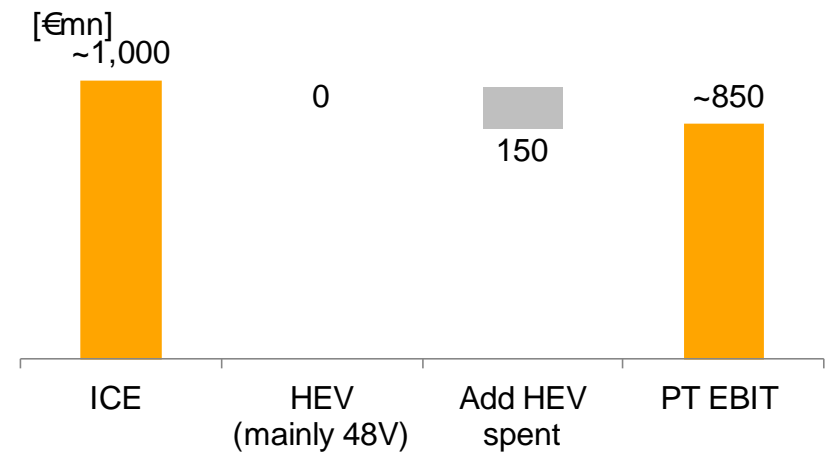
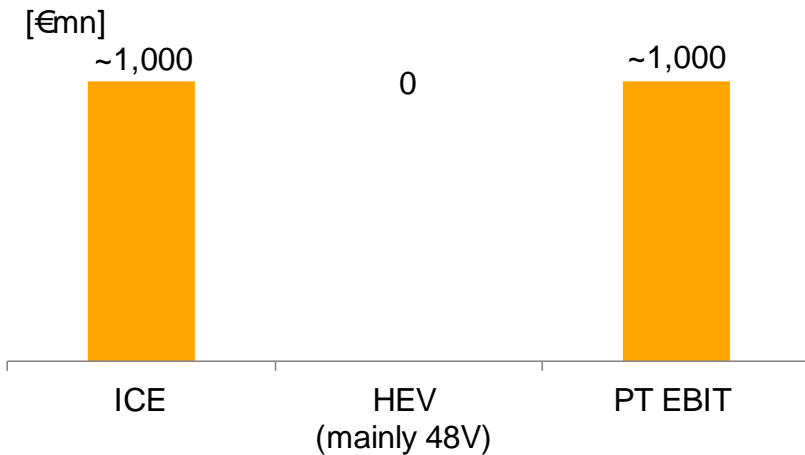
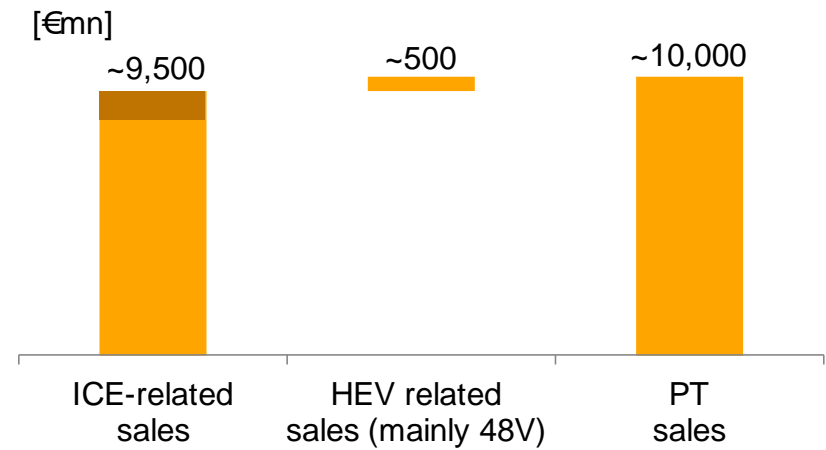
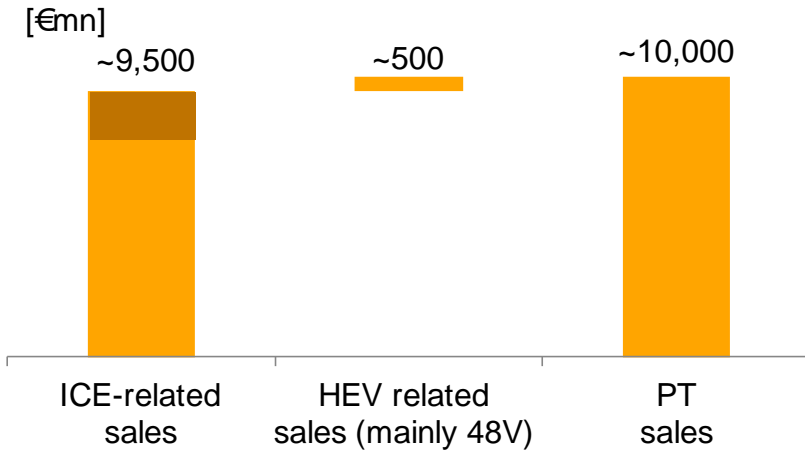
Back-up

