Continental
The Future in Motion

TRANSFORMATION

2019 ANNUAL REPORT

2019 Highlights

- Sales at €44.5 billion
- Net indebtedness at €4.1 billion
- Equity ratio at 37.3%

Key Figures for the Continental Corporation

IFRS 16, *Leases*, was adopted on and has been applied since January 1, 2019. It is applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some of the following figures are not comparable with the prior-year period.

€ millions	**2019**	2018	Δ in %
Sales	44,478.4	44,404.4	0.2
EBITDA	4,977.2	6,235.7	-20.2
in % of sales	11.2	14.0	
EBIT	-268.3	4,027.7	-106.7
in % of sales	-0.6	9.1	
Net income attributable to the shareholders of the parent	-1,225.0	2,897.3	-142.3
Basic earnings per share in €	-6.13	14.49	-142.3
Diluted earnings per share in €	-6.13	14.49	-142.3
Adjusted sales[1]	43,867.7	44,374.2	-1.1
Adjusted operating result (adjusted EBIT)[2]	3,233.9	4,117.0	-21.5
in % of adjusted sales	7.4	9.3	
Free cash flow	761.7	1,351.0	-43.6
Net indebtedness	4,071.7	1,661.3	145.1
Gearing ratio in %	25.6	9.1	
Total equity	15,875.7	18,333.3	-13.4
Equity ratio in %	37.3	45.3	
Number of employees as at December 31[3]	241,458	243,226	-0.7
Dividend per share in €	4.00[4]	4.75	
Share price at year end[5] in €	115.26	120.75	-4.5
Share price at year high[5] in €	157.40	257.40	
Share price at year low[5] in €	103.62	119.10	

1 Before changes in the scope of consolidation.
2 Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.
3 Excluding trainees.
4 Subject to the approval of the Annual Shareholders' Meeting on April 30, 2020.
5 Price quotations of the Continental share in the Xetra system of Deutsche Börse AG.

Overview of the Corporation and 2019 Key Figures

Structure of the corporation in 2019[1]

Continental Corporation

Sales: €44.5 billion; Employees: 241,458

Automotive Group

Sales: €26.5 billion; Employees: 138,295

Chassis & Safety

Sales: €9.4 billion
Employees: 48,434

- Advanced Driver Assistance Systems
- Hydraulic Brake Systems
- Passive Safety & Sensorics
- Vehicle Dynamics

Powertrain

Sales: €7.8 billion
Employees: 41,744

- Engine & Drivetrain Systems
- Powertrain Components
- Hybrid & Electric Vehicles

Interior

Sales: €9.6 billion
Employees: 48,117

- Body & Security
- Commercial Vehicles & Aftermarket
- Infotainment & Connectivity
- Instrumentation & Driver HMI

Rubber Group

Sales: €18.0 billion; Employees: 102,685

Tires

Sales: €11.7 billion
Employees: 56,884

- Passenger and Light Truck Tire Original Equipment
- Passenger and Light Truck Tire Replacement Business, EMEA
- Passenger and Light Truck Tire Replacement Business, The Americas
- Passenger and Light Truck Tire Replacement Business, APAC
- Commercial Vehicle Tires
- Two-Wheel Tires

ContiTech

Sales: €6.4 billion
Employees: 45,801

- Air Spring Systems
- Surface Solutions[2]
- Conveyor Belt Group
- Industrial Fluid Solutions
- Mobile Fluid Systems
- Power Transmission Group
- Vibration Control

1 The corporate structure as of January 1, 2020, can be found in the Structure of the Corporation section.
2 Until June 2019: Benecke-Hornschuch Surface Group.

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Key figures for the core business areas

	Automotive Group			Rubber Group		
€ millions	**2019**	2018	Δ in %	**2019**	2018	Δ in %
Sales	26,523.3	26,855.8	-1.2	18,012.9	17,603.1	2.3
EBITDA	1,920.2	3,177.1	-39.6	3,168.2	3,196.6	-0.9
in % of sales	7.2	11.8		17.6	18.2	
EBIT	-2,107.7	1,890.4	-211.5	1,957.5	2,278.3	-14.1
in % of sales	-7.9	7.0		10.9	12.9	
Adjusted sales[1]	26,376.3	26,833.4	-1.7	17,549.2	17,595.1	-0.3
Adjusted operating result (adjusted EBIT)[2]	1,166.3	1,868.6	-37.6	2,175.2	2,389.4	-9.0
in % of adjusted sales	4.4	7.0		12.4	13.6	

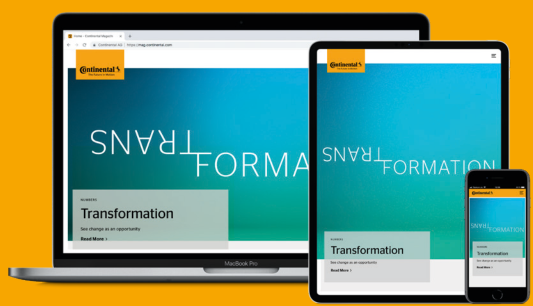
1 Before changes in the scope of consolidation.
2 Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

“We are undergoing a profound transformation. It affects everything that makes up our business – from products and processes to business models and structures. While it poses major challenges, it above all presents major opportunities.”

Dr. Elmar Degenhart
Chairman of the Executive Board

Find out more in our online magazine:

mag.continental.com



Contents

105
Consolidated Financial Statements

205
Further Information

Chairman's Letter

Dear Shareholders,

Allow me to begin with the bad news first. We are not satisfied with our results in the past fiscal year. Despite the enormously challenging environment, we had expected much more from a purely operational perspective.

Our performance was certainly not due to a lack of dedication on the part of your global Continental team. Quite the opposite, in fact. As they have done so often before, Continental's employees gave their all during this challenging period. On behalf of my colleagues on the Executive Board, I would like to thank all our employees for their extraordinary hard work and commitment.

Nonetheless, the automotive industry is currently weathering a storm, the effects of which will continue to be felt for years to come. Since 2018, a major production and sales crisis has been unfolding across global markets. Instead of around 94 million passenger cars and light commercial vehicles, fewer than 89 million vehicles were manufactured worldwide in 2019. This year we are expecting a further decline, which is likely to be exacerbated by the effects of the coronavirus. As a result, production figures will fall for a third successive year. We do not anticipate a significant improvement in global production in the next five years, which is why we have revised our assumptions for the medium-term market development accordingly. Unresolved trade conflicts, drastically more stringent emission regulations in Europe and the rapidly developing digitalization of business processes and products are also creating turbulence. All adjustments required as a result are now being made in parallel: reorganizing structures, reducing capacities, reducing or ceasing production, realigning portfolios, expanding staff training and accelerating the transition to new technologies. Backed by our strategy and strength, we have what it takes to successfully shape and spearhead the current transformation.

It is the most far-reaching transformation since the advent of the automobile, affecting everything that makes up our business – from products and processes to business models, operations and structures. While it poses major challenges for your Continental, it above all presents major opportunities – opportunities we will seize from a leading position. Because we are the transformation! We are pushing ahead with it in a timely and targeted manner. Over the next five years, we will make your Continental more competitive than ever before – globally and with a focus on the long term – and ensure its future viability. By 2030, we aim to achieve a leading position in three areas within the industry: in the quality of our products and services, in innovation and in financial strength.

This involves reducing costs, increasing efficiency, creating flexible structures and processes, and focusing fully on high-growth, future-oriented technologies and accelerating their development. These technologies make driving and roads safer, cleaner, more intuitive and intelligently connected. They protect all relevant environments: ecological, economic and social. They are affordable, accepted and form the backbone of a healthy mobility ecosystem.

The basic elements of increasing digitalization can open doors for us, for example in electronics, software and sensors. Your Continental is very well positioned here. We currently generate 70% of our sales in the automotive business and, as the value of electronics in the vehicle continues to rise dramatically – for airbag controls, brake systems, navigation and many other features – this figure will soon increase to 80%. By 2030, the processing power of microchips will be 50 times what it was in 2015. The scope of software for the vehicle drive system will increase tenfold over the coming years. Our job is to reduce complexity. In the future, around 10 control units will do the work of up to 100 of the control units seen in current cars. We are bundling these units into high-performance computers and supporting the integration of function packages from various software suppliers. Only a few system suppliers will be able to consolidate such huge quantities of software, and your Continental is one of them. We are increasingly marketing software as an independent solution as part of this approach and aim to achieve further strong growth by issuing licenses.

The standardization of operating systems in cars is another area of focus. Like iOS or Android for smartphones, these operating systems serve as a basis for applications – or function clusters – in the vehicle. They can, for example, make level-2 automated driving features possible (i.e. partial automation, hands-free steering and constant driver monitoring). The operating system also ensures connection to the cloud, with the benefit of program updates via satellite and internet. Some of our more than 20,000 software and IT experts are working to ensure that we stay ahead of the competition in this future business. We are also increasing our profitability with the help of digitalized business processes, for example by using artificial intelligence in our supply chain and collaborative robotics in our production line. Today, more than 1,000 collaborative robots have taken over repetitive and tedious tasks.

We are growing profitably with digitalized products made from plastic and rubber. From tires to surfaces and conveyor belts, these products gather and transmit data wirelessly using sensors and chips. Operating times are thus optimally controlled, any need for repairs is quickly detected, and costs are reduced. Service as a product.

The foundation for our success is always our first-rate competitiveness worldwide. To this end, we are implementing our **Transformation 2019–2029 structural program** in a fast and systematic manner. We expect gross costs to decrease by around €500 million annually from 2023 as a result. We will take the necessary measures responsibly and with a focus on the future. We will support our employees as much as possible, for example, through the expansion of our internal job market as well as our global training initiative. Using tailored programs, we will boost the employability of individual employees. With our own training provider, we will address semi-skilled and skilled workers in Germany in particular.

We firmly believe that if you want the mobility of the future, you need Continental.

We are very well positioned in this regard. Our balance sheet is very solid. Our entrepreneurial freedom makes a host of opportunities available to us. We are pioneers when it comes to shaping a healthy mobility ecosystem. By doing so, we are securing our and your long-term success.

Thank you for placing your trust in our performance.

Yours,
Elmar Degenhart

Dr. Elmar Degenhart
Chairman of the Executive Board

Members of the Executive Board

Hans-Jürgen Duensing
born in 1958 in Hanover, Germany;
ContiTech business area;
appointed until April 2023

Dr. Elmar Degenhart
born in 1959 in Dossenheim, Germany;
Chairman of the Executive Board,
Corporate Communications,
Corporate Quality and Environment,
Continental Business System;
appointed until August 2024

Helmut Matschi
born in 1963 in Viechtach, Germany;
Vehicle Networking and Information business area;
appointed until March 2024

Nikolai Setzer
born in 1971 in Groß-Gerau, Germany;
Spokesman of the Automotive Board,
Automotive Central Functions;
appointed until March 2024

Frank Jourdan
born in 1960 in Groß-Gerau, Germany;
Autonomous Mobility and Safety business area;
appointed until March 2024

Christian Kötz
born in 1970 in Braunschweig, Germany;
Tires business area,
Corporate Purchasing;
appointed until March 2022

Dr. Ariane Reinhart
born in 1969 in Hamburg, Germany;
Human Relations and Sustainability,
Director of Labor Relations;
appointed until September 2022

Wolfgang Schäfer
born in 1959 in Hagen, Germany;
Finance, Controlling, Compliance, Law and IT;
appointed until December 2024

Continental Shares and Bonds

4.5% decrease in Continental share price.

Recovery on stock markets
After the price declines in the fourth quarter of 2018, stock markets worldwide stabilized over the course of the first quarter of 2019. The turnaround in sentiment was due to surprisingly positive U.S. job market data, the Chinese government's announcement of new measures to tackle the economic slowdown and, in particular, growing hopes of conciliation in the trade dispute between the U.S.A. and China. In addition, there was speculation about a suspension of interest-rate increases by the U.S. Federal Reserve (Fed).

The recovery of stock markets continued in April 2019, supported by positive economic data from the U.S.A., Europe and China as well as signs of an easing in the trade dispute between the U.S.A. and China. In May 2019, the surprising introduction of new U.S. import tariffs on Chinese goods and subsequent countermeasures by the Chinese government resulted in a change of sentiment and a price slide on stock markets worldwide. In June 2019, new signs of an easing in the trade dispute between the U.S.A. and China as well as speculation about falling interest rates led to a renewed rise in share prices.

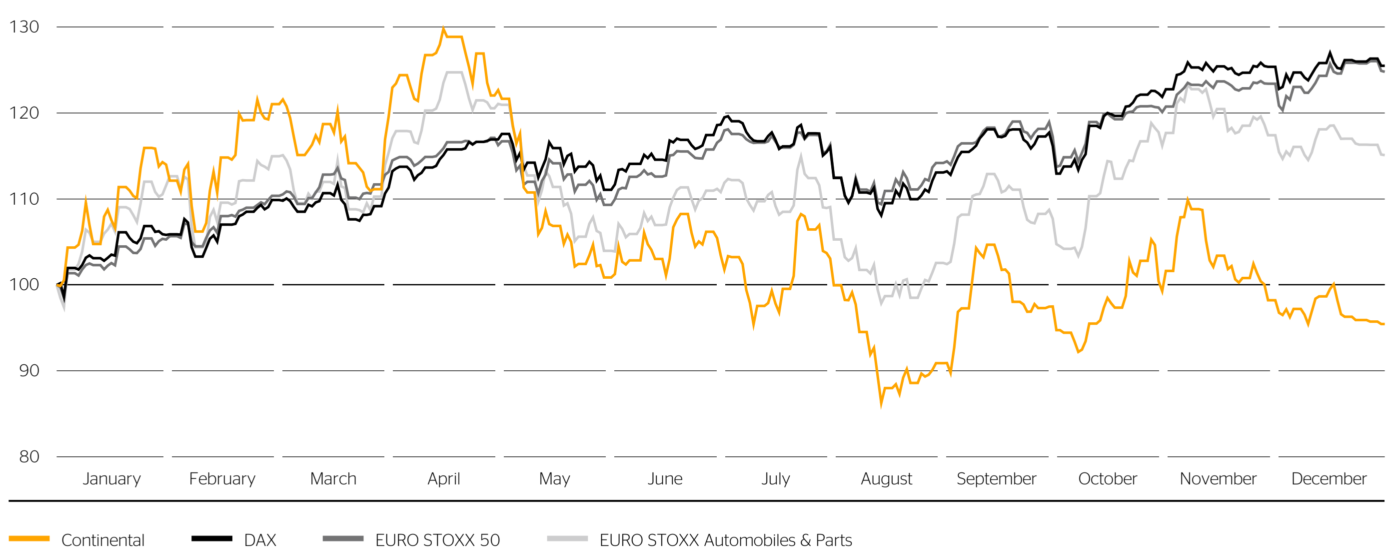
Over the course of July 2019, several profit warnings from major companies and declining economic data had a negative impact on the European stock markets. The surprising announcement of new U.S. tariffs on Chinese imports at the beginning of August 2019 caused share prices to slump worldwide. Leading economic indicators were also weaker than expected, fueling fears of a recession in Europe as the month progressed. In September 2019, hopes of support measures from central banks caused share prices to rally.

At the beginning of October 2019, fears of a recession initially weighed on stock markets. As the fourth quarter progressed, falling interest rates in the U.S.A. and positive economic data from the U.S.A. and China led to gains on the global stock markets. In addition, hopes grew that an end to the trade conflict between the U.S.A. and China was imminent. This expectation was further reinforced in mid-December when a partial agreement was announced. In Europe, the Conservative Party's clear victory in the U.K. general election in December led to strong gains for British stocks, which also benefited other European stock markets. The DAX surpassed the 13,000-point mark at the beginning of November 2019 and ended the year at 13,249.01 points. Compared to the start of 2019, it gained 25.5%. The EURO STOXX 50 increased 24.8% year-on-year and ended 2019 at 3,745.15 points.

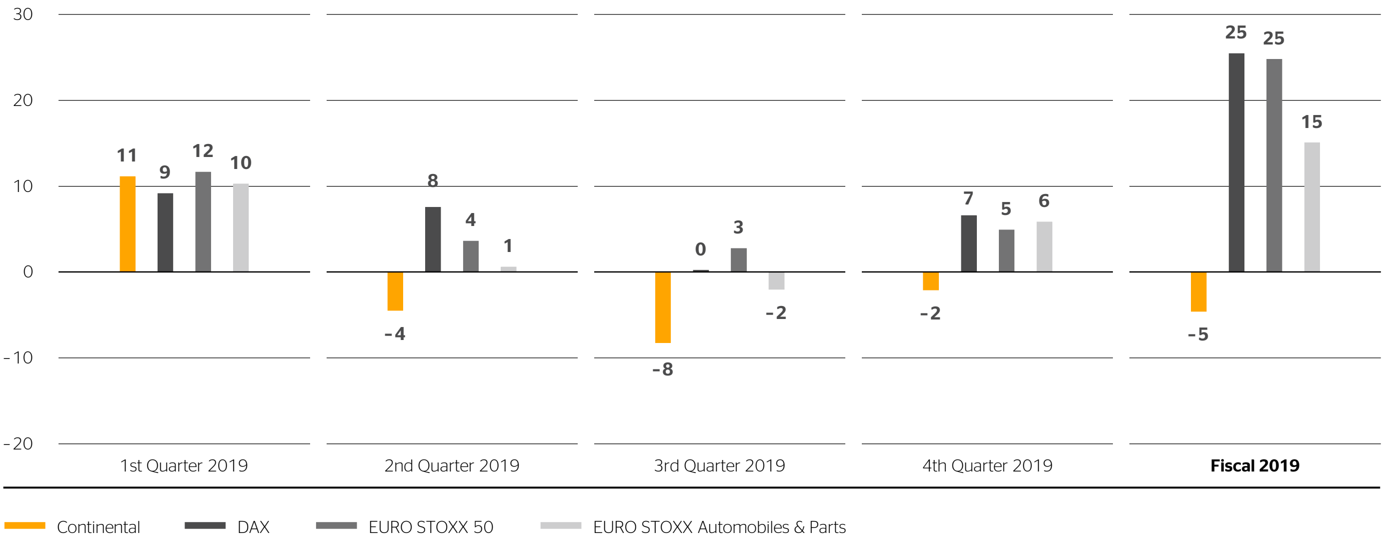
Declining demand for passenger cars impacts automotive stocks
In January and February 2019, European automotive and supplier stocks benefited from hopes of conciliation in the trade dispute between the U.S.A. and China. However, this sector was hit hard in February and March by considerably lower company profits in fiscal 2018 and cautious forecasts for fiscal 2019 because of weak demand in Europe and China. Sentiment also dimmed as a result of the weaker economic forecasts by the European Central Bank and the Fed, as well as the announcement of possible U.S. import tariffs on European cars.

In April 2019, the European automotive sector benefited from the growing expectations of conciliation in the trade dispute between the U.S.A. and China. The surprising escalation of the dispute and persistently weak passenger-car sales figures for Europe, the U.S.A. and especially China led to a sharp decline in the sector in May. This was exacerbated by fears of possible punitive U.S. tariffs on imports from Mexico and on imports of European cars to the U.S.A. In June 2019, the sector stabilized as a result of the positive general market trend.

Price performance of Continental shares in 2019 versus selected stock indexes indexed to January 1, 2019



Price performance by quarter in 2019 %



The European automotive sector largely followed the overriding market trends in the third quarter of 2019. However, it was negatively impacted by various profit warnings from manufacturers and suppliers. In addition, global production volumes for passenger cars continued to decline in 2019 and companies lowered their production expectations for the coming years.

Automotive stocks in particular benefited in the fourth quarter from the growing hopes of an agreement in the trade conflict between the U.S.A. and China. From mid-November 2019, however, fears of stagnating or even slightly declining vehicle production in 2020 and in the following years led to profit taking. The EURO STOXX Automobiles & Parts ended 2019 at 486.20 points, gaining 15.1% on the previous year.

Volatile price performance of Continental shares

After the significant price declines in 2018, Continental shares climbed by over 20% to €148.50 by the beginning of March 2019. As the month progressed, the announcement of the full business figures for 2018 and the confirmation of the outlook for the challenging fiscal 2019 together with sinking economic forecasts led to profit taking by investors. Compared with their closing price for 2018, Continental shares nevertheless increased by 11.1% to €134.20 in the first quarter of 2019.

Continental shares followed the trend in the European automotive sector in the second quarter of 2019 but were much more volatile. They were briefly quoted at over €155 in mid-April, representing an increase of 30.4% compared to the start of the year. In May 2019, Continental shares were particularly affected by the slump in the sector and fell back to their level at the beginning of the year. They declined by 4.5% in the second quarter to €128.22.

In the third quarter of 2019, declining expectations concerning production volumes in the reporting year and the lowering of the forecast for fiscal 2019 led to a reduction in the Continental share price to €103.62 as at the middle of August. Over the remainder of the quarter, Continental shares mostly followed the trend in the European automotive sector. They closed the third quarter with a loss of 8.2% at €117.70.

In the fourth quarter of 2019, Continental shares were down 2.1%, having been negatively impacted by weak market data and concerns about decreases in production volumes in 2020. They ended the reporting year 4.5% lower overall at €115.26.

In terms of its share-price performance, Continental was at the bottom end in the annual ranking of the 30 DAX shares in 2019, taking 28th place (PY: 28th place). Allowing for an immediate reinvestment of the dividend distribution of €4.75, Continental shares generated a total return of -1.5% in 2019. The DAX achieved a return of 25.5% in 2019, the EURO STOXX 50 of 29.3% and the EURO STOXX Automobiles & Parts of 21.1% (including reinvested dividends in each case).

Continental bonds continue at low yield level

As in the previous year, Continental bonds persisted at a low yield level in 2019. The slight decline in the interest-rate level for corporate bonds in Europe had a positive influence on the prices of Continental bonds in the reporting period. The price of the 0.0% euro bond maturing on February 5, 2020, increased by 12.1 basis points in the first quarter, before falling by 13.5 basis points over the course of the year. The price of the 3.125% euro bond maturing on September 9, 2020, decreased by 267.4 basis points in the reporting period, primarily due to the reduction in its remaining maturity.

Continental's key bonds outstanding as at December 31, 2019

WKN/ISIN	Coupon	Maturity	Volume in € millions	Issue price	Price as at Dec. 31, 2019	Price as at Dec. 31, 2018
A2DARM/XS1529561182	0.000%	February 5, 2020	600.0	99.410%	**100.027%**	100.041%
A1X3B7/XS0969344083	3.125%	September 9, 2020	750.0	99.228%	**102.311%**	104.985%
A2YPE5/XS2051667181	0.000%	September 12, 2023	500.0	99.804%	**99.308%**	–
A2YPAE/XS2056430874	0.375%	June 27, 2025	600.0	99.802%	**99.780%**	–

0.5% euro bond redeemed

The price of the 0.5% euro bond of Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., maturing on February 19, 2019, was around the 100% mark in January and February 2019. The nominal value of €500.0 million was repaid on the maturity date.

Successful placement of two euro bonds

In September 2019, Continental AG successfully placed two euro bonds with investors in Germany and abroad under Continental's Debt Issuance Programme (DIP). The first euro bond was offered on September 5, 2019, with an interest coupon of 0.000%. With a nominal value of €500.0 million, the issue price amounted to 99.804%. The bond has a term of four years. It was issued on the regulated market of the Luxembourg Stock Exchange on September 12, 2019. The second euro bond was offered on September 19, 2019, with an interest coupon of 0.375%. With a nominal value of €600.0 million, the issue price amounted to 99.802%. The bond has a term of five years and nine months. It was issued on the regulated market of the Luxembourg Stock Exchange on September 27, 2019.

Special effects result in negative earnings per share

Net income attributable to the shareholders of the parent totaled -€1.23 billion (PY: €2.90 billion) in the year under review. The primary reasons for this were the weaker operating performance and the negative impact of special effects totaling €3.31 billion, which mainly comprised impairment and restructuring expenses in the third and fourth quarters of 2019. Earnings per share fell as a result to -€6.13 (PY: €14.49).

Dividend proposal of €4.00 per share

Despite the weaker operating performance, the Executive Board and the Supervisory Board have resolved to propose a dividend distribution of €4.00 per share for the past fiscal year to the Annual Shareholders' Meeting to be held in Hanover on April 30, 2020. This proposal corresponds to a payout of €800.0 million. Based on the dividend proposal and the annual average Continental share price, this results in a dividend yield of 3.1% for 2019.

A dividend of €4.75 per share was paid for fiscal 2018, amounting to a total payout of €950.0 million. The dividend payout ratio was 32.8%, and the dividend yield was 2.5%.

Free float unchanged at 54.0%

As in the previous year, free float as defined by Deutsche Börse AG amounted to 54.0% as at the end of 2019. The most recent change took place on September 17, 2013, when our major shareholder, the IHO Group, Herzogenaurach, Germany, announced the sale of 7.8 million Continental shares, reducing the shareholding in Continental AG from 49.9% to 46.0%.

As at the end of 2019, the market capitalization of Continental AG amounted to €23.1 billion (PY: €24.2 billion). Market capitalization on the basis of free float averaged €12.7 billion over the last 20 trading days of 2019 (PY: €13.6 billion). The trading volume, which is also relevant for the index selection by Deutsche Börse AG, amounted to €21.1 billion from January to December 2019 (PY: €28.9 billion). Among the 30 DAX shares, Continental shares as at the end of 2019 were ranked 25th (PY: 24th) in terms of free-float market capitalization and 17th (PY: 16th) in terms of stock exchange turnover.

Share of free float in the U.S.A. rises further

As at the end of the year, we determined the distribution of free float of Continental shares by way of shareholder identification (SID). We were able to assign 92.3 million of the 108.0 million shares held in the form of shares or alternatively as American depositary receipts (ADRs) in the U.S.A. to institutional and private investors. The identification ratio was 85.5% (PY: 86.5%).

A total of 83.2 million shares were attributable to more than 600 institutional investors in 44 countries. Private shareholders in Germany, other European countries and the U.S.A. held an estimated 9.2 million shares as at the end of the year.

According to the SID, the identified level of Continental shares held in Europe decreased significantly compared with the previous year to 51.1% (PY: 56.8%). The identified level of shares held by institutional investors from the United Kingdom and Ireland remained stable at 25.3%. The identified holdings of German institutional investors dropped to 6.6% in the year under review (PY: 10.0%). At 5.9%, shareholdings of private German shareholders were slightly higher than the previous year's level of 5.7%. Shareholdings of French institutional investors decreased to 3.1% (PY: 5.9%). Scandinavian investors held 4.4% (PY: 3.2%) of Continental shares at the end of 2019. Shareholdings of institutional investors in other European countries declined to 5.7% (PY: 6.7%).

Continental share data

Type of share	No-par-value share
German stock exchanges (regulated market)	Frankfurt (Prime Standard), Hamburg, Hanover, Stuttgart
German securities code number (WKN)	543900
ISIN	DE0005439004
Reuters ticker symbol	CONG
Bloomberg ticker symbol	CON
Index memberships (selection)	DAX, Prime All Share, Prime Automobile, NISAX
Outstanding shares as at December 31, 2019	200,005,983
Free float as at December 31, 2019	54.0%

Continental's American depositary receipt (ADR) data

Ratio	1 share : 10 ADRs
SEDOL number	2219677
ISIN	US2107712000
Reuters ticker symbol	CTTAY.PK
Bloomberg ticker symbol	CTTAY
ADR level	Level 1
Trading	OTC
Sponsor	Deutsche Bank Trust Company Americas
ADRs issued as at December 31, 2019	19,351,520 (with 1,935,152 Continental shares deposited)

As at the end of December 2019, institutional and private investors in the U.S.A. and Canada held a total of 30.9% (PY: 26.3%) of the free float in the form of shares or ADRs.

The identified shareholdings of institutional investors in Asia, Australia and Africa came to 3.6% at the end of 2019 (PY: 3.5%).

Share capital unchanged

As at the end of 2019, the share capital of Continental AG still amounted to €512,015,316.48. It is divided into 200,005,983 no-par-value shares with a notional value of €2.56 per share. Each share has the same dividend entitlement.

In line with Article 20 of Continental AG's Articles of Incorporation, each share grants one vote at the Shareholders' Meeting. The current Articles of Incorporation are available on our website at www.continental.com under Company/Corporate Governance.

Continental share listings

Continental's shares continue to be officially listed on the German stock exchanges in Frankfurt, Hamburg, Hanover and Stuttgart on the regulated market. They are also traded on other unofficial stock exchanges in Germany and in other countries around the world.

Continental ADR listings

In addition to being listed on European stock exchanges, Continental shares are traded in the U.S.A. as part of a sponsored ADR program on the over-the-counter (OTC) market. They are not admitted to the U.S. stock market. Since the split of the outstanding ADRs at the end of October 2018, ten ADRs (rather than the previous five) are equivalent to one Continental share.

Continental Investor Relations online

For more information about Continental shares, bonds and credit ratings, please visit www.continental-ir.com.

Key figures of the Continental share[1]

€ (unless otherwise specified)	2019	2018
Basic earnings per share	-6.13	14.49
Diluted earnings per share	-6.13	14.49
Dividend per share	4.00[2]	4.75
Dividend payout ratio (%)	n. a.	32.8
Dividend yield (%)	3.1[2]	2.5
Annual average price-earnings ratio (P/E ratio)[3]	n. a.	13.2
Share price at year end	115.26	120.75
Annual average share price	127.58	191.27
Share price at year high	157.40	257.40
Share price at year low	103.62	119.10
Number of outstanding shares, average (in millions)	200.0	200.0
Number of outstanding shares as at December 31 (in millions)	200.0	200.0

1 All market prices are quotations of the Continental share in the Xetra system of Deutsche Börse AG.
2 Subject to the approval of the Annual Shareholders' Meeting on April 30, 2020.
3 Net income attributable to the shareholders of the parent per share at the annual average share price.

Corporate Governance
Report of the Supervisory Board

Dear Shareholders,

The Supervisory Board comprehensively fulfilled all tasks incumbent upon it under applicable law, the Articles of Incorporation and By-Laws in fiscal 2019. We closely supervised, carefully monitored and advised the Executive Board in the management of the company. We have satisfied ourselves of the legality and expediency of management. We were directly involved in a timely manner in all decisions of fundamental importance to the company.

The Executive Board provided the Supervisory Board with regular, timely and comprehensive updates at its meetings and in writing on all issues of relevance to the company. In particular, these include the business performance, planning, business strategy, significant business transactions in the company and the corporation, and the related risks and opportunities, as well as compliance issues. The members of the Supervisory Board were also available to the Executive Board for consultation outside the meetings. As chairman of the Supervisory Board, I had regular contact with the Executive Board and its chairman and discussed current company issues and developments with them.

Meetings of the Supervisory Board and the committees
The Supervisory Board held four ordinary meetings and two extraordinary meetings in 2019, as well as the strategy meeting. At three meetings, the Supervisory Board conferred part of the time in the absence of the Executive Board. The Chairman's Committee held three meetings and one telephone conference in the year under review. The Audit Committee met four times and held one telephone conference in 2019. The Nomination Committee met once to discuss and approve the nominations for candidates for election as shareholder representatives to the Supervisory Board. The Mediation Committee in accordance with Section 27 (3) of the German Co-determination Act *(Mitbestimmungsgesetz – MitbestG)* was not required to meet in 2019. There are no other committees. All committees report to the plenary session on a regular basis. The corporate governance declaration starting on page 16 describes their responsibilities in more detail and names their members.

All members of the Supervisory Board attended more than half of the meetings of the plenary session and also of the committees to which they belonged in the past fiscal year. Most members of the Supervisory Board attended all meetings in person. A detailed account of each Supervisory Board member's meeting attendance will be published in the Investors section of our website on March 23, 2020, with the invitation to the Annual Shareholders' Meeting.

Key topics dealt with by the Supervisory Board and the Chairman's Committee
At each meeting of the plenary session, the Executive Board informed the Supervisory Board in detail of the sales, results and employment development in the corporation and individual divisions as well as the financial situation of the company. Where the actual course of business deviated from the defined plans and targets, the Executive Board provided detailed explanations. It discussed the reasons for these deviations and the measures introduced in depth with the Supervisory Board. In addition, the Executive Board regularly informed us about the corporation's main raw materials and sales markets and about Continental AG's share price performance.

At the meeting to approve the annual financial statements on **March 14, 2019**, we discussed in detail and approved the reorganization of the company and in particular the creation of an Automotive Board for the Automotive Technologies group sector. In connection with this, we also made personnel changes in the Executive Board, which are explained in detail under "Personnel changes in the Supervisory Board and Executive Board." Other topics of focus in this meeting were the company's annual financial statements and the consolidated financial statements for 2018, which we discussed and approved in the presence of the auditor. In addition, we resolved to grant the 2019/2022 long-term incentive tranche to the members of the Executive Board. The Annual Shareholders' Meeting on **April 26, 2019**, elected the shareholder representatives on the Supervisory Board. The election of employee representatives had already taken place on March 20, 2019. We also report on the personnel changes made as a result under "Personnel changes in the Supervisory Board and Executive Board." In its meeting following the Annual Shareholders' Meeting, the Supervisory Board was constituted and elected its vice chairwoman as well as the members of the committees. The discussions at this meeting were otherwise limited to the current business performance.

The Supervisory Board meetings in the second half of 2019 addressed in more detail the major challenges that the company must overcome due to further declining markets and the simultaneous, partially disruptive and dramatically accelerating transformation of the automotive industry. On **July 30, 2019**, an extraordinary Supervisory Board meeting was held to discuss the Executive Board's strategy for maintaining Continental's long-term financial strength, increasing its competitiveness and safeguarding its viability in this environment, as well as any action that may be required as a result. The Executive Board presented concrete measures in the Supervisory Board meeting on **September 25, 2019**. The Supervisory Board discussed these at length and declared that it would help to review the required structural adjustments. The Supervisory Board also noted and approved the Executive Board's decision to examine the feasibility of not only a partial IPO of the Powertrain division but also its full spin-off with subsequent listing. This meeting was otherwise devoted for the most part to discussions without the Executive Board, in particular discussions relating to the succession plan for the Executive Board. Finally, the head of the Compliance department submitted its annual report to the plenary session on the department's work and significant compliance cases.

At the full-day strategy meeting on **September 24, 2019**, the Executive Board and the Supervisory Board once again discussed at length the strategic objectives and strategic planning of the corporation and the divisions, as well as the HR strategy. The topics included in particular automated driving and connectivity, electrification, the Rubber Group's growth strategy and, as a key theme, artificial intelligence. On **November 20, 2019**, another extraordinary meeting was held in which we again thoroughly reviewed the structural changes discussed in September and approved measures in the Interior division's Instrumentation & Driver HMI business unit and in connection with the discontinuation of the Powertrain division's hydraulics business.

At its meeting on **December 11, 2019**, the Supervisory Board discussed the annual planning for 2020 and long-term planning. It also approved the planning and the investment plans for fiscal 2020. In addition, we discussed at length proposed changes to the remuneration system for Executive Board members. After new regulations, which have implications for the remuneration system, were introduced to the German Act for the Implementation of the 2nd E.U. Shareholder Rights Directive *(ARUG II)* shortly before its approval in November 2019, we put off passing resolutions in this regard until early 2020.

At its meeting on **March 14, 2019**, the **Chairman's Committee** approved the issuance of a promissory note bank loan and the granting of guarantees for the joint venture Osram Continental GmbH, Munich, Germany. In addition, this meeting and the meeting on **December 11, 2019**, involved in particular preparatory discussions regarding the plenary session's decisions on remuneration for Executive Board members and on personnel matters relating to the Executive Board. In a telephone conference on **June 19, 2019**, the Chairman's Committee approved the acquisition of Merlett Tecnoplastic S.p.A., Daverio, Italy, for the ContiTech business unit Industrial Fluid Solutions. At its meeting on **September 24, 2019**, it approved refinancing of the revolving credit line of up to €4 billion.

Key topics dealt with by the Audit Committee

The Audit Committee was also informed by the Executive Board in detail and on an ongoing basis about sales, results and employment development in the corporation and individual divisions as well as the financial situation of the company. The Executive Board is assisted by the heads of Accounting and Corporate Controlling, who can provide the Audit Committee directly with information at its meetings. In addition, the chairman of the Audit Committee is in contact with the chief financial officer and the auditor of the corporation outside of the meetings on a regular basis.

As a focus of each of its quarterly meetings, the Audit Committee talks with the Executive Board about the accounting as at the end of the previous quarter and the outlook for the year as a whole as well as the quarterly and half-year financial reports prior to their publication. At its meeting on **February 27, 2019**, and in a telephone conference on **March 1, 2019**, the Audit Committee discussed the company's annual financial statements and the consolidated financial statements for 2018 with the Executive Board and the auditor and recommended their approval to the plenary session of the Supervisory Board. The interim financial statements as at June 30, 2019, were reviewed by KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover (KPMG), on behalf of the Audit Committee. The work of the Compliance and Corporate Audit departments and reporting on significant incidents are also regular topics at each quarterly meeting. This included in particular the matters described in more detail in the report on risks and opportunities and in the notes to the consolidated financial statements. The head of the Compliance department and the head of Corporate Audit are also available to provide information directly to the Audit Committee and its chairman in coordination with the Executive Board. The chairman of the Audit Committee shares key information as part of his regular reporting to the plenary session. In addition, the Executive Board reports to the Audit Committee on the material risks covered by the risk management system and the corresponding measures resolved. The Audit Committee has satisfied itself of the effectiveness of the internal control system, the risk management system and the internal audit system.

