

CONTI-GUMMI FINANCE B.V. : CONTINENTAL

- €1,000,000,000 7.5 % Senior Secured Notes due 2017

Issue Date – September 2010 – Ratings of B1/B

Issuer incorporated under the laws of The Netherlands

Bookrunners: Deutsche Bank/BNP Paribas/BofA Merrill Lynch/Crédit Agricole CIB/DZ Bank AG/HSBC

Planned listing on the Frankfurt Stock Exchange and of the Hamburg and Hanover Stock Exchanges

Based on Preliminary Offering Memorandum dated 2 September 2010 REMAINS SUBJECT TO CHANGE

<i>Senior Debt:</i> €7,374.6 million	<i>Mezz./ Second Lien Debt:</i> N/A	<i>High-Yield Bonds:</i> €723.8 million (excluding Notes to be issued)	<i>Total Debt:</i> €8,098.4 million
<i>Senior-Debt Leverage:</i> Not provided	<i>Mezz./ Second Lien Leverage:</i> Not provided	<i>High-Yield Leverage:</i> Not provided	<i>Total Leverage:</i> Not provided
<i>Senior-Debt Interest Coverage:</i> Not provided	<i>Mezz./ Second Lien Coverage:</i> Not provided	<i>High-Yield Interest Coverage:</i> Not provided	<i>Total Interest Coverage:</i> Not provided

Summary/ Anticipated Traffic Light: **UNFAVOURABLE**

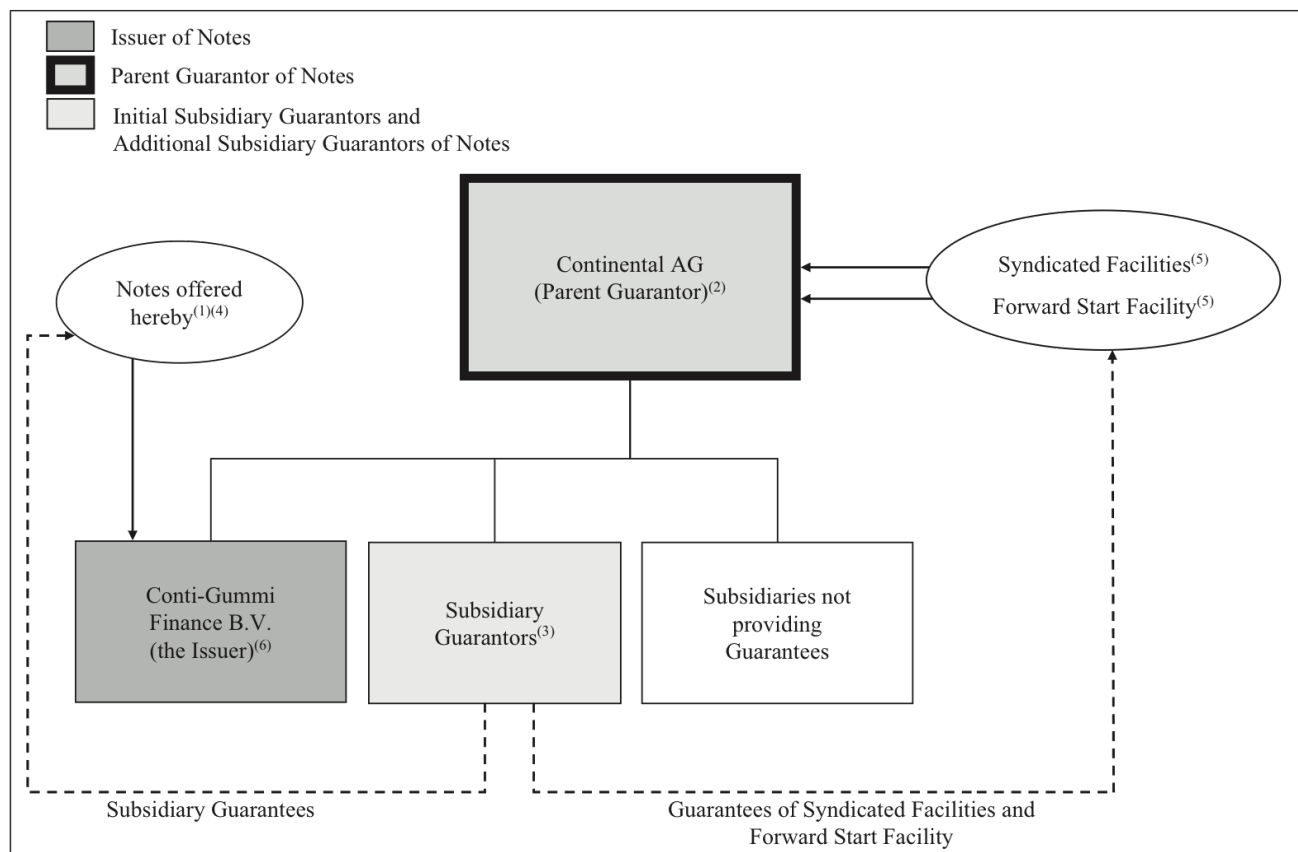
- The Issuer is a Continental Group financing company with no independent source of income
- Other than in respect of the Note guarantee provided by Continental AG, the “soft” Note security and the subsidiary guarantees may be released concurrently with the release of any guarantees and/or security provided for other Group debt. The security is also released on Continental AG achieving an investment grade rating
- Although most of the other outstanding secured Continental Group debt ranks equally with the Notes under the pooling agreement, the Noteholders have no voting rights unless they constitute more than 35% of the secured liabilities
- Allows extensive additional Group debt which may be secured on Continental Group assets (including in the assets provided as security for the Notes)
- Does not contain all of the usual HYB covenants and all covenants which are provided are suspended upon Notes achieving investment grade status
- The Notes and the Guarantees will be governed by German law (no case law on what constitutes disposal of “substantially all”)
- There is no “super majority” provision for changes to matters such as maturity, reduction of principal, change of currency, conversion of Notes into shares or other securities all of which are majority governed
- No Note trustee; just Note Representative
- Terms and conditions of the Notes are substantially the same as the terms and conditions applicable to the €750,000,000 principal amount of 8.5% senior secured notes issued by the Issuer in July 2010