Back-up

Comparison of Statements on PT sales and adj. EBIT 2019

Plan Nov 2014 for FY 2019

Plan Apr 2017 for FY 2019

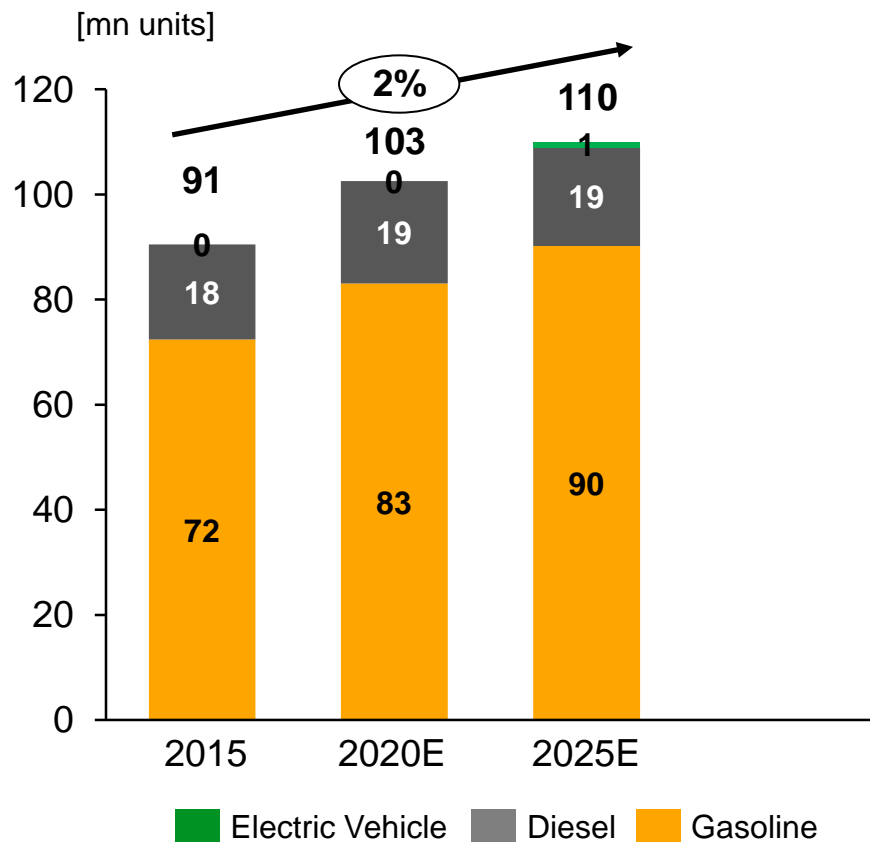