In addition to these recurring topics, the Audit Committee also discussed cyber security at Continental and the selection process for the change of auditor required in 2021 at its meeting on **May 7, 2019**. On **July 30, 2019**, the Audit Committee heard information on the progress of major acquisition and investment projects, as it does regularly every year. In 2019, this related in particular to the acquisition of Bandvulc Group, United Kingdom, by the Tire division, and the establishment of the joint venture Osram Continental GmbH. At the meeting on **November 5, 2019**, the Audit Committee issued the mandate for the audit of the 2019 annual and consolidated financial statements and the dependent company report to the auditor appointed by the Annual Shareholders' Meeting, KPMG, after obtaining the necessary dependent company report, and coordinated key audit matters with the auditor. KPMG was also commissioned to audit the combined corporate non-financial statement. In addition, the Audit Committee defined an approval framework for commissioning the auditor with permissible non-audit services in accordance with the E.U. Audit Regulation. The Executive Board regularly informs the Audit Committee about the use of this framework. In a next important step in the tender for the change of auditor, the two shortlisted candidates introduced themselves to the Audit Committee and were interviewed at length by its members.

Corporate governance

At its meeting in December 2019, the Supervisory Board agreed to an updated declaration in accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz – AktG)* on the recommendations of the German Corporate Governance Code *(Deutscher Corporate Governance Kodex)*. There were no conflicts of interest for members of the Supervisory Board in the reporting year. In its opinion, the Supervisory Board also had an appropriate number of independent members as defined in the German Corporate Governance Code at all times in the period under review. Further information on corporate governance is included in the corporate governance report starting on page 12.

Annual and consolidated financial statements; combined corporate non-financial statement for 2019

KPMG audited the annual financial statements as at December 31, 2019, prepared by the Executive Board in accordance with the provisions of the German Commercial Code *(Handelsgesetzbuch – HGB)*, the 2019 consolidated financial statements and the combined management report for the corporation and Continental AG, including the accounts, the accounting-related internal control system and the system for early risk recognition. The 2019 consolidated financial statements of Continental AG were prepared in accordance with the International Financial Reporting Standards (IFRS). The auditor issued unqualified opinions. In terms of the system for early risk recognition, the auditor found that the Executive Board had taken the necessary measures under Section 91 (2) *AktG* and that the company's system for early risk recognition is suitable for identifying developments at an early stage that pose a risk to the company as a going concern. In addition, KPMG audited the Executive Board's report on relations with affiliated companies pursuant to Section 312 *AktG* (dependent company report). KPMG issued the following unqualified opinion on this report in accordance with Section 313 (3) *AktG*:

"Based on the results of our statutory audit and evaluation we confirm that:

› the actual information included in the report is correct,

› with respect to the transactions listed in the report, payments by the company were not unduly high or that detrimental effects had been compensated for, and

› there are no circumstances in favor of a significantly different assessment than that made by the Executive Board in regard to the measures listed in the report."

The Audit Committee discussed the documents relating to the annual financial statements, including the dependent company report, and the auditor's reports with the Executive Board and the auditor on March 3, 2020. Furthermore, the plenary session of the Supervisory Board discussed these at length at its meeting to approve the annual financial statements on March 17, 2020. The discussions also concerned the combined corporate non-financial statement for the Continental Corporation and for Continental AG according to Section 289b and Section 315b *HGB*. The required documents were distributed to all members of the Audit Committee and the Supervisory Board in good time before these meetings so that the members had sufficient opportunity to review them. The auditor was present at these discussions. The auditor reported on the main results of the audits and was available to provide additional information to the Audit Committee and the Supervisory Board. Based on its own review of the annual financial statements, the consolidated financial statements, the combined management report of Continental AG and of the corporation, as well as the dependent company report including the final declaration of the Executive Board, and based on the report and the recommendation of the

Audit Committee, the Supervisory Board concurred with the results of the auditor's audit. There were no objections. The Supervisory Board approved the annual financial statements and the consolidated financial statements. The annual financial statements are thereby adopted. KPMG issued an unqualified opinion for the combined corporate non-financial statement. Based on the Supervisory Board's own review, the Audit Committee's report on its preliminary examination and its recommendation, and KPMG's audit and unqualified opinion on the combined corporate non-financial statement, the Supervisory Board finds that the combined corporate non-financial statement is correct and appropriate and was prepared in accordance with Sections 315b and 315c in conjunction with Sections 289c to 289e *HGB*.

The Supervisory Board together with the Executive Board will propose a dividend distribution of €4.00 per share for the past fiscal year at the Annual Shareholders' Meeting on April 30, 2020.

Personnel changes in the Supervisory Board and Executive Board

As previously reported, the term of office of the previous Supervisory Board expired at the end of the Annual Shareholders' Meeting on April 26, 2019. After the election of the shareholder representatives by the Annual Shareholders' Meeting and the employee representatives on March 20, 2019, the following personnel changes were made: On the employee side, Gudrun Valten and Erwin Wörle left the Supervisory Board. On the shareholder side, Prof. Dr-Ing Peter Gutzmer and Prof. Dr Klaus Mangold did not stand for reelection. The Supervisory Board would like to thank them all once again for their valuable contributions – in some cases over many years – to the work of the Supervisory Board. The Annual Shareholders' Meeting appointed Isabel Corinna Knauf, member of the group management committee at the Knauf Group, a leading manufacturer of building materials and construction systems, as well as Satish Khatu, management advisor and until 2013 senior executive of the IBM Group. The new members of the Supervisory Board on the employee side are Hasan Allak, chairman of the corporate works council of Continental AG and chairman of the works council of Continental Reifen Deutschland GmbH at the Stöcken site; and Lorenz Pfau, chairman of the central works council of Continental Automotive GmbH.

Further information on the members of the Supervisory Board and its committees who were in office in the year under review can be found starting on page 18, and on pages 208 and 209.

At its meeting on March 14, 2019, the Supervisory Board also approved a reorganization at the Executive Board level with key personnel decisions. Nikolai Setzer, who had been responsible for the Tire division and Corporate Purchasing, switched to the Automotive Group on April 1, 2019, where he assumed the new position of spokesman of the Automotive Board with responsibility for maintaining a unified business strategy in this area. On April 1, 2019, Nikolai Setzer was succeeded as head of the Tire division and Corporate Purchasing by new Executive Board member Christian Kötz, who was previously head of the Commercial Vehicle Tires business unit. His appointment will run for three years until the end of March 2022. At the same time, the Supervisory Board extended ahead of time until the end of March 2024 the appointment of Nikolai Setzer due to his new role, as well as the appointments of Frank Jourdan and Helmut Matschi due to the changes in the automotive business. The appointment of Wolfgang Schäfer, who is responsible for Finance as well as Controlling, Compliance, Legal and IT, was also extended by five years until the end of 2024.

The Supervisory Board would like to thank the Executive Board, all the employees and the employee representatives for their considerable dedication over the past year.

Hanover, March 17, 2020

For the Supervisory Board,

Prof. Dr.-Ing. Wolfgang Reitzle
Chairman

Corporate Governance Declaration Pursuant to Section 289f of the German Commercial Code *(HGB)*

Responsible corporate governance geared toward sustainable, long-term value creation is what governs the actions of the Executive Board and the Supervisory Board.

Good, responsible corporate governance geared toward sustainable, long-term value creation and in the interests of all stakeholder groups is the measure that governs the actions of the Executive Board and Supervisory Board of Continental AG. The following report presents the corporate governance at Continental. This corporate governance declaration pursuant to Section 289f of the German Commercial Code *(Handelsgesetzbuch – HGB)* is supplemented by the remuneration report of Continental AG and is a part of the company's management report.

Declaration pursuant to Section 161 *AktG* and deviations from the German Corporate Governance Code
In December 2019, the Executive Board and the Supervisory Board issued the following annual declaration in accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz – AktG)*:

"In accordance with Section 161 *AktG*, the Executive Board and the Supervisory Board of Continental AG declare that the Company has complied with and will comply with the recommendations issued by the Government Commission on the German Corporate Governance Code (as amended on February 7, 2017; published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette *(Bundesanzeiger)* on April 24, 2017), subject to the qualifications set forth below. Reference is made to the declaration of the Executive Board and the Supervisory Board of December 2018, as well as to the previous declarations pursuant to Section 161 *AktG* and the qualifications regarding the recommendations of the German Corporate Governance Code explained therein.

- Pursuant to Section 5.4.1 (2) of the Code, the Supervisory Board shall specify concrete objectives regarding its composition, which take into account, inter alia, an age limit to be established for members of the Supervisory Board. The Supervisory Board has specified such objectives. However, the Supervisory Board did not establish an age limit because it is of the opinion that such a general criterion is not suitable for evaluating the qualifications of an individual candidate for membership on the Supervisory Board.

Hanover, December 2019

Prof. Dr.-Ing. Wolfgang Reitzle
Chairman of the Supervisory Board

Dr. Elmar Degenhart
Chairman of the Executive Board"

The declaration is published in the Company/Corporate Governance section of Continental's website. Earlier declarations in accordance with Section 161 *AktG* can also be found there. Out-of-date corporate governance declarations can also be found there for a period of at least five years. Continental AG also complies with all suggestions of the Code with the following exception:

- Section 3.7 (3) (suggestion A.5 of the new version) of the Code suggests that the Executive Board should convene an extraordinary Shareholders' Meeting in all cases of takeover bids. The Executive Board and the Supervisory Board consider it more expedient to decide in each specific situation whether it is advisable to convene a Shareholders' Meeting.

Key corporate governance practices
To date, corporate governance at Continental has been fundamentally based on Continental AG's Corporate Governance Principles, which are closely modeled on the German Corporate Governance Code and are published in the Company/Corporate Governance section of Continental's website. The Executive Board and the Supervisory Board are examining whether Continental AG's own Corporate Governance Principles are still required under the new version of the Code and the principles of corporate governance contained therein.

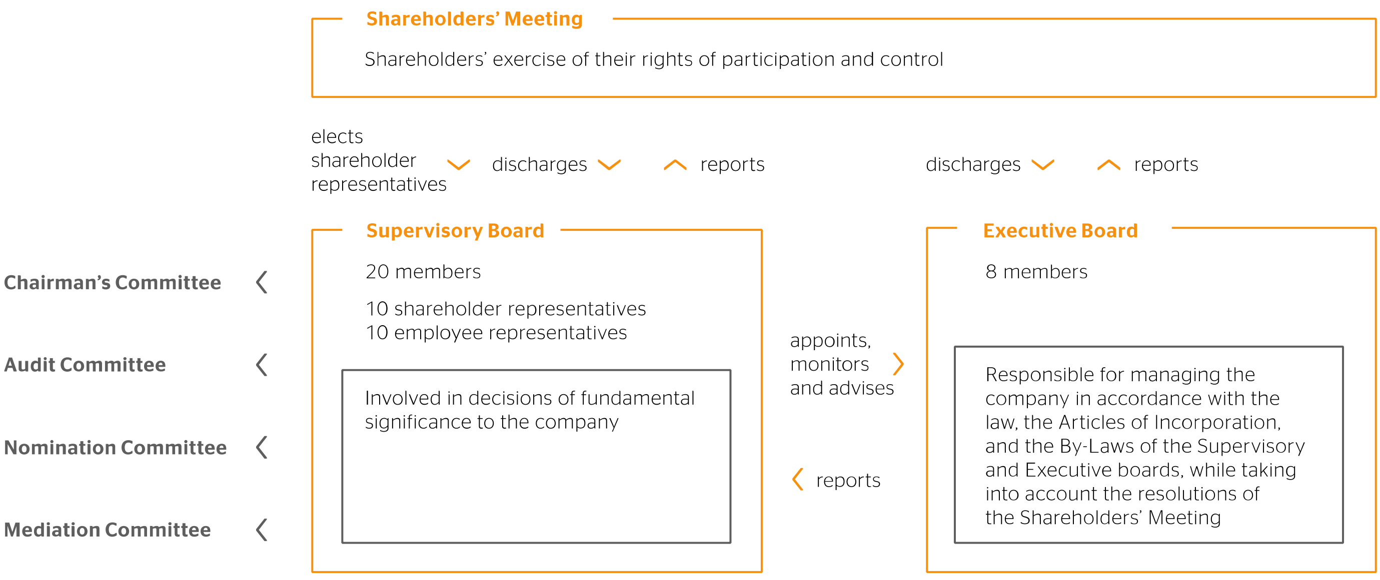
In addition to the Corporate Governance Principles, the following principles are also key to our sustainable and responsible corporate governance:

- OUR BASICS – Continental AG's corporate guidelines. OUR BASICS have reflected the vision, values, desired behavior and self-image of the corporation since 1989, and are available in the Company/Corporate Strategy section of Continental's website.
- The Corporate Social Responsibility Principles; available in the Sustainability/Downloads section of Continental's website.
- Compliance with the binding Code of Conduct for all Continental employees. For more information, see the Compliance section on page 22 or the Sustainability/Downloads section of Continental's website.

Corporate bodies
In line with the law and the Articles of Incorporation, the company's corporate bodies are the Executive Board, the Supervisory Board and the Shareholders' Meeting. As a German stock corporation, Continental AG has a dual management system characterized by a strict personnel division between the Executive Board as the management body and the Supervisory Board as the monitoring body. The cooperation between the Executive Board, Supervisory Board and Shareholders' Meeting is depicted on the next page.

The Executive Board and its practices
The Executive Board has sole responsibility for managing the company in the interests of the company, free from instructions from third parties in accordance with the law, the Articles of Incorporation and the Executive Board's By-Laws, while taking into account

Corporate bodies of the company



the resolutions of the Shareholders' Meeting. All members of the Executive Board share responsibility for the management of the company jointly. Regardless of this principle of joint responsibility, each Executive Board member is individually responsible for the areas entrusted to them. The chairman of the Executive Board is responsible for the company's overall management and business policy. He ensures management coordination and uniformity on the Executive Board and represents the company to the public. The Executive Board develops the company's strategy, agrees it with the Supervisory Board and ensures its implementation.

The Executive Board currently has eight members. The first time a person is appointed to the Executive Board, his or her term is three years only. As a rule, a member of the Executive Board is not appointed beyond the statutory retirement age. More information on the members of the Executive Board can be found on page 207 and in the Company/Corporate Governance section of Continental's website.

The Executive Board has By-Laws that regulate in particular the allocation of duties among the Executive Board members, key matters pertaining to the company and its subsidiaries that require a decision to be made by the Executive Board, the duties of the Executive Board chairman, and the process in which the Executive Board passes resolutions. The Executive Board By-Laws are available in the Company/Corporate Governance section of Continental's website. The Supervisory Board By-Laws on the basis of the Articles of Incorporation require the consent of the Supervisory Board for significant actions taken by management.

As of April 1, 2019, the Executive Board established the Automotive Board, which aims to foster the increased decentralization of responsibility that the global reorganization of the company seeks to achieve, relieve the burden on the corporate Executive Board and significantly shape the ongoing transformation process in the automotive sector. To this end, the Executive Board also delegated decision-making powers to the Automotive Board for certain matters that affect only the Automotive Technologies group sector. In addition to its spokesman Nikolai Setzer, the members of the Automotive Board include the Executive Board members Frank Jourdan, Autonomous Mobility and Safety business area, and Helmut Matschi, Vehicle Networking and Information business area; as well as Dr. Dirk Abendroth, chief technology officer for Automotive; Dr. Thomas Eller, Automotive Sales; Katharina Rath, Human Relations for Automotive; and Harald Stuhlmann, head of Finance and Controlling for Automotive.

The Supervisory Board and its practices

The Supervisory Board appoints the members of the Executive Board and collaborates with the Executive Board to develop a long-term succession plan. The Supervisory Board discusses this at least once a year without the Executive Board. In order to become acquainted with potential successor candidates, the Supervisory Board, in consultation with the Executive Board, offers them the opportunity to deliver presentations to the Supervisory Board.

The Supervisory Board supervises and advises the Executive Board in managing the company. The Supervisory Board is directly involved in decisions of material importance to the company. As specified by law, the Articles of Incorporation or the Supervisory Board By-Laws, certain corporate management matters require the approval of the Supervisory Board. The chairman of the Supervisory Board coordinates its work and represents it vis-à-vis third parties. Within reasonable limits, he is prepared to talk to investors about issues specific to the Supervisory Board. He maintains regular contact between meetings with the Executive Board, and in particular with its chairman, to discuss issues relating to the company's strategy, business development, risk management and compliance.

Composition of the Supervisory Board
The Supervisory Board comprises 20 members in accordance with the German Co-determination Act *(Mitbestimmungsgesetz – MitbestG)* and the company's Articles of Incorporation. Half the members of the Supervisory Board are elected individually by the shareholders in the Shareholders' Meeting (shareholder representatives), while the other half are elected by the employees of Continental AG and its German subsidiaries (employee representatives). Both the shareholder representatives and the employee representatives have an equal duty to act in the interests of the company. The Supervisory Board's chairman must be a shareholder representative. He has the casting vote in the event of a tie.

The Supervisory Board was newly constituted on April 26, 2019, after the election of the employee representatives on March 20, 2019, and the shareholder representatives by the Shareholders' Meeting on April 26, 2019. The term of office of the Supervisory Board members lasts until the end of the 2024 Annual Shareholders' Meeting.

The company has set up an informational program that provides newly elected members of the Supervisory Board with a thorough overview of the company's products and technologies as well as finances, controlling and corporate governance at Continental. This program was conducted in summer 2019.

The Supervisory Board has drawn up its own By-Laws that supplement the law and the Articles of Incorporation with more detailed provisions, including provisions on Supervisory Board meetings, the duty of confidentiality, the handling of conflicts of interest and the Executive Board's reporting obligations, and a list of transactions and measures that require the approval of the Supervisory Board. The Supervisory Board By-Laws are available in the Company/Corporate Governance section of Continental's website. The Supervisory Board consults, in the absence of the Executive Board, on a regular basis. Before each regular meeting of the Supervisory Board, the representatives of the shareholders and of the employees each meet separately with members of the Executive Board to discuss the upcoming meeting.

Every two to three years, the Supervisory Board reviews how effectively the overall Supervisory Board and its committees have fulfilled their responsibilities. The Supervisory Board recently carried out such a review in 2016 with the help of an external consultant. This once again confirmed the positive development of the Supervisory Board's work in the past years. The Supervisory Board has adopted the recommendations that resulted from the 2016 efficiency review. The next self-assessment is scheduled to take place in 2020.

Profile of skills and expertise for the Supervisory Board
In accordance with Section 5.4.1 (recommendation C.1 of the new version) of the German Corporate Governance Code, the Supervisory Board has prepared a profile of skills and expertise and specified targets for its composition.

The Supervisory Board as a whole should possess the skills and expertise described in more detail below: It is not expected that all Supervisory Board members possess all skills and expertise. Instead, each area of expertise must be covered by at least one Supervisory Board member. The Supervisory Board assumes that all Supervisory Board members possess the knowledge and skills required for the proper performance of their duties and the characteristics necessary for successful Supervisory Board work. In particular, these include integrity, commitment, capacity for discussion and teamwork, sufficient availability and discretion.

- **Internationality:** Due to Continental AG's global activities, its Supervisory Board requires international professional or business experience. This means professional training or work abroad or with a strong connection to foreign markets. International professional and business experience with regard to Asian markets is also desirable.

- **Industry experience:** The Supervisory Board should have professional experience in the automotive industry or other industries in which the company operates. In particular, the Supervisory Board wants to increase its expertise in the new business areas that are important parts of the company's strategy. Therefore, professional knowledge or experience of digitalization, information technology, telecommunications, mobility services, electric mobility, or related areas should be available.

- **Management experience:** The Supervisory Board should include members with management experience. In particular, this includes experience in corporate management or as a senior manager of a business, or experience in a managerial role at other large organizations or associations.

- **Financial experience:** The Supervisory Board should possess financial knowledge and experience, namely in the areas of accounting, control and risk management systems, and the audit of financial statements. The chairman of the Audit Committee must have in-depth knowledge in these areas.

- **Corporate governance and board experience:** Members of the Supervisory Board should have experience as a member of the supervisory board or executive board of a German listed company or as a member of such a body of a foreign listed company.

The Supervisory Board has specified the following targets for its composition:

- The number of members of the Supervisory Board who have the required international experience should at a minimum remain constant. At least seven members currently have international skills and experience.

- An appropriate number of members with industry experience should be maintained. Far more than half of the Supervisory Board members cover this area of expertise.

- The Supervisory Board should have an appropriate number of members who are deemed independent by the Supervisory Board as defined in the German Corporate Governance Code. At least five shareholder representatives should be independent as defined in the Code. The independent shareholder representatives are:
  - Prof. Dr.-Ing. Wolfgang Reitzle
  - Dr. Gunter Dunkel
  - Satish Khatu
  - Isabel Corinna Knauf
  - Sabine Neuß
  - Prof. Dr. Rolf Nonnenmacher
  - Prof. KR Ing. Siegfried Wolf
- In its nominations for election to the Supervisory Board, the Supervisory Board as a rule does not nominate candidates who have already held this position for three full terms of office at the time of the election.
- The Supervisory Board has not stipulated an age limit as recommended in Section 5.4.1 (recommendation C.2 of the new version) of the Code. It does not consider such a general criterion to be suitable for deciding whether a candidate is eligible to be a member of the Supervisory Board.

According to Section 96 (2) *AktG*, the Supervisory Board of Continental AG is also subject to the requirement that at least 30% of its members be women and at least 30% be men. The company reports on this on page 21, in accordance with Section 289f (2) No. 4 to 6 *HGB*.

The Supervisory Board's proposals to the Annual Shareholders' Meeting on April 26, 2019 took into account the requirements of the profile of skills and expertise for the board as a whole as well as the aforementioned targets. In particular, with the election of Isabel Corinna Knauf and Satish Khatu, the Supervisory Board gained additional international professional and business experience with regard to Asian markets as well as experience in digitalization and information technology.

The corporate governance declaration will continue to provide regular updates on the status of the implementation of the targets.

Committees of the Supervisory Board
The Supervisory Board currently has four committees: the Chairman's Committee, the Audit Committee, the Nomination Committee and the committee formed in accordance with Section 27 (3) *MitbestG* (Mediation Committee). After the Supervisory Board was constituted following the Annual Shareholders' Meeting on April 26, 2019, its committees were also elected. There were no changes in their composition.

The members of the **Mediation Committee** also form the Chairman's Committee, which comprises the chairman of the Supervisory Board, Prof. Dr.-Ing. Wolfgang Reitzle (chairman); his vice chairperson, Christiane Benner; Georg F. W. Schaeffler; and Jörg Schönfelder. Key responsibilities of the **Chairman's Committee** are preparing the appointment of Executive Board members and concluding, terminating and amending their employment contracts and other agreements with them. However, the plenum of the Supervisory Board alone is responsible for establishing the total remuneration of the Executive Board members. Another key responsibility of the Chairman's Committee is deciding on the approval of certain transactions and measures by the company as specified in the Supervisory Board By-Laws. The Supervisory Board has conferred some of these participation rights on the Chairman's Committee, each member of which may however, in individual cases, demand that a matter again be submitted to the plenary session for decision.

The **Audit Committee's** tasks relate to the company's accounting, the audit of the financial statements, risk management and compliance. In particular, the committee deals with the audit of the accounts, monitors the accounting process and the effectiveness of the internal control system, the risk management system, the internal audit system and compliance; and performs a preliminary examination of Continental AG's annual financial statements and the consolidated financial statements. The committee makes its recommendation to the plenary session of the Supervisory Board, which then passes resolutions pursuant to Section 171 *AktG*. Furthermore, the committee discusses the company's draft interim financial reports. It is also responsible for ensuring the necessary independence of auditors and deals with additional services performed by the auditors. The committee engages the auditors, determines the focus of the report as necessary, negotiates the fee and regularly reviews the quality of the audit. It also gives its recommendation for the Supervisory Board's proposal to the Annual Shareholders' Meeting for the election of the auditor. The Audit Committee is also responsible for the preliminary audit of non-financial reporting and for the engagement of an auditor for its review, if any. The chairman of the Audit Committee is Prof. Dr. Rolf Nonnenmacher. He is independent in all respects as defined in the German Corporate Governance Code and, as an auditor, has special knowledge and experience in the application of accounting principles and internal control procedures. Another committee member, Klaus Rosenfeld, is also a financial expert. The other members are Francesco Grioli, Dirk Nordmann, Georg F. W. Schaeffler and Michael Iglhaut. Neither a former Executive Board member nor the chairman of the Supervisory Board may act as chairman of the Audit Committee.

The **Nomination Committee** is responsible for nominating suitable candidates for the Supervisory Board to propose to the Annual Shareholders' Meeting for election. In addition, the Committee must propose targets for the Supervisory Board's composition and profile of skills and expertise and review both regularly. The Nomination Committee consists entirely of shareholder representatives, specifically the two shareholder representatives on the Chairman's Committee, Prof. Dr.-Ing. Wolfgang Reitzle (chairman) and Georg F. W. Schaeffler, the chairman of the Audit Committee, Prof. Dr. Rolf Nonnenmacher, and Maria-Elisabeth Schaeffler-Thumann as an additional member.

In accordance with Section 31 (3) Sentence 1 *MitbestG*, the **Mediation Committee** becomes active only if the first round of voting on a proposal to appoint a member of the Executive Board or to remove a member by consent does not achieve the legally required two-thirds majority. This committee must then attempt mediation before a new vote is taken.

More information on the members of the Supervisory Board and its committees can be found on pages 208 and 209. Current resumes, which are updated annually, are available in the Company/Corporate Governance section of Continental's website. They also contain information on how long each member has held their position on the Supervisory Board.

Shareholders and the Shareholders' Meeting

The company's shareholders exercise their rights of participation and control in the Shareholders' Meeting. The Annual Shareholders' Meeting, which must be held in the first eight months of every fiscal year, decides on all issues assigned to it by law, such as the appropriation of profits, the election of shareholder representatives to the Supervisory Board, the discharging of Supervisory Board and Executive Board members, the appointment of auditors and amendments to the company's Articles of Incorporation. Each Continental AG share entitles the holder to one vote. There are no shares conferring multiple or preferential voting rights and no limitations on voting rights.

All shareholders who register in a timely manner and prove their entitlement to participate in the Shareholders' Meeting and to exercise their voting rights are entitled to participate in the Shareholders' Meeting. To facilitate the exercise of their rights and to prepare them for the Shareholders' Meeting, the shareholders are fully informed about the past fiscal year and the points on the upcoming agenda before the Shareholders' Meeting by means of the annual report and the invitation to the meeting. All documents and information on the Shareholders' Meeting, including the annual report, are published on the company's website in German and English. Moreover, the entire Annual Shareholders' Meeting can also be watched on the company's website. To make it easier for shareholders to exercise their rights, the company offers all shareholders who cannot or do not want to exercise their voting rights themselves the opportunity to vote at the Shareholders' Meeting via a proxy who is bound by instructions. The required voting instructions can also be issued to the proxy via an internet service before the end of the general debate on the day of the Shareholders' Meeting. In addition, the service provider that assists the company with conducting the Shareholders' Meeting is instructed not to forward the individual voting instructions to Continental until the day before the Shareholders' Meeting.

Accounting and auditing of financial statements

The Continental Corporation's accounting is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (E.U.). The annual financial statements of Continental AG are prepared in accordance with the accounting regulations of the German Commercial Code *(Handelsgesetzbuch – HGB)*. The Annual Shareholders' Meeting on April 26, 2019, elected KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover (KPMG) to audit the consolidated financial statements for fiscal 2019 as well as the interim financial reports of the company. KPMG has audited the consolidated financial statements and the separate financial statements for more than 30 years. Andreas Modder has assumed the role of responsible auditor at KPMG as of the consolidated financial statements for fiscal 2019.

Internal control system and risk management

Diligent corporate management and good corporate governance also require that the company deal with risks responsibly. Continental has a corporation-wide internal control and risk management system, especially in terms of the accounting process, that helps analyze and manage the company's risk situation. The risk management system serves to identify and evaluate developments that could result in significant disadvantages and to avoid risks that would jeopardize the continued existence of the company. We report on this in detail in the report on risks and opportunities, which forms part of the management report for the consolidated financial statements.

Transparent and prompt reporting

As part of our investor relations and corporate communications, we regularly report to shareholders, analysts, shareholders' associations, the media and interested members of the public in equal measure on significant developments in the corporation and its situation. All shareholders have instant access to all the information that is also available to financial analysts and similar parties. The website of Continental AG provides the latest information, including the company's financial reports, presentations held at analyst and investor conferences, press releases and ad-hoc disclosures. The dates of key periodic publications (annual and interim reports) and events as well as of the Annual Shareholders' Meeting and the annual financial press conference are announced well in advance in a financial calendar on the website of Continental AG. For the scheduled dates for 2020 and 2021, see the Investors/Events section.

Report pursuant to Section 289f (2) No. 4 to 6 *HGB*

Pursuant to Section 96 (2) *AktG*, the Supervisory Board of Continental AG as a listed stock corporation subject to the German Codetermination Act consists of at least 30% women and at least 30% men. This minimum quota must always be fulfilled by the Supervisory Board as a whole. Due to an objection by the employee representatives against the overall fulfillment in accordance with Section 96 (2) Sentence 3 *AktG* before the election of the Supervisory Board in spring 2019, the minimum quota must be fulfilled separately by the shareholder representatives and the employee representatives. Women made up 30% of both the shareholder and employee representatives of the Supervisory Board of Continental AG as at December 31, 2019.

In accordance with Section 111 (5) *AktG*, the Supervisory Board must set a target quota of women on the Executive Board and a deadline for achieving this target. If the ratio of women is less than 30% at the time this is set, the target must not subsequently fall below the ratio achieved. Based on the current composition of the Executive Board, the Supervisory Board does not anticipate any significant personnel changes in the coming years. In December 2016, the Supervisory Board therefore set a target for the ratio of women on the Executive Board of Continental AG of at least 11% for the period up until December 31, 2021. At the same time, the Supervisory Board resolved to review the defined target as at December 31, 2019, to determine whether a target of higher than 11% can be set in view of the measures resolved. After performing its review, the Supervisory Board decided in December 2019 not to change the target. Women made up 12.5% of the Executive Board of Continental AG as at December 31, 2019, and at the time this report was prepared.

In accordance with Section 76 (4) *AktG*, the Executive Board of Continental AG is required to set targets for the ratio of women in the first two management levels below the Executive Board and a deadline for achieving these targets. In November 2016, the Executive Board set the following target quotas for women in the first two management levels below the Executive Board at Continental AG for the period up until December 31, 2021: 26% for the first management level and 33% for the second management level. As at December 31, 2019, the ratio of women was 35% at the first management level and 31% at the second management level. As a global company, Continental continues to attach high priority to the goal of steadily increasing the proportion of women in management positions throughout the corporation, above and beyond the legal requirements in Germany.

Diversity concept

Continental counts on the diversity of its employees. The current focus of its commitment to promote diversity is on internationality and a balanced gender ratio.

The Supervisory Board also pays attention to the diversity of the composition of the Executive Board. The Executive Board does the same when appointing people to management positions. As a basic principle, the Executive Board aims to achieve a balanced ratio of domestic to international managers everywhere. The proportion of local and international managers varies according to region. In 2019, a total of about 46% of the corporation's managers came from other countries.

Continental AG is also working on increasing the proportion of women in management positions. The proportion is to be increased to at least 16% by 2020 and to 25% by 2025.

In drawing up the Executive Board's succession plan, the Supervisory Board together with the Executive Board makes use of the measures and programs to promote internationality and women in management positions, thus making it possible to identify and develop potential international and female candidates for positions on the Executive Board. The aim in the medium term is to use these measures to increase the diversity of the Executive Board even further.

The Supervisory Board also pays attention to the diversity of its own composition. For the Supervisory Board, diversity refers to age, gender, background and professional experience, among other things. The Supervisory Board is convinced that it will achieve diversity in its composition in particular by fulfilling the profile of skills and expertise and meeting the targets for its composition.

Compliance

One of our four values is trust. Trust requires integrity, honesty and incorruptibility. Compliance with all the legal requirements that apply to Continental AG and its subsidiaries and its internal regulations by management and employees has therefore long been a goal of the company and an integral part of its corporate culture. In addition to our corporate guidelines, OUR BASICS, and the Corporate Governance Principles, this is reflected in particular in our Corporate Social Responsibility Principles and the Code of Conduct that is binding for all employees. The Executive Board is firmly committed to these principles and that of "zero tolerance," particularly with regard to corruption and antitrust violations.

The basis of our Compliance Management System (CMS) is a comprehensive analysis of the compliance risks to which the company is exposed. The company and its business activities are examined in terms of potential compliance risks that can arise, for instance, from its structures and processes, a specific market situation or even operations in certain geographic regions. This takes into account, for example, the results of regular corporation-wide reporting on compliance risks in the governance, risk and compliance (GRC) system, the findings of investigations by the Corporate Audit department, and external sources such as Transparency International's Corruption Perception Index. This analysis is substantiated and expanded primarily by a series of discussions with management and employees at all levels and at our training events. The risk analysis is not a one-off procedure, but is constantly reviewed and updated.

The head of the Compliance department manages the compliance organization in operational terms. The person holding this position is subordinate to the corporate compliance officer, who reports directly to the chief financial officer. The focal area of the work of the Compliance department is preventing violations of antitrust and competition law, corruption, fraud and other property offenses, and infringements of regulations for the prevention of money laundering. For other areas in which there is a risk of compliance violations, responsibility for compliance management lies with the respective functions that have performed these duties competently for a long time and are supported in these tasks by the Compliance department.

The CMS consists of the three pillars of prevention, detection and response:

- The first pillar of CMS – **prevention** – includes employee training, in particular, in addition to the risk analysis. Here, we attach great importance to in-person events at which we can address employees personally and directly and discuss their questions. We use e-learning programs as well. Prevention is also fostered by consultation on specific matters with the Compliance department and by the internal publication of guidelines on topics such as antitrust law and contact with competitors, giving and receiving gifts, and sponsoring. Continental introduced a Business Partner Code of Conduct to prevent compliance violations by suppliers, service providers or similar third parties that could have negative repercussions for Continental, or that could be attributed to the company under laws such as the U.K. Bribery Act. This must be recognized as a basic requirement for doing business with Continental. If necessary, third-party due diligence can be performed with regard to compliance issues. Another key element of preventive compliance is communication measures, which are carried out on a regular basis. These include video tutorials on compliance, as well as Compliance Days and Compliance Games that are organized by the individual locations with the support of the compliance organization.

- The second pillar of CMS – **detection** – comprises regular and ad hoc audits. In addition, compliance is always a subject of audits carried out by Corporate Audit. Continental has set up a Compliance & Anti-Corruption Hotline to give employees and third parties outside the corporation the opportunity to report violations of legal regulations, its fundamental values and ethical standards. Information on any kind of potential violations, such as bribery or antitrust behavior, but also other offenses or accounting manipulation, can be reported anonymously via the hotline where permissible by law. Corporate Audit and the Compliance department investigate and pursue all tips received by this hotline. The hotline is available worldwide in many different languages. The number of tips received by the hotline has risen steadily over the past few years. We see this as a sign of increased awareness of compliance topics and as a success in our compliance work.

- The third pillar of CMS – **response** – deals with the consequences of compliance violations that have been identified. The Compliance department is involved in decisions on measures that may be required, including any individual sanctions. Furthermore, the Compliance department conducts a thorough analysis of such events to ensure that isolated incidents are not symptoms of failings in the system and to close any gaps in prevention.

The design, implementation and effectiveness of Continental AG's CMS for the areas of anti-corruption, competition/antitrust law, fraud and other property offenses are audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (EY) in accordance with Audit Standard 980 of the Institut der Wirtschaftsprüfer e. V. (IDW). In 2016, EY issued an unqualified review opinion.

Material compliance-related matters and risks are described in more detail in the report on risks and opportunities starting on page 90, and in the notes to the consolidated financial statements (Note 35).

Remuneration Report

This remuneration report is a part of the management report.

Basic elements of the Executive Board remuneration system
In accordance with the German Stock Corporation Act *(Aktiengesetz – AktG)*, the plenary session of the Supervisory Board is responsible for determining the remuneration for the Executive Board.

The Supervisory Board reviews the Executive Board's remuneration regularly. It commissioned an independent consultant in 2016 to review the remuneration system in place since January 1, 2014, and the structure and amount of remuneration for the Executive Board. Based on the results of this review, and after performing its own detailed review and discussions, the Supervisory Board resolved on the adjustments described hereinafter, which took effect as at January 1, 2017. In determining the remuneration of the Executive Board, the Supervisory Board also took account of the remuneration structure that applies in the rest of the corporation and the ratio of the Executive Board remuneration to the remuneration of senior executives and the workforce in Germany as a whole, including its development over time. The Annual Shareholders' Meeting on April 28, 2017, approved the remuneration system in accordance with Section 120 (4) *AktG*. It was applied in 2019 to all Executive Board members in office in this fiscal year.