Structure/ Security: **UNFAVOURABLE** for Noteholders:

The Issuer is a group financing company with no independent source of income and, other than in respect of the Note guarantee provided by Continental AG, the "soft" Note security and the subsidiary guarantees will be released concurrently with the release of any guarantees and/or security provided for other Group debt. The Note security is also subject to a pooling agreement under which the Noteholders have no voting rights unless they constitute more than 35% of the secured liabilities

- The Issuer is a private limited liability company incorporated under the laws of The Netherlands and acts as a Continental Group financing company with no independent operational income. As a result, its ability to make payments on the Notes will be dependent upon the future business performance of members of the Continental Group and its ability to refinance its various borrowings
- The Continental group (and hence the Issuer) are effectively owned and controlled by Schaeffler GmbH (42.17%), M.M. Warburg (16.48%) and B.Metzler (16.48%). Schaeffler has entered (August 2008) into an investment agreement with Continental AG ("Continental" or "Parent Guarantor") which among other things limits its voting shareholding to 49.99% without Continental's consent. Under this agreement, Schaeffler has to compensate (date/exact triggers not disclosed) Continental in an amount of up to €522 million for certain change of control adverse effects and loss of tax carry forwards. There is a €10 million penalty provision in favour of Continental for each breach of the agreement. The agreement is for unlimited duration and cannot (other than as to shareholding restrictions) be terminated until earliest 2014
- Generally security is "soft" security being charges over shares, bank accounts and loan receivables
- The Notes will be guaranteed by the Parent Guarantor and by fourteen German subsidiaries; six Mexican subsidiaries; five Czech subsidiaries; four subsidiaries in the United States; three subsidiaries in each of France, Slovakia, Spain, UK and Romania; two subsidiaries in each of Hungary, Italy and Switzerland; and one subsidiary in each of The Netherlands, Belgium, Canada and Poland (see pages 268/269 of the OM for the subsidiary names)
- Adjusted for intercompany effects, the Issuer and the Guarantors in the aggregate represented 82% of the Parent Guarantor's consolidated EBITDA for the twelve month period ended June 30, 2010 and held 85.8% of the Parent Guarantor's consolidated total assets as of June 30, 2010
- There must be at least €75 million due under the guarantees for a payment liability to arise (this is also the cross default trigger)
- Any subsidiary of the Parent Guarantor that provides a guarantee for any Bank Debt and/or Capital Markets Indebtedness of the Parent Guarantor or any of its other subsidiaries must also provide a guarantee of the Notes
- In addition, any member of Continental Group who is a Material Subsidiary (having total assets exceeding 2% of the Group total assets and/or total sales exceeding 2% of the Group total sales) must become an additional guarantor under the Facilities Agreements (and therefore the Notes). In addition, the aggregate of total sales, the aggregate of total assets and the aggregate total EBITDA of the guarantors (including Continental AG) must be equal to or exceed 75% of the consolidated total sales, the consolidated total assets and the Consolidated EBITDA of the Continental Group
- **The subsidiary guarantees/security provided for the Notes will be automatically released if the guarantees/security provided by such Guarantor for any Bank Debt (including under the Forward Start Facility and the Syndicated Facilities) and/or Capital Markets Indebtedness are released (ie Noteholders have no separate control and are "dragged"). Any security provided by the Parent Guarantor for the Notes would also be concurrently released in these circumstances however the guarantee provided by the Parent Guarantor will only be released upon the repayment in full of the Notes. As a result, if the Forward Start Facility and the Syndicated Facilities (or their replacement) are repaid in full, the Notes will become unsecured and will not benefit from subsidiary guarantees but only from the guarantee provided by the Parent Guarantor**
- **In addition, the security may be released prior to enforcement if the relevant asset is disposed of in accordance with the Forward Start Facility Agreement and the Syndicated Facilities Agreement or if the Parent Guarantor achieves an investment grade rating**
- Certain security for the Notes will be third ranking and therefore made subject to a security "pooling" agreement with the other Group creditors (including under the Forward Start Facility, the Syndicated Facilities, the Promissory Notes, certain bilateral facility agreements and the July 2010 Notes). Under the pooling agreement, the "shared" security interests will secure all such debt on an equal and pari passu basis
- **The Security Trustee under the pooling agreement will enforce when a resolution is passed by more than 50% of the votes cast by the various creditors EXCEPT that Noteholders have NO voting rights unless the Notes constitute more than 35% of all such secured liabilities**