■ Diesel sales

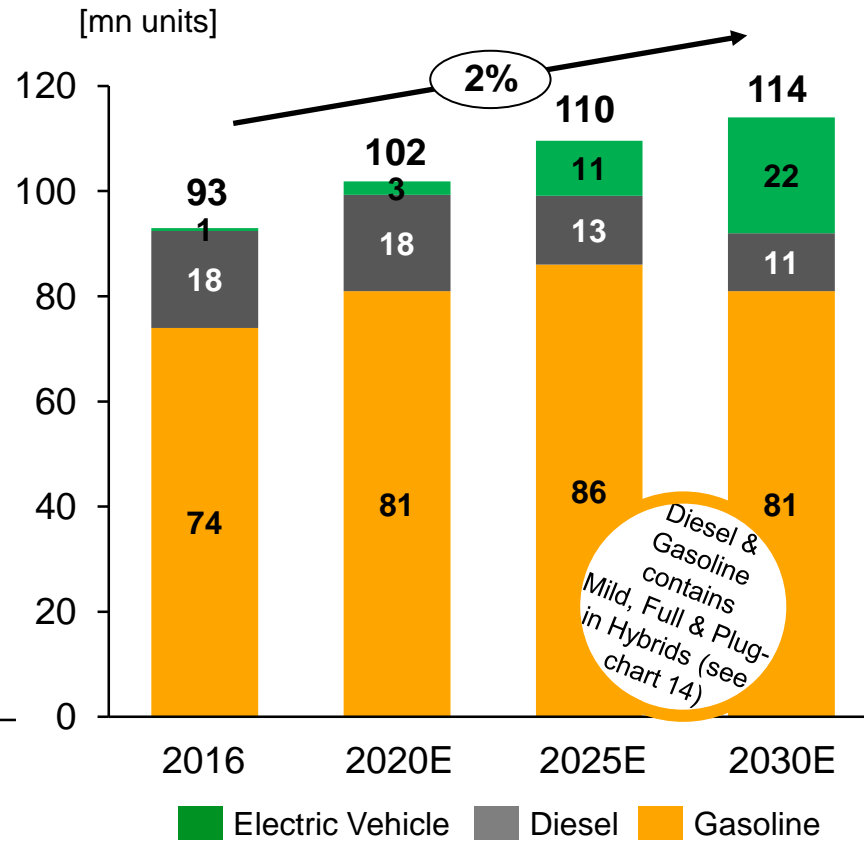
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Comparison of Engine Roadmaps