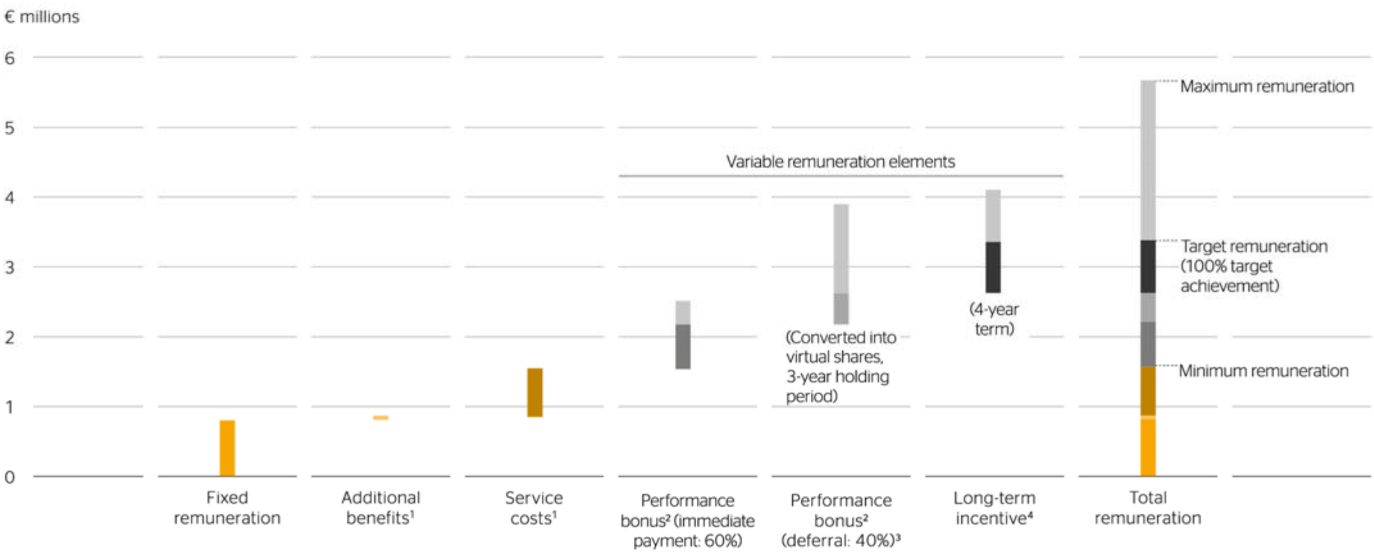
In 2019, the Supervisory Board once again commissioned an independent consultant to review the remuneration of the Executive Board and the remuneration system, in order to take into account changes in the general conditions as a result of the German Act for the Implementation of the 2nd E.U. Shareholder Rights Directive *(ARUG II)* – which took effect on January 1, 2020 – and the new version of the German Corporate Governance Code of December 16, 2019. On the basis of reviews by the independent consultant, the Supervisory Board will discuss in detail and finalize the new remuneration system for the Executive Board at its meeting on March 17, 2020. The new remuneration system is expected to be submitted to the Annual Shareholders' Meeting of Continental AG for approval on April 30, 2020. The new remuneration system is not the subject of this remuneration report, which describes the remuneration system that was in place up until December 31, 2019.

Remuneration for Executive Board members consists of the following:

- Fixed remuneration
- Variable remuneration elements
- Additional benefits
- Retirement benefits

The chart below shows an example of the composition of the remuneration for an Executive Board member with responsibility for a division, based on 100% target achievement.

Remuneration of an Executive Board member responsible for a division (example)



1 Average figure.
2 Based on a target bonus (here: €1.167 million), for 100% achievement of defined CVC and ROCE targets, maximum of 150% of the target bonus (including achieving any additional strategic targets as well as any correction of the target achievement of +/- 20% by the Supervisory Board), divided into an immediate payment (60%) and deferral (40%).
3 The possible increase in the value of the deferral is capped at 250% of the initial value. The maximum amount shown relates to the maximum payment in the performance bonus at 150% target achievement.
4 Based on achieving average CVC versus planned CVC (max. 200%), multiplied by the degree of achieving the total shareholder return, maximum payment of 200%.

1. Fixed remuneration

Each Executive Board member receives fixed annual remuneration paid in 12 monthly installments. The fixed remuneration of the chairman of the Executive Board was raised as at January 1, 2017, to bring it in line with market development. The fixed remuneration of the other Executive Board members has remained unchanged since 2013. The fixed remuneration, with 100% target achievement of the variable remuneration elements, makes up around one-third of the direct remuneration.

2. Variable remuneration elements

The Executive Board members also receive variable remuneration in the form of a performance bonus and a share-based long-term incentive (LTI). A key criterion for measuring variable remuneration is the Continental Value Contribution (CVC), which is a central corporate management instrument (please refer to the Corporate Management section in the management report, page 43). The variable remuneration elements, with 100% target achievement, make up around two-thirds of the direct remuneration. The structure of the variable remuneration is geared toward sustainable development of the company as defined in the German Stock Corporation Act and the German Corporate Governance Code, with a future oriented assessment basis that generally covers several years. The share of long-term components amounts to 60% or more of variable remuneration on the basis of the target values.

a) Performance bonus

The performance bonus is based on a target amount that the Supervisory Board determines for each Executive Board member for 100% target achievement. Target criteria are the year-on-year change in the CVC and the return on capital employed (ROCE). For Executive Board members who are responsible for a particular division, these criteria relate to the relevant division; for other Executive Board members, they relate to the corporation. The CVC target is 100% achieved if the CVC is unchanged compared to the previous year. If the CVC has fallen or risen by a defined percentage, this element is reduced to zero or reaches a maximum of 150%. In the case of negative CVC in the previous year, target achievement is based on the degree of improvement. The criteria for the ROCE target are guided by planning targets. This component can also be omitted if a certain minimum value is not achieved. Because of the link with planning, more specific disclosures regarding the target values are not in the company's interests.

The CVC target is weighted at 60% and the ROCE target at 40% in the calculation of the performance bonus. In addition to the CVC and ROCE targets, the Supervisory Board can determine a strategic target at the beginning of each fiscal year, which is weighted at 20% – reducing the weighting of the other two targets accordingly. The Supervisory Board made use of this option for fiscal 2019. A strategic goal was thus determined for all members of the Executive Board on the basis of (i) production quality development for the Automotive Group, (ii) fixed costs for 2019 for the Automotive Group and (iii) the average working capital relative to sales for the Rubber Group. In order to take into account extraordinary factors that have influenced the degree to which targets are achieved, the Supervisory Board has the right – as it sees fit – to retroactively adjust the established attainment of goals on which the calculation of the performance bonus is based by up to 20% downward or upward. The Supervisory Board considers this adjustment option necessary to account in particular for positive and negative effects on target achievement over which a member of the Executive Board has no influence. It has not yet made use of the discretionary power. In any event, the performance bonus is capped at 150% of the target bonus. This applies irrespective of whether an additional strategic target is resolved.

The performance bonus achieved in a fiscal year is divided into a lump sum, which is paid out as an annual bonus (immediate payment), and a deferred payment (deferral). The immediate payment amounts to 60% and the deferral 40%. The deferral is converted into virtual shares of Continental AG. Following a holding period of three years after the end of the fiscal year for which variable remuneration is awarded, the value of these virtual shares is paid out together with the value of the dividends that were distributed for the fiscal years of the holding period. The conversion of the deferral into virtual shares and payment of their value after the holding period are based on the average share price for the three-month period immediately preceding the Annual Shareholders' Meeting in the year of conversion or payment. The possible increase in the value of the deferral is capped at 250% of the initial value.

In addition to the performance bonus, a special bonus can be agreed upon for special projects in individual cases or a recognition bonus can be granted. However, a recognition or special bonus of this kind and the performance bonus together must not exceed 150% of the target bonus, and it is also included in the division into immediate payment and deferral. No special or recognition bonus has been granted since 2013.

The amount of the performance bonus to be paid out for fiscal 2019 in the event of 100% target achievement is shown – divided into immediate payment and deferral – in the "Remuneration granted" column in the remuneration tables for the Executive Board members for 2019.

b) Long-term incentive (LTI)

The LTI plan is resolved by the Supervisory Board on an annual basis with a term of four years in each case. It determines the target bonus to be paid for 100% target achievement for each Executive Board member, taking into account the corporation's earnings and the member's individual performance.

The first criterion for target achievement is the average CVC that the corporation actually generates in the four fiscal years during the term, starting with the fiscal year in which the tranche is issued. This value is compared to the average CVC, which is set in the strategic plan for the respective period. The degree to which this target is achieved can vary between 0% and a maximum of 200%. The other target criterion is the total shareholder return (TSR) on Continental shares during the term of the tranche. To determine the TSR, the average price of the Continental share in the months from October to December is set in relation to the beginning and the end of the respective LTI tranche. In addition, all dividends paid during the term of the LTI tranche are taken into account for the TSR (please refer to Note 27 of the notes to the consolidated financial statements, starting on page 179). The degree to which this target is achieved is multiplied by the degree to which the CVC target is achieved to determine the degree of target achievement on which the LTI that will actually be paid after the end of the term is based. The maximum amount to be paid out is capped at 200% of the target bonus.

Starting from January 1, 2017, the target amounts for the performance bonus and the LTI were increased to raise the total remuneration of the Executive Board members to the middle of a remuneration range of comparable companies in each case.

The amount of the LTI to be paid out at the end of the plan's term for fiscal 2019 in the event of 100% target achievement is shown in the "Remuneration granted" column in the remuneration tables for the Executive Board members for 2019.

Christian Kötz remains entitled to LTI that were granted to him as a senior executive between 2016 and 2018.

3. Additional benefits

Executive Board members also receive additional benefits, primarily the reimbursement of expenses, including any relocation expenses and payments – generally for a limited time – for a job-related second household, the provision of a company car, and premiums for group accident and directors' and officers' (D&O) liability insurance. The D&O insurance policy provides for an appropriate deductible in line with the requirements of Section 93 (2) Sentence 3 *AktG*. As a rule, members of the Executive Board must pay taxes on these additional benefits.

Continued remuneration payments have also been agreed for a certain period in the event of employment disability through no fault of the Executive Board member concerned.

4. Retirement benefits

All members of the Executive Board have been granted post-employment benefits that are paid starting at the age of 63 (but not before they leave the service of the company) or in the event of disability.

From January 1, 2014, the company pension for the members of the Executive Board was changed from a purely defined benefit to a defined contribution commitment. A capital component is credited to the Executive Board member's pension account each year. To determine this, an amount equivalent to 20% of the sum of the fixed remuneration and the target value of the performance bonus is multiplied by an age factor representing an appropriate return. The future benefit rights accrued until December 31, 2013, have been converted into a starting component in the capital account. When the insured event occurs, the benefits are paid out as a lump sum, in installments or – as is normally the case due to the expected amount of the benefits – as a pension. Post-employment benefits are adjusted after commencement of such benefit payments in accordance with Section 16 of the German Company Pensions Law *(Betriebsrentengesetz – BetrAVG)*.

In the employment contracts, it has been agreed that, in the event of premature termination of Executive Board work, payments to the Executive Board member that are to be agreed, including the additional benefits, shall not exceed the value of two annual salaries or the value of remuneration for the remaining term of the employment contract for the Executive Board member. There are no compensation agreements with the members of the Executive Board in the event of a takeover bid or a change of control at the company. Dr. Ralf Cramer, who stepped down from the Executive Board on August 11, 2017, received compensation for non-competition in an amount of €926 thousand in 2019 for a post-contractual non-compete covenant that was still in place in that year. Heinz-Gerhard Wente, who retired on April 30, 2015, still received back payments of compensation for non-competition in an amount of €52 thousand in 2019 for a non-compete covenant in place from 2015 to 2017. José A. Avila, who left the Executive Board on September 30, 2018, continued to receive remuneration on the basis of his employment contract that ended as planned on December 31, 2019. On this basis, he received payments of €801 thousand in 2019, while another €126 thousand was paid out in 2020 as an immediate component of the performance bonus. In addition, €84 thousand will be converted into virtual shares of the company in 2020 as a long-term component of the performance bonus.

Individual remuneration

In the tables below, the benefits, inflows and service costs granted to the members of the Executive Board are shown separately in accordance with the recommendations of Section 4.2.5 (3) of the German Corporate Governance Code.

	Remuneration granted				Inflows	
€ thousands	2018	**2019**	2019 (min.)	2019 (max.)	2018	**2019**
Dr. E. Degenhart (Board chairman; Board member since August 12, 2009)						
Fixed remuneration	1,450	1,450	1,450	1,450	1,450	1,450
Additional benefits	35	21	21	21	35	21
Total	**1,485**	**1,471**	**1,471**	**1,471**	**1,485**	**1,471**
Performance bonus (immediate payment)	1,500	1,500	0	2,250	750	270
Multiannual variable remuneration	2,550	2,550	0	5,600	1,947	909
Performance bonus (deferral) [3 years]	1,000	1,000	0	2,500	1,073	909
Long-term incentive [4 years] from 2014	1,550	1,550	0	3,100	874	0
Total	**5,535**	**5,521**	**1,471**	**9,321**	**4,182**	**2,650**
Service costs	1,166	1,293	1,293	1,293	1,166	1,293
Total remuneration	**6,701**	**6,814**	**2,764**	**10,614**	**5,348**	**3,943**
J. A. Avila (Board member for Powertrain; Board member from January 1, 2010 to September 30, 2018)						
Fixed remuneration	600	–	–	–	600	–
Additional benefits	24	–	–	–	24	–
Total	**624**	**–**	**–**	**–**	**624**	**–**
Performance bonus (immediate payment)	524	–	–	–	188	0
Multiannual variable remuneration	1,132	–	–	–	546	541
Performance bonus (deferral) [3 years]	349	–	–	–	145	541
Long-term incentive [4 years] from 2014	783	–	–	–	401	0
Total	**2,280**	**–**	**–**	**–**	**1,358**	**541**
Service costs	442	–	–	–	442	–
Total remuneration	**2,722**	**–**	**–**	**–**	**1,800**	**541**
Dr. R. Cramer (Board member for Continental China; Board member from August 12, 2009 to August 11, 2017)						
Fixed remuneration	–	–	–	–	–	–
Additional benefits	26	2	2	2	26	2
Total	**26**	**2**	**2**	**2**	**26**	**2**
Performance bonus (immediate payment)	–	–	–	–	–	–
Multiannual variable remuneration	–	–	–	–	900	541
Performance bonus (deferral) [3 years]	–	–	–	–	638	541
Long-term incentive [4 years] from 2014	–	–	–	–	262	
Total	**26**	**2**	**2**	**2**	**926**	**543**
Service costs	–	–	–	–	–	–
Total remuneration	**26**	**2**	**2**	**2**	**926**	**543**

€ thousands	Remuneration granted 2018	Remuneration granted 2019	Remuneration granted 2019 (min.)	Remuneration granted 2019 (max.)	Inflows 2018	Inflows 2019
H.-J. Duensing (Board member for ContiTech; Board member since May 1, 2015)						
Fixed remuneration	800	800	800	800	800	800
Additional benefits	29	24	24	24	29	24
Total	**829**	**824**	**824**	**824**	**829**	**824**
Performance bonus (immediate payment)	700	700	0	1,050	146	126
Multiannual variable remuneration	1,250	1,250	0	2,734	401	72
Performance bonus (deferral) [3 years]	467	467	0	1,168	–	72
Long-term incentive [4 years] from 2014	783	783	0	1,566	401	0
Total	**2,779**	**2,774**	**824**	**4,608**	**1,376**	**1,022**
Service costs	634	632	632	632	634	632
Total remuneration	**3,413**	**3,406**	**1,456**	**5,240**	**2,010**	**1,654**
F. Jourdan (Board member for Chassis & Safety; Board member since September 25, 2013)						
Fixed remuneration	800	800	800	800	800	800
Additional benefits	39	29	29	29	39	29
Total	**839**	**829**	**829**	**829**	**839**	**829**
Performance bonus (immediate payment)	700	700	0	1,050	315	126
Multiannual variable remuneration	1,250	1,250	0	2,734	1,090	541
Performance bonus (deferral) [3 years]	467	467	0	1,168	689	541
Long-term incentive [4 years] from 2014	783	783	0	1,566	401	0
Total	**2,789**	**2,779**	**829**	**4,613**	**2,244**	**1,496**
Service costs	657	642	642	642	657	642
Total remuneration	**3,446**	**3,421**	**1,471**	**5,255**	**2,901**	**2,138**
C. Kötz (Board member for Tires; Board member since April 1, 2019)						
Fixed remuneration	–	600	600	600	–	600
Additional benefits	–	19	19	19	–	19
Total	**–**	**619**	**619**	**619**	**–**	**619**
Performance bonus (immediate payment)	–	527	0	791	–	348
Multiannual variable remuneration	–	1,142	0	2,463	–	0
Performance bonus (deferral) [3 years]	–	359	0	897	–	0
Long-term incentive [4 years] from 2014	–	783	0	1,566	–	0
Total	**–**	**2,288**	**619**	**3,873**	**–**	**967**
Service costs	–	708	708	708	–	708
Total remuneration	**–**	**2,996**	**1,327**	**4,581**	**–**	**1,675**

€ thousands	Remuneration granted				Inflows	
	2018	**2019**	2019 (min.)	2019 (max.)	2018	**2019**
H. Matschi (Board member for Interior; Board member since August 12, 2009)						
Fixed remuneration	800	800	800	800	800	800
Additional benefits	18	16	16	16	18	16
Total	**818**	**816**	**816**	**816**	**818**	**816**
Performance bonus (immediate payment)	700	700	0	1,050	1,001	126
Multiannual variable remuneration	1,250	1,250	0	2,734	1,065	541
Performance bonus (deferral) [3 years]	467	467	0	1,168	664	541
Long-term incentive [4 years] from 2014	783	783	0	1,566	401	0
Total	**2,768**	**2,766**	**816**	**4,600**	**2,884**	**1,483**
Service costs	600	698	698	698	600	698
Total remuneration	**3,368**	**3,464**	**1,514**	**5,298**	**3,484**	**2,181**
Dr. A. Reinhart (Board member for Human Relations; Board member since October 1, 2014)						
Fixed remuneration	800	800	800	800	800	800
Additional benefits	20	12	12	12	20	12
Total	**820**	**812**	**812**	**812**	**820**	**812**
Performance bonus (immediate payment)	700	700	0	1,050	350	126
Multiannual variable remuneration	1,250	1,250	0	2,734	562	541
Performance bonus (deferral) [3 years]	467	467	0	1,168	161	541
Long-term incentive [4 years] from 2014	783	783	0	1,566	401	0
Total	**2,770**	**2,762**	**812**	**4,596**	**1,732**	**1,479**
Service costs	813	776	776	776	813	776
Total remuneration	**3,583**	**3,538**	**1,588**	**5,372**	**2,545**	**2,255**
W. Schäfer (Board member for Finance; Board member since January 1, 2010)						
Fixed remuneration	1,100	1,100	1,100	1,100	1,100	1,100
Additional benefits	19	10	10	10	19	10
Total	**1,119**	**1,110**	**1,110**	**1,110**	**1,119**	**1,110**
Performance bonus (immediate payment)	700	700	0	1,050	350	126
Multiannual variable remuneration	1,360	1,360	0	2,954	1,112	541
Performance bonus (deferral) [3 years]	467	467	0	1,168	638	541
Long-term incentive [4 years] from 2014	893	893	0	1,786	474	0
Total	**3,179**	**3,170**	**1,110**	**5,114**	**2,581**	**1,777**
Service costs	683	741	741	741	683	741
Total remuneration	**3,862**	**3,911**	**1,851**	**5,855**	**3,264**	**2,518**

€ thousands	Remuneration granted 2018	2019	2019 (min.)	2019 (max.)	Inflows 2018	2019
N. Setzer (Board member for Automotive Board; Board member since August 12, 2009)						
Fixed remuneration	800	800	800	800	800	800
Additional benefits	40	19	19	19	40	19
Total	**840**	**819**	**819**	**819**	**840**	**819**
Performance bonus (immediate payment)	700	700	0	1,050	476	209
Multiannual variable remuneration	1,250	1,250	0	2,734	1,029	517
Performance bonus (deferral) [3 years]	467	467	0	1,168	628	517
Long-term incentive [4 years] from 2014	783	783	0	1,566	401	0
Total	**2,790**	**2,769**	**819**	**4,603**	**2,345**	**1,545**
Service costs	699	737	737	737	699	737
Total remuneration	**3,489**	**3,506**	**1,556**	**5,340**	**3,044**	**2,282**
H.-G. Wente (Board member for ContiTech; Board member from May 3, 2007 to April 30, 2015)						
Fixed remuneration	–	–	–	–	–	–
Additional benefits	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**
Performance bonus (immediate payment)	–	–	–	–	–	–
Multiannual variable remuneration	–	–	–	–	509	36
Performance bonus (deferral) [3 years]	–	–	–	–	476	36
Long-term incentive [4 years] from 2014	–	–	–	–	33	0
Total	**–**	**–**	**–**	**–**	**509**	**36**
Service costs	–	–	–	–	–	–
Total remuneration	**–**	**–**	**–**	**–**	**509**	**36**

Heinz-Gerhard Wente, who retired on April 30, 2015, was paid commitments of €33 thousand from the 2015 long-term incentive plan and €36 thousand from the long-term component of the 2015 performance bonus in 2019 (PY: €476 thousand from the long-term component of the 2014 performance bonus). Dr. Ralf Cramer, who left the Executive Board on August 11, 2017, still received subsequent additional benefits of €2 thousand, payments from the 2015 long-term incentive plan of €262 thousand and payments from the long-term component of the 2015 performance bonus in the amount of €541 thousand in 2019. José A. Avila, who left the Executive Board on September 30, 2018, was paid commitments of €401 thousand from the 2015 long-term incentive plan and €541 thousand from the long-term component of the 2015 performance bonus in 2019.

The disclosures on benefits granted and inflows are broken down into fixed and variable remuneration components and supplemented by disclosures on the service costs. The fixed remuneration components include the non-performance-related fixed remuneration and additional benefits. The variable performance-related remuneration components consist of the immediate payment from the performance bonus as a short-term remuneration component and the two long-term components: the deferral of the performance bonus and LTI.

The immediate payment, the deferral (taking into account the reference tables as recommended in Section 4.2.5 (3) of the German Corporate Governance Code) and the LTI are each recognized as remuneration granted at the value of the commitment at the time it is granted (equivalent to 100% target achievement). The remuneration elements are supplemented by disclosures on individually attainable maximum and minimum remuneration.

The inflow recognized in the year under review comprises the fixed remuneration components actually received plus the amounts of the immediate payment to be received in the following year that had been determined at the time the remuneration report was prepared. Inflows from multiannual variable remuneration (LTI tranches from 2014/2017 onward) that were scheduled to end in the period under review are not paid until the following year. In line with the recommendations of Section 4.2.5 (3) of the German Corporate Governance Code, service costs in the disclosures on inflows correspond to the amounts granted, although they do not represent actual inflows in a stricter sense.

In fiscal 2019, the members of the Executive Board neither received nor were promised payments by a third party with respect to their activities on the Executive Board.

Remuneration of the Executive Board in 2019

	Remuneration components				
€ thousands	Fixed[1]	Variable, short-term	Variable, long-term[2]	**Total**	Share-based payment[3]
Dr. E. Degenhart	1,471	270	1,730	**3,471**	–1,493
H.-J. Duensing	824	126	867	**1,817**	–737
F. Jourdan	829	126	867	**1,822**	–681
C. Kötz (since April 1, 2019)	619	348	1,015	**1,982**	127
H. Matschi	816	126	867	**1,809**	–755
Dr. A. Reinhart	812	126	867	**1,805**	–688
W. Schäfer	1,110	126	977	**2,213**	–824
N. Setzer	819	209	923	**1,951**	–649
Total	**7,300**	**1,457**	**8,113**	**16,870**	**–5,700**

1 In addition to cash components, the fixed remuneration includes non-cash elements, such as benefits relating to international assignments and in particular any related taxes paid, company cars and insurance.
2 Long-term component of the variable remuneration that is converted into virtual shares of Continental AG to ensure a focus on sustainable development of the company and benefits granted under the 2019 long-term incentive plan.
3 Long-term component of the variable remuneration that is converted into virtual shares of Continental AG to ensure a focus on sustainable development of the company, the granting of the 2019 long-term incentive plan, as well as the changes in the value of the virtual shares granted in previous years and in the value of the 2016 to 2019 long-term incentive plans.

Remuneration of the Executive Board in 2018

	Remuneration components				
€ thousands	Fixed[1]	Variable, short-term	Variable, long-term[2]	**Total**	Share-based payment[3]
Dr. E. Degenhart	1,485	750	2,050	**4,285**	–5,821
J. A. Avila (until September 30, 2018)[4]	624	188	909	**1,721**	–2,966
H.-J. Duensing	829	146	880	**1,855**	–2,094
F. Jourdan	839	315	993	**2,147**	–2,767
H. Matschi	818	1,001	1,451	**3,270**	–2,264
Dr. A. Reinhart	820	350	1,016	**2,186**	–2,079
W. Schäfer	1,119	350	1,126	**2,595**	–3,251
N. Setzer	840	476	1,100	**2,416**	–2,729
Total	**7,374**	**3,576**	**9,525**	**20,475**	**–23,971**

1 In addition to cash components, the fixed remuneration includes non-cash elements, such as benefits relating to international assignments and in particular any related taxes paid, company cars and insurance.
2 Long-term component of the variable remuneration that is converted into virtual shares of Continental AG to ensure a focus on sustainable development of the company and benefits granted under the 2018 long-term incentive plan.
3 Long-term component of the variable remuneration that is converted into virtual shares of Continental AG to ensure a focus on sustainable development of the company, the granting of the 2018 long-term incentive plan, as well as the changes in the value of the virtual shares granted in previous years and in the value of the 2015 to 2018 long-term incentive plans.
4 Because Mr. J. A. Avila left the Executive Board as at September 30, 2018, the remuneration is reported pro rata up until this date. The commitment from the 2018 long-term incentive plan is reported in full in variable long-term remuneration and in share-based remuneration, as Mr. J. A. Avila is still entitled under his existing employment contract.

Share-based payment – performance bonus (deferral)

The amounts of variable remuneration converted into virtual shares of Continental AG for members of the Executive Board changed as follows:

units	Number of shares as at Dec. 31, 2017	Payment	Commitments	Number of shares as at Dec. 31, 2018	Payment	Commitments	**Number of shares as at Dec. 31, 2019**
Dr. E. Degenhart	14,609	-4,520	6,218	16,307	-5,836	3,512	13,983
J. A. Avila (until September 30, 2018)	6,268	-609	3,112	8,771	-3,471	883	6,183
Dr. R. Cramer (until August 11, 2017)	8,687	-2,688	1,773	7,772	-3,471	0	4,301
H.-J. Duensing	3,758	0	2,453	6,211	-465	682	6,428
F. Jourdan	7,408	-2,901	3,112	7,619	-3,471	1,475	5,623
H. Matschi	7,229	-2,795	2,681	7,115	-3,471	4,689	8,333
Dr. A. Reinhart	6,676	-677	2,902	8,901	-3,471	1,640	7,070
W. Schäfer	8,687	-2,688	2,902	8,901	-3,471	1,640	7,070
N. Setzer	8,982	-2,643	1,873	8,212	-3,316	2,228	7,124
H.-G. Wente (until April 30, 2015)	2,230	-2,002	–	228	-228	0	0
Total	**74,534**	**-21,523**	**27,026**	**80,037**	**-30,671**	**16,749**	**66,115**

€ thousands	Fair value as at Dec. 31, 2017	Fair value of distribution	Change in fair value	Fair value of commitments	Fair value as at Dec. 31, 2018	Fair value of distribution	Change in fair value	Fair value of commitments	**Fair value as at Dec. 31, 2019**
Dr. E. Degenhart	3,408	-1,073	-995	841	2,181	-909	107	418	1,797
J. A. Avila (until September 30, 2018)	1,456	-145	-561	421	1,171	-541	66	105	801
Dr. R. Cramer (until August 11, 2017)	2,027	-638	-592	240	1,037	-541	67	0	563
H.-J. Duensing	865	0	-368	331	828	-72	-4	81	833
F. Jourdan	1,733	-689	-446	421	1,019	-541	69	176	723
H. Matschi	1,692	-664	-439	363	952	-541	70	559	1,040
Dr. A. Reinhart	1,552	-161	-593	393	1,191	-541	65	195	910
W. Schäfer	2,029	-638	-591	393	1,193	-541	65	195	912
N. Setzer	2,092	-628	-624	253	1,093	-517	62	266	904
H.-G. Wente (until April 30, 2015)	526	-476	-21	–	29	-36	5	0	-2
Total	**17,380**	**-5,112**	**-5,230**	**3,656**	**10,694**	**-4,780**	**572**	**1,995**	**8,481**

Heinz-Gerhard Wente, who retired on April 30, 2015, was paid commitments of €36 thousand (equivalent to 228 units) in 2019. As at December 31, 2019, there were no more commitments. Dr. Ralf Cramer, who was a member of the Executive Board until August 11, 2017, was paid commitments of €541 thousand (equivalent to 3,471 units) in 2019. As at December 31, 2019, there were commitments with a fair value of €563 thousand (equivalent to 4,301 units). José A. Avila, who left the Executive Board on September 30, 2018, was paid commitments of €541 thousand (equivalent to 3,471 units) in 2019. As at December 31, 2019, there were commitments with a fair value of €801 thousand (equivalent to 6,183 units).

Owing to the individual arrangements specific to the company, there are certain features of the virtual shares as compared to standard options that must be taken into account in their measurement.

A Monte Carlo simulation is used in the measurement of stock options. This means that log-normal distributed processes are simulated for the price of Continental shares. The measurement model also takes into account the average value accumulation of share prices in the respective reference period, the dividends paid, and the floor and cap for the distribution amount.

The following parameters for the performance bonus were used as at the measurement date of December 31, 2019:

- Constant zero rates as at the measurement date of December 31, 2019:
  2016 tranche: -0.71% as at the due date and as at the expected payment date;
  2017 tranche: -0.66% as at the due date and as at the expected payment date;
  2018 tranche: -0.61% as at the due date and as at the expected payment date.

- Interest rate based on the yield curve for government bonds.
- Dividend payments as the arithmetic mean based on publicly available estimates for 2020 and 2021; the paid dividend of Continental AG amounted to €4.75 per share in 2019, and Continental AG distributed a dividend of €4.50 per share in 2018.
- Historic volatilities on the basis of daily Xetra closing rates for Continental shares based on the respective remaining term for virtual shares. The volatility for the 2016 tranche is 24.75%, for the 2017 tranche 30.05% and for the 2018 tranche 27.96%.

Share-based payment – long-term incentive (LTI plans starting with 2017)
The LTI plans starting with 2017 developed as follows:

€ thousands	Fair value as at Dec. 31, 2017[1]	2018 LTI plan commitment	Change in fair value	Fair value as at Dec. 31, 2018[1]	2019 LTI plan commitment	Change in fair value	**Fair value as at Dec. 31, 2019[1]**
Dr. E. Degenhart	6,467	1,550	-6,318	1,699	1,550	-3,249	0
J. A. Avila (until September 30, 2018)[2]	3,053	783	-3,036	800	–	-800	0
Dr. R. Cramer (until August 11, 2017)	1.576	–	-1,218	357	–	-357	0
H.-J. Duensing	2,403	783	-2,386	800	783	-1,583	0
F. Jourdan	3,053	783	-3,036	800	783	-1,583	0
C. Kötz (since April 1, 2019)	359	200	-454	105	783	-888	0
H. Matschi	3,053	783	-3,036	800	783	-1,583	0
Dr. A. Reinhart	2,258	783	-2,241	800	783	-1,583	0
W. Schäfer	3,568	893	-3,525	936	893	-1,829	0
N. Setzer	3,053	783	-3,036	800	783	-1,583	0
H.-G. Wente (until April 30, 2015)	325	–	-293	33	–	-33	0
Total	**29,168**	**7,341**	**-28,579**	**7,930**	**7,141**	**-15,071**	**0**

1 As at the end of the reporting period, the 2019 tranche was vested at 25%, the 2018 tranche at 50%, the 2017 tranche at 75% and the 2016 tranche at 100%.
2 The commitments from long-term incentive plans were reported in full for J. A. Avila in 2018, as he was still entitled under his existing employment contract. With the termination of the employment contract of J. A. Avila as at December 31, 2019, a portion of the 2017, 2018 and 2019 LTI plans expired. All remaining pro rata tranches had a fair value of €0 as at December 31, 2019.

A Monte Carlo simulation is used in the measurement of the TSR target criterion. This means that log-normal distributed processes are simulated for the price of Continental shares. The Monte Carlo simulation takes into account the average value accumulation of share prices in the respective reference period, the TSR dividends paid and the restriction for the distribution amount.

The following TSR parameters were used as at the measurement date of December 31, 2019:

- Constant zero rates as at the measurement date of December 31, 2019:
  2016 LTI plan: -0.70% as at the expected payment date;
  2017 LTI plan: -0.68% as at the due date and -0.65% as at the expected payment date;
  2018 LTI plan: -0.63% as at the due date and -0.60% as at the expected payment date;
  2019 LTI plan: -0.58% as at the due date and -0.55% as at the expected payment date.
- Interest rate based on the yield curve for government bonds.
- Dividend payments as the arithmetic mean based on publicly available estimates for the years 2020 to 2021; the paid dividend of Continental AG amounted to €4.75 per share in 2019.
- Historic volatilities on the basis of daily Xetra closing rates for Continental shares based on the respective remaining term for virtual shares. The volatility for the 2017 LTI plan is 29.00%, for the 2018 LTI plan 29.60% and for the 2019 LTI plan 25.99%.

Expenses for retirement benefits
The defined benefit obligations for all pension commitments for the active members of the Executive Board in 2019 are presented below:

	Defined benefit obligations	
€ thousands	**December 31, 2019**	December 31, 2018
Dr. E. Degenhart	16,167	12,613
J. A. Avila (until September 30, 2018)	–	9,182
H.-J. Duensing	3,572	2,488
F. Jourdan	5,067	3,724
C. Kötz (since April 1, 2019)	748	–
H. Matschi	8,181	6,184
Dr. A. Reinhart	5,562	3,767
W. Schäfer	12,548	10,511
N. Setzer	7,844	5,562
Total	**59,689**	**54,031**

Please see Note 40 of the notes to the consolidated financial statements for details of pension obligations for former members of the Executive Board.

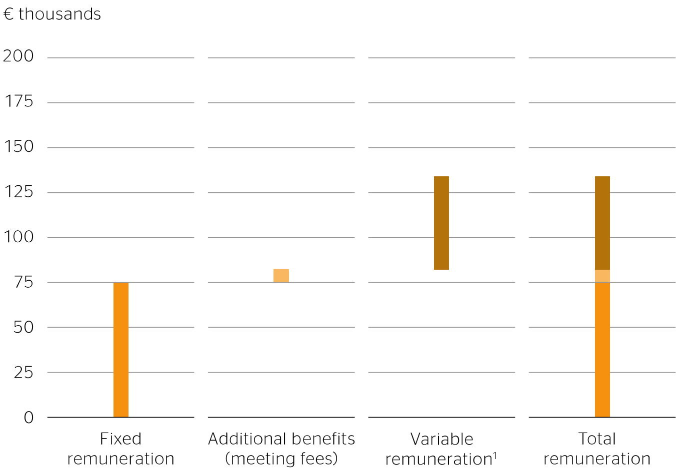
Remuneration of the Supervisory Board
Article 16 of the Articles of Incorporation regulates the remuneration paid to members of the Supervisory Board. It likewise has a fixed and a variable component. By way of connection with earnings per share, the variable component is aligned with the sustainable development of the company. The chairman and vice chairperson of the Supervisory Board and the chairs and members of committees qualify for higher remuneration.

In addition to their remuneration, the members of the Supervisory Board are also paid attendance fees and their expenses are reimbursed. The D&O insurance policy also covers members of the Supervisory Board. As recommended by the German Corporate Governance Code, their deductible also complies with the requirements of Section 93 (2) Sentence 3 *AktG* that apply directly to the Executive Board only.

On the basis of the new *ARUG II* regulations and the new version of the German Corporate Governance Code, the possible adjustment of remuneration for the Supervisory Board is currently under review. If the Executive Board and Supervisory Board consider an adjustment necessary, they will propose to the Annual Shareholders' Meeting on April 30, 2020, an adjusted remuneration system for the Supervisory Board members.

The chart illustrates the composition of the Supervisory Board member remuneration, not including the higher remuneration for the chairman, the vice chairperson and committee members.

Remuneration of a Supervisory Board member (example)



1 Basis for calculation: €90 for each cent of earnings per share over €2, calculated as an average of the last three years.

In the reporting year, there were no consultant agreements or other service or work agreements between the company and members of the Supervisory Board or related parties.