Corporate and Financing Structure



For further detail please see page 219 (Status, Parent Guarantee, Initial Subsidiary Guarantees and Additional Subsidiary Guarantees), page 268 (Description of the Transaction Security and Guarantees) and page 7 (Corporate Chart) of the [Offering Memorandum](#)

Note Ranking: **STANDARD** for Noteholders:

Most other outstanding Group debt ranks on a pari passu and pro rata basis with the Notes:

- The Parent Guarantor and various group companies as borrowers and guarantors are party to the Syndicated Facilities Agreement (being a €13,500,000,000 facility) and the Forward Start Facility Agreement (being an up to €2,500,000,000 facility). Both Facility A (€800,000,000) and Facility B (€3,500,000,000) of the Syndicated Facilities have been repaid in full with the remaining amounts maturing in August 2012. The proceeds of the Notes will be used to repay the amounts outstanding under the Forward Start Facility Agreement
- The intention is that the Notes rank pari passu with the Syndicated Facilities and Forward Start Facility and benefit from similar guarantees and security under the pooling agreement (see above)
- The Syndicated Facilities and Forward Start Facility include standard covenants, including financial covenants for capex, a leverage ratio test and interest cover ratio. These give these lenders triggers for breach which Noteholders will not possess and therefore give effective "control" to those credit providers
- The Continental Group has a secured facility with EIB which has cross compliance requirements to the covenants of the Syndicated Facilities. Certain subsidiaries give receivables security (120% cover and released on investment grade rating) to EIB (this may be replaced by a bank guarantee). If investment grade level is reached by the Parent Guarantor and there is a subsequent downgrade a bank guarantee may be demanded (event of default if not supplied). The EIB loan would effectively rank in priority to the Notes to the extent of the value of such security and EIB may become a party to the pooling agreement and share security rateably with the Notes and the other creditors who are parties to such agreement
- In July 2010, the Issuer issued €750,000,000 principal amount of notes due 2015 which are guaranteed and secured on the same basis as the Notes
- There are two unsecured promissory notes totalling €110,000,000 guaranteed by the Parent Guarantor and due August 2011

- The Parent Guarantor and certain of its subsidiaries have around 80 bilateral loans outstanding in an aggregate amount of €419,600,000 as of 30 June 2010. All such lenders are parties to the pooling agreement and therefore rank equally with the Notes
- In addition, there is a factoring programme of up to €162,500,000 expiring March 2011

For further detail please see "Description of Other Indebtedness" on page 211 of the [Offering Memorandum](#)

Covenant Summary/Concerns: UNFAVOURABLE for Noteholders:

Allows extensive additional Continental Group debt which may be secured on Group assets (including against the assets provided as security for the Notes). Does not contain all of the usual HYB covenants and all covenants are suspended upon Notes achieving investment grade status