November 2014



April 2017



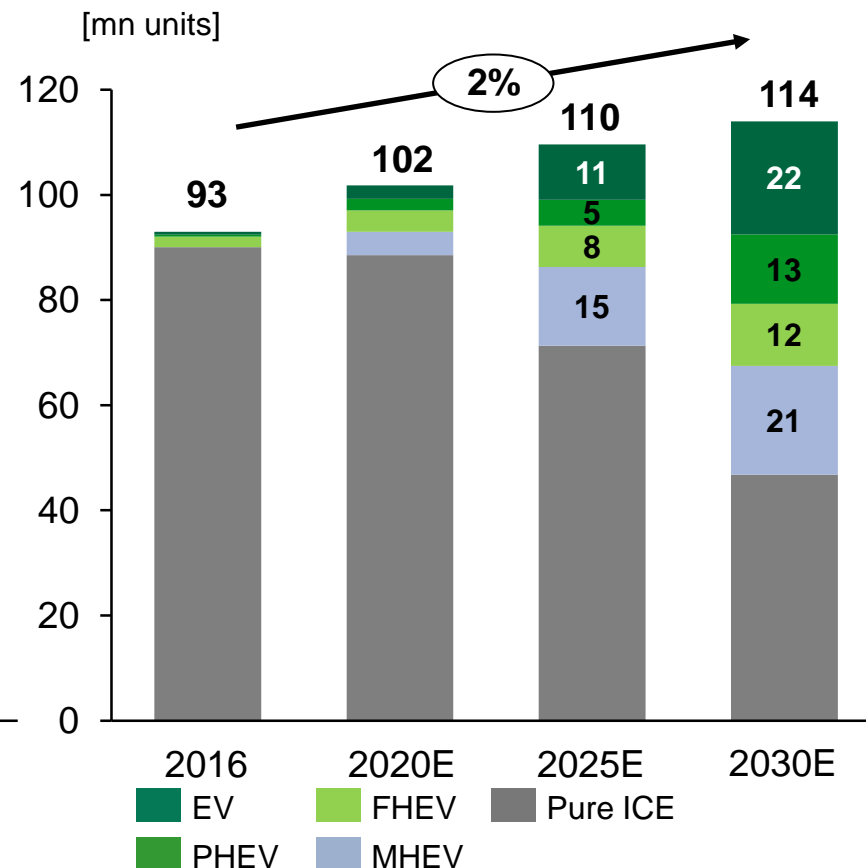
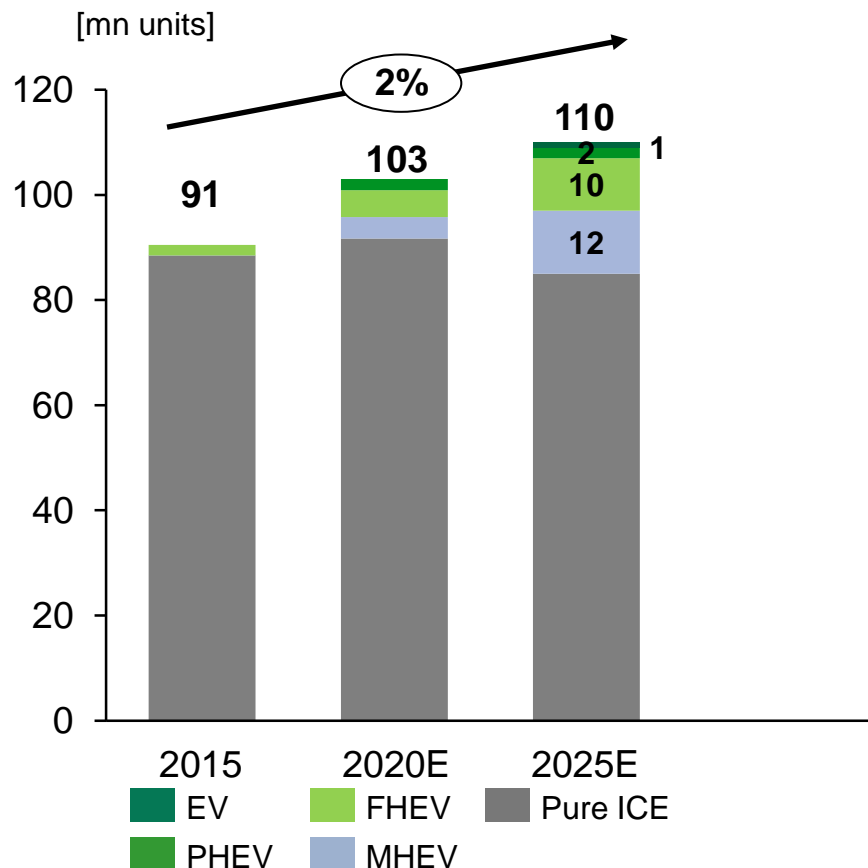
Source: Continental estimates

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Comparison of Engine Roadmaps - Electrification View