The remuneration of individual Supervisory Board members in 2019 as provided for under these arrangements is shown in the following table:

Remuneration of the Supervisory Board

	Remuneration components			
	2019		2018	
€ thousands	**Fixed[1]**	**Variable**	Fixed[1]	Variable
Prof. Dr.-Ing. Wolfgang Reitzle	234	156	239	337
Christiane Benner (since March 1, 2018)[2]	119	78	101	141
Hartmut Meine (until February 28, 2018)[2]	–	–	20	27
Hasan Allak (since April 26, 2019)[2]	57	35	–	–
Dr. Gunter Dunkel	82	52	84	112
Francesco Grioli (since November 1, 2018)[2]	122	78	20	28
Prof. Dr.-Ing. Peter Gutzmer (until April 26, 2019)	25	16	82	112
Peter Hausmann (until October 31, 2018)[2]	–	–	105	140
Michael Iglhaut[2]	122	78	123	169
Satish Khatu (since April 26, 2019)	57	35	–	–
Isabel Corinna Knauf (since April 26, 2019)	57	35	–	–
Prof. Dr. Klaus Mangold (until April 26, 2019)	26	16	84	112
Sabine Neuß	82	52	83	112
Prof. Dr. Rolf Nonnenmacher	199	130	200	281
Dirk Nordmann[2]	122	78	125	169
Lorenz Pfau (since April 26, 2019)[2]	57	35	–	–
Klaus Rosenfeld	122	78	126	169
Georg F. W. Schaeffler	124	78	127	169
Maria-Elisabeth Schaeffler-Thumann	121	78	79	112
Jörg Schönfelder[2]	120	78	121	168
Stefan Scholz[2]	82	52	84	112
Gudrun Valten (until April 26, 2019)[2]	25	16	84	112
Kirsten Vörkel[2]	82	52	84	112
Elke Volkmann[2]	82	52	84	112
Erwin Wörle (until April 26, 2019)[2]	25	16	84	112
Prof. TU Graz e.h. KR Ing. Siegfried Wolf	80	52	84	112
Total	**2,224**	**1,426**	**2,223**	**3,030**

1 Including meeting-attendance fees.
2 In accordance with the guidelines issued by the German Federation of Trade Unions, these employee representatives have declared that their board remuneration is transferred to the Hans Böckler Foundation and in one case to other institutions as well.

Management Report

The following management report is a combined management report as defined in Section 315 (5) of the German Commercial Code *(Handelsgesetzbuch – HGB)*, as the future opportunities and risks of the Continental Corporation and of the parent company, Continental AG, are inextricably linked.

Glossary of Financial Terms

› The following glossary of financial terms applies to 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 receipts (ADRs). 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 were 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. The 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 currency other than the functional currency 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. In Continental's financial reports, this abbreviation is defined as earnings before financial result and tax. It is the result of ordinary business activities and is used to assess operational profitability.

EBITDA. Earnings before interest, tax, depreciation and amortization. In Continental's financial reports, this abbreviation is defined as earnings before financial result, tax, depreciation and amortization. It equals the sum of EBIT; depreciation of property, plant and equipment; amortization of intangible assets; and impairment, excluding impairment on financial investments. This key figure is used to assess operational profitability.

Financial result. The financial result is defined as the sum of interest income, interest expense, the effects from currency translation (resulting from financial transactions), the effects from changes in the fair value of derivative instruments, and other valuation effects. The financial result is the result of financial activities.

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.

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 statement of financial position, the 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 statement of financial position, 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.

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 statement of financial position – 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.

Research and development expenses (net). Research and development expenses (net) are defined as expenses for research and development less reimbursements and subsidies that we received in this context.

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. Sales of trade accounts receivable are not included.

Corporate Profile
Structure of the Corporation

New corporate structure to ensure long-term viability and strengthen competitiveness.

Continental has had a new organizational structure since January 1, 2020. The new structure will enable us to respond even more flexibly to the requirements of various customers, markets, government agencies and companies, and make faster and more efficient use of our opportunities.

Since October 1, 2019, the legally independent Powertrain business area (until December 31, 2019: primarily the Powertrain division) has been operating under the name Vitesco Technologies. This has no effect on the financial reporting of the Powertrain business area within the Continental Corporation. Subject to the approval of the Annual Shareholders' Meeting on April 30, 2020, Vitesco Technologies will be spun off in the course of 2020.

New organizational structure
Continental has been divided into the group sectors Automotive Technologies, Rubber Technologies and Powertrain Technologies since January 1, 2020. These sectors comprise five business areas with 23 business units. A business area or business unit is classified according to technologies, product groups and services. The business areas and business units have overall responsibility for their business, including their results.

Business responsibility
Overall responsibility for managing the company is borne by the Executive Board of Continental Aktiengesellschaft (AG). Each business area is represented by one Executive Board member. An exception is the Powertrain business area, which has had its own management since January 1, 2019, following its transformation into an independent legal entity.

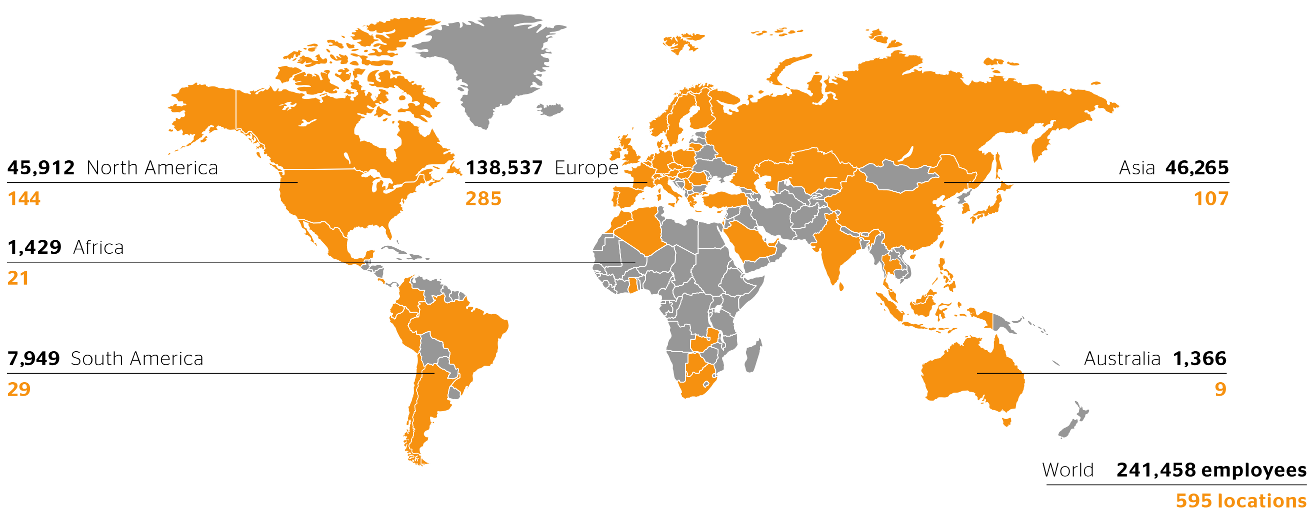
To ensure a unified business strategy in the Automotive Technologies group sector, the Automotive Board was established on April 1, 2019, with a member of the Executive Board as "spokesman." The new board is intended to speed up decision-making processes and generate synergies from the closer ties between the Autonomous Mobility and Safety business area and the Vehicle Networking and Information business area.

With the exception of Corporate Purchasing, the central functions of Continental AG are represented by the chairman of the Executive Board, the chief financial officer and the Executive Board member responsible for Human Relations. They take on the functions required to manage the corporation across business areas. These include, in particular, finance, controlling, compliance, law, IT, sustainability, quality and environment.

Companies and locations
Continental AG is the parent company of the Continental Corporation. In addition to Continental AG, the corporation comprises 581 companies, including non-controlled companies. The Continental team is made up of 241,458 employees at a total of 595 locations in 59 countries and markets. The postal addresses of companies under our control are defined as locations.

Customer structure
With a 71% share of consolidated sales, the automotive manufacturing business is our largest customer group. The importance of this industry is accordingly high for the growth of the Automotive Technologies and Powertrain Technologies group sectors. In the Tires business area of the Rubber Technologies group sector, sales to end customers represent the largest share of the tire business. In the ContiTech business area, other key industries in addition to the automotive industry are important customers as well, such as railway engineering, machine and plant construction, mining and the replacement business.

595 locations in 59 countries and markets



Structure of the corporation in 2020

Continental Group

Automotive Technologies		Rubber Technologies		Powertrain Technologies
Autonomous Mobility and Safety	Vehicle Networking and Information	Tires	ContiTech	Powertrain

Automotive Technologies (since January 1, 2020):
The **Autonomous Mobility and Safety business area** (until December 31, 2019: primarily the Chassis & Safety division) integrates safety technologies and controls vehicle dynamics to make driving safer and easier. The goal here is to implement "Vision Zero," the vision of accident-free driving. The components and systems expertise of Autonomous Mobility and Safety are prerequisites for autonomous mobility. The business area is divided into four business units:

- Advanced Driver Assistance Systems
- Hydraulic Brake Systems
- Passive Safety and Sensorics
- Vehicle Dynamics

The **Vehicle Networking and Information business area** (until December 31, 2019: primarily the Interior division) develops components and end-to-end systems for connected mobility – hardware, software and services – across the strategic pillars of networking, information and integration. With solutions for networking, human-machine interaction, system integration and high-performance computing for passenger cars, light commercial vehicles and fleets, Vehicle Networking and Information ensures functioning networks and smooth information flows for connected mobility. The business area is divided into three business units:

- Commercial Vehicles and Services
- Connected Car Networking
- Human Machine Interface

Rubber Technologies
(until December 31, 2019: the Rubber Group):
The **Tires business area** (until December 31, 2019: the Tire division) offers the right tires for a broad range of applications – from cars, trucks, buses and specialist vehicles to bicycles and motorcycles. Services for dealers and fleet management as well as digital tire monitoring and management systems are further areas of focus. The aim is to contribute to safe, economical and ecologically efficient mobility. In the reporting year, 26% of sales related to business with vehicle manufacturers, and 74% related to the replacement business. The business area is divided into six business units:

- Commercial Vehicle Tires
- Original Equipment Passenger and Light Truck Tires (PLT)
- Replacement, APAC (Asia and Pacific region) PLT
- Replacement, EMEA (Europe, the Middle East and Africa) PLT
- Replacement, The Americas (North, Central and South America) PLT
- Two-Wheel Tires

The **ContiTech business area** (until December 31, 2019: the ContiTech division) develops, manufactures and markets products, systems and intelligent components made of rubber, plastic, metal and fabric. They are used in mining, agriculture, railway engineering, machine and plant construction, the automotive industry and other important sectors of the future. In the reporting year, 50% of sales related to business with vehicle manufacturers, and 50% related to business with other industries and in the replacement market. The business area is divided into seven business units:

Structure of the corporation in 2019

Continental Corporation
Sales: €44.5 billion; Employees: 241,458

Automotive Group Sales: €26.5 billion; Employees: 138,295			Rubber Group Sales: €18.0 billion; Employees: 102,685	
Chassis & Safety Sales: €9.4 billion Employees: 48,434	**Powertrain** Sales: €7.8 billion Employees: 41,744	**Interior** Sales: €9.6 billion Employees: 48,117	**Tires** Sales: €11.7 billion Employees: 56,884	**ContiTech** Sales: €6.4 billion Employees: 45,801

- Air Spring Systems
- Conveying Solutions (until January 9, 2020: the Conveyor Belt Group)
- Industrial Fluid Solutions
- Mobile Fluid Systems
- Power Transmission Group
- Surface Solutions
- Vibration Control

Powertrain Technologies (since January 1, 2020): The **Powertrain business area** (until December 31, 2019: the Powertrain division) offers efficient and clean vehicle drive systems. It focuses on intelligent systems and components for the electrification of vehicles, as well as on electronic control units, sensors, actuators and exhaust-gas aftertreatment solutions. The business area is divided into three business units:

- Electronic Controls
- Electrification Technology
- Sensing and Actuation

Interconnected value creation

Research and development (R&D) took place at 88 locations in the reporting year, predominantly in close proximity to our customers to ensure that we can respond flexibly to their various requirements and to regional market conditions. This applies particularly to projects of the Automotive Group and the ContiTech division. The product requirements governing tires are largely similar all around the world. They are adapted according to the specific requirements of each market. In this respect, R&D has a largely centralized structure in the Tires business area. Continental invests between 7% and 8% of sales in R&D each year. For more information, see the Research and Development section.

Continental processes a wide range of raw materials and semi-finished products. The purchasing volume in the reporting year was €29.9 billion in total, €20.1 billion of which was for production materials. The Automotive Group uses primarily steel, aluminum, precious metals, copper and plastics. Key areas when it comes to purchasing materials and semi-finished products include electronics and electromechanical components, which together make up about 43% of the corporation's purchasing volume of production materials. Furthermore, mechanical components account for nearly a quarter of production materials. Natural rubber and oil-based chemicals such as synthetic rubber and carbon black are key raw materials for the Rubber Group. The total purchasing volume for these materials amounts to around a sixth of the total volume for production materials. For more information, see the Development of Raw Materials Markets section in the economic report.

Production and sales in the Automotive Group and in the ContiTech division are organized across regions. Our tire production activities, in which economies of scale play a key role, are represented with major locations in the three dominant automotive markets in terms of production and vehicle numbers, namely Europe, the U.S.A. and China. Low production costs coupled with large volumes or high rates of regional growth constitute key success factors. Tires are sold worldwide via our dealer network with tire outlets and franchises, as well as through tire trading in general.

Globally interconnected value creation

R&D	Purchasing	Production	Sales & Distribution
Innovative €3.4 billion in expenditure	**Diverse** €29.9 billion in volumes	**Global** 249 locations	**Local** €44.5 billion in sales

Corporate Strategy

Reorganization for strategic flexibility and long-term success.

Continental has had a new organizational structure since January 1, 2020, in order to actively shape the mobility of the future. This reorganization was in response to the accelerated change in powertrain technology, the growing demand for digital solutions and the increasingly digitalized working environment. For more information, see the Structure of the Corporation section.

Spin-off of the Powertrain business area
We are preparing to fully spin off the Powertrain business area with subsequent listing. This initiative will be voted on at the Annual Shareholders' Meeting on April 30, 2020. The reason for the transformation into an independent legal entity and spin-off is the change in the powertrain business, the development of which is determined chiefly by regulatory emission limit requirements, which vary in the markets that are important to us. Rapid adaptability is therefore essential in order to succeed in this business. Another reason is the increased focus on electric mobility. Considerable investments have already been made here and will continue to be necessary in the future. Furthermore, a legally independent business will be in an even better position to actively support the expected long-term consolidation process.

Transformation 2019–2029 structural program aims to strengthen the company's competitiveness over the long term
We launched the Transformation 2019–2029 structural program in response to declining global automotive production and the growing customer demand for digital solutions. The program also takes into account multiple parallel developments: an increasingly digitalized working environment, the emerging crisis in the automotive industry and the accelerated change in powertrain technology as a result of more stringent emissions legislation.

The program has two main aims: to increase efficiency and productivity through adjustments to the organization and portfolio, and to place a greater focus on key growth areas of the future. As such, we are planning to reduce gross costs by about €500 million annually from 2023. We expect the program to cost around €1.1 billion over its 10-year term. These costs will mostly be incurred between 2019 and 2022. We do not rule out additional projects if the current program does not achieve the desired impact.

Seven strategic dimensions for enhancing the value of the corporation on a sustainable basis
Our seven strategic dimensions have not changed. They complement each other and are geared toward sustainably creating value for all stakeholders.

1. Value creation – enhancing the value of the corporation on a long-term basis

For us, enhancing the value of the corporation on a long-term basis means sustainable success while taking into consideration the cost of capital. Our long-term target is at least 20% ROCE. After 17.0% in 2018, we achieved -1.0% in 2019. The negative effect in EBIT caused by special effects of €3.31 billion (mainly as a result of impairment and restructuring expenses), contributed to this result.

2. Regional sales balance – globally balanced distribution of sales

Another aim is a globally balanced distribution of regional sales, which will allow us to become less dependent on individual regional sales markets and on market and economic fluctuations. To achieve this, we can take advantage of the opportunities available to us on the promising markets in Asia and North America, while also bolstering our strong market position in Europe. We aim to gradually increase the share of our consolidated sales in the Asian markets to 30%. In China, we want to grow at an above-average rate in the next few years. The total share of our sales in the North and South American markets should be maintained at a minimum of 25%.

In 2019, our share of sales in Asia was 22%, and in North and South America it totaled 29%.

3. Top market position – among the three leading suppliers in all relevant markets

We want to shape our future based on a leading position and thus play a major role in advancing technological development in individual sectors. We therefore want to be among the world's three leading suppliers with regard to customer focus, quality and market share in the long term.

In terms of sales in their respective markets, the business areas in Automotive Technologies as well as ContiTech are among the leading providers with the majority of their products. In the tire business, we are number four in the world. Furthermore, we hold top positions in individual segments and markets in this area.

Among suppliers with sales of more than €3 billion, we play a leading role in digitalization. The digital products include, for example, sensors, electronics and software products.

4. In the market for the market – high degree of localization

Our global business model is based on a high degree of localization. We develop and produce numerous products and solutions, which enables us to best meet the respective market conditions and requirements of our customers. The aim is for at least eight out of 10 application developments to be carried out locally, and for the percentage of local production to be just as high. Through our development and production teams worldwide, we offer solutions and products for high-quality cars and affordable vehicles, as well as customized industrial applications. At the same time, we are purchasing locally – insofar as this is possible and cost-effective – as well as marketing locally.

We have production locations in 38 of the 59 countries and markets in which we are represented. In the reporting year, we expanded our production through acquisitions and the construction of new manufacturing facilities. This included opening our new tire plants for passenger tires in Thailand and for truck and bus tires in the U.S.A., increasing manufacturing capacity for agricultural tires in Portugal, laying the foundations for a motorcycle tire factory in Thailand, and beginning the expansion of drive-belt production for the agricultural industry in Germany. In total, the number of our production sites increased in the reporting year from 233 to 249.

We are still working on being able to count one of the Asian manufacturers among our five largest automotive customers. We aim to achieve this with a high degree of localization. Two Asian manufacturers are among our 10 largest customers.

5. Balanced customer portfolio – balance between automotive and other industries

We aim to reduce our dependence on the automotive industry by creating a balanced customer portfolio. To that end, we want to increase our business at an above-average rate in industries outside of the automotive industry, while at the same time achieving further growth with carmakers. In the medium to long term, we want to lift the share of sales with end users and industrial customers outside of the automotive original equipment sector toward a figure of 40%. This will be based on our Tires and ContiTech business areas.

Our activities relating to software products for the end-user market and industries outside the automotive industry will have an increasing effect on our customer portfolio. Examples include advanced traffic management, digital tire monitoring, intelligent solutions for the agricultural sector and for conveyor belts, as well as new technologies that go beyond the vehicle.

The share of sales with end users and industrial customers outside of the automotive original equipment sector remained stable at 29% in 2019.

6. Technological balance – combination of established and pioneering technologies

Our product portfolio should consist of a profitable and viable mix of established and pioneering technologies. We set and follow new trends and standards in high-growth markets and market segments. In established core markets, we continuously enhance our position as one of the leading product and system suppliers. We manage and structure our product and technology portfolio with the goal of being represented and competitive in all phases of the respective product life cycles. At the same time, we systematically promote product innovations and technologies. If an attractive opportunity arises, we purchase future-oriented technological expertise or enter into partnerships with other companies.

7. Great people culture – a culture of inspiration

An inspiring management culture, in which employees can enjoy demonstrating their full commitment and achieving top performance, is a requirement for a successful business. We promote a culture of trust and personal responsibility. Our working conditions are intended to make it easy for our employees to focus on what is important and to strike the right work-life balance. We keep in regular contact with our employees, for example through our worldwide survey, OUR BASICS Live, which is carried out annually with a representative sample of the workforce. This gives our employees the chance to tell us about how satisfied they are in general, the quality of management in the company and their attitude toward Continental. Participation is voluntary and anonymous.

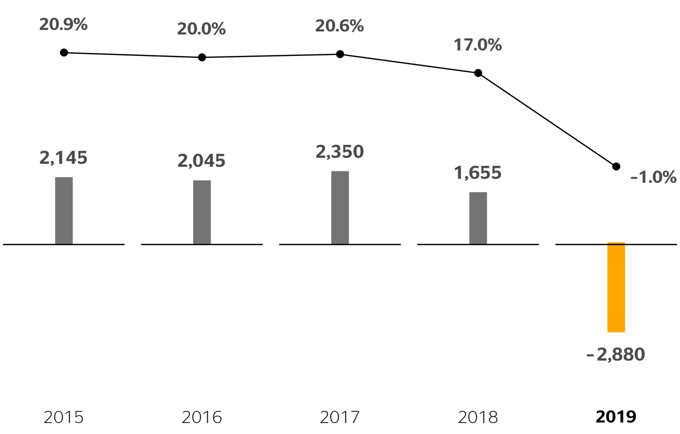
Around 57,000 employees in 52 countries took part in the survey in the reporting year. It revealed, for example, that agreement with our four company values remains high at 86%. The results also showed that clarity about the company's strategic focus and trust in the decisions taken by top management have declined (by three and two percentage points respectively). In addition, clear differences exist between the individual business areas. Modest improvements of two percentage points were recorded in the areas of stress management and work-life balance. Our employees' feedback reflects our strengths and simultaneously highlights the areas we must address in order to continuously enhance our organization and our culture.

Corporate Management

The goal is the sustained increase in the corporation's value.

Value management
Key financial performance indicators for Continental relate to the development of sales, capital employed, the adjusted EBIT margin, as well as the amount of capital expenditure and free cash flow. To allow us to use the financial performance indicators for management purposes as well, and to map the interdependencies between these indicators, we summarize them as key figures as part of a value-driver system. Our corporate objectives center on the sustainable enhancement of the value of each individual business unit. This goal is achieved by generating a positive return on the capital employed in each respective business unit. At the same time, this return must always exceed the equity and debt financing costs of acquiring the operating capital. It is also crucial that the absolute contribution to value (Continental Value Contribution, CVC) increases year for year. This can be achieved by increasing the return on capital employed (with the costs of capital remaining constant), lowering the costs of capital (while maintaining the return on capital employed), or decreasing capital employed over time. The performance indicators used are EBIT, capital employed, and the weighted average cost of capital (WACC), which is calculated from the proportional weight of equity and debt costs.

Continental Value Contribution (CVC) € millions **ROCE** %



EBIT is calculated from the ongoing sales process. The figure is the net total of sales, other income and expenses plus income from equity-accounted investees and from investments but before financial result and income tax expense. In the year under review, consolidated EBIT amounted to -€0.3 billion.

Capital employed is the funds used by the company to generate its sales. At Continental, this figure is calculated as the average of operating assets as at the end of the quarterly reporting periods. In 2019, average operating assets amounted to €26.2 billion.

The return on capital employed (ROCE) represents the ratio of these two calculated values. Comparing a figure from the statement of income (EBIT) with one from the statement of financial position (capital employed) produces an integral analysis. We deal with the problem of the different periods of analysis by calculating the capital employed as an average figure over the ends of quarterly reporting periods. ROCE amounted to -1.0% in 2019.

The weighted average cost of capital (WACC) is calculated to determine the cost of financing the capital employed. Equity costs are based on the return from a risk-free alternative investment plus a market risk premium, taking into account Continental's specific risk. Borrowing costs are calculated based on Continental's weighted debt-capital cost rate. Based on the long-term average, the weighted average cost of capital for our company is about 10%.

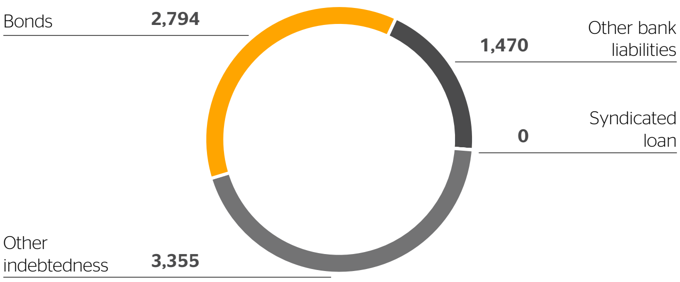
Value is added only if ROCE exceeds the weighted average cost of capital (WACC). We call this value added, produced by subtracting WACC from ROCE multiplied by average operating assets, the Continental Value Contribution (CVC). In 2019, the CVC amounted to -€2,879.6 million.

ROCE by division (in %)	**2019**	2018
Chassis & Safety	-2.3	16.0
Powertrain	-16.9	3.3
Interior	-23.0	17.6
Tires	21.2	29.1
ContiTech	8.7	12.6
Continental Corporation	**-1.0**	**17.0**

Financing strategy
Our financing strategy aims to support value-adding growth of the Continental Corporation while at the same time complying with an equity and liabilities structure adequate for the risks and rewards of our business.

The corporate function Finance & Treasury provides the necessary financial framework to finance corporate growth and secure the long-term existence of the company. The company's annual investment requirements are likely to be between 7% and 8% of sales in the coming years.

Composition of gross indebtedness (€7,619 million)



Our goal is to finance ongoing investment requirements from the operating cash flow. Other investment projects, for example acquisitions, should be financed from a balanced mix of equity and debt depending on the ratio of net indebtedness to equity (gearing ratio) and the liquidity situation to achieve constant improvement in the respective capital market environment. In general, the gearing ratio should be below 20% in the coming years and not exceed 60% in general. If justified by extraordinary financing grounds or specific market circumstances, we can rise above this maximum level under certain conditions. The equity ratio should exceed 35%. In the reporting year, it was 37.3% and the gearing ratio 25.6%.

Our gross indebtedness should be a balanced mix of liabilities to banks and other sources of financing on the capital market. For short-term financing in particular, we use a wide range of financing instruments. As at the end of 2019, this mix consisted of bonds (37%), syndicated loan (0%), other bank liabilities (19%) and other indebtedness (44%) based on the gross indebtedness of €7,619.0 million. The committed volume of the syndicated loan, which consists of a revolving tranche, now amounts to €4.0 billion since its renewal in December 2019. It previously amounted to €3.0 billion. The new syndicated loan will run until December 2024, and the interest-rate margin will now also depend on the corporation's sustainability performance. In accordance with the new standard IFRS 16, *Leases*, the application of which has been mandatory since January 1, 2019, all leases must be recognized in the statement of financial position. As a result, lease liabilities included in other indebtedness increased significantly to €1.7 billion as at December 31, 2019. The financing mix is not likely to change significantly.

The company strives to have at its disposal unrestricted liquidity of about €1.5 billion. This is supplemented by committed, unutilized credit lines from banks in order to cover liquidity requirements at all times. These requirements fluctuate during a calendar year owing in particular to the seasonal nature of some business areas. In addition, the amount of liquidity required is also influenced by corporate growth. Unrestricted cash and cash equivalents amounted to €3,114.3 million as at December 31, 2019. There were also committed and unutilized credit lines of €4,702.2 million.

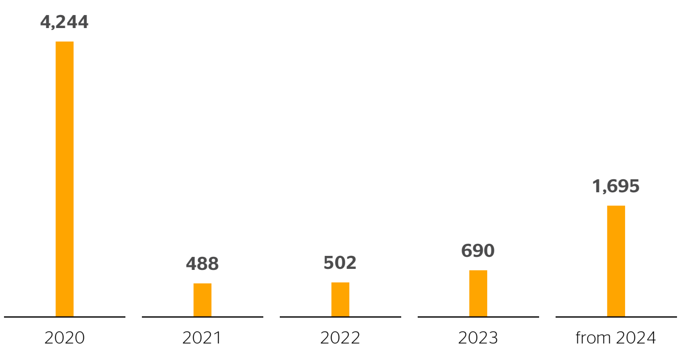
Gross indebtedness amounted to €7,619.0 million as at December 31, 2019. Key financing instruments are the syndicated loan with a revolving credit line of €4.0 billion that has been granted until December 2024 and bonds issued on the capital market.

As at December 31, 2019, this revolving credit line had not been utilized. Around 37% of gross indebtedness is financed on the capital market in the form of bonds. The interest coupons vary between 0.0% and 3.9%. The issue of new bonds in the third and fourth quarters of 2019 with maturities between 2021 and 2025 led to a balanced overall maturity profile of the repayment amounts. In addition to the forms of financing already mentioned, there were also bilateral credit lines with various banks in the amount of €2,210.2 million as at December 31, 2019. Continental's corporate financing instruments currently also include sale-of-receivables programs and commercial paper programs. In 2019, the Continental Corporation had two commercial paper programs in Germany and the U.S.A.

Maturity profile

Continental always strives for a balanced maturity profile of its liabilities in order to be able to repay the amounts due each year from free cash flow as far as possible. Other than short-term maturities, which are usually rolled on to the next year, the repayment of the €600.0-million and €750.0-million bonds maturing in February and September 2020 is also particularly high on the agenda for 2020. The bonds issued in the third and fourth quarters of 2019 require repayments of €200.0 million in 2021, €500.0 million in 2023, €100.0 million in 2024 and €600.0 million in 2025.

Maturities of gross indebtedness (€7,619 million)



Continental's credit rating unchanged

In the reporting period, Continental AG was rated by the three rating agencies Standard & Poor's, Fitch and Moody's, each of which maintained their credit ratings during 2019. In August 2019, Moody's modified its outlook from stable to negative. Our goal remains a credit rating of BBB/BBB+.

Credit rating for Continental AG

	December 31, 2019	December 31, 2018
Standard & Poor's[1]		
Long-term	BBB+	BBB+
Short-term	A-2	A-2
Outlook	stabile	stabile
Fitch[2]		
Long-term	BBB+	BBB+
Short-term	F2	F2
Outlook	stabile	stabile
Moody's[3]		
Long-term	Baa1	Baa1
Short-term	no rating	no rating
Outlook	negative	stabile

1 Contracted rating since May 19, 2000.
2 Contracted rating since November 7, 2013.
3 Contracted rating since January 1, 2019.

Research and Development

Automating, digitalizing, connecting: for safe, sustainable, convenient and comfortable mobility.

As part of our new organizational structure, the Holistic Engineering and Technologies – or he[a]t – area was set up for research and development within **Automotive Technologies** in January 2020. The unit is responsible for central development activities in the Autonomous Mobility and Safety (AMS) and Vehicle Networking and Information (VNI) business areas. he[a]t will focus on future-oriented topics such as artificial intelligence, central architectures, software and high-performance computer (HPC) platforms, and will ensure global engineering as part of a network. Basic standards will be defined, coordinated and developed centrally so that they can be adapted to customers' needs efficiently and as quickly as possible on a decentralized basis. he[a]t will strengthen our cross-organizational collaboration, shorten innovation cycles and further enhance the flexibility of our innovation processes. In the **Rubber Technologies** group sector, the organization of R&D will remain varied, with a mostly centralized structure in the Tires business area due to the high similarity of tire requirements worldwide and a largely decentralized structure in the ContiTech business area by virtue of the different product segments. In the **Powertrain Technologies** group sector, R&D is consolidated into the Technology and Innovation central function.

Communication in real time

Connected vehicles serve as a basis for real-time traffic reports, road hazard information and future driver assistance features due to their ability to communicate with other vehicles or infrastructure directly. In this way, they ensure greater driving safety and efficiency as well as reduced fuel consumption.

One of Continental's focal points for development in the year under review was the flexible 5G hybrid platform for V2X communication. V2X (vehicle to everything) describes the communication between a vehicle and, for example, other vehicles, traffic infrastructure, people and networks. What makes the platform special is that it facilitates both communication over mobile networks and fast and reliable direct data exchange.

Unlike with communication over mobile networks, the technology used to establish direct V2X communication differs worldwide. With Continental's new hybrid V2X solution, the same hardware and software platform can be used to support either communication standard, reducing not only costs but also complexity for the global application of V2X communication. This enables vehicle manufacturers to overcome the challenges involved when deploying V2X on a global scale.

To test driverless mobility, we are transforming ordinary traffic intersections into highly intelligent test fields equipped with smart sensor technology. Traffic lights and streetlights fitted with sensors exchange data with vehicles in the vicinity to protect pedestrians and cyclists in particular. This technology can, for instance, warn a driver of obscured pedestrians or cyclists when turning. Traffic data from streetlights can also help to reduce emissions, with signal changes at traffic lights being controlled in such a way as to optimize traffic flow and minimize stationary time at intersections.

Server replaces control units

In the future, high-performance servers will take on the processing power of up to 100 of the control units seen in current cars. The high-performance computer (HPC) that we developed enables a high degree of vehicle connectivity and can be used, for example, to install new functions as well as safety updates in the vehicle via a wireless connection. Vehicles will thus be kept up to date more easily and more quickly than they are today. The HPC is to go into production in Volkswagen's ID. electric models.

Human-machine interaction

With the development platform CUbE (Continental Urban Mobility Experience), we are researching and testing the driverless transportation of people and goods and the enhanced interconnectivity of all road users. CUbE is equipped with a number of Continental products and systems, including sensors, brakes, electronic control units, driver assistance systems, surface materials and tires. Our

	2019		2018	
Research and development expenses (net)	€ millions	% of sales	€ millions	% of sales
Chassis & Safety	1,048.7	11.2	1,023.2	10.7
Powertrain	664.1	8.5	672.6	8.7
Interior	1,189.2	12.4	1,064.7	11.0
Tires	299.4	2.6	299.4	2.6
ContiTech	162.8	2.5	149.1	2.3
Continental Corporation	**3,364.2**	**7.6**	**3,209.0**	**7.2**
Capitalization of research and development expenses	**232.4**		**158.0**	
in % of research and development expenses	6.5		4.7	
Depreciation on research and development expenses	**120.4**		**90.0**	

autonomous driving technologies used in CUbE are already being deployed in the U.S.A., Japan, China, Singapore and Germany, with a number of pilot projects being carried out on predetermined public routes, university and exhibition grounds, as well as at our locations. Autonomous shuttle buses and driverless taxis will be a key addition to public transport in the future.

Digital tire management

In-tire sensors deliver information that helps ensure greater safety and fuel efficiency. Conti C.A.R.E. (Connected. Autonomous. Reliable. Electrified.) is the name of our solution that combines wheel and tire technology. Conti C.A.R.E. tires feature sensors that are built into the structure of the tire. The sensors generate and continuously evaluate data on tread depth, possible damage, tire temperature and tire pressure. The data is transmitted to ContiConnect, our online digital platform for passenger cars and commercial vehicles, and then analyzed. If the data deviates from the norm, the fleet manager is automatically informed by e-mail or SMS. Conti C.A.R.E. helps reduce CO_2 emissions, improve tire life and prevent breakdowns. The application is continuously being developed to make driving even safer, easier and more economical. ContiConnect has been awarded the 2020 European Transport Prize for Sustainability *(Europäische Transportpreis für Nachhaltigkeit 2020)* by German magazine Transport.

High performance despite low voltage

Up to now, a full-hybrid vehicle with 48-volt technology was thought to be impossible. For a hybrid vehicle to drive using just electricity, the electric part of the drive system normally requires voltages of up to 800 volts. Now, however, we have developed a 48-volt hybrid system that boasts features similar to those of a high-voltage electric drive system, namely 48-volt high-power technology. The key component here is a new, highly efficient water-cooled electric motor, the peak output of which has been doubled to 30 kW in comparison with that used previously. All-electric driving is therefore possible at speeds of up to 80 to 90 km/h.

The new system, comprising an electric motor complete with integrated power electronics and a battery, reduces fuel consumption and thereby also CO_2 emissions by around 20% compared with similar vehicles fitted with combustion engines. At the same time, the new 48-volt technology is also considerably cheaper than the high-voltage systems used up to now.

Center for functional printing technologies

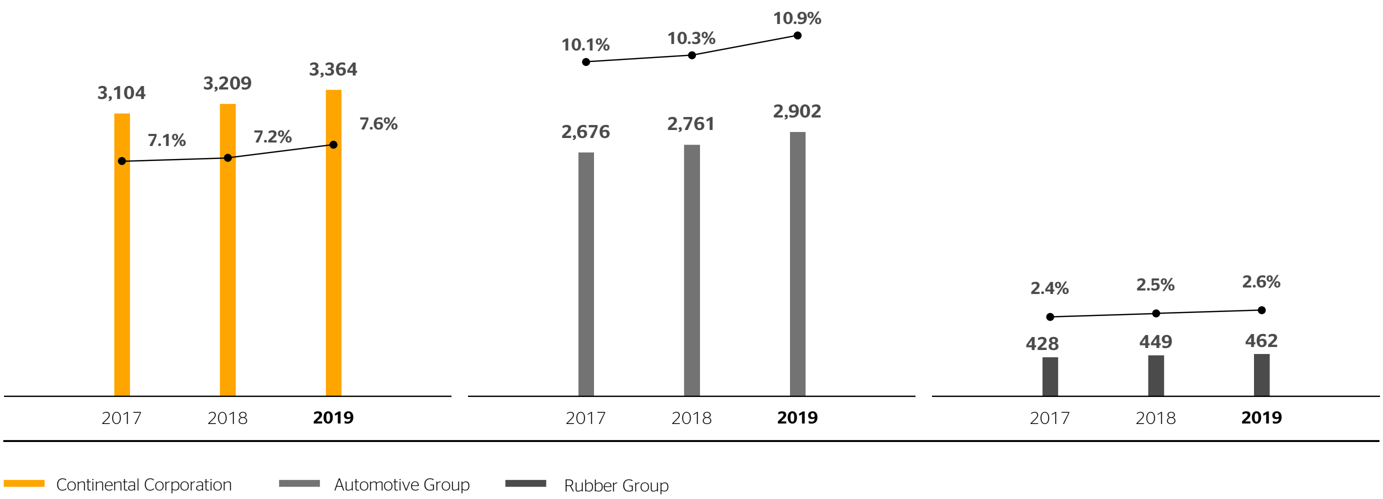
At the Freiburg location, we are setting up a technical center in order to develop and bring to market functional printing such as printed electronics together with collaboration partners from science and industry. The opportunities for cost-efficient, fast and sustainable production of intelligent surfaces are wide-ranging and serve as a basis for Industry 4.0. Printed electronics include electronic applications manufactured through printing processes. Instead of common printing inks, this process prints electrically conductive inks on surfaces, and these then act as conducting paths and components. Today, this method is already used to manufacture sensors and solar cells, for example. The result is further business potential in the packaging industry. Functional and personalized packaging will be a key element used to support sales in the future.