- Covenants are provided by the Parent Guarantor and Subsidiaries (which would include the Issuer)
- Optional redemption by Noteholders (at 101% plus accrued and unpaid interest): Change of Control triggers ("Schaeffler Entity" being "Permitted Holders") include a non Permitted Holder holds over 50% voting rights of Continental (including as a result of merger/consolidation or similar); sale of "all or substantially all of assets and entities comprising the Rubber Group" unless following such sale a pro forma leverage ratio would not exceed 3.00:1
- Optional Issuer redemption right on whole (on between 60-90 days notice) prior to "First Call Date" (unspecified but to be in 2013) at par plus applicable premium; after First Call Date after similar notice at redemption price (TBD)
- Asset Sales: only restricted as to disposal of all or substantially all. Note asset sale proceeds to be used (subject to exceptions) to prepay Credit Facilities
- Incurrence of Debt: Consolidated Coverage Ratio of at least 2.00 to 1.0; if indebtedness to be secured Consolidated Secured Debt Leverage Ratio not in excess of 4.00 to 1.0. Extensive carve outs include "Bank Debt" not to exceed €12,100,000,000 (less aggregate of proceeds of Notes, scheduled repayments and mandatory asset sale repayments); Bank Debt not to exceed €500,000,000 to be applied to investments in Brazil, Russia, India or China; under the Notes; short term (below one year) indebtedness for capital lease, mortgage, purchase money or similar not in excess of €500,000,000; capital leases not to exceed €850,000,000; workers compensation, self insurance, performance bonds etc (unlimited); indemnities etc on disposals/acquisitions; indebtedness (including hedging) in ordinary course; general basket €500,000,000; PLUS indebtedness of any member of Schaeffler Group merging, amalgamating or becoming a subsidiary of the Parent Guarantor Group provided such indebtedness not incurred in contemplation thereof, Combined Coverage ratio at least 2.00 to 1.0 and if indebtedness secured Combined Secured Debt Leverage Ratio not in excess of 4.00 to 1.0. A further limitation is placed on the debt which non-Guarantor subsidiaries may incur
- Permitted Liens: standard Liens covering most Permitted Debt, including under each of the above permitted Credit Facilities. Note that security may be granted to other creditors in the assets comprising the security for the Notes (provided that the above Consolidated Secured Debt Leverage Ratio is satisfied)
- Restricted Payments: payable if no default or event of default, if ratio test would be complied with if €1 of additional debt incurred and in aggregate may not exceed 50% cumulative aggregate consolidated net earnings since 30 June 2010 and ending on latest fiscal quarter plus equity issuance (Parent Guarantor) cash proceeds plus debt reduction (Parent Guarantor) upon conversion of indebtedness to equity, proceeds of redemption of redeemable capital stock plus (in each case) cash arising thereon and received plus proceeds of Affiliate Investment disposal which comprised a Restricted Payment. Further additional permitted dividends/subordinated debt prepayments included from proceeds of concurrent equity issuance of Parent Guarantor's Qualified Capital Stock or from proceeds of Refinancing Indebtedness; retirement of stock from officers, directors or employees not exceeding €10,000,000 in any twelve month period (with carry forwards); loans to shareholders and dividends not to exceed €500,000,000 in any year or eleven month period; any dividend by Parent Guarantor if shares listed on Frankfurt Stock Exchange and market capitalisation as at date 60 days prior to such dividend declaration exceeds €10,000,000,000 and dividend does not exceed 1% of market capitalisation; plus basket of aggregate €300,000,000
- No covenants placing limitations on restrictions on distributions from subsidiaries or on affiliate transactions
- The covenants will be suspended upon the Notes achieving investment grade status

For further detail please see "Terms and Conditions of the Notes" on page 222 (Negative Pledge), page 227 (Redemption), page 234 (Limitation on Indebtedness), page 237 (Restricted Payments), page 239 (Merger, Split, Sale of Assets) of the [Offering Memorandum](#)

Legal Concerns: **UNFAVOURABLE** for Noteholders:

- The Notes and the Guarantees will be governed by German law (no case law on what constitutes disposal of “substantially all”)
- There is no “super majority” provision for changes to matters such as maturity, reduction of principal, change of currency, conversion of Notes into shares or other securities all of which are majority governed
- A default notice issued by 25% by value must be served to accelerate; this can be rescinded by a majority by value
- The guarantees provided by the subsidiaries across numerous jurisdictions may be difficult to enforce
- Each of the Note guarantees may be subject to certain limitations under the laws of Germany and/or the jurisdiction in which the Note Guarantor is located
- No Note trustee; just Note Representative. For a general discussion regarding the application of German laws, please refer to the DXP Insolvency Guide on www.debtexplained.com/pdf/articles/_166201082213422.pdf

For further detail please see page 241 (Resolutions of Holders), page 243 (Note Representative) and page 267 (Applicable Law, Place of Jurisdiction and Enforcement) of the [Offering Memorandum](#)

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