November 2014

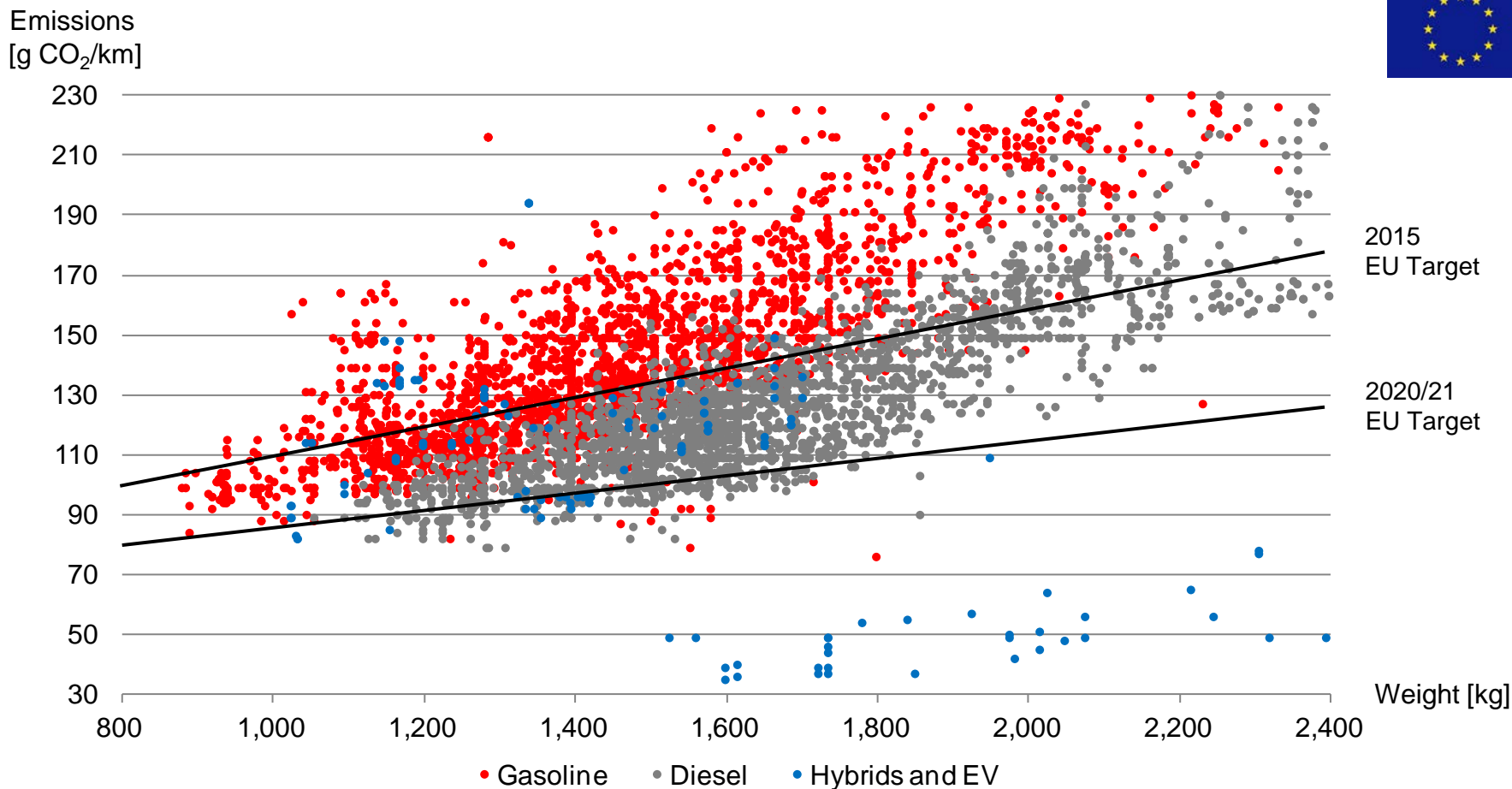
April 2017



Source: Continental estimates

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Emission targets 2015 and 2020/21



Source: DAT Group, <https://www.dat.de/leitfaden/LeitfadenCO2.pdf>, as of January 17, 2017.