Eco-friendly adhesion system for textile reinforcing materials

Continental and Kordsa have developed COKOON™, an eco-friendly adhesive system for bonding textile reinforcing materials with rubber compounds, which are used, for example, in the tire industry as well as in the production of mechanical rubber goods such as hoses and conveyor belts. The new technology enables the bonding activation of textile reinforcing materials without the use of resorcinol and formaldehyde, two chemicals that are classified as harmful to health. The first production tires using this technology are already on the market. The two partners aim to establish COKOON™ as a new standard for adhesive systems, thus replacing those currently in use. For this purpose, an open-source licensing solution has been developed and made available to interested companies for examination. Continental and Kordsa waive any claims to developer or licensing fees. In return, participating companies undertake to make their patents available to other partners free of charge for the further development of the technology.

R&D expenses (net) € millions

R&D ratio %



Sustainability and Combined Corporate Non-Financial Statement

Information on Reporting

The following section constitutes the combined corporate non-financial statement in accordance with Sections 289 (3) and 315 (3) of the German Commercial Code *(Handelsgesetzbuch – HGB)* for the Continental Corporation and Continental AG for fiscal 2019.

The *HGB* was used as a framework for the preparation of the combined corporate non-financial statement. The combined corporate non-financial statement therefore includes the main disclosures that are required in accordance with Sections 315b and 315c in conjunction with Sections 289b to 289e *HGB* in order to understand the business development, business performance and position of the company, and the effects of business operations on non-financial matters. The non-financial matters include environmental matters, employee matters, social matters, respect for human rights, and combating corruption and bribery. According to an internal analysis, Continental's combined corporate non-financial statement therefore covers the material topics listed in the following table.

	Material topics of sustainability reporting[1]
Strategic sustainability focus areas	› Clean mobility › Climate protection › Circular economy › Sustainable supply chains
Other sustainability topics	› Green and safe factories › Good working conditions › Product quality › Corporate governance › Innovation and digitalization[2] › Safe mobility[2] › Sustainable profits[2] › Corporate citizenship[2]

1 Unlike in previous years, we no longer report on the topic of human rights separately, but rather consider it from a holistic viewpoint in line with our internal management approach. It is incorporated into the following topics in the corporate non-financial statement: sustainable supply chains (as part of the requirements for our suppliers), green and safe factories (with regard to occupational safety) and good working conditions (with regard to fair treatment of our employees).

2 This topic was identified as being relevant to the sustainable development of the business, but according to an internal analysis was not classified as being relevant to reporting for the combined corporate non-financial statement. It is therefore not part of the combined corporate non-financial statement.

Information on the business model can be found in the Structure of the Corporation and Corporate Strategy sections on pages 38 and 39 and pages 41 and 42, respectively.

Risk reporting is presented in the report on risks and opportunities starting on page 90. Beyond this, no additional non-financial risks were identified in accordance with Sections 289 (3) and 315 (3) *HGB*.

The main medium of our sustainability reporting is the integrated sustainability report. This consolidates the information from the combined corporate non-financial statement, the management report, the consolidated financial statements and other sources, as well as further supplementary information, in a modular format.

The integrated sustainability report is available online at www.continental-sustainability.com (under Downloads).

Our Approach to Sustainability Management

For Continental, sustainability means having a positive impact on society and reducing the negative impact of business operations. Sustainability is an integral part of the corporate strategy at Continental and is based on the four company values of Trust, Passion To Win, Freedom To Act and For One Another.

The Sustainability group function overseen by the board member for Human Relations and Sustainability is responsible for sustainability management, including management of an interdepartmental committee. Sustainability organization is further supplemented by dedicated coordinators in the business areas. Some of the business areas also have their own interdepartmental sustainability committees.

In fiscal 2019, the Executive Board approved a sustainability strategy. The key topics were identified on the basis of a survey of stakeholder groups. The sustainability strategy incorporates the four strategic focus areas of clean mobility, climate protection, circular economy and sustainable supply chains, for which the respective challenges have been defined. The corresponding concepts, goals and key performance indicators are being developed successively. A sustainability scorecard covers not only the four strategic focus areas but also all other sustainability topics, such as green and safe factories, good working conditions, product quality, corporate governance, innovation and digitalization, safe mobility, sustainable profits and corporate citizenship.

The sustainability scorecard represents the formal basis for integrating sustainability into other processes. Sustainability criteria were incorporated into the corporation's new revolving credit line at the end of 2019, for example, the result of this being that the amount of interest payments for use of the credit line is also linked to improved sustainability performance. Information about this can be found in the Corporate Management section under "Financing strategy" on pages 43 and 44.

The sustainability strategy is subject to regular review and is continuously developed. The entire corporate Executive Board is involved in this process.

Development of Strategic Sustainability Focus Areas

Clean mobility

Our concept

Zero-emission driving is vital to the current transformation in the mobility industry and is directly related to sustainability. At the same time, this transformation presents opportunities and risks for Continental. On the one hand, Continental develops and produces pioneering technological solutions that pave the way for zero-emission driving. These include, for example, electrified drive systems, lightweight design solutions, solutions for automated driving, new transport concepts and rolling-resistance-optimized tires, as well as bridging technologies in the form of solutions for clean gasoline and diesel vehicles. In doing so, we rely both on new product developments and on the further development of the existing product portfolio. On the other hand, the speed of the transformation poses enormous challenges, which we are actively addressing with various measures as part of the Transformation 2019–2029 structural program. For more information, see "Good working conditions" on page 51.

In fiscal 2019, Continental decided to pursue the spin-off of its powertrain business (renamed Vitesco Technologies) as a separate company, thus enabling it to operate more independently, flexibly and efficiently and shape the transition from combustion drives to electric mobility and the associated growth opportunities. More information on the corporate strategy and on research and development can be found in this annual report on pages 41 and 42 and pages 46 and 47, respectively.

As an indicator for our product range that contributes to clean mobility, we consider the percentage of products in consolidated sales that demonstrably contribute to energy efficiency or to the reduction of pollutant or carbon dioxide emissions.

Results of the concept

In fiscal 2019, products that demonstrably contribute to energy efficiency or to the reduction of pollutant or carbon dioxide emissions accounted for 42% (PY: around 40%) of consolidated sales, according to our own modeling.

Key figures for clean mobility	2019	2018
Percentage of products that demonstrably contribute to energy efficiency or to the reduction of pollutant or carbon dioxide emissions	42	~40[1]

1 In 2018, not reported as key figures but as indicative, rounded statement in the text.

For more information on clean mobility, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Climate protection

Our concept

Continental is fully committed to the Paris climate agreement. We have therefore set ourselves the target of becoming completely carbon-neutral in our operational processes and value chains by 2050. We see the achievement of this target as a key requirement for the corporation's future viability.

In a first step, we will switch all externally sourced electricity in global production to renewable energy by the end of 2020, including through energy attribute certificates. The aim then is to also make all of Continental's production processes carbon-neutral by 2040, as well as the entire value chain by 2050. The value chain covers in particular our supply chains, logistics and the use of our products. The most important levers for these targets are the use of renewable energies, the development of new technologies and increases in efficiency.

Results of the concept

In fiscal 2019, electricity from renewable energy sources accounted for around 5.3% of all electricity purchased. Our own CO_2 emissions (Scope 1 and 2 of the Greenhouse Gas (GHG) Protocol) decreased to 3.22 million metric tons (PY: 3.35 million metric tons). These include direct CO_2 emissions from fossil fuels (Scope 1 of the GHG Protocol) and indirect CO_2 emissions from the generation of purchased electricity, steam and heat (Scope 2 of the GHG Protocol). The reduction in 2019 was the result of a decline in energy consumption due mainly to the current economic situation. Reporting on indirect CO_2 emissions along the value chain (Scope 3 of the GHG Protocol), in particular for the use of own products and purchased materials and components, is included in the integrated sustainability report.

Key figures for climate protection[1]	2019	2018
Direct CO_2 emissions (Scope 1) in millions of metric tons of CO_2	0.84	0.88
Indirect CO_2 emissions (Scope 2) in millions of metric tons of CO_2[2]	2.38	2.47[3]
Total own CO_2 emissions (Scope 1 and 2) in millions of metric tons of CO_2	**3.22**	3.35[3]

1 Based on the reporting on the environmental data collection system that includes the relevant production and research and development locations (not including fleet consumption). Definitions based on the standards of the Global Reporting Initiative (GRI) and in accordance with the Greenhouse Gas (GHG) Protocol.
2 Scope 2 emissions are calculated on the basis of reported energy use using the location-based method of the GHG Protocol and largely by applying emission factors from Defra (January 2019) and IEA (May 2018).
3 Figure for 2018 was recalculated due to an adjustment in the application of the location-based method of the GHG Protocol.

For more information on climate protection, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Circular economy

Our concept

At Continental, there are a number of different initiatives and projects for implementing a circular economy that are managed at various levels within the corporation. They implement a circular economy with varying degrees of circularity for the demand and use of materials. Examples include the use of recycled materials, the retreading of tires, the reduced use of plastics and operational waste management.

Thinking in terms of resource cycles represents a long-term transformation of resource management and requires environmental awareness and knowledge of interdependencies within the company on the part of employees. For this purpose, a corporate-wide awareness and participation campaign on resource conservation and waste prevention has been developed and will be rolled out in fiscal 2020.

We use the waste recycling rate as an indicator for the circular economy at Continental. It measures the proportion of waste that has been recycled or thermally recovered by external service providers. We have set ourselves the target of increasing the waste recycling rate to 95% by 2030.

Results of the concept

The waste recycling rate in fiscal 2019 rose to 80% (PY: 78%).

Key figures for circular economy[1]	2019	2018
Waste recycling rate in %	80	78

1 Based on the reporting on the environmental data collection system that includes the relevant production and research and development locations. Definitions based on the standards of the Global Reporting Initiative (GRI).

For more information on the circular economy, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Sustainable supply chains

Our concept

In our Business Partner Code of Conduct, we define the fundamental sustainability requirements for our supply chains, including with regard to human rights, working conditions, environmental protection and anti-corruption.

Before even establishing a business relationship, we check potential new suppliers and service providers by means of self-assessment and sometimes on-site audits, which may also include sustainability topics (such as fire protection and occupational safety).

By signing the Business Partner Code of Conduct, suppliers and service providers are also expected to promote the implementation of the sustainability requirements mentioned therein in their own supply chains. Furthermore, we have drafted a special sourcing policy for the purchase of natural rubber to improve conditions in rubber cultivation, which we likewise hand over to the relevant suppliers and with which we require compliance.

We assess compliance with the sustainability requirements of the Business Partner Code of Conduct in particular with the help of self-assessment questionnaires via sustainability platforms EcoVadis and NQC, which represent a generally accepted standard for sustainability assessments of suppliers in our industries. In the event of violations of the Code of Conduct, Continental reserves the right to demand improvements or to terminate the business relationship. Violations can also be reported via the Compliance & Anti-Corruption Hotline, which is available around the clock and worldwide.

Sustainability in the supply chains is coordinated by the relevant purchasing organizations, which are established at Continental by business area and product group with teams in the various countries.

Results of the concept

As at December 31, 2019, valid self-assessment questionnaires from 670 suppliers (PY: more than 750) were available via the two sustainability platforms EcoVadis and NQC. This corresponds to a completion rate of 57% of suppliers selected for this process (PY: more than 60%).

Key figures for sustainable supply chains[1]	Dec. 31, 2019	Dec. 31, 2018
Number of available, valid supplier self-assessment questionnaires	670	>750

1 Based on the self-assessment questionnaires via EcoVadis and NQC.

For more information on sustainable supply chains, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Development of Other Sustainability Topics

Green and safe factories

Our concept

Our corporate policy for environment, safety and health protection (ESH) defines guidelines for green and safe factories. The Environment and Safety & Health group functions are responsible for the related management process, and are supplemented by corresponding ESH functions at various levels of the corporation. At the locations, local ESH managers coordinate operational environmental protection and occupational safety and health on site under the responsibility of location management.

Both the concrete organizational and technical guidelines for the locations are defined in the ESH management manuals.

All persons in our company are to be protected against accidents and work-related illnesses. New targets were defined in 2019 for operational environmental protection. In addition to reducing CO_2 emissions at our locations (see also "Climate protection" on page 49) and increasing the waste recycling rate (see also "Circular economy" on page 50), these include reducing energy use and increasing energy efficiency, as well as reducing water consumption and waste generation.

Local management systems are designed to support the implementation of environmental protection, energy efficiency and occupational safety on site.

Results of the concept

In 2019, the majority of our employees were covered by local management system certifications in the areas of environmental protection (according to ISO 14001 or similar standards), energy efficiency (according to ISO 50001 or similar standards) or occupational safety (according to ISO 45001 or similar standards).

The accident rate – i.e. the number of accidents per million working hours – improved to 3.03 accidents (PY: 3.41).

Key figures for green and safe factories	**Dec. 31, 2019**	Dec. 31, 2018
Environmental protection management system certifications (ISO 14001 or similar)		
Employees covered in %	82	>80[1]
Energy management system certifications (ISO 50001 or similar)		
Employees covered in %	49	~50[1]
Occupational safety management system certifications (ISO 45001 or similar)		
Employees covered in %	69	~67[1]
Number of accidents per million working hours[2, 3, 4]	3.03	3.41

1 In 2018, not reported as key figures but as indicative, rounded statement in the text.
2 Permanent staff only (own employees).
3 Counted from more than one lost day, i.e. with at least one lost day beyond the day of the accident.
4 Excluding Continental Tire Sales (approx. 2% of the total workforce).

For more information on green and safe factories, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Good working conditions

Our concept

Our vision is to become one of the most attractive and progressive employers in order to meet our future staffing requirements in terms of both quality and quantity.

Continental's Code of Conduct sets out the cornerstones for good working conditions as the basis of our global collaboration. It was expanded at the start of 2019 to include the topics of human rights and fair working conditions.

The strategic goals of HR work are focused on efficiently and effectively bringing together the right people and positions ("Industrialize Best Fit") and at the same time shaping the transition to digitalization, new technologies and new forms of collaboration ("Enable Transformation & Leadership"). Strategic workforce planning, talent selection and development (in particular in the areas of software and IT) on the basis of comprehensive diagnostics, the promotion of employee diversity and lifelong learning, the further development of the management culture and the flexibilization of working hours are therefore essential strategic HR activities. On the topic of human rights and fair working conditions, several pilot projects and training sessions have already taken place within the corporation.

Those responsible for the projects' implementation are the HR functions at the company and business area level, which work together in a global network.

Results of the concept

To evaluate employee satisfaction and therefore also our HR work, for example, we use the results of our employee survey OUR BASICS Live 2019. The "Sustainable engagement" category, which measures the level of motivation and sense of belonging among our corporation's employees, rose to 81% (PY: 80%), which was once again a very good result in spite of the economic situation.

The corporate-wide sickness absence rate was on a par with the previous year at 3.37% (PY: 3.27%). Unforced fluctuation, which measures the voluntary departure of employees from the Continental Corporation, amounted to 6.00% and was likewise similar to the previous year (PY: 6.25%).

According to a preliminary analysis, up to 20,000 jobs worldwide are expected to be affected by changes under the Transformation 2019–2029 structural program over the next 10 years. We are preparing the employees affected for the technological changes and associated professional and personal challenges that they will face through structured retraining measures that are conducive to employment. In addition, we will meet our social commitments based on our company values by offering employees – where necessary and feasible – prospects in other companies within the corporate network, including through an internal job market, within the scope of the general legal framework.

Information about personnel expenses in fiscal 2019, i.e. wages and salaries, social security contributions and pension and post-employment benefit costs, can be found in Note 9 of the notes to the consolidated financial statements on page 148. Employee benefits such as pensions, post-employment benefits and long-term bonus payments are broken down in Note 27 of the notes to the consolidated financial statements starting on page 168.

Key figures for good working conditions	2019	2018
OUR BASICS Live Sustainable Engagement in %	81	80
Sickness absence rate in %[1]	3.37	3.27
Unforced fluctuation in %[1]	6.00	6.25

1 Permanent staff only (own employees).

For more information on good working conditions, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Product quality

Our concept

We strive to be recognized by our customers as a benchmark in quality. Product recalls, product liability claims and proceedings as a result of quality defects must be avoided in order to prevent losses of sales and of customer and market acceptance. Warranty and product liability claims pose risks to the business. Detailed reporting in this respect is included in the report on risks and opportunities starting on page 90.

The decisive factor in becoming a benchmark in quality is a quality-oriented company culture. Our quality policy sets out guidelines for product and process quality at Continental. The Quality and Environment group function as well as the quality functions at various levels in the corporation, which work together in a global network, are responsible for the quality policy and its implementation.

The achievement of a quality-oriented company culture is supported by the establishment and certification of quality management systems in accordance with recognized standards such as ISO 9001 or IATF 16949 at our production locations.

Results of the concept

In 2019, the majority of our employees were covered by a local management system certification in the area of quality according to ISO 9001 or similar standards.

Information about the scope of warranty and product liability claims in fiscal 2019 can be found in Note 35 (Litigation and Compensation Claims) of the notes to the consolidated financial statements.

Key figures for product quality	Dec. 31, 2019	Dec. 31, 2018
Quality management system certifications (ISO 9001 or similar)		
Employees covered in %	86	~90[1]

1 In 2018, not reported as key figures but as indicative, rounded statement in the text.

For more information on product quality, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Corporate governance

Our concept

Good, responsible corporate governance geared toward sustainable, long-term value creation and in the interests of all stakeholder groups is the measure that governs the actions of the Executive Board and Supervisory Board of Continental AG. Further information on corporate governance can be found in the corporate governance report and in the corporate governance declaration pursuant to Section 161 *AktG* on pages 16 and 17 of this annual report.

Employee diversity, in particular with regard to internationality and a balanced gender ratio, is a key aspect of our corporate governance. We have set ourselves the target of increasing the proportion of women in management positions at the executive and senior executive level to 16% by 2020, and to 25% by 2025. Further information on our diversity strategy can be found on page 21 of this annual report.

To prevent corruption and antitrust violations in particular, the Executive Board has established the global compliance organization together with the Compliance group function and regional subfunctions. This structure is supplemented by compliance coordinators in the countries and at the locations. The fundamental principles of compliance management are set out in the central compliance handbook. Continental has a compliance management system, which is based on a comprehensive analysis of potential compliance risks for the core areas of antitrust law and corruption prevention. Further information on compliance can be found in the detailed compliance report on page 22 of this annual report.

Results of the concept

In 2019, Continental increased its proportion of women in management positions to 15.8% (PY: 14.8%).

The effectiveness of the compliance management system was confirmed in 2016 in accordance with the IDW PS 980 audit standard.

Key figures for corporate governance[1, 2]	Dec. 31, 2019	Dec. 31, 2018
Proportion of women in management positions in %	15.8	14.8

1 Based on the employees recorded in the HR data system (approx. 97%).
2 Relates to executives and senior executives.

For more information on corporate governance, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Information on the development of other key sustainability topics

More information on innovation and digitalization, safe mobility and sustainable profits can be found in the Research and Development and the Corporate Management sections of this annual report, on pages 46 and 47 and pages 43 and 44, respectively.

For more information on these topics, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

For information on corporate citizenship, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Reasonable Assurance Report of the Independent Auditor Regarding the Combined Corporate Non-financial Statement

To the Supervisory Board of Continental AG, Hanover

We have performed an independent reasonable assurance engagement on the combined corporate non-financial statement of Continental AG, Hanover, and the corporation (further "Continental"), in section "Sustainability and Combined Corporate Non-Financial Statement" as well as the by reference qualified parts "Structure of the Corporation", "Corporate Strategy" and "Report on Risks and Opportunities" of the combined management report (further: "Statement") according to §§ 315b and 315c in conjunction with 289b to 289e German Commercial Code *(HGB)* for the business year from January 1 to December 31, 2019.

Management's Responsibility
The legal representatives of Continental are responsible for the preparation of the Statement in accordance with §§ 315b and 315c in conjunction with 289b to 289e *HGB*.

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the Statement and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, this responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the Statement in a way that is free of – intended or unintended – material misstatements.

Independence and quality assurance on the part of the auditor
We are independent from the entity in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

Our audit firm applies the national statutory provisions and professional pronouncements for quality assurance, in particular the Professional Code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

Responsibilities of the auditor
Our responsibility is to express a conclusion on the Statement based on our work performed within our reasonable assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" published by the IAASB. This standard requires that we plan and perform the assurance engagement so as to obtain reasonable assurance that the Statement of the company for the period from January 1 to December 31, 2019, has been prepared, in all material respects, in accordance with Sections 315b and 315c in conjunction with Sections 289b to 289e *HGB*. We do not, however, provide a separate audit opinion for each disclosure. The choice of audit procedures is at the due discretion of the auditor.

Within the scope of our engagement, we performed assurance procedures and other activities such as:

- Inquiries of personnel on corporate level who are responsible for the materiality analysis, in order to gain an understanding of the processes for determining material sustainability topics and respective reporting boundaries
- A risk analysis, including a media search, to identify relevant information on sustainability performance in the reporting period.
- Evaluation of the design and implementation of systems and processes for determining, processing and monitoring disclosures relating to environmental, employee and social matters, respect for human rights, and combating corruption and bribery, including the consolidation of data.
- Inquiries of personnel at the corporation and division level who are responsible for determining disclosures on concepts, due diligence processes, results and risks as well as for conducting internal controls and consolidating disclosures
- Performing control-based assurance procedures to assess the design and effectiveness of internal controls used to collect and process non-financial disclosures and data, including the consolidation of data at the corporation and division level.
- Substantive assurance procedures, in particular using internal and external documentation in order to determine in detail whether the disclosures correspond to relevant underlying sources
- Analytical evaluation of data and trends of quantitative information, which are reported by all sites for consolidation at the corporate level
- Evaluation of local data collection, reporting processes and reliability of reported data on site level at sites Lousado in Portugal, Toulouse, Foix, and Boussens in France as well as Northeim and Hanover (Vahrenwald) in Germany
- Assessment of the overall presentation of the disclosures

Audit opinion

In our opinion the Statement of Continental for the business year from January 1 to December 31, 2019 is prepared, in all material respects, in accordance with §§ 315b and 315c in conjunction with 289b to 289e *HGB*.

Restriction of use/clause on general engagement terms

This report is issued for purposes of the Supervisory Board of Continental AG, Hanover, only. We assume no responsibility with regard to any third parties.

Our assignment for the Supervisory Board of Continental AG, Hanover and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this report, each recipient confirms notice of provisions of the General Engagement Terms (including the limitation of our liability for negligence to €4 million as stipulated in No. 9) and accepts the validity of the General Engagement Terms with respect to us.

Munich, March 3, 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft

Hell ppa. Mathias

Economic Report
General Conditions

Macroeconomic Development

Global economic growth noticeably slowed in fiscal 2019. In its January 2020 World Economic Outlook Update (WEO Update), the International Monetary Fund (IMF) indicated that the global economy grew by 2.9% in the year under review, compared with growth of 3.6% in the previous year. As a result of the slowdown in many countries over the course of the year, the IMF's forecast of 3.5% growth from January 2019 was not achieved.

Economic momentum in the eurozone was dampened in the year under review by worldwide trade conflicts and uncertainty over the United Kingdom's exit from the E.U. According to the latest figures from the statistical agency Eurostat, the eurozone economy achieved gross domestic product (GDP) growth of 1.2% in 2019 and thus fell short of the IMF forecast of 1.6% from January 2019. Within the eurozone, the German economy recorded particularly weak figures. According to initial calculations by the German Federal Statistical Office, its GDP increased by only 0.6% in 2019 compared with 2018 when adjusted for prices. This fell considerably short of the forecast of 1.3% issued by the IMF in January 2019.

Relatively stable GDP growth rates were observed – according to the January 2020 WEO Update – for the U.S.A. at 2.3%, China at 6.1% and Japan at 1.0%. In its January 2019 WEO Update, the IMF had anticipated growth of 2.5% for the U.S.A., 6.2% for China and 1.1% for Japan in 2019.

The Indian economy recorded a significant decline in growth in 2019 due to the liquidity crisis experienced by large non-regulated financial institutions, or shadow banks, and the associated credit crunch. In January 2020, the IMF estimated that GDP increased by 4.8% in 2019, having forecast growth of 7.5% a year earlier.

The Brazilian and Russian economies saw weaker development than expected by the IMF in 2019. In accordance with the January 2020 WEO Update, Brazil's GDP growth came to 1.2% in the year under review – rather than the IMF's forecast of 2.5% from January 2019. Russia also fell short of the IMF's forecast of 1.6% from January 2019, with GDP growth of 1.1% according to the January 2020 WEO Update.

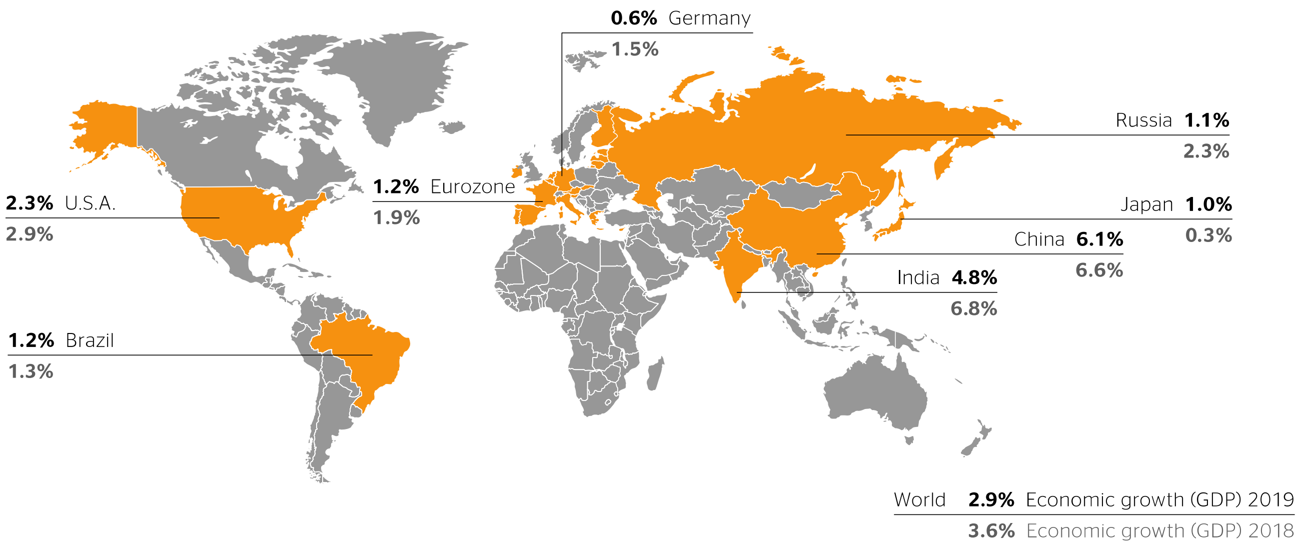
Development of Key Customer Sectors

The most important market segment for Continental is the global supply business with the manufacturers of passenger cars and commercial vehicles, accounting for 71% of sales in fiscal 2019.

The second-biggest market segment for Continental is global replacement-tire business for passenger cars and commercial vehicles. Because passenger cars and light commercial vehicles weighing less than 6 metric tons make up a considerably higher share of vehicle production and replacement-tire business, their development is particularly important to our economic success.

Continental's biggest sales region is still Europe, which accounted for 48% of sales in the year under review, followed by North America with 26% and Asia with 22%.

Year-on-year economic growth (GDP) in 2019



Sources: IMF – World Economic Outlook Update January 2020, Eurostat, statistical offices of the respective countries, Bloomberg.

Development of new passenger-car registrations
Preliminary figures show that global demand for passenger cars fell by 5% in 2019, in particular because of a slump in demand in China and India. In China, the trade conflict with the U.S.A. weighed on consumer sentiment in the year under review, and, according to preliminary data from the German Association of the Automotive Industry (Verband der Automobilindustrie, VDA), demand for passenger cars fell by almost 10% as a result. In India, the credit crunch experienced by shadow banks resulted in a sharp decrease in sales volumes of around 13%. In the U.S.A., sales volumes of light vehicles fell, in particular due to the sharp decline in demand for sedans, by more than 1%. The European car market (EU-28 and EFTA) exceeded the previous year's level by 1%; in Russia, on the other hand, passenger-car registrations fell by 2%. In Japan, the sales volume of passenger cars was down by 2% year-on-year. Demand in Brazil developed very positively with a rise of around 8%.

Development of production of passenger cars and light commercial vehicles
Due to the decline in demand in the major markets, the production of passenger cars and light commercial vehicles weighing less than 6 metric tons decreased by approximately 6% to 88.9 million units in 2019 on the basis of preliminary figures.

In Europe, the production of passenger cars and light commercial vehicles decreased in 2019 by 4% on the basis of preliminary figures. In particular, plants in Germany, France, Italy and the United Kingdom posted significantly lower levels of utilization.

In North America, the production of passenger cars and light commercial vehicles decreased by 4% to 16.3 million units in the reporting year on the basis of preliminary figures. In the U.S.A., Canada and Mexico, production declined. Due to the strike at American manufacturer General Motors and the resulting production standstill, there was a decline in volumes, particularly in the fourth quarter.

In Asia, the production of passenger cars and light commercial vehicles also decreased in the year under review. In China, production fell due to a slump in demand by around 8% year-on-year according to preliminary data. Other countries also saw significant declines in production, such as India, Iran and Thailand. By contrast, Japan and South Korea each posted only slight declines in production. On the basis of preliminary figures, Asia recorded an overall year-on-year decline in production of 7% in 2019, which was primarily due to the decline in China.

In South America, the recovery in demand from previous years stalled in 2019, and the production of passenger cars and light commercial vehicles fell by 4% as a result. Production growth in Brazil was unable to offset the decline in the other South American countries.

Development of production of medium and heavy commercial vehicles
The reduced demand in many countries led to a decline in global production of medium and heavy commercial vehicles of 6% in 2019 according to preliminary figures.

In Europe, the slowdown in economic growth led to a decline in demand for trucks in 2019, particularly in the second half of the year. Production of commercial vehicles weighing more than 6 metric tons declined by 9% year-on-year in 2019 on the basis of preliminary figures.

In North America, the production of medium and heavy commercial vehicles was expanded in the year under review. However, declines in order intake led to lower plant utilization levels in the fourth quarter of 2019. For 2019 as a whole, preliminary figures show that the production of commercial vehicles weighing more than 6 metric tons in North America increased – as a result of the strong first nine months – by 1% compared to the high prior-year figure.

In Asia, the production of medium and heavy commercial vehicles was around 8% below the previous year's level in the reporting year, based on the information currently available. In China in particular, there was a significant decline in the production of medium-weight commercial vehicles.

In South America, Brazil's ongoing economic recovery in the reporting year led to rising demand for trucks and an increase in the production of medium and heavy commercial vehicles of more than 20% compared to the prior-year basis, according to preliminary data.

Vehicle production and sales volumes in the tire-replacement business

	Vehicle production				Replacement sales of tires			
	of passenger cars and light commercial vehicles in millions of units		of medium and heavy commercial vehicles in thousands of units		for passenger cars and light commercial vehicles in millions of units		for medium and heavy commercial vehicles in millions of units	
	2019	2018	2019	2018	2019	2018	2019	2018
Europe	20.8	21.7	603	662	363	369	25.7	25.6
North America	16.3	17.0	646	638	305	297	24.2	27.1
South America	3.3	3.4	172	142	68	68	14.3	14.6
Asia	47.3	50.8	2,031	2,215	472	458	92.0	90.9
Other markets	1.2	1.3	0	0	50	49	8.5	8.3
Worldwide	**88.9**	**94.2**	**3,452**	**3,657**	**1,258**	**1,241**	**164.7**	**166.4**

Sources:
Vehicle production: IHS Inc. (Europe with Western, Central and Eastern Europe incl. Russia and Turkey; Asia including Kazakhstan, Uzbekistan, Middle East and Oceania with Australia).
Tire replacement business: LMC International Ltd.
Preliminary figures and own estimates.

Development of replacement-tire markets for passenger cars and light commercial vehicles
According to preliminary data, global sales volumes of replacement tires for passenger cars and light commercial vehicles weighing less than 6 metric tons grew by 1% year-on-year in 2019.

Global market growth was curbed in particular by the weak development in Europe, Continental's most important market for replacement tires. Particularly in Germany, Russia and Italy, sales volumes were markedly lower than the previous year's level. Preliminary figures indicate that the decline in Europe came to 2% over the reporting year.

After a relatively strong first half of the year, the growth in sales figures of replacement tires for passenger cars and light commercial vehicles in North America slowed considerably in the second half of 2019. Preliminary figures indicate that sales volumes over the reporting year as a whole increased by a further 2% compared to the strong prior-year basis.

In Asia, demand for replacement tires for passenger cars and light commercial vehicles rose by 3% in the reporting year on the basis of preliminary data and estimates. The most important driver was the positive development of the Chinese market, with growth of 4%.

In South America, following subdued demand in the first half of 2019, there was a significant rise in demand for replacement tires for passenger cars and light commercial vehicles in the second half of the year. Overall, sales volumes for 2019 as a whole remained at the previous year's level according to preliminary figures.

Development of replacement-tire markets for medium and heavy commercial vehicles
Worldwide, preliminary data shows that global demand for replacement tires for medium and heavy commercial vehicles fell by 1% year-on-year in 2019.

In Europe, preliminary figures indicate that demand for replacement tires for commercial vehicles weighing more than 6 metric tons rose by 1% in the reporting year.

According to preliminary data, demand for replacement tires for medium and heavy commercial vehicles in North America, our other core market for replacement commercial-vehicle tires alongside Europe, fell by 11% in 2019. The primary reason for this strong decline was the high comparative basis from the previous year, in which purchases were brought forward due to the introduction of import tariffs.

In Asia, sales volumes of replacement tires for medium and heavy commercial vehicles were up 1% in 2019 according to preliminary figures and estimates. China and Japan in particular recorded an increase in demand.

In South America, preliminary figures indicate that sales volumes of replacement tires for commercial vehicles fell by 2% in the reporting year. This was primarily due to the decline in demand for replacement truck tires in Brazil compared to the high comparative basis from the previous year.

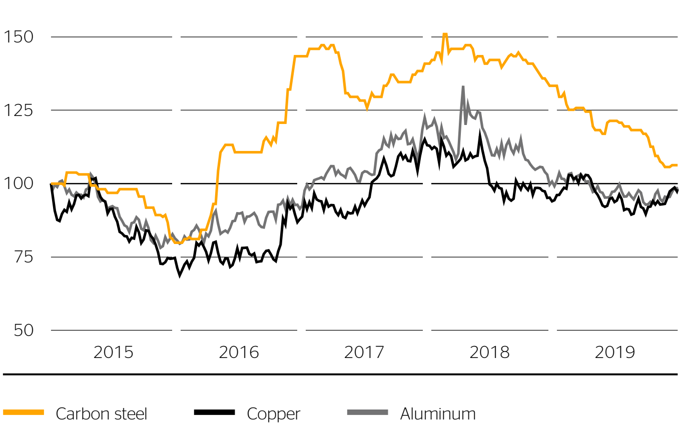
Development of Raw Materials Markets

Raw materials such as steel, aluminum, copper, precious metals and plastics are key input materials for a wide range of different electronic, electromechanical and mechanical components. We and in particular our suppliers need these components to manufacture products and systems for the automotive industry. Consequently, developments in the prices of raw materials influence Continental's production costs either directly or, in most cases, indirectly, via changes in costs at our suppliers.

Carbon steel and stainless steel are input materials for many of the mechanical components such as stamped, turned, drawn and die-cast parts integrated by Continental into its products. Steel wire is used in particular in tire production as steel cord but also, for example, in conveyor belts or in rubber belts to increase tensile strength. Aluminum is used by Continental in particular for die-cast parts and stamped and bent components, while copper is used in particular in electric motors and mechatronic components. Precious metals such as gold, silver, platinum and palladium are used by Continental and by our suppliers to coat a wide range of components. Both Continental and our suppliers require various plastic granulates, known as resins, as technical thermoplastics primarily for manufacturing housing components.

In the reporting year, the slowing economic momentum over the course of the year resulted in diminishing demand for raw materials and in a decline in prices for many raw materials. On a euro basis, prices for carbon steel fell in 2019 by more than 10% on average for the year. The annual average price for copper decreased by around 8% on a U.S. dollar basis in 2019, while the annual average price for aluminum fell by more than 10% on a U.S. dollar basis. By contrast, prices for precious metals rose in 2019, with the listings for gold and palladium increasing particularly sharply. On average for the year, on a U.S. dollar basis, the price of gold increased by 10% and the price of palladium by 50%.

Steel, copper and aluminum indexed to January 1, 2015



Sources:
Carbon steel: Hot-rolled coil Northern Europe ex works, from Kallanish Commodities (€ per metric ton).
Copper and aluminum: Rolling three-month contracts from the London Metal Exchange (U.S. $ per metric ton).

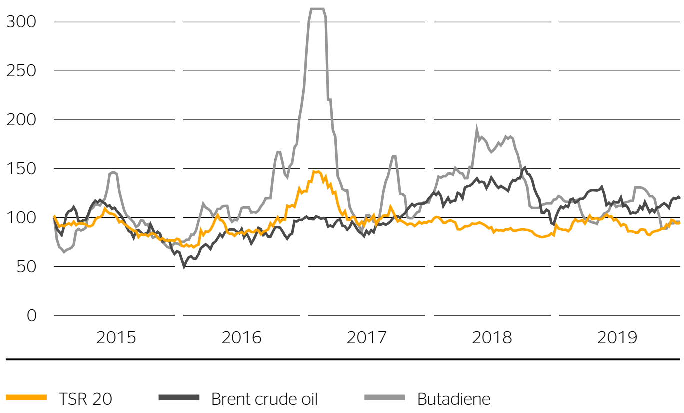
Continental uses various types of natural rubber and synthetic rubber for the production of tires and industrial rubber products. It also uses relatively large quantities of carbon black as a filler material and of steel cord and nylon cord as structural materials. Due to the large quantities and direct purchasing of raw materials, their price development has a significant influence on the earnings of the Rubber Group, particularly the Tire division.

The price of crude oil – the most important basic building block for synthetic-rubber input materials such as butadiene and styrene as well as for carbon black and various other chemicals – rose sharply in the first half of 2019 following the rapid decline in the fourth quarter of 2018. From mid-May 2019, the listings fell once again, however. The average price of Brent crude oil for the year decreased by around 10% year-on-year on a U.S. dollar basis. As a result, the price of various input materials for synthetic rubber, such as butadiene and styrene, fell year-on-year in the year under review. By contrast, the prices for carbon black increased significantly due to limited production capacity.

Prices for natural rubber rose considerably in the first half of 2019. The primary reason for this was the recovering demand for tires in China. Declining demand for tires in Europe and North America over the course of the year led to prices for natural rubber falling even further over the course of the third quarter of 2019. In the fourth quarter, an outbreak of fungal disease affecting rubber trees had a negative impact on the rubber harvest in Southeast Asia. The scarce supply led to an increase in listings for natural rubber in November and December. The average price for the year for natural rubber TSR 20 was up 3% year-on-year on a U.S. dollar basis. The average price of ribbed smoked sheets (RSS) for the year rose by 6% on a U.S. dollar basis.

The weaker euro led to an increase in the average price of raw material imports to Europe by around five percentage points in the reporting year. The introduction of tariffs on steel imports by the U.S.A. weighed on the purchase of raw materials in 2019.

TSR 20, crude oil and butadiene indexed to January 1, 2015



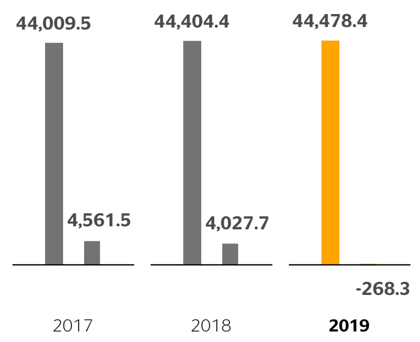
Sources:
TSR 20: Rolling one-month contracts from the Singapore Exchange (U.S. $ cents per kg).
Crude oil: Europe Brent Forties Oseberg Ekofisk price from Bloomberg (U.S. $ per barrel).
Butadiene: South Korea export price (FOB) from PolymerUpdate.com (U.S. $ per metric ton).

Overall, the described price developments for raw materials led, in particular in the Rubber Group, to costs in 2019, which, due to the difficult market conditions in the customer sectors, were passed on to our customers only in individual markets and to a very limited extent. The decline in the price of metals reduced production costs for the reporting year only to a limited extent. Depending on the product, there is generally a gap of several months between purchasing raw materials, their delivery and their use in production. In addition, such changes in costs at our suppliers, depending on the contractual arrangement, are in most cases passed on to us after a certain amount of time or redefined in upcoming contract negotiations.

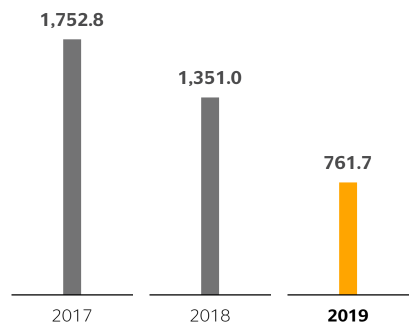
Earnings, Financial and Net Assets Position

› Sales up 0.2% at €44.5 billion
› Organic sales down 2.6%
› Basic earnings per share at -€6.13

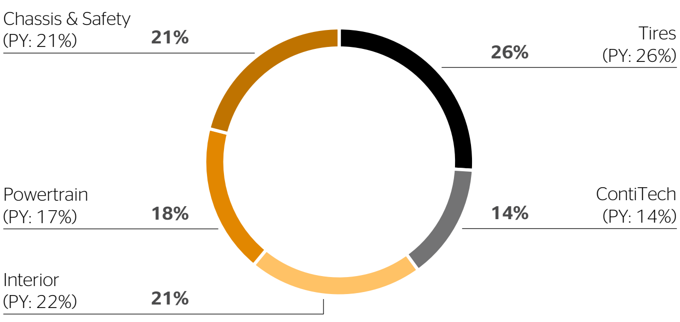
Sales; EBIT € millions



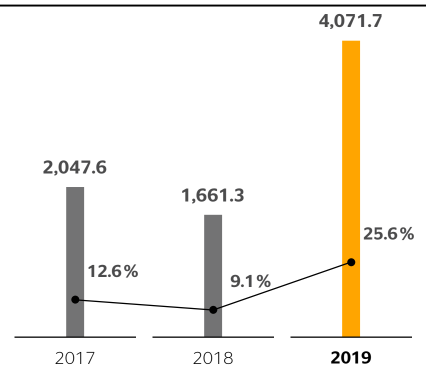
Free cash flow € millions



Sales by division %



Net indebtedness € millions **Gearing ratio** %



IFRS 16, *Leases*, was adopted on and has been applied since January 1, 2019. It is applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some of the following figures are not comparable with the prior-year period.

Earnings Position

- Sales up 0.2%
- Sales down 2.6% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT down 21.5%

Continental Corporation in € millions	2019	2018	Δ in %
Sales	44,478.4	44,404.4	0.2
EBITDA	4,977.2	6,235.7	-20.2
in % of sales	11.2	14.0	
EBIT	-268.3	4,027.7	-106.7
in % of sales	-0.6	9.1	
Net income attributable to the shareholders of the parent	-1,225.0	2,897.3	-142.3
Basic earnings per share in €	-6.13	14.49	-142.3
Diluted earnings per share in €	-6.13	14.49	-142.3
Research and development expenses (net)	3,364.2	3,209.0	4.8
in % of sales	7.6	7.2	
Depreciation and amortization[1]	5,245.5	2,208.0	137.6
thereof impairment[2]	2,509.9	20.7	
Operating assets as at December 31	23,991.0	23,753.7	1.0
Operating assets (average)	26,178.5	23,640.5	10.7
ROCE	-1.0	17.0	
Capital expenditure[3]	3,308.6	3,124.4	5.9
in % of sales	7.4	7.0	
Number of employees as at December 31[4]	241,458	243,226	-0.7
Adjusted sales[5]	43,867.7	44,374.2	-1.1
Adjusted operating result (adjusted EBIT)[6]	3,233.9	4,117.0	-21.5
in % of adjusted sales	7.4	9.3	

1 Excluding impairment on financial investments.
2 Impairment also includes necessary reversal of impairment losses.
3 Capital expenditure on property, plant and equipment, and software.
4 Excluding trainees.
5 Before changes in the scope of consolidation.
6 Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Sales up 0.2%
Sales down 2.6% before changes in the scope of consolidation and exchange-rate effects

Consolidated sales climbed by €74.0 million or 0.2% year-on-year in 2019 to €44,478.4 million (PY: €44,404.4 million). Before changes in the scope of consolidation and exchange-rate effects, sales declined by 2.6%. In a declining market, the Rubber Group was able to achieve a slight increase in sales, which was almost offset, however, by the sales decrease in the Automotive Group. Changes in the scope of exchange-rate effects and consolidation contributed to the increase in sales by almost the same amount.

Adjusted EBIT down 21.5%

The corporation's adjusted EBIT declined by €883.1 million or 21.5% year-on-year in 2019 to €3,233.9 million (PY: €4,117.0 million), equivalent to 7.4% (PY: 9.3%) of adjusted sales.

The corporation's adjusted EBIT for the fourth quarter of 2019 decreased by €260.3 million or 23.1% compared with the same quarter of the previous year to €867.1 million (PY: €1,127.4 million), equivalent to 8.0% (PY: 10.0%) of adjusted sales.

The regional distribution of sales in 2019 was as follows:

Sales by region in %	2019	2018
Germany	19	20
Europe excluding Germany	30	29
North America	26	25
Asia	22	22
Other countries	3	4

EBIT down 106.7%
EBIT was down by €4,296.0 million year-on-year in 2019 to -€268.3 million (PY: €4,027.7 million), a decrease of 106.7%. The return on sales fell to -0.6% (PY: 9.1%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €182.5 million (PY: €173.0 million) in the year under review.

ROCE amounted to -1.0% (PY: 17.0%).

Special effects in 2019
The transformation of the Powertrain division into an independent legal entity and the organizational realignment of the Automotive Group resulted in expense totaling €47.4 million (Chassis & Safety €3.0 million; Powertrain €30.9 million; Interior €3.0 million; holding €10.5 million).

Within the context of the annual planning process, global production of passenger cars and light commercial vehicles was not expected to improve substantially in the coming years (2020–2024). Due to this triggering event and other significant assumptions made when calculating the value in use of a cash-generating unit (CGU) – such as free cash flows, the discount rate and its parameters, and the long-term growth rate – goodwill was impaired by €2,293.5 million. The Interior division accounted for €1,347.9 million of this, the Chassis & Safety division for €719.8 million, and the Powertrain division for €223.5 million. There was also impairment of goodwill of €2.3 million in the ContiTech division.

Overall, impairment on property, plant and equipment resulted in expense totaling €111.7 million (Chassis & Safety €29.1 million; Powertrain €48.9 million; Interior €25.3 million; Tires €3.5 million; ContiTech €4.9 million).

In addition, restructuring expenses and the reversal of restructuring provisions that were no longer required resulted in a total negative special effect of €697.2 million (Chassis & Safety €42.7 million; Powertrain €402.6 million; Interior €172.9 million; Tires €32.5 million; ContiTech €46.5 million). This included impairment on property, plant and equipment in the amount of €104.8 million (Chassis & Safety €1.2 million; Powertrain €79.6 million; Tires €19.0 million; ContiTech €5.0 million). This additionally resulted in restructuring-related expenses of €3.3 million (Chassis & Safety €1.5 million; Powertrain €1.0 million; ContiTech €0.8 million).

Moreover, closure of the location in Dearborn, Michigan, U.S.A., resulted in an expense of €1.5 million in the Powertrain division.

In the Interior division, an expense of €1.9 million resulted from a subsequent purchase price adjustment to the acquisition of shares in associate OSRAM CONTINENTAL GmbH, Munich, Germany. The carrying amount for this associate was also impaired. This resulted in expense of €157.9 million in the Interior division.

A business combination resulted in a gain of €2.2 million in the Tire division.

Total consolidated expense from special effects in 2019 amounted to €3,312.2 million. Chassis & Safety accounted for €796.1 million of this, Powertrain for €708.4 million, Interior for €1,708.9 million, Tires for €33.8 million, ContiTech for €54.5 million and the holding for €10.5 million.

Special effects in 2018
Overall, impairment on property, plant and equipment resulted in expense of €20.0 million (Chassis & Safety €1.5 million; Powertrain €16.0 million; Interior €1.2 million; Tires €1.2 million; ContiTech €0.1 million).

In addition, restructuring expenses and the reversal of restructuring provisions no longer required resulted in a negative special effect of €20.0 million overall (Powertrain €22.8 million; Interior income of €3.0 million; ContiTech €0.2 million). This included impairment on property, plant and equipment in the amount of €3.5 million (Powertrain €3.3 million, ContiTech €0.2 million) and a reversal of impairment losses in the Interior division in the amount of €2.8 million.

Following the conclusion of all negotiations and the granting of the required merger control authorizations, OSRAM CONTINENTAL GmbH, Munich, Germany, commenced global operations on July 2, 2018. The contribution of net assets, including intangible assets, resulted in income of €183.7 million for the Interior division.

In addition, disposals of companies and business operations resulted in an expense totaling €25.5 million (Chassis & Safety income of €3.0 million; Interior €28.9 million; ContiTech income of €0.4 million).

The transformation of the Powertrain division into an independent legal entity resulted in expense totaling €40.9 million (Chassis & Safety €4.3 million; Powertrain €32.3 million; Interior €4.3 million).

In addition, an asset deal in the Interior division resulted in income of €2.9 million.

Total consolidated income from special effects in 2018 amounted to €80.2 million. Interior accounted for €155.2 million of this and ContiTech for €0.1 million. Total expense from special effects amounted to €2.8 million for Chassis & Safety, €71.1 million for Powertrain and €1.2 million for Tires.

Procurement
The purchasing volume remained constant year-on-year at €29.9 billion in 2019, of which approximately €20.1 billion was attributable to production materials. Prices for the Automotive Group's production materials were lower than in the previous year. The prices of key input materials and many raw materials for the Rubber Group peaked in the first half of 2019. As a result, the price level continuously declined in most material groups. Average prices for the Tire division's raw materials during the year were above the previous year's level, in particular because of exchange-rate effects and the time lag between procurement, delivery and deployment. For the ContiTech division, raw material prices also increased year-on-year.

Reconciliation of EBIT to net income

€ millions	2019	2018	Δ in %
Chassis & Safety	–120.3	782.5	–115.4
Powertrain	–662.1	119.8	–652.7
Interior	–1,325.3	988.1	–234.1
Tires	1,651.6	1,882.1	–12.2
ContiTech	305.9	396.2	–22.8
Other/consolidation	–118.1	–141.0	
EBIT	**–268.3**	**4,027.7**	**–106.7**
Financial result	–320.3	–177.8	–80.1
Earnings before tax	**–588.6**	**3,849.9**	**–115.3**
Income tax expense	–582.4	–891.6	34.7
Net income	**–1,171.0**	**2,958.3**	**–139.6**
Non-controlling interests	–54.0	–61.0	11.5
Net income attributable to the shareholders of the parent	**–1,225.0**	**2,897.3**	**–142.3**
Basic earnings per share in €	–6.13	14.49	–142.3
Diluted earnings per share in €	–6.13	14.49	–142.3

Reconciliation of sales to adjusted sales and of EBITDA to adjusted operating result (adjusted EBIT) in 2019

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Sales	**9,381.6**	**7,802.3**	**9,595.5**	**11,728.0**	**6,401.5**	**-430.5**	**44,478.4**
Changes in the scope of consolidation[1]	–	–	-147.0	-259.3	-204.4	–	-610.7
Adjusted sales	**9,381.6**	**7,802.3**	**9,448.5**	**11,468.7**	**6,197.1**	**-430.5**	**43,867.7**
EBITDA	**1,145.3**	**192.5**	**582.4**	**2,497.7**	**670.5**	**-111.2**	**4,977.2**
Depreciation and amortization[2]	-1,265.6	-854.6	-1,907.7	-846.1	-364.6	-6.9	-5,245.5
EBIT	**-120.3**	**-662.1**	**-1,325.3**	**1,651.6**	**305.9**	**-118.1**	**-268.3**
Amortization of intangible assets from purchase price allocation (PPA)	–	10.7	57.2	20.0	94.6	–	182.5
Changes in the scope of consolidation[1]	0.1	–	-7.4	2.9	11.9	–	7.5
Special effects							
Impairment on goodwill	719.8	223.5	1,347.9	–	2.3	–	2,293.5
Impairment[3]	29.1	48.9	25.3	3.5	4.9	–	111.7
Restructuring[4]	42.7	402.6	172.9	32.5	46.5	–	697.2
Gains and losses from disposals of companies and business operations	–	–	–	–	0.0	–	0.0
Other	4.5	33.4	162.8	-2.2	0.8	10.5	209.8
Adjusted operating result (adjusted EBIT)	**675.9**	**57.0**	**433.4**	**1,708.3**	**466.9**	**-107.6**	**3,233.9**

Reconciliation of sales to adjusted sales and of EBITDA to adjusted operating result (adjusted EBIT) in 2018

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Sales	**9,588.0**	**7,741.0**	**9,707.2**	**11,352.2**	**6,344.7**	**-328.7**	**44,404.4**
Changes in the scope of consolidation[1]	–	147.0	-140.4	–	-8.0	-28.8	-30.2
Adjusted sales	**9,588.0**	**7,888.0**	**9,566.8**	**11,352.2**	**6,336.7**	**-357.5**	**44,374.2**
EBITDA	**1,213.3**	**574.6**	**1,389.2**	**2,495.2**	**701.4**	**-138.0**	**6,235.7**
Depreciation and amortization[2]	-430.8	-454.8	-401.1	-613.1	-305.2	-3.0	-2,208.0
EBIT	**782.5**	**119.8**	**988.1**	**1,882.1**	**396.2**	**-141.0**	**4,027.7**
Amortization of intangible assets from purchase price allocation (PPA)	0.0	11.4	51.1	19.3	91.2	–	173.0
Changes in the scope of consolidation[1]	–	17.8	-20.8	–	-0.5	–	-3.5
Special effects							
Impairment[3]	1.5	16.0	1.2	1.2	0.1	–	20.0
Restructuring[5]	–	22.8	-3.0	0.0	0.2	–	20.0
Gains and losses from disposals of companies and business operations	-3.0	–	-154.8	0.0	-0.4	–	-158.2
Other	4.3	32.3	1.4	0.0	0.0	–	38.0
Adjusted operating result (adjusted EBIT)	**785.3**	**220.1**	**863.2**	**1,902.6**	**486.8**	**-141.0**	**4,117.0**

1 Changes in the scope of consolidation include additions and disposals as part of share and asset deals. Adjustments were made for additions in the reporting year and for disposals in the comparative period of the prior year.
2 Excluding impairment on financial investments.
3 Impairment also includes necessary reversal of impairment losses. This item does not include impairment that arose in connection with a restructuring and impairment on financial investments.
4 This includes impairment losses totaling €104.8 million (Chassis & Safety €1.2 million; Powertrain €79.6 million; Tires €19.0 million; ContiTech €5.0 million).
5 This includes impairment losses totaling €3.5 million (Powertrain €3.3 million; ContiTech €0.2 million) and a reversal of impairment losses of €2.8 million in the Interior division.

Research and development

Research and development expenses (net) rose by €155.2 million or 4.8% year-on-year to €3,364.2 million (PY: €3,209.0 million), corresponding to 7.6% (PY: 7.2%) of sales.

In the Automotive Group, costs in connection with initial product development projects in the original equipment business are capitalized. Costs are capitalized as at the time at which we are named as a supplier and have successfully achieved a specific pre-release stage. Capitalization ends with the approval for unlimited volume production. The costs of customer-specific applications, pre-production prototypes and testing for products already being sold do not qualify as development expenditure that may be recognized as an intangible asset. Capitalized development expenses are amortized on a straight-line basis over a useful life of three to seven years and recognized in the cost of sales. In Continental's opinion, the assumed useful life reflects the period for which an economic benefit is likely to be derived from the corresponding development projects. €232.4 million (PY: €158.0 million) of the development costs incurred in 2019 qualified for recognition as an asset.

The requirements for the capitalization of development activities were not met in the Tire and ContiTech divisions in the year under review or the previous year.

This results in a capitalization ratio of 6.5% (PY: 4.7%) for the corporation.

Depreciation and amortization

Depreciation and amortization increased by €3,037.5 million to €5,245.5 million (PY: €2,208.0 million), equivalent to 11.8% of sales. This included impairment totaling €2,509.9 million (PY: €20.7 million).

Financial result

The negative financial result increased by €142.5 million year-on-year to €320.3 million (PY: €177.8 million) in 2019. This was primarily attributable to other valuation effects.

Interest income increased by €24.3 million year-on-year to €147.2 million (PY: €122.9 million) in 2019. Expected income from long-term employee benefits and pension funds totaled €80.7 million in this period (PY: €64.6 million). This did not include the interest income from the plan assets of the pension contribution funds.

Interest expense totaled €317.3 million in 2019 and was thus €41.1 million higher than the previous year's figure of €276.2 million. The interest expense from long-term employee benefits totaled €161.4 million (PY: €145.9 million) in this period. This did not include the interest expense from the defined benefit obligations of the pension contribution funds. At €155.9 million, interest expense resulting mainly from bank borrowings, capital market transactions and other financing instruments was higher than the prior-year figure of €130.3 million. An increase in expenses resulted in particular from the new standard IFRS 16, *Leases*, the application of which has been mandatory since January 1, 2019. The recognition of all leases in the statement of financial position accordingly resulted in increased expenses from interest on lease liabilities. In 2019, this interest expense amounted to €32.1 million (PY: €0.8 million). The bonds issued by Continental AG and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., resulted in expenses of €32.4 million (PY: €54.6 million). The year-on-year decline is attributable to the repayment of two bonds. Firstly, the €750.0-million euro bond from Continental AG was repaid on July 16, 2018. This five-year bond bore interest at a rate of 3.0% p.a. Secondly, the €500.0-million euro bond from Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., was repaid on February 19, 2019. This bond was issued with a fixed interest rate of 0.5% p.a., which was exchanged via cross-currency interest-rate swaps for a U.S.-dollar-based fixed interest rate averaging 2.365%.

Effects from currency translation resulted in a negative contribution to earnings of €30.5 million (PY: €30.4 million) in the reporting year. Effects from changes in the fair value of derivative instruments, and other valuation effects, also resulted in an expense in 2019. This expense amounted to €119.7 million (PY: income of €5.9 million). The reasons for this are in particular allowances for doubtful accounts on loans to associates as well as expenses from the creation of a provision for loan commitments to these companies in the amount of €108.2 million, which are included in the other valuation effects of €107.0 million (PY: income of €0.0 million). Taking into account the sum of the effects from currency translation and changes in the fair value of derivative instruments, earnings in 2019 were negatively impacted by €43.2 million (PY: €24.5 million).

Income tax expense

Income tax expense for fiscal 2019 amounted to €582.4 million (PY: €891.6 million). The tax rate adjusted for the permanent effects of the goodwill impairment was 55.8%, compared to 23.2% in the previous year.

As in the previous year, foreign tax rate differences, incentives and tax holidays had positive effects in the year under review. The tax rate was negatively impacted by non-cash allowances on deferred tax assets totaling €117.4 million (PY: €79.6 million), of which €3.9 million (PY: €16.4 million) was for previous years. Furthermore, as in the previous year, the tax rate was negatively affected by non-deductible expenses and non-imputable foreign withholding tax.

Net income attributable to the shareholders of the parent

Net income attributable to the shareholders of the parent declined by €4,122.3 million in 2019 to -€1,225.0 million (PY: €2,897.3 million). Basic earnings per share amounted to -€6.13 (PY: €14.49), the same amount as diluted earnings per share.

Employees

The number of employees in the Continental Corporation fell by 1,768 from 243,226 in 2018 to 241,458. Counter to the acquisition of Kathrein Automotive, lower production volumes in the Automotive Group led to a reduction in the overall number of employees by 1,721. The number of employees in the Rubber Group was almost unchanged year-on-year.

Employees by region in %	2019	2018
Germany	25	26
Europe excluding Germany	32	32
North America	19	18
Asia	20	20
Other countries	4	4

Financial Position

› **Free cash flow before acquisitions at €1.2 billion**
› **Cash flow arising from investing activities at €3.7 billion**
› **Net indebtedness at €4.1 billion**

Reconciliation of cash flow
EBIT declined by €4,296.0 million to -€268.3 million after €4,027.7 million in 2018.

Interest payments resulting in particular from bonds increased by €27.5 million to €157.9 million (PY: €130.4 million).

Income tax payments rose by €17.9 million to €866.0 million (PY: €848.1 million).

The cash-effective increase in working capital led to a cash outflow of €256.0 million (PY: cash inflow of €60.2 million). This resulted from the €49.1 million increase in inventories (PY: €358.4 million). The decline in operating receivables of €337.8 million (PY: increase of €11.5 million) was more than offset by the decline in operating liabilities of €544.7 million (PY: increase of €430.1 million).

Cash flow from operating activities fell by €562.8 million year-on-year to €4,414.4 million (PY: €4,977.2 million) in 2019, corresponding to 9.9% (PY: 11.2%) of sales.

Cash flow arising from investing activities amounted to an outflow of €3,652.7 million (PY: €3,626.2 million). Capital expenditure on property, plant and equipment, and software was down €146.9 million from €3,124.4 million to €2,977.5 million before the capitalization of borrowing costs. The net amount from the acquisition and disposal of companies and business operations resulted in a total cash outflow of €486.3 million (PY: €404.8 million) in 2019. This cash outflow was mainly attributable to the acquisition of the anti-vibration systems business of Cooper-Standard Automotive Inc., Novi, Michigan, U.S.A., and of Kathrein Automotive GmbH, Hildesheim, Germany.

Free cash flow for fiscal 2019 amounted to €761.7 million (PY: €1,351.0 million). This corresponds to a decrease of €589.3 million compared with the previous year. The recognition of depreciation on the reportable right-of-use assets in cash flow from operating activities, as part of the first-time adoption of IFRS 16, *Leases*, resulted in a corresponding improvement in free cash flow of €345.5 million compared to the previous year.

Capital expenditure (additions)
Capital expenditure for property, plant and equipment, and software amounted to €3,308.6 million in 2019 (PY: €3,124.4 million). €331.0 million of the year-on-year increase of €184.2 million resulted from the adoption of IFRS 16, *Leases*. Capital expenditure amounted to 7.4% (PY: 7.0%) of sales.

Financing and indebtedness
As at the end of 2019, gross indebtedness amounted to €7,619.0 million (PY: €4,606.9 million), up €3,012.1 million on the previous year's level.

Based on quarter-end values, 66.5% (PY: 54.7%) of gross indebtedness after hedging measures had fixed interest rates on average over the year.

The carrying amount of the bonds increased by €898.6 million from €1,895.2 million in the previous year to €2,793.8 million as at the end of fiscal 2019. This build-up is attributable to several euro bond issues totaling €1,400.0 million by Continental AG in the second half of 2019 under Continental's Debt Issuance Programme (DIP). Continental utilized the favorable market and interest rate environment to successfully issue two listed euro bonds in September 2019 and make two private placements with investors in Germany and abroad in October 2019. The issue price of the €500.0-million bond issued on September 12, 2019, amounted to 99.804%. This bond has a term of four years and an interest rate of 0.000% p.a. The issue price of the €600.0-million bond issued on September 27, 2019, amounted to 99.802%. This bond has a term of five years and nine months and an interest rate of 0.375% p.a. One of the two private placements has a nominal volume of €100.0 million, a term of five years and a fixed interest rate of 0.231% p.a. The second private placement, which has an 18-month term, has a nominal volume of €200.0 million and a variable interest rate. The only bond that matured in 2019, the €500.0-million euro bond from Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., was redeemed on February 19, 2019, at a rate of 100.000%. This bond bore interest at a rate of 0.500% p.a. and had a term of three years and three months.

Bank loans and overdrafts amounted to €1,470.4 million (PY: €1,239.0 million) as at December 31, 2019, and were therefore up €231.4 million on the previous year's level.

The previous syndicated loan, which was due in April 2021, was renewed ahead of schedule in December 2019. In doing so, the previous volume of the revolving tranche was increased from €3,000.0 million to €4,000.0 million. This credit line is now available to Continental until December 2024. In addition to improved conditions, sustainability components are included in the calculation of interest for the credit line for the first time. If the corporation achieves the performance improvements in sustainability as set out in detail in the loan agreement, this will reduce the interest rate; non-achievement will result in interest rate increases. The revolving loan had not been utilized as at December 31, 2019. In the previous year, it had been utilized by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in the amount of €157.2 million.

On March 20, 2019, Continental AG commissioned four banks to market promissory note bank loans. The transaction was successfully completed as planned at the end of April 2019. The four promissory note bank loans issued have a total volume of €500.0 million and terms of three or five years. Fixed coupons were agreed upon for 76% of the volume.

Other indebtedness increased by €1,882.1 million to €3,354.8 million (PY: €1,472.7 million) as at the end of 2019. This increase was primarily attributable to the rise in lease liabilities. The new IFRS 16 standard, *Leases*, the application of which has been mandatory since January 1, 2019, resulted in the recognition of all leases in the statement of financial position and thus an increase in lease liabilities. These amounted to €1,715.0 million on December 31, 2019 (PY: €12.3 million). Commercial paper issuances resulted in a carrying amount of €938.4 million (PY: €814.5 million). As at the end of 2019, the utilization of sale-of-receivables programs, at €468.6 million (PY: €469.2 million), was on a par with the previous year. As at the end of 2019, four (PY: four) sale-of-receivables programs with a total financing volume of €665.0 million were used within the Continental Corporation.

Cash and cash equivalents, derivative instruments and interest-bearing investments were up by €601.7 million at €3,547.3 million (PY: €2,945.6 million).

Net indebtedness increased by a considerable €2,410.4 million as compared to the end of 2018 to €4,071.7 million (PY: €1,661.3 million). The gearing ratio rose year-on-year to 25.6% (PY: 9.1%).

As at December 31, 2019, Continental had liquidity reserves totaling €8,044.0 million (PY: €6,265.5 million), consisting of cash and cash equivalents of €3,341.8 million (PY: €2,761.4 million) and committed, unutilized credit lines totaling €4,702.2 million (PY: €3,504.1 million).

The restrictions that may impact the availability of capital are also understood to comprise all existing restrictions on the cash and cash equivalents. In the Continental Corporation, the aforementioned cash and cash equivalents are restricted with regard to pledged amounts and balances in countries with foreign-exchange restrictions or other barriers to accessing liquidity. Taxes to be paid on the transfer of cash assets from one country to another are not usually considered to represent a restriction on cash and cash equivalents. As at December 31, 2019, unrestricted cash and cash equivalents totaled €3,114.3 million (PY: €2,587.7 million).

Reconciliation of net indebtedness

€ millions	**December 31, 2019**	December 31, 2018
Long-term indebtedness	3,375.2	1,449.0
Short-term indebtedness	4,243.8	3,157.9
Long-term derivative instruments and interest-bearing investments	-54.0	-32.4
Short-term derivative instruments and interest-bearing investments	-151.5	-151.8
Cash and cash equivalents	-3,341.8	-2,761.4
Net indebtedness	**4,071.7**	**1,661.3**

Reconciliation of change in net indebtedness

€ millions	**2019**	2018
Change in net indebtedness due to the first-time adoption of IFRS 16, *Leases*	1,730.1	n. a.
Net indebtedness at the beginning of the reporting period	**3,391.4**	**2,047.6**
Cash flow arising from operating activities	4,414.4	4,977.2
Cash flow arising from investing activities	-3,652.7	-3,626.2
Cash flow before financing activities (free cash flow)	**761.7**	**1,351.0**
Dividends paid	-950.0	-900.0
Dividends paid to and cash changes from equity transactions with non-controlling interests	-32.5	-45.4
Non-cash changes	-339.7	24.9
Other	-93.7	-19.3
Exchange-rate effects	-26.1	-24.9
Change in net indebtedness	**-680.3**	**386.3**
Net indebtedness at the end of the reporting period	**4,071.7**	**1,661.3**

Net Assets Position

› **Equity at €15.9 billion**
› **Equity ratio at 37.3%**
› **Gearing ratio at 25.6%**

Total assets
At €42,568.2 million (PY: €40,445.4 million), total assets as at December 31, 2019, were €2,122.8 million higher than on the same date in the previous year. Goodwill, at €5,113.5 million, was down by €2,119.9 million compared to the previous year's figure of €7,233.4 million. Other intangible assets climbed by €125.5 million to €1,691.8 million (PY: €1,566.3 million). Property, plant and equipment increased by €2,557.2 million to €14,932.7 million (PY: €12,375.5 million). A sum of €1,684.3 million of this resulted from the adoption of IFRS 16, *Leases*. Deferred tax assets were up €710.0 million at €2,174.4 million (PY: €1,464.4 million). Inventories rose by €173.3 million to €4,694.4 million (PY: €4,521.1 million), while trade accounts receivable fell by €146.6 million to €7,711.6 million (PY: €7,858.2 million). Short-term other assets increased by €282.5 million to €1,406.7 million (PY: €1,124.2 million). At €3,341.8 million, cash and cash equivalents were up €580.4 million from €2,761.4 million on the same date in the previous year.

Non-current assets
Non-current assets rose by €1,065.8 million year-on-year to €24,724.5 million (PY: €23,658.7 million). In relation to the individual items of the statement of financial position, this was primarily due to the rise in property, plant and equipment of €2,557.2 million to €14,932.7 million (PY: €12,375.5 million), the €710.0 million increase in deferred tax assets to €2,174.4 million (PY: €1,464.4 million), the €125.5 million rise in other intangible assets to €1,691.8 million (PY: €1,566.3 million), the €2,119.9 million reduction in goodwill to €5,113.5 million (PY: €7,233.4 million) and the €247.2 million decrease in investments in equity-accounted investees to €397.7 million (PY: €644.9 million).

Current assets
Short-term assets increased by €1,057.0 million to €17,843.7 million (PY: €16,786.7 million). In the year under review, inventories rose by €173.3 million to €4,694.4 million (PY: €4,521.1 million), while trade accounts receivable fell by €146.6 million to €7,711.6 million (PY: €7,858.2 million). Cash and cash equivalents increased by €580.4 million to €3,341.8 million (PY: €2,761.4 million).

Equity
Equity was €2,457.6 million lower than in the previous year at €15,875.7 million (PY: €18,333.3 million). This was due primarily to the decline in retained earnings of €2,175.1 million. The gearing ratio worsened from 9.1% to 25.6%. The equity ratio fell to 37.3% (PY: 45.3%). The adoption of IFRS 16, *Leases*, contributed significantly to the decline.

Non-current liabilities
At €9,821.4 million, non-current liabilities were up €3,423.2 million from €6,398.2 million in the previous year. This was mainly attributable to the €1,926.2 million increase in long-term indebtedness to €3,375.2 million (PY: €1,449.0 million), the €999.3 million rise in long-term employee benefits to €5,406.3 million (PY: 4,407.0 million) and the €502.4 million increase in long-term provisions for other risks and obligations to €666.1 million (PY: €163.7 million). The change in long-term indebtedness was due to various effects. As a result, the IFRS 16 standard, *Leases*, the application of which has been mandatory since January 1, 2019, resulted in the recognition of all leases in the statement of financial position and thus an increase in lease liabilities. The long-term share amounted to €1,396.7 million on December 31, 2019 (PY: €9.9 million). Long-term indebtedness was also increased by the issuance of the promissory note bank loans at the end of April 2019 with a total volume of €500.0 million and terms of three or five years.

Current liabilities
At €16,871.1 million, current liabilities were up €1,157.2 million from €15,713.9 million in the previous year. Short-term indebtedness increased by €1,085.9 million to €4,243.8 million (PY: €3,157.9 million) and short-term provisions for other risks and obligations by €195.5 million to €1,261.6 million (PY: €1,066.1 million). By contrast, trade accounts payable decreased by €414.6 million to €7,111.0 million (PY: €7,525.6 million) and short-term employee benefits by €85.5 million to €1,368.7 million (PY: €1,454.2 million).

Operating assets
Operating assets increased by €237.3 million year-on-year to €23,991.0 million (PY: €23,753.7 million) as at December 31, 2019.

Total working capital was up €435.6 million at €5,513.2 million (PY: €5,077.6 million). This development was due to the €414.6 million decrease in operating liabilities to €7,111.0 million (PY: €7,525.6 million) and the €152.3 million decline in operating receivables to €7,929.8 million (PY: €8,082.1 million). Inventories also increased by €173.3 million to €4,694.4 million (PY: €4,521.1 million).

Non-current operating assets were up €313.1 million year-on-year at €22,445.1 million (PY: €22,132.0 million). Goodwill decreased by €2,119.9 million to €5,113.5 million (PY: €7,233.4 million). This change resulted primarily from impairment losses of €2,293.5 million, which were countered by additions of €137.1 million and exchange-rate effects of €36.4 million. Property, plant and equipment increased by €2,557.2 million to €14,932.7 million (PY: €12,375.5 million) due to investing activities. A sum of €1,684.3 million of this resulted from the adoption of IFRS 16, *Leases*. Other intangible assets climbed by €125.5 million to €1,691.8 million (PY: €1,566.3 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €182.5 million (PY: €173.0 million) reduced the value of intangible assets.

The acquisition of 100% of the shares in Kathrein Automotive GmbH, Hildesheim, Germany, contributed €172.8 million to the increase in the Interior division's operating assets.

Operating assets rose in the Tire division by a total of €20.6 million, with €20.4 million of this coming from several asset deals, two share deals and one purchase price adjustment, and €0.2 million from a reversal of a purchase price liability.

Two asset deals and two share deals contributed €337.8 million to an increase in the ContiTech division's operating assets.

The increase mainly resulted from the acquisition of the anti-vibration systems business of Cooper-Standard Automotive Inc., Novi, Michigan, U.S.A., and the acquisition of Merlett Tecnoplastic S.p.A., Daverio, Italy.

Other changes in the scope of consolidation did not result in any notable additions to or disposal of operating assets at corporation level.

Exchange-rate effects increased the corporation's total operating assets by €284.2 million (PY: €61.7 million).

Average operating assets rose by €2,538.0 million to €26,178.5 million as compared to the previous year (€23,640.5 million).

Consolidated statement of financial position

Assets in € millions	**December 31, 2019**	December 31, 2018
Goodwill	5,113.5	7,233.4
Other intangible assets	1,691.8	1,566.3
Property, plant and equipment	14,932.7	12,375.5
Investments in equity-accounted investees	397.7	644.9
Long-term miscellaneous assets	2,588.8	1,838.6
Non-current assets	**24,724.5**	**23,658.7**
Inventories	4,694.4	4,521.1
Trade accounts receivable[1]	7,711.6	7,858.2
Short-term miscellaneous assets[1]	2,095.9	1,646.0
Cash and cash equivalents	3,341.8	2,761.4
Current assets	**17,843.7**	**16,786.7**
Total assets	**42,568.2**	**40,445.4**

Equity and liabilities in € millions	**December 31, 2019**	December 31, 2018
Total equity	**15,875.7**	**18,333.3**
Non-current liabilities	**9,821.4**	**6,398.2**
Trade accounts payable[1]	7,111.0	7,525.6
Short-term other provisions and liabilities[1]	9,760.1	8,188.3
Current liabilities	**16,871.1**	**15,713.9**
Total equity and liabilities	**42,568.2**	**40,445.4**
Net indebtedness	**4,071.7**	**1,661.3**
Gearing ratio in %	**25.6**	**9.1**

IFRS 16, Leases, was adopted on and has been applied since January 1, 2019. It is applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some figures are not comparable with the prior-year period.

1 To increase transparency, receivables from and liabilities to related parties have been reclassified from changes in other assets and liabilities to changes from trade accounts receivable and payable, beginning in the 2019 fiscal year. The figures from the comparative period have been adjusted accordingly.

Reconciliation to operating assets in 2019

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Total assets	**7,355.0**	**6,026.6**	**7,471.0**	**10,077.9**	**4,784.0**	**6,853.7**	**42,568.2**
Cash and cash equivalents	–	–	–	–	–	3,341.8	3,341.8
Short- and long-term derivative instruments, interest-bearing investments	–	–	–	–	–	205.5	205.5
Other financial assets	9.6	13.1	23.1	17.6	7.6	18.7	89.7
Less financial assets	**9.6**	**13.1**	**23.1**	**17.6**	**7.6**	**3,566.0**	**3,637.0**
Less other non-operating assets	**-33.8**	**-50.1**	**-73.7**	**-13.6**	**-0.4**	**710.8**	**539.2**
Deferred tax assets	–	–	–	–	–	2,174.4	2,174.4
Income tax receivables	–	–	–	–	–	240.5	240.5
Less income tax assets	**–**	**–**	**–**	**–**	**–**	**2,414.9**	**2,414.9**
Segment assets	**7,379.2**	**6,063.6**	**7,521.6**	**10,073.9**	**4,776.8**	**162.0**	**35,977.1**
Total liabilities and provisions	**4,145.5**	**3,579.6**	**3,786.7**	**3,399.9**	**1,972.9**	**9,807.9**	**26,692.5**
Short- and long-term indebtedness	–	–	–	–	–	7,619.0	7,619.0
Interest payable and other financial liabilities	–	–	–	–	–	25.1	25.1
Less financial liabilities	**–**	**–**	**–**	**–**	**–**	**7,644.1**	**7,644.1**
Deferred tax liabilities	–	–	–	–	–	305.4	305.4
Income tax payables	–	–	–	–	–	938.6	938.6
Less income tax liabilities	**–**	**–**	**–**	**–**	**–**	**1,244.0**	**1,244.0**
Less other non-operating liabilities	**1,483.1**	**863.3**	**1,022.3**	**881.2**	**687.4**	**881.0**	**5,818.3**
Segment liabilities	**2,662.4**	**2,716.3**	**2,764.4**	**2,518.7**	**1,285.5**	**38.8**	**11,986.1**
Operating assets	**4,716.8**	**3,347.3**	**4,757.2**	**7,555.2**	**3,491.3**	**123.2**	**23,991.0**

Reconciliation to operating assets in 2018

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Total assets	**7,668.6**	**5,797.3**	**8,313.9**	**9,083.9**	**4,412.5**	**5,169.2**	**40,445.4**
Cash and cash equivalents	–	–	–	–	–	2,761.4	2,761.4
Short- and long-term derivative instruments, interest-bearing investments	–	–	–	–	–	184.2	184.2
Other financial assets	9.9	20.4	14.5	20.1	5.9	4.1	74.9
Less financial assets	**9.9**	**20.4**	**14.5**	**20.1**	**5.9**	**2,949.7**	**3,020.5**
Less other non-operating assets	**-41.4**	**-53.6**	**-90.0**	**-25.8**	**14.8**	**470.5**	**274.5**
Deferred tax assets	–	–	–	–	–	1,464.4	1,464.4
Income tax receivables	–	–	–	–	–	208.2	208.2
Less income tax assets	**–**	**–**	**–**	**–**	**–**	**1,672.6**	**1,672.6**
Segment assets	**7,700.1**	**5,830.5**	**8,389.4**	**9,089.6**	**4,391.8**	**76.4**	**35,477.8**
Total liabilities and provisions	**3,856.1**	**3,131.0**	**3,283.8**	**3,433.9**	**1,822.3**	**6,585.0**	**22,112.1**
Short- and long-term indebtedness	–	–	–	–	–	4,606.9	4,606.9
Interest payable and other financial liabilities	–	–	–	–	–	75.8	75.8
Less financial liabilities	**–**	**–**	**–**	**–**	**–**	**4,682.7**	**4,682.7**
Deferred tax liabilities	–	–	–	–	–	315.7	315.7
Income tax payables	–	–	–	–	–	750.7	750.7
Less income tax liabilities	**–**	**–**	**–**	**–**	**–**	**1,066.4**	**1,066.4**
Less other non-operating liabilities	**1,146.5**	**858.2**	**682.5**	**779.6**	**551.4**	**620.7**	**4,638.9**
Segment liabilities	**2,709.6**	**2,272.8**	**2,601.3**	**2,654.3**	**1,270.9**	**215.2**	**11,724.1**
Operating assets	**4,990.5**	**3,557.7**	**5,788.1**	**6,435.3**	**3,120.9**	**-138.8**	**23,753.7**

Automotive Group

Automotive Group in € millions	2019	2018	Δ in %
Sales	26,523.3	26,855.8	-1.2
EBITDA	1,920.2	3,177.1	-39.6
in % of sales	7.2	11.8	
EBIT	-2,107.7	1,890.4	-211.5
in % of sales	-7.9	7.0	
Research and development expenses (net)	2,902.0	2,760.5	5.1
in % of sales	10.9	10.3	
Depreciation and amortization[1]	4,027.9	1,286.7	213.0
thereof impairment[2]	2,475.1	19.2	
Operating assets as at December 31	12,821.3	14,336.3	-10.6
Operating assets (average)	14,826.4	14,095.6	5.2
ROCE	-14.2	13.4	
Capital expenditure[3]	2,062.0	2,019.1	2.1
in % of sales	7.8	7.5	
Number of employees as at December 31[4]	138,295	140,016	-1.2
Adjusted sales[5]	26,376.3	26,833.4	-1.7
Adjusted operating result (adjusted EBIT)[6]	1,166.3	1,868.6	-37.6
in % of adjusted sales	4.4	7.0	

1 Excluding impairment on financial investments.
2 Impairment also includes necessary reversal of impairment losses.
3 Capital expenditure on property, plant and equipment, and software.
4 Excluding trainees.
5 Before changes in the scope of consolidation.
6 Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

The Automotive Group comprises three divisions:

› The **Chassis & Safety** division (21% of consolidated sales) integrates safety technologies and controls vehicle dynamics to enable safe, easy driving.

› The **Powertrain** division (18% of consolidated sales) offers efficient and clean vehicle drive systems. It focuses on intelligent systems and components for the electrification of vehicles, as well as on electronic control units, sensors, actuators and exhaust-gas after-treatment solutions.

› The **Interior** division (21% of consolidated sales) develops components and end-to-end systems for connected mobility – hardware, software and services – across the strategic pillars of networking, information and integration.

The 11 business units in total generated 60% of consolidated sales in the year under review.

Key raw materials for the Automotive Group are steel, aluminum, plastics, copper and precious metals. One point of focus when it comes to purchasing materials and semi-finished products is electronics and electromechanical components, which together make up roughly 43% of the corporation's purchasing volume for production material.

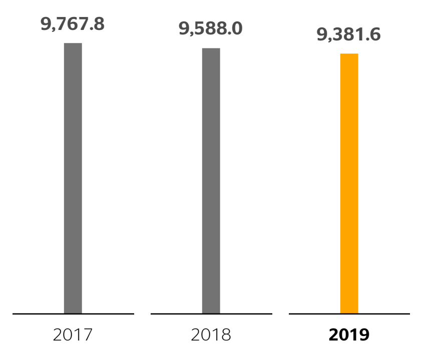
Development of the Chassis & Safety Division

- Sales down 2.2%
- Sales down 4.2% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT down 13.9%

Sales volumes
In the Vehicle Dynamics business unit, the number of electronic brake systems sold in 2019 was markedly lower than the previous year's level. In the Hydraulic Brake Systems business unit, sales figures for brake boosters were also down significantly year-on-year. Sales of brake calipers with integrated electric parking brakes increased year-on-year, partly compensating for the considerable decline in sales figures for conventional brake calipers. In the Passive Safety & Sensorics business unit, the sales volume of air-bag control units decreased year-on-year. Unit sales of advanced driver assistance systems were up substantially year-on-year.

Sales down 2.2%
Sales down 4.2% before changes in the scope of consolidation and exchange-rate effects
Sales in the Chassis & Safety division declined by 2.2% year-on-year to €9,381.6 million (PY: €9,588.0 million) in 2019. Before changes in the scope of consolidation and exchange-rate effects, sales declined by 4.2%.

Sales € millions



Adjusted EBIT down 13.9%
The Chassis & Safety division's adjusted EBIT declined by €109.4 million or 13.9% year-on-year in 2019 to €675.9 million (PY: €785.3 million), equivalent to 7.2% (PY: 8.2%) of adjusted sales.

EBIT down 115.4%
In comparison to the previous year, the Chassis & Safety division posted a decrease in EBIT of €902.8 million, or 115.4%, to -€120.3 million (PY: €782.5 million) in 2019. The return on sales fell to -1.3% (PY: 8.2%).

Please see our comments on pages 61 and 62 regarding the special effects for 2019 and 2018.

ROCE amounted to -2.3% (PY: 16.0%).

Procurement
The procurement market for Chassis & Safety was stable overall in 2019. Price developments on the raw material markets painted a mixed picture. The markets fell overall, however, as a result of the global economic slowdown. In particular in the area of industrial metals (primary aluminum) and flat steels as well as steel scrap, prices fell due to overcapacities on the market. Demand for electronic components within the division rose due to the above-average business growth in the Advanced Driver Assistance Systems business unit. Overall, the quality level for purchased parts was further improved.

Research and development
Research and development expenses (net) rose by €25.5 million or 2.5% year-on-year to €1,048.7 million (PY: €1,023.2 million), corresponding to 11.2% (PY: 10.7%) of sales.

Depreciation and amortization
Depreciation and amortization rose by €834.8 million compared to fiscal 2018 to €1,265.6 million (PY: €430.8 million) and amounted to 13.5% (PY: 4.5%) of sales. This included impairment totaling €750.0 million in 2019 (PY: €1.5 million).

Operating assets
Operating assets in the Chassis & Safety division fell by €273.7 million year-on-year to €4,716.8 million (PY: €4,990.5 million) as at December 31, 2019.

Working capital was down €18.4 million at €505.8 million (PY: €524.2 million). This change was chiefly attributable to the €88.2 million decline in operating receivables to €1,614.2 million (PY: €1,702.4 million) and the €69.5 million decrease in operating liabilities to €1,722.9 million (PY: €1,792.4 million), in contrast to a €0.3 million rise in inventories to €614.5 million (PY: €614.2 million).

Non-current operating assets were down €235.4 million year-on-year at €5,032.2 million (PY: €5,267.6 million). Goodwill decreased by €715.5 million to €1,928.5 million (PY: €2,644.0 million), with €719.8 million of this decrease resulting from impairment of goodwill and €2.0 million from a subsequent purchase price adjustment.

Chassis & Safety in € millions	2019	2018	Δ in %
Sales	9,381.6	9,588.0	-2.2
EBITDA	1,145.3	1,213.3	-5.6
in % of sales	12.2	12.7	
EBIT	-120.3	782.5	-115.4
in % of sales	-1.3	8.2	
Research and development expenses (net)	1,048.7	1,023.2	2.5
in % of sales	11.2	10.7	
Depreciation and amortization[1]	1,265.6	430.8	193.8
thereof impairment[2]	750.0	1.5	
Operating assets as at December 31	4,716.8	4,990.5	-5.5
Operating assets (average)	5,159.9	4,887.1	5.6
ROCE	-2.3	16.0	
Capital expenditure[3]	720.6	749.7	-3.9
in % of sales	7.7	7.8	
Number of employees as at December 31[4]	48,434	49,509	-2.2
Adjusted sales[5]	9,381.6	9,588.0	-2.2
Adjusted operating result (adjusted EBIT)[6]	675.9	785.3	-13.9
in % of adjusted sales	7.2	8.2	

1 Excluding impairment on financial investments.
2 Impairment also includes necessary reversal of impairment losses.
3 Capital expenditure on property, plant and equipment, and software.
4 Excluding trainees.
5 Before changes in the scope of consolidation.
6 Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

This was countered by exchange-rate effects of €6.3 million. Property, plant and equipment increased by €453.8 million to €2,867.1 million (PY: €2,413.3 million) due to investing activities. Other intangible assets climbed by €25.5 million to €102.7 million (PY: €77.2 million).

Operating assets in the Chassis & Safety division changed by €3.2 million as a result of a reversal of a purchase price liability and by -€2.0 million following a subsequent purchase price adjustment.

Exchange-rate effects increased the Chassis & Safety division's total operating assets by €37.9 million in the fiscal year (PY: €30.3 million).

Average operating assets in the Chassis & Safety division climbed by €272.8 million to €5,159.9 million as compared to fiscal 2018 (€4,887.1 million).

Capital expenditure (additions)
Additions to the Chassis & Safety division fell by €29.1 million year-on-year to €720.6 million (PY: €749.7 million). Capital expenditure amounted to 7.7% (PY: 7.8%) of sales.

In addition to increasing production capacity in Europe, production facilities were also expanded in Asia and North America. The production capacities of all business units were hereby increased. Important additions related to the creation of new production facilities for electronic brake systems.

Employees
The number of employees in the Chassis & Safety division fell by 1,075 to 48,434 (PY: 49,509). This was due to the adjustment to lower production volumes. Research and development was further expanded, however, particularly in the Advanced Driver Assistance Systems business unit.

Development of the Powertrain Division

- Sales up 0.8%
- Sales down 2.5% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT down 74.1%

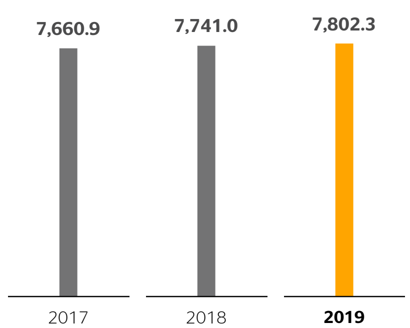
Sales volumes

In the Engine & Drivetrain Systems business unit, sales volumes of engine control units and turbochargers increased in fiscal 2019, while those of pumps stagnated at the previous year's level. Sales volumes of injectors and transmission control units were down year-on-year. In the Hybrid Electric Vehicle business unit, sales volumes of power electronics and 48-volt drive systems were up year-on-year, whereas the sales volume of power stabilization products and battery systems fell year-on-year. In the Powertrain Components business unit, sales volumes of exhaust-gas sensors and SCR systems rose as a result of emissions legislation. Sales volumes of fuel delivery modules, mechatronic sensors for combustion engines and catalytic converters were down year-on-year.

Sales up 0.8%
Sales down 2.5% before changes in the scope of consolidation and exchange-rate effects

Sales in the Powertrain division rose by 0.8% year-on-year to €7,802.3 million (PY: €7,741.0 million) in 2019. Before changes in the scope of consolidation and exchange-rate effects, sales declined by 2.5%.

Sales € millions



Adjusted EBIT down 74.1%

The Powertrain division's adjusted EBIT was down by €163.1 million or 74.1% year-on-year in 2019 to €57.0 million (PY: €220.1 million), equivalent to 0.7% (PY: 2.8%) of adjusted sales.

EBIT down 652.7%

In comparison to the previous year, the Powertrain division posted a decline in EBIT of €781.9 million, or 652.7%, to -€662.1 million (PY: €119.8 million) in 2019. The return on sales fell to -8.5% (PY: 1.5%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €10.7 million (PY: €11.4 million).

Please see our comments on pages 61 and 62 regarding the special effects for 2019 and 2018.

ROCE amounted to -16.9% (PY: 3.3%).

Procurement

In contrast to the previous year, few shortages were posted on the procurement market in 2019. In the raw materials sector, price developments painted an extremely mixed picture. Prices for steel long products and recycled aluminum (secondary aluminum) thus came under pressure, for example as a result of the diminishing demand for cars. A significant rise was recorded in the same period for precious metals (gold and palladium). The reasons for this were the massive demand for gold due to geopolitical tensions and an ever increasing supply deficit for palladium, which is primarily used in catalytic converters for gasoline engines. The procurement cooperation with the Schaeffler Group was again successfully continued.

Research and development

Research and development expenses (net) fell by €8.5 million or 1.3% year-on-year to €664.1 million (PY: €672.6 million), corresponding to 8.5% (PY: 8.7%) of sales.

Depreciation and amortization

Depreciation and amortization rose by €399.8 million compared to fiscal 2018 to €854.6 million (PY: €454.8 million) and amounted to 11.0% (PY: 5.9%) of sales. This included impairment totaling €351.9 million in 2019 (PY: €19.3 million).

Operating assets

Operating assets in the Powertrain division decreased by €210.4 million year-on-year to €3,347.3 million (PY: €3,557.7 million) as at December 31, 2019.

Working capital was up €240.8 million at €619.7 million (PY: €378.9 million). Inventories increased by €57.0 million to €632.4 million (PY: €575.4 million). Operating receivables rose by €54.5 million to €1,441.5 million (PY: €1,387.0 million) as at the reporting date. Total operating liabilities were down €129.3 million at €1,454.2 million (PY: €1,583.5 million).

Powertrain in € millions	2019	2018	Δ in %
Sales	7,802.3	7,741.0	0.8
EBITDA	192.5	574.6	–66.5
in % of sales	2.5	7.4	
EBIT	–662.1	119.8	–652.7
in % of sales	–8.5	1.5	
Research and development expenses (net)	664.1	672.6	–1.3
in % of sales	8.5	8.7	
Depreciation and amortization[1]	854.6	454.8	87.9
thereof impairment[2]	351.9	19.3	
Operating assets as at December 31	3,347.3	3,557.7	–5.9
Operating assets (average)	3,906.3	3,582.2	9.0
ROCE	–16.9	3.3	
Capital expenditure[3]	657.7	691.0	–4.8
in % of sales	8.4	8.9	
Number of employees as at December 31[4]	41,744	42,601	–2.0
Adjusted sales[5]	7,802.3	7,888.0	–1.1
Adjusted operating result (adjusted EBIT)[6]	57.0	220.1	–74.1
in % of adjusted sales	0.7	2.8	

1 Excluding impairment on financial investments.
2 Impairment also includes necessary reversal of impairment losses.
3 Capital expenditure on property, plant and equipment, and software.
4 Excluding trainees.
5 Before changes in the scope of consolidation.
6 Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Non-current operating assets were up €98.8 million year-on-year at €3,835.7 million (PY: €3,736.9 million). Goodwill fell to €805.7 million (PY: €993.9 million), with €223.5 million of this decrease resulting from impairment of goodwill. This was countered by exchange-rate effects of €3.8 million. At €2,743.3 million, property, plant and equipment was €287.2 million above the previous year's level of €2,456.1 million. Other intangible assets decreased by €11.9 million to €179.8 million (PY: €191.7 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €10.7 million (PY: €11.4 million) reduced the value of intangible assets.

Exchange-rate effects increased the Powertrain division's total operating assets by €25.9 million in the fiscal year (PY: €19.0 million).

Average operating assets in the Powertrain division climbed by €324.1 million to €3,906.3 million as compared to fiscal 2018 (€3,582.2 million).

Capital expenditure (additions)

Additions to the Powertrain division decreased by €33.3 million year-on-year to €657.7 million (PY: €691.0 million). Capital expenditure amounted to 8.4% (PY: 8.9%) of sales.

Production capacity in the Powertrain division was increased at the German locations and in China, Hungary, the U.S.A., Romania and Czechia. Production capacity was hereby increased for all business units. Important additions related to the construction of new plants in Debrecen, Hungary, and Pune, India.

Employees

The number of employees in the Powertrain division fell by 857 compared with the previous year to 41,744 (PY: 42,601). This was due to the adjustment to lower production volumes and optimizations in the production unit.

Development of the Interior Division

› Sales down 1.2%
› Sales down 2.5% before changes in the scope of consolidation and exchange-rate effects
› Adjusted EBIT down 49.8%

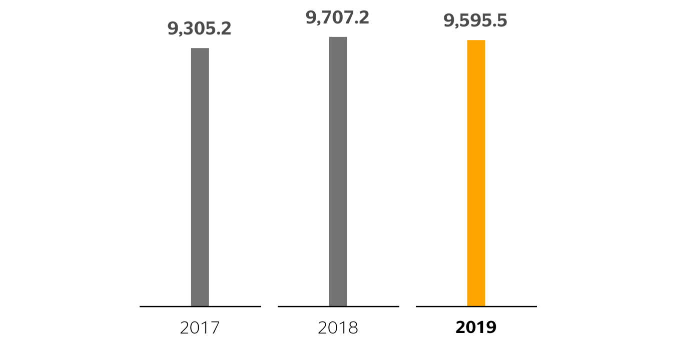
Sales volumes

Sales volumes in the Body & Security business unit were slightly above the previous year's level in fiscal 2019. This increase was due to the integration of the new Intelligent Antenna Systems business area in February 2019. The decline in sales volumes was more than offset in all regions as a result. Sales figures in the Infotainment & Connectivity business unit considerably exceeded the previous year's figure. The growth was posted in particular in the connectivity area. Sales volumes in the Commercial Vehicles & Aftermarket business unit were below the previous year's level overall. While commercial-vehicles business posted a slight increase, replacement-parts and aftermarket business fell short of the previous year's figures due to the transfer of parts of this business to the Powertrain division. In the Instrumentation & Driver HMI business unit, sales volumes in 2019 were lower than in the same period of the previous year. This development is primarily attributable to the weak Chinese market.

Sales down 1.2%
Sales down 2.5% before changes in the scope of consolidation and exchange-rate effects

Sales in the Interior division fell by 1.2% year-on-year to €9,595.5 million (PY: €9,707.2 million) in 2019. Before changes in the scope of consolidation and exchange-rate effects, sales declined by 2.5%.

Sales € millions



Adjusted EBIT down 49.8%

The Interior division's adjusted EBIT decreased by €429.8 million or 49.8% year-on-year in 2019 to €433.4 million (PY: €863.2 million), equivalent to 4.6% (PY: 9.0%) of adjusted sales.

EBIT down 234.1%

In comparison to the previous year, the Interior division posted a decline in EBIT of €2,313.4 million, or 234.1%, to -€1,325.3 million (PY: €988.1 million) in 2019. The return on sales fell to -13.8% (PY: 10.2%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €57.2 million (PY: €51.1 million).

Please see our comments on pages 61 and 62 regarding the special effects for 2019 and 2018.

ROCE amounted to -23.0% (PY: 17.6%).

Procurement

In 2019, the allocation of specific components by suppliers, which had put a significant strain on the supply situation in the two previous years, was ended. The security of supply was ensured. In the interests of active risk management, the process of nominating alternative supply options for key components was further advanced. The percentage of electronic components continued to increase. Overall, the quality level for supplier parts was increased further.

Research and development

Research and development expenses (net) rose by €124.5 million or 11.7% year-on-year to €1,189.2 million (PY: €1,064.7 million), corresponding to 12.4% (PY: 11.0%) of sales.

Depreciation and amortization

Depreciation and amortization rose by €1,506.6 million compared to fiscal 2018 to €1,907.7 million (PY: €401.1 million) and amounted to 19.9% (PY: 4.1%) of sales. This included impairment totaling €1,373.2 million in 2019 (PY: reversal of impairment losses of €1.6 million).

Operating assets

Operating assets in the Interior division fell by €1,030.9 million year-on-year to €4,757.2 million (PY: €5,788.1 million) as at December 31, 2019.

Working capital was down €38.7 million at €686.5 million (PY: €725.2 million). Inventories decreased by €14.7 million to €867.6 million (PY: €882.3 million). Operating receivables fell by €87.5 million to €1,558.4 million (PY: €1,645.9 million) as at the reporting date. Operating liabilities were down €63.5 million at €1,739.5 million (PY: €1,803.0 million).

Non-current operating assets were down €856.5 million year-on-year at €4,848.5 million (PY: €5,705.0 million). Goodwill fell to €1,388.1 million (PY: €2,709.7 million), with €1,347.9 million of this decrease resulting from impairment of goodwill. This was countered by exchange-rate effects of €18.9 million and a share deal in the amount of €38.9 million. At €2,391.9 million, property, plant and equipment was €609.8 million above the previous year's level

Interior in € millions	2019	2018	Δ in %
Sales	9,595.5	9,707.2	-1.2
EBITDA	582.4	1,389.2	-58.1
in % of sales	6.1	14.3	
EBIT	-1,325.3	988.1	-234.1
in % of sales	-13.8	10.2	
Research and development expenses (net)	1,189.2	1,064.7	11.7
in % of sales	12.4	11.0	
Depreciation and amortization[1]	1,907.7	401.1	375.6
thereof impairment[2]	1,373.2	-1.6	
Operating assets as at December 31	4,757.2	5,788.1	-17.8
Operating assets (average)	5,760.2	5,626.3	2.4
ROCE	-23.0	17.6	
Capital expenditure[3]	683.7	578.4	18.2
in % of sales	7.1	6.0	
Number of employees as at December 31[4]	48,117	47,906	0.4
Adjusted sales[5]	9,448.5	9,566.8	-1.2
Adjusted operating result (adjusted EBIT)[6]	433.4	863.2	-49.8
in % of adjusted sales	4.6	9.0	

1 Excluding impairment on financial investments.
2 Impairment also includes necessary reversal of impairment losses.
3 Capital expenditure on property, plant and equipment, and software.
4 Excluding trainees.
5 Before changes in the scope of consolidation.
6 Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

of €1,782.1 million. Other intangible assets climbed by €127.0 million to €823.2 million (PY: €696.2 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €57.2 million (PY: €51.1 million) reduced the value of intangible assets.

The acquisition of 100% of the shares in Kathrein Automotive GmbH, Hildesheim, Germany, contributed €172.8 million to the increase in the Interior division's operating assets.

Exchange-rate effects increased the Interior division's total operating assets by €67.8 million in the fiscal year (PY: €13.0 million).

Average operating assets in the Interior division climbed by €133.9 million to €5,760.2 million as compared to fiscal 2018 (€5,626.3 million).

Capital expenditure (additions)
Additions to the Interior division rose by €105.3 million year-on-year to €683.7 million (PY: €578.4 million). Capital expenditure amounted to 7.1% (PY: 6.0%) of sales.

In addition to the expansion of production capacity at the German locations, investments were also made in Romania, China, Czechia, Mexico and the U.S.A, among other countries. Investments focused primarily on the expansion of production capacity for the Body & Security and Instrumentation & Driver HMI business units. Important additions related to the construction of new plants in Kaunas, Lithuania, and Aguascalientes, Mexico. In addition, the Instrumentation & Driver HMI business unit expanded its production capacity for operation and display solutions.

Employees
The number of employees in the Interior division rose by 211 to 48,117 (PY: 47,906). The rise in staff numbers as a result of the acquisition of Kathrein Automotive as well as the construction of new production sites in Budapest, Hungary; Kaunas, Lithuania; and Aguascalientes, Mexico, was partially offset by the decline in production volumes, particularly in China.

Rubber Group

Rubber Group in € millions	2019	2018	Δ in %
Sales	18,012.9	17,603.1	2.3
EBITDA	3,168.2	3,196.6	-0.9
in % of sales	17.6	18.2	
EBIT	1,957.5	2,278.3	-14.1
in % of sales	10.9	12.9	
Research and development expenses (net)	462.2	448.5	3.1
in % of sales	2.6	2.5	
Depreciation and amortization[1]	1,210.7	918.3	31.8
thereof impairment[2]	34.8	1.5	
Operating assets as at December 31	11,046.5	9,556.2	15.6
Operating assets (average)	11,317.3	9,618.1	17.7
ROCE	17.3	23.7	
Capital expenditure[3]	1,187.9	1,087.3	9.3
in % of sales	6.6	6.2	
Number of employees as at December 31[4]	102,685	102,763	-0.1
Adjusted sales[5]	17,549.2	17,595.1	-0.3
Adjusted operating result (adjusted EBIT)[6]	2,175.2	2,389.4	-9.0
in % of adjusted sales	12.4	13.6	

1 Excluding impairment on financial investments.
2 Impairment also includes necessary reversal of impairment losses.
3 Capital expenditure on property, plant and equipment, and software.
4 Excluding trainees.
5 Before changes in the scope of consolidation.
6 Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

The Rubber Group comprises two divisions:

- The **Tire** division (26% of consolidated sales) offers the right tires for a broad range of applications – from cars, trucks, buses and specialist vehicles to bicycles and motorcycles. Services for dealers and fleet management as well as digital tire monitoring and management systems are further areas of focus. The aim is to contribute to safe, economical and ecologically efficient mobility.

- The **ContiTech** division (14% of consolidated sales) develops, manufactures and markets products, systems and intelligent components made of rubber, plastic, metal and fabric. They are used in mining, agriculture, railway engineering, machine and plant construction, the automotive industry and other important sectors of the future.

In the year under review, the 13 business units in total generated 40% of consolidated sales.

In the first half of 2019, the Rubber Group faced significantly higher prices for crude oil and natural rubber. A strained situation on the markets for chemicals, textiles and steel resulted in additional price increases. By contrast, the market for butadiene, an input material for synthetic rubber, eased in comparison to the previous year.

Development of the Tire Division

- Sales up 3.3%
- Sales down 0.2% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT down 10.2%

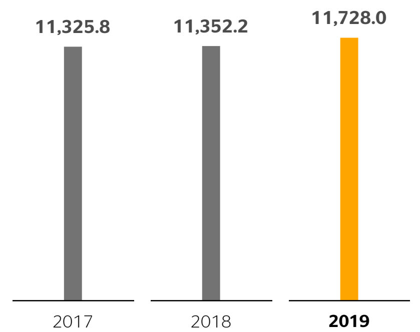
Sales volumes

In 2019, sales figures for passenger and light truck tires were 5% below the previous year's level in original equipment business and on par with the previous year's figure in the tire replacement business. Sales figures in commercial-vehicle tire business were slightly below the level of the previous year. The Tire division therefore sold around 152 million tires in 2019.

Sales up 3.3%
Sales down 0.2% before changes in the scope of consolidation and exchange-rate effects

Sales in the Tire division rose by 3.3% year-on-year to €11,728.0 million (PY: €11,352.2 million) in 2019. Before changes in the scope of consolidation and exchange-rate effects, sales declined by 0.2%.

Sales € millions



Adjusted EBIT down 10.2%

The Tire division's adjusted EBIT fell by €194.3 million or 10.2% year-on-year in 2019 to €1,708.3 million (PY: €1,902.6 million), equivalent to 14.9% (PY: 16.8%) of adjusted sales.

EBIT down 12.2%

In comparison to the previous year, the Tire division posted a decline in EBIT of €230.5 million, or 12.2%, to €1,651.6 million (PY: €1,882.1 million) in 2019. The return on sales fell to 14.1% (PY: 16.6%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €20.0 million (PY: €19.3 million).

Please see our comments on pages 61 and 62 regarding the special effects for 2019 and 2018.

ROCE amounted to 21.2% (PY: 29.1%).

Procurement

Prices for key raw materials rose steadily from the end of the previous year onward. In particular, the prices of raw materials such as natural rubber and crude oil were very volatile because of geopolitical and speculative influences. The increase in the oil price also caused prices for other oil-based input materials such as carbon black to rise. In the second half of 2019, prices for oil and butadiene were quoted much lower again. In the markets for chemicals, textiles and steel, too, the price level progressively declined over the course of the year. The price for butadiene recorded a downward trend throughout the year. Average prices for 2019 as a whole were above the previous year's level, in particular because of currency effects and the time lag between procurement, delivery and deployment.

Research and development

Research and development expenses (net) remained unchanged at €299.4 million (PY: €299.4 million), corresponding to 2.6% of sales as in the previous year.

Depreciation and amortization

Depreciation and amortization rose by €233.0 million compared to fiscal 2018 to €846.1 million (PY: €613.1 million) and amounted to 7.2% (PY: 5.4%) of sales. This included an impairment loss totaling €22.5 million in 2019 (PY: €1.2 million).

Operating assets

Operating assets in the Tire division increased by €1,119.9 million year-on-year to €7,555.2 million (PY: €6,435.3 million) as at December 31, 2019.

Working capital was up €211.6 million at €2,662.6 million (PY: €2,451.0 million). This development was due primarily to the €139.8 million decrease in operating liabilities to €1,356.7 million (PY: €1,496.5 million). Inventories increased by €148.4 million to €1,793.4 million (PY: €1,645.0 million). Operating receivables fell by €76.6 million to €2,225.9 million (PY: €2,302.5 million).

Non-current operating assets were up €878.7 million year-on-year at €5,877.2 million (PY: €4,998.5 million). Goodwill increased by €17.5 million to €409.7 million (PY: €392.2 million). This increase resulted from a purchase price adjustment of €13.3 million, a share deal of €3.0 million and exchange-rate effects of €1.2 million. Property, plant and equipment increased by €900.5 million to €5,187.6 million (PY: €4,287.1 million). Other intangible assets fell by €29.1 million to €116.8 million (PY: €145.9 million), with €10.2 million of this decrease resulting from a purchase price adjustment and €1.5 million from four asset deals and two share deals. This was countered by amortization of intangible assets from purchase price allo-

Tires in € millions	**2019**	2018	Δ in %
Sales	11,728.0	11,352.2	3.3
EBITDA	2,497.7	2,495.2	0.1
in % of sales	21.3	22.0	
EBIT	1,651.6	1,882.1	-12.2
in % of sales	14.1	16.6	
Research and development expenses (net)	299.4	299.4	0.0
in % of sales	2.6	2.6	
Depreciation and amortization[1]	846.1	613.1	38.0
thereof impairment[2]	22.5	1.2	
Operating assets as at December 31	7,555.2	6,435.3	17.4
Operating assets (average)	7,797.5	6,471.2	20.5
ROCE	21.2	29.1	
Capital expenditure[3]	926.2	837.1	10.6
in % of sales	7.9	7.4	
Number of employees as at December 31[4]	56,884	55,840	1.9
Adjusted sales[5]	11,468.7	11,352.2	1.0
Adjusted operating result (adjusted EBIT)[6]	1,708.3	1,902.6	-10.2
in % of adjusted sales	14.9	16.8	

1 Excluding impairment on financial investments.
2 Impairment also includes necessary reversal of impairment losses.
3 Capital expenditure on property, plant and equipment, and software.
4 Excluding trainees.
5 Before changes in the scope of consolidation.
6 Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

cation (PPA) in the amount of €20.0 million (PY: €19.3 million). Operating assets rose in the Tire division by a total of €20.6 million, with €20.4 million of this coming from several asset deals, two share deals and one purchase price adjustment, and €0.2 million from a reversal of a purchase price liability.

Exchange-rate effects increased the Tire division's total operating assets by €120.5 million in the fiscal year (PY: reduction of €14.8 million).

Average operating assets in the Tire division increased by €1,326.3 million to €7,797.5 million compared with fiscal 2018 (€6,471.2 million).

Capital expenditure (additions)

Additions to the Tire division rose by €89.1 million year-on-year to €926.2 million (PY: €837.1 million). Capital expenditure amounted to 7.9% (PY: 7.4%) of sales.

In the Tire division, production capacity was expanded in Europe, North America and Asia. There were major additions relating to the new plant buildings in Clinton, Mississippi, U.S.A., and Rayong, Thailand. Production capacity was also increased at existing plants in Sumter, South Carolina, and Mount Vernon, Illinois, U.S.A.; Otrokovice, Czechia; Púchov, Slovakia; and Lousado, Portugal. Quality assurance and cost-cutting measures were implemented as well.

Employees

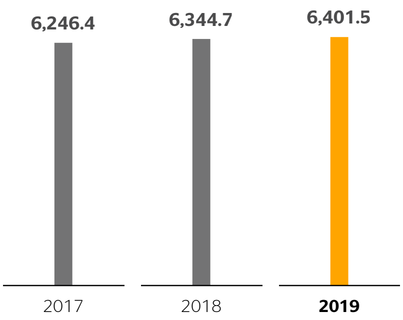
The number of employees in the Tire division increased by 1,044 to 56,884 (PY: 55,840). At the production companies, the adjustment to demand-driven production at the plants in Lousado, Portugal; Timisoara, Romania; Púchov, Slovakia; Rayong, Thailand; Sumter, South Carolina, U.S.A.; and Mount Vernon, Illinois, U.S.A., led to an increase in staff numbers. In addition, the increase in the number of employees at distribution and retail companies was attributable in particular to the acquisition of Reifen John GmbH & Co KG, Salzburg, Austria.

Development of the ContiTech Division

- › Sales up 0.9%
- › Sales down 3.4% before changes in the scope of consolidation and exchange-rate effects
- › Adjusted EBIT down 4.1%

Sales up 0.9%
Sales down 3.4% before changes in the scope of consolidation and exchange-rate effects
Sales in the ContiTech division rose by 0.9% year-on-year to €6,401.5 million (PY: €6,344.7 million) in 2019. Before changes in the scope of consolidation and exchange-rate effects, sales declined by 3.4%. In accordance with the generally subdued market environment in the automotive sector, sales fell short of the previous year. In the industrial business, sales posted slight growth year-on-year.

Sales € millions



Adjusted EBIT down 4.1%
The ContiTech division's adjusted EBIT was down by €19.9 million or 4.1% year-on-year in 2019 to €466.9 million (PY: €486.8 million), equivalent to 7.5% (PY: 7.7%) of adjusted sales.

EBIT down 22.8%
In comparison to the previous year, the ContiTech division posted a decline in EBIT of €90.3 million, or 22.8%, to €305.9 million (PY: €396.2 million) in 2019. The return on sales fell to 4.8% (PY: 6.2%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €94.6 million (PY: €91.2 million).

Please see our comments on pages 61 and 62 regarding the special effects for 2019 and 2018.

ROCE amounted to 8.7% (PY: 12.6%).

Procurement
As a result of rising demand on the raw materials markets, the ContiTech division registered increasing prices for many raw materials in a very volatile environment. In particular, prices for carbon black, other filler materials and textiles were up significantly year-on-year. Overall, average material prices rose year-on-year, partially as a result of exchange-rate effects.

Research and development
Research and development expenses (net) rose by €13.7 million or 9.2% year-on-year to €162.8 million (PY: €149.1 million), corresponding to 2.5% (PY: 2.3%) of sales.

Depreciation and amortization
Depreciation and amortization rose by €59.4 million compared to fiscal 2018 to €364.6 million (PY: €305.2 million) and amounted to 5.7% (PY: 4.8%) of sales. This included impairment totaling €12.3 million in 2019 (PY: €0.3 million).

Operating assets
Operating assets in the ContiTech division increased by €370.4 million year-on-year to €3,491.3 million (PY: €3,120.9 million) as at December 31, 2019.

Working capital was up €35.0 million at €1,092.3 million (PY: €1,057.3 million). Inventories decreased by €17.7 million to €786.5 million (PY: €804.2 million). Operating receivables rose by €45.6 million to €1,089.5 million (PY: €1,043.9 million) as at the reporting date. Operating liabilities fell by €7.1 million to €783.7 million (PY: €790.8 million).

Non-current operating assets were up €357.5 million at €2,750.8 million (PY: €2,393.3 million). Goodwill increased by €87.6 million to €581.3 million (PY: €493.7 million), with €83.8 million of this increase resulting from two asset deals and two share deals and €6.1 million from exchange-rate effects. This was countered by impairment of goodwill of €2.3 million. At €1,653.5 million, property, plant and equipment was €234.4 million above the previous year's level of €1,419.1 million. Other intangible assets climbed by €14.9 million to €468.1 million (PY: €453.2 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €94.6 million (PY: €91.2 million) reduced the value of intangible assets.

Two asset deals and two share deals contributed €337.8 million to an increase in the ContiTech division's operating assets. The increase mainly resulted from the acquisition of the anti-vibration systems business of Cooper-Standard Automotive Inc., Novi, Michigan, U.S.A., and the acquisition of Merlett Tecnoplastic S.p.A., Daverio, Italy.

Exchange-rate effects increased the ContiTech division's total operating assets by €32.5 million in the fiscal year (PY: €15.1 million).

Average operating assets in the ContiTech division climbed by €372.9 million to €3,519.8 million as compared to fiscal 2018 (€3,146.9 million).

ContiTech in € millions	2019	2018	Δ in %
Sales	6,401.5	6,344.7	0.9
EBITDA	670.5	701.4	–4.4
in % of sales	10.5	11.1	
EBIT	305.9	396.2	–22.8
in % of sales	4.8	6.2	
Research and development expenses (net)	162.8	149.1	9.2
in % of sales	2.5	2.3	
Depreciation and amortization[1]	364.6	305.2	19.5
thereof impairment[2]	12.3	0.3	
Operating assets as at December 31	3,491.3	3,120.9	11.9
Operating assets (average)	3,519.8	3,146.9	11.8
ROCE	8.7	12.6	
Capital expenditure[3]	261.7	250.2	4.6
in % of sales	4.1	3.9	
Number of employees as at December 31[4]	45,801	46,923	–2.4
Adjusted sales[5]	6,197.1	6,336.7	–2.2
Adjusted operating result (adjusted EBIT)[6]	466.9	486.8	–4.1
in % of adjusted sales	7.5	7.7	

1 Excluding impairment on financial investments.
2 Impairment also includes necessary reversal of impairment losses.
3 Capital expenditure on property, plant and equipment, and software.
4 Excluding trainees.
5 Before changes in the scope of consolidation.
6 Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Capital expenditure (additions)

Additions to the ContiTech division increased by €11.5 million year-on-year to €261.7 million (PY: €250.2 million). Capital expenditure amounted to 4.1% (PY: 3.9%) of sales.

In the ContiTech division, the production facilities at German locations and in China, the U.S.A., India and Mexico were expanded and established. Production capacity for the Mobile Fluid Systems, Surface Solutions, Power Transmission Group and Conveyor Belt Group business units was expanded in particular. Important additions related to the construction of new plants in Pune, India, and Changshu, China. In addition, investments were made in all business units to rationalize existing production processes.

Employees

The number of employees in the ContiTech division fell by 1,122 to 45,801 (PY: 46,923). This was primarily due to the adjustment to lower production volumes and the implementation of efficiency and structural programs, which were partially offset by the rise in staff numbers through the acquisition of the anti-vibration systems business of Cooper-Standard Automotive Inc., Novi, Michigan, U.S.A., and the acquisition of Merlett Tecnoplastic S.p.A., Daverio, Italy.

Continental AG – Short Version in Accordance with *HGB*

In addition to the reporting on the corporation as a whole, the performance of the parent company is presented separately here.

Unlike the consolidated financial statements, the annual financial statements of Continental AG are prepared in accordance with German commercial law (the German Commercial Code, *Handelsgesetzbuch – HGB)* and the German Stock Corporation Act *(Aktiengesetz – AktG)*. The management report of Continental AG has been combined with the consolidated report of the Continental Corporation in accordance with Section 315 (5) *HGB*, as the parent company's future risks and opportunities and its expected development are inextricably linked to that of the corporation as a whole. In addition, the following presentation of the parent company's business performance, including its results, net assets and financial position, provides a basis for understanding the Executive Board's proposal for the distribution of net income.

Continental AG acts solely as a management and holding company for the Continental Corporation.

Total assets increased by €2,393.9 million year-on-year to €23,427.0 million (PY: €21,033.1 million). On the assets side, the change is due primarily to the €2,027.5 million increase in financial investments, the €499.8 million rise in cash and cash equivalents and the €52.8 million increase in property, plant and equipment. This was countered by a €202.3 million decrease in receivables from affiliated companies to €6,785.4 million (PY: €6,987.7 million). Investments rose by €2,027.5 million year-on-year to €15,481.9 million (PY: €13,454.4 million) and now account for 66.1% of total assets (PY: 64.0%). The increase resulted primarily from further contributions to subsidiaries of €3,050.0 million as part of the transformation of the Powertrain division into an independent legal entity. This was countered by impairment of €1,094.9 million.

Property, plant and equipment increased by €52.8 million year-on-year to €75.0 million (PY: €22.2 million). The increase resulted primarily from the purchase of a parcel of land and the capitalized assets under construction for the construction of the new headquarters in Hanover.

At €67.8 million (PY: €42.8 million), prepaid expenses and deferred charges were up €25.0 million. The increase resulted primarily from expenses in connection with the renegotiated revolving credit line, expenses in connection with the placement of two euro bonds and other prepaid expenses.

Net assets and financial position of Continental AG	December 31, 2019	December 31, 2018
Assets in € millions		
Intangible assets	27.7	19.1
Property, plant and equipment	75.0	22.2
Investments	15,481.9	13,454.4
Non-current assets	**15,584.6**	**13,495.7**
Inventories	–	0.0
Receivables and other assets	6,822.5	7,042.3
Cash and cash equivalents	952.1	452.3
Current assets	**7,774.6**	**7,494.6**
Prepaid expenses and deferred charges	**67.8**	**42.8**
Total assets	**23,427.0**	**21,033.1**
Shareholders' equity and liabilities in € millions		
Subscribed capital	512.0	512.0
Capital reserves	4,179.1	4,179.1
Revenue reserves	54.7	54.7
Accumulated profits brought forward from the previous year	808.5	570.4
Net income	5,047.5	1,188.1
Shareholders' equity	**10,601.8**	**6,504.3**
Provisions	**952.9**	**936.4**
Liabilities	**11,871.5**	**13,591.9**
Deferred income	**0.8**	**0.5**
Total equity and liabilities	**23,427.0**	**21,033.1**
Gearing ratio in %	39.4	94.8
Equity ratio in %	45.3	30.9

On the equity and liabilities side, the change is primarily due to the €4,097.5 million increase in total equity. By contrast, accounts payable fell by €1,720.4 million year-on-year to €11,871.5 million (PY: €13,591.9 million).

Bonds increased by €1,524.3 million year-on-year to €3,732.2 million (PY: €2,207.9 million). This increase is primarily due to the issuance of two euro bonds in September 2019 with a total nominal volume of €1,100.0 million. In addition, two private placements with a total nominal volume of €300.0 million were carried out in October 2019. Short-term commercial paper issuances resulted in a carrying amount of €923.5 million (PY: €800.0 million).

Bank loans and overdrafts increased by €445.9 million to €741.7 million (PY: €295.8 million). This increase is primarily due to promissory note bank loans borrowed in April 2019 with a total volume of €500.0 million.

Trade accounts payable increased by €39.4 million to €100.3 million (PY: €60.9 million). By contrast, liabilities to affiliated companies fell by €3,730.8 million year-on-year to €7,291.6 million (PY: €11,022.4 million).

Provisions rose by €16.5 million year-on-year to €952.9 million (PY: €936.4 million), due to the €21.8 million rise in pension provisions to €232.4 million (PY: €210.6 million) and the €51.1 million increase in restructuring provisions to €675.5 million (PY: €624.4 million). By contrast, other provisions fell by €56.4 million year-on-year to €45.0 million (PY: €101.4 million).

Total equity rose from €6,504.3 million in the previous year to €10,601.8 million. The decrease as a result of the dividend payment for fiscal 2018 in the amount of €950.0 million was offset by the net income of €5,047.5 million generated in fiscal 2019. The equity ratio rose from 30.9% to 45.3% as a result of the increase in total equity.

Sales increased by €39.0 million to €299.4 million (PY: €260.4 million), primarily due to the increase in sales from corporate services.

Net investment income rose by €3,831.3 million year-on-year to €5,294.0 million (PY: €1,462.7 million). As in the previous year, it mainly consisted of profit and loss transfers from the subsidiaries. The income from profit transfers resulted particularly from Continental Caoutchouc-Export-GmbH, Hanover, in the amount of €5,284.6 million, which, through the transfer of profits from CAS-One Holdinggesellschaft mbH, Hanover, received a special dividend from CGH Holding B.V., Maastricht, Netherlands, of €5,100.0 million; Continental Automotive GmbH, Hanover, in the amount of €214.1 million; UMG Beteiligungsgesellschaft mbH, Hanover, in the amount of €88.5 million; and Formpolster GmbH, Hanover, in the amount of €728.8 million. In addition, investment income from Teves AG & Co. OHG, Frankfurt am Main, of €47.8 million was received. This was countered by impairment of €1,094.9 million on the carrying amounts of affiliated companies.

The negative net interest result improved by €33.7 million year-on-year to €31.8 million in fiscal 2019 (PY: €65.5 million). Interest expenses fell by €27.2 million to €80.9 million (PY: €108.1 million), primarily due to the repayment of the euro bond with a nominal value of €750.0 million and an interest rate of 3.0% p.a. on July 16, 2018.

Interest income climbed by €6.5 million year-on-year to €49.1 million (PY: €42.6 million). €5.4 million of this was interest and similar income from affiliated companies, and €1.1 million interest and similar income from other companies.

The tax expense of €59.2 million (PY: tax income of €0.2 million) resulted primarily from current corporation and trade tax for fiscal 2019 as well as from non-imputable foreign withholding tax.

After taking income tax expense into account, Continental AG posted net income for the year of €5,047.5 million (PY: €1,188.1 million). The after-tax return on equity was 47.6% (PY: 18.3%).

Taking into account the accumulated profits brought forward from the previous year of €808.5 million, retained earnings amounted to €5,856.0 million. The Supervisory Board and the Executive Board will propose to the Annual Shareholders' Meeting the distribution of a dividend of €4.00 per share. With 200,005,983 shares entitled to dividends, the total distribution will thus amount to €800,023,932.00. The remaining amount is to be carried forward to new account.

We expect further income from profit and loss transfers and investment income from the subsidiaries within the scope of the holding activities of Continental AG in fiscal 2020. Furthermore, Continental AG will continue to provide a financing function for its subsidiaries.

Earnings position of Continental AG in € millions	2019	2018
Sales	299.4	260.4
Cost of sales	–287.6	–252.9
Gross margin on sales	**11.8**	**7.5**
General administrative expenses	–177.2	–193.7
Other operating income	67.5	25.5
Other operating expenses	–73.4	–59.4
Net investment income	5,294.0	1,462.7
Income from other securities and long-term loans	16.2	11.6
Amortization of investments and of securities under current assets	–0.4	–0.8
Net interest result	–31.8	–65.5
Result from activities	**5,106.7**	**1,187.9**
Income tax expense	–59.2	0.2
Net income	**5,047.5**	**1,188.1**
Accumulated profits brought forward from the previous year	808.5	570.4
Retained earnings	**5,856.0**	**1,758.5**

Other Information
Dependent Company Report

Final declaration from the Executive Board's report on relations with affiliated companies pursuant to Section 312 of the German Stock Corporation Act *(Aktiengesetz – AktG)*
In fiscal 2019, Continental AG was a dependent company of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, as defined under Section 312 *AktG*. In line with Section 312 (1) *AktG*, the Executive Board of Continental AG has prepared a report on relations with affiliated companies, which contains the following final declaration:

"We declare that the company received an appropriate consideration for each transaction and measure listed in the report on relations with affiliated companies from January 1 to December 31, 2019, under the circumstances known to us at the time the transactions were made or the measures taken or not taken. To the extent the company suffered any detriment thereby, the company was granted the right to an appropriate compensation before the end of the 2019 fiscal year. The company did not suffer any detriment because of taking or refraining from measures."

Additional Disclosures and Notes Pursuant to Section 289a and Section 315a *HGB*

1. Composition of subscribed capital
As of the end of the reporting period, the subscribed capital of the company amounted to €512,015,316.48 and is divided into 200,005,983 no-par-value shares. These shares are, without exception, common shares; different classes of shares have not been issued and have not been provided for in the Articles of Incorporation. Each share bears voting and dividend rights from the time it is issued. Each share entitles the holder to one vote at a Shareholders' Meeting (Article 20 (1) of the Articles of Incorporation). There are no shares with privileges.

2. Shareholdings exceeding 10% of voting rights
For details of the equity interests exceeding 10% of the voting rights (reported level of equity interest), please refer to the notice in accordance with the German Securities Trading Act *(Wertpapierhandelsgesetz – WpHG)* under Note 40 to the consolidated financial statements.

3. Bearers of shares with privileges
There are no shares with privileges granting control.

4. Type of voting right control for employee shareholdings
The company is not aware of any employees with shareholdings not directly exercising control of their voting rights.

5. Provisions for the appointment and dismissal of members of the Executive Board and for the amendment of the Articles of Incorporation

a) In accordance with the Articles of Incorporation, the Executive Board consists of at least two members; beyond this the number of members of the Executive Board is determined by the Supervisory Board. Members of the Executive Board are appointed and dismissed in accordance with Section 84 of the German Stock Corporation Act *(Aktiengesetz – AktG)* in conjunction with Section 31 of the German Co-determination Act *(Mitbestimmungsgesetz – MitbestG)*. In line with this, the Supervisory Board is responsible for the appointment and dismissal of members of the Executive Board. It passes decisions with a majority of two-thirds of its members. If this majority is not reached in the event of an appointment, the so-called Mediation Committee must submit a nomination to the Supervisory Board for the appointment within one month of voting. Other nominations can also be submitted to the Supervisory Board in addition to the Mediation Committee's nomination. A simple majority of the votes is sufficient when voting on these nominations submitted to the Supervisory Board. In the event that voting results in a tie, a new vote takes place in which the chairman of the Supervisory Board has the casting vote in accordance with Section 31 (4) *MitbestG*.

b) Amendments to the Articles of Incorporation are made by the Shareholders' Meeting. In Article 20 (3) of the Articles of Incorporation, the Shareholders' Meeting has exercised the option granted in Section 179 (1) Sentence 2 *AktG* to confer on the Supervisory Board the power to make amendments affecting only the wording of the Articles of Incorporation.

   In accordance with Article 20 (2) of the Articles of Incorporation, resolutions of the Shareholders' Meeting to amend the Articles of Incorporation are usually adopted by a simple majority and, insofar as a capital majority is required, by a simple majority of the capital represented unless otherwise stipulated by mandatory law or particular provisions of the Articles of Incorporation. The law prescribes a mandatory majority of three-quarters of the share capital represented when resolutions are made, for example, for amendments to the Articles of Incorporation involving substantial capital measures, such as resolutions concerning the creation of authorized or contingent capital.

6. Authorizations of the Executive Board, particularly with regard to its options for issuing or withdrawing shares

a) The Executive Board can issue new shares only on the basis of resolutions by the Shareholders' Meeting. As at the end of the reporting period, the Executive Board has not been authorized to issue new shares in connection with a capital increase (authorized capital) or to issue convertible bonds, warrant-linked bonds, or other financial instruments that could entitle the bearers to subscribe to new shares.

b) The Executive Board may only buy back shares under the conditions codified in Section 71 *AktG*. The Shareholders' Meeting has not authorized the Executive Board to acquire treasury shares in line with Section 71 (1) No. 8 *AktG*.

7. Material agreements of the company subject to a change of control following a takeover bid and their consequences

The following material agreements are subject to a change of control at Continental AG:

a) The agreement concluded on December 3, 2019, for a syndicated revolving credit facility of €4.0 billion grants each creditor the right to terminate the agreement prematurely and to demand repayment of the loans granted by it if one person or several persons acting in concert acquire control of Continental AG and subsequent negotiations concerning a continuation of the loan do not lead to an agreement. The term "control" is defined as the holding of more than 50% of the voting rights or if Continental AG concludes a domination agreement as defined under Section 291 *AktG* with Continental AG as the company dominated.

b) The bonds issued by Continental AG in September 2013 at a nominal amount of €750 million, the €600-million bond issued by Continental AG in November 2016, the bonds issued by Continental AG in September 2019 at a nominal amount of €500 million and €600 million, and the bonds issued by Continental AG in October 2019 at a nominal amount of €100 million and €200 million entitle each bondholder to demand that the respective issuer redeem or acquire the bonds held by the bondholder at a price established in the bond conditions in the event of a change of control at Continental AG. The bond conditions define a change of control as the sale of all or substantially all of the company's assets to third parties that are not affiliated with the company, or as one person or several persons acting in concert, pursuant to Section 2 (5) of the German Takeover Act *(Wertpapiererwerbs- und Übernahmegesetz – WpÜG)*, holding more than 50% of the voting rights in Continental AG by means of acquisition or as a result of a merger or other form of combination with the participation of Continental AG. For the €750-million bond issued in September 2013, the holding of voting rights by Schaeffler GmbH (operating as IHO Verwaltungs GmbH following legal restructuring within the corporation in 2015), its legal successors, or its affiliated companies does not constitute a change of control within the meaning of the bond conditions.

If a change of control occurs as described in the agreements above and a contractual partner or bondholder exercises its respective rights, it is possible that required follow-up financing may not be approved under the existing conditions, which could therefore lead to higher financing costs.

c) In 1996, Compagnie Financière Michelin SCmA, Granges-Paccot, Switzerland, and Continental AG founded MC Projects B.V., Maastricht, Netherlands, with each owning 50%. Michelin contributed the rights to the Uniroyal brand for Europe to the company. MC Projects B.V. licenses these rights to Continental. According to the agreements, this license can be terminated without notice if a major competitor in the tire business acquires more than 50% of the voting rights of Continental. In this case Michelin also has the right to acquire a majority in MC Projects B.V. and to have MC Projects B.V. increase its minority stake in the manufacturing company of Continental Barum s.r.o. in Otrokovice, Czechia, to 51%. In the case of such a change of control and the exercise of these rights, there could be losses in sales of the Tire division and a reduction in the production capacity available to it.

8. Compensation agreements of the company with members of the Executive Board or employees in the event of a takeover bid

No compensation agreements have been concluded between the company and the members of the Executive Board or employees providing in the event of a takeover bid.

Remuneration of the Executive Board

The total remuneration of the members of the Executive Board comprises a number of remuneration components. Specifically, these components comprise fixed remuneration, variable remuneration elements including components with a long-term incentive effect, additional benefits and retirement benefits. Further details including individual remuneration are specified in the remuneration report contained in the corporate governance report starting on page 23. The remuneration report is a part of the management report.

Corporate Governance Declaration Pursuant to Section 289f *HGB*

The corporate governance declaration pursuant to Section 289f of the German Commercial Code *(Handelsgesetzbuch – HGB)* is available to our shareholders in the Company/Corporate Governance section of Continental's website.

Report on Risks and Opportunities

The overall situation is analyzed and managed corporation-wide using the risk and opportunity management system.

The management of Continental is geared toward creating added value. For us, this means sustainably increasing the value of each individual business unit and the corporation as a whole. We evaluate risks and opportunities responsibly and on an ongoing basis in order to achieve our goal of adding value.

We define risk as the possibility of internal or external events occurring that can have a negative influence on the attainment of our strategic and operational targets. As a global corporation, Continental is exposed to a number of different risks that could impair business and, in extreme cases, endanger the company's existence. We accept manageable risks if the resulting opportunities are expected to result in sustainable growth in value. We consider growth in value in terms of the Continental Value Contribution (CVC) system described in the Corporate Management section.

Risk and Opportunity Management and Internal Control System

In order to operate successfully as a company in a complex business environment and to ensure the effectiveness, efficiency and propriety of accounting and compliance with the relevant legal and sub-legislative regulations, Continental has created a governance system that encompasses all relevant business processes. The governance system comprises the internal control system, the risk management system and the compliance management system, which is described in detail in the corporate governance declaration on page 22. The risk management system in turn also includes the early risk identification system in accordance with Section 91 (2) of the German Stock Corporation Act *(Aktiengesetz – AktG)*.

The Executive Board is responsible for the governance system, which includes all subsidiaries. The Supervisory Board and its Audit Committee monitor its effectiveness.

Pursuant to Sections 289 (4) and 315 (4) of the German Commercial Code *(Handelsgesetzbuch – HGB)*, the main characteristics of the internal control and risk management system with respect to the accounting process must be described. All parts of the risk management system and internal control system that could have a material effect on the annual and consolidated financial statements must be included in the reporting.

Key elements of the corporation-wide control systems are the clear allocation of responsibilities and controls inherent in the system when preparing the financial statements. The two-person rule and separation of functions are fundamental principles of this organization. In addition, Continental's management ensures accounting that complies with the requirements of law via guidelines on the preparation of financial statements and on accounting, access authorizations for IT systems and regulations on the involvement of internal and external specialists.

The effectiveness of the financial reporting internal control system (Financial Reporting ICS) is evaluated in major areas by testing the effectiveness of the reporting units on a quarterly basis. If any weaknesses are identified, the corporation's management initiates the necessary measures.

As part of our opportunity management activities, we assess market and economic analyses and changes in legal requirements (e.g. with regard to fuel consumption and emission standards as well as safety regulations). In addition, we deal with the corresponding effects on the automotive sector and other relevant markets, our production factors and the composition and further development of our product portfolio.

Governance, risk and compliance (GRC)
In the GRC policy adopted by the Executive Board, Continental defines the general conditions for integrated GRC as a key element of the risk management system, which regulates the identification, assessment, reporting and documentation of risks. In addition, this also further increases corporate-wide risk awareness and establishes the framework for a uniform risk culture. The GRC Committee ensures that this policy is adhered to and implemented.

The GRC system incorporates all components of risk reporting and the examination of the effectiveness of the Financial Reporting ICS. Risks are identified, assessed and reported at the organizational level that is also responsible for managing the identified risks. A multi-stage assessment process is used to involve also the higher-level organizational units. The GRC system thus includes all reporting levels, from the company level to the top corporate level.

Risk reporting

At the corporate level, the responsibilities of the GRC Committee – chaired by the Executive Board member responsible for Finance, Controlling, Compliance, Law and IT – include identifying material risks for the corporation. The GRC Committee regularly informs the Executive Board and the Audit Committee of the Supervisory Board of the material risks, any weaknesses in the control system and measures taken. Moreover, the auditor of the corporation is required to report to the Audit Committee of the Supervisory Board regarding any material weaknesses in the Financial Reporting ICS which the auditor identified as part of their audit activities.

Risk assessment and reporting

A period under consideration of one year is always applied when evaluating risks and opportunities. The risks and their effects are assessed primarily according to quantitative criteria and assigned to different categories in line with the net principle, i.e. after risk mitigation measures. If a risk cannot be assessed quantitatively, then it is assessed qualitatively based on the potential negative effects its occurrence would have on achieving strategic corporate goals and based on other qualitative criteria such as the impact on Continental's reputation.

Material individual risks for the corporation are identified from all the reported risks based on the probability of occurrence and the amount of damage that would be caused in the period under consideration. The individual risks that Continental has classified as material and the aggregated risks that have been assigned to risk categories are all described in the report on risks and opportunities, provided the potential negative EBIT effect of an individual risk or the sum of risks included in a category exceeds €100 million in the period under consideration or there is a significant negative impact on the strategic corporate goals.

Local management can utilize various instruments for risk assessment, such as predefined risk categories (e.g. exchange-rate risks, product-liability risks, legal risks) and assessment criteria, a centrally developed function-specific questionnaire as well as the Financial Reporting ICS's process and control descriptions. The key controls in business processes (purchase to pay, order to cash, asset management, HR, IT authorizations and the financial statement closing process) are thus tested with respect to their effectiveness.

All major subsidiaries carry out a semiannual assessment of business-related risks and an annual assessment of compliance risks in the GRC system's IT-aided risk management application. Any quality, legal and compliance cases that have actually occurred are also taken into account when assessing these risks. The quarterly Financial Reporting ICS completes regular GRC reporting.

Furthermore, the GRC Committee identifies and assesses strategic risks, for example as part of a SWOT analysis. Any new material risks arising unexpectedly between regular reporting dates have to be reported immediately and considered by the GRC Committee. This also includes risks identified in the audits by corporate functions.

In addition to the risk analyses carried out by the reporting units as part of integrated GRC, audits are also performed by the Corporate Audit department. Furthermore, the central controlling function analyzes the key figures provided as part of this reporting process at corporation and division level in order to assess the effects of potential risks.

Continental has set up a Compliance & Anti-Corruption Hotline to give employees and third parties outside the corporation the opportunity to report violations of legal regulations, its fundamental values and ethical standards. Information on any kind of potential violations, such as bribery or antitrust behavior, but also accounting manipulations, can be reported anonymously, where permissible by law, via the hotline. Tips received by the hotline are examined, pursued and dealt with fully by Corporate Audit and the Compliance department, as required, with the assistance of other departments.

Risk management

The responsible management initiates suitable countermeasures that are also documented in the GRC system for each risk identified and assessed as material. The GRC Committee monitors and consolidates the identified risks and suitable countermeasures at the corporation level. It regularly reports to the Executive Board and recommends further measures if needed. The Executive Board discusses and resolves the measures, and reports to the Supervisory Board's Audit Committee. The responsible bodies continually monitor the development of all identified risks and the progress of actions initiated. Corporate Audit regularly audits the risk management process, thereby continually monitoring its effectiveness and further development.

Material Risks

The order of the risk categories and individual risks presented within the four risk groups reflects the current assessment of the relative risk exposure for Continental and thus provides an indication of the current significance of these risks. If no quantitative information on the amount of damage is provided, the assessment is carried out on the basis of qualitative criteria. Unless the emphasis is placed on a specific division, the risks apply to all divisions.

Financial Risks

Continental is exposed to risks in connection with its financing agreements and the syndicated loan.

Continental is subject to risks in connection with its financing agreements. Risks arise from the bonds that Continental AG has issued as part of its Debt Issuance Programme. These financing agreements contain covenants that could limit Continental's capacity to take action as well as change-of-control provisions.

In order to finance its current business activities as well as its investments and payment obligations, Continental concluded a new syndicated loan agreement in December 2019 from which risks may arise. Under the terms of the syndicated loan agreement, the lenders have the right to demand repayment of the loan in the event of a change of control at Continental AG.

The requirements for and consequences of a change in control in accordance with the terms of the bonds or the syndicated loan agreement are described in detail in the Additional Disclosures and Notes Pursuant to Section 289a and Section 315a *HGB* section on pages 87 and 88. The loans and bonds cited here could also immediately become due and payable if other financing agreements of more than €75.0 million are not repaid on time or are prematurely called for repayment.

The committed volume of the syndicated loan consists of a revolving tranche of €4.0 billion (due in December 2024). This had not been utilized as at the end of fiscal 2019.

Continental is exposed to risks associated with changes in currency exchange rates and hedging.

Continental operates worldwide and is therefore exposed to financial risks that arise from changes in exchange rates. This could result in losses if assets denominated in currencies with a falling exchange rate lose value and/or liabilities denominated in currencies with a rising exchange rate appreciate. In addition, fluctuations in exchange rates could intensify or reduce fluctuations in the prices of raw materials in euros, as Continental sources a considerable portion of its raw materials in foreign currency. As a result of these factors, fluctuations in exchange rates can influence Continental's earnings situation.

External and internal transactions involving the delivery of products and services to third parties and companies of the Continental Corporation can result in cash inflows and outflows that are denominated in currencies other than the functional currency of the respective subsidiary of the Continental Corporation (transaction risk). To the extent that cash outflows of the respective subsidiary of the Continental Corporation in any one foreign currency are not offset by cash flows resulting from operational business in the same currency, the remaining net exchange-rate risk is hedged against on a case-by-case basis using the appropriate derivative instruments, particularly currency forwards, currency swaps and currency options with a term of up to 12 months.

Moreover, Continental is exposed to exchange-rate risks arising from external and internal loan agreements that result in cash inflows and outflows denominated in currencies other than the functional currency of the respective subsidiary of the Continental Corporation. These exchange-rate risks are in general hedged against by using appropriate derivative instruments, particularly currency forwards, currency swaps and cross-currency interest-rate swaps. Any hedging transactions executed in the form of derivative instruments can result in losses. Continental's net foreign investments are, as a rule, not hedged against exchange-rate fluctuations. In addition, a number of Continental's consolidated companies report their results in currencies other than the euro, which requires Continental to convert the relevant items into euros when preparing Continental's consolidated financial statements (translation risk). Translation risks are generally not hedged.

In order to quantify the possible effects of transaction-related exchange-rate risks from financial instruments on the earnings position of the Continental Corporation, transaction currencies with a significant exchange-rate risk within the next 12 months were identified based on current net exposure. If the exchange rates of these currencies all develop disadvantageously for Continental at the same time, then the hypothetical negative effect on the corporation's earnings position, calculated based on a 10% change in the current closing rate, would amount to between €400 million and €500 million.

Risks Related to the Markets in which Continental Operates

Continental could be exposed to material risks in connection with a global financial and economic crisis.
Continental generates a large percentage (71%) of its sales from automobile manufacturers (original equipment manufacturers, OEMs). The remainder of Continental's sales is generated from the replacement or industrial markets, mainly in the replacement markets for passenger-car and truck tires, and to a lesser extent in the non-automotive end markets of the other divisions.

The automotive markets in Europe and North America, and in particular in China, are currently developing much more weakly than in the past, while also displaying increasing volatility and uncertainty. If this prolonged market weakness continues or is intensified by a general economic downturn, it would likely adversely affect Continental's sales and earnings. In 2019, Continental's five largest OEM customers (Daimler, Fiat-Chrysler, Ford, Renault-Nissan-Mitsubishi and VW) generated approximately 39% of sales. If one or more of Continental's OEM customers is lost or terminates a supply contract prematurely, the original investments made by Continental to provide such products or outstanding claims against such customers could be wholly or partially lost.

Based on a scenario analysis that assumes a decline in the global production of passenger cars and light commercial vehicles to 80 million units in 2020, and taking account restructuring measures required as a result, we anticipate a decline of around 1 percentage point in the adjusted EBIT margin.

Continental operates in a cyclical industry.
Global production of vehicles and, as a result, sales to OEMs (from whom Continental currently generates 71% of its sales) are subjected to major fluctuations in some cases. They depend, among other things, on general economic conditions, disposable income and household consumer spending and preferences, which can be affected by a number of factors, including fuel costs as well as the availability and cost of consumer financing. As the volume of automotive production fluctuates, the demand for Continental's products also fluctuates, as OEMs generally do not commit to purchasing minimum quantities from their suppliers or to fixed prices. It is difficult to predict future developments in the markets Continental serves, which also makes it harder to estimate the requirements for production capacity. As Continental's business is characterized by high fixed costs, it is thus exposed to the risk that fixed costs are not fully covered in the event of falling demand and the resulting underutilization of its facilities (particularly in the Automotive Group). Conversely, should the markets in which Continental operates once again grow faster than anticipated, there could be insufficient capacity to meet customer demand. To reduce the impact of the potential risk resulting from this dependence on the automotive industry, Continental is strengthening its replacement business and industrial business, including by means of acquisitions.

Continental is reliant on certain markets.
In 2019, Continental generated 48% of its total sales in Europe and 19% in Germany alone. By comparison, 26% of Continental's total sales in 2019 were generated in North America, 22% in Asia, and 4% in other countries. Therefore, in the event of an economic downturn in Europe, particularly in Germany, for example, Continental's business and earnings situation could be affected more extensively than that of its competitors. Furthermore, the automotive and tire markets in Europe and North America are largely saturated. To minimize these risks, Continental is striving to improve the regional sales balance, particularly by generating more sales in emerging markets and especially in Asia, as described in the Corporate Strategy section. However, the established markets in Europe and North America as well as the growth markets, particularly in China, are currently developing much more weakly than in the past while also displaying increasing volatility and uncertainty, which makes it more difficult to plan and implement suitable measures to reduce regional market dependencies.

Continental is exposed to risks associated with the market trends and developments that may greatly affect the demand for Continental's products and systems.
Continental currently generates 71% of its sales from OEMs, mainly in its Automotive Group. Global production of vehicles and, as a result, business with OEM customers are currently subject to a number of market trends and technological developments that may greatly affect the mix of products and systems sold by Continental to OEMs.

- Due to increasingly stringent consumption and emission standards throughout the industrial world, including the E.U. and Asia, car manufacturers are increasingly being forced to develop environmentally compatible technologies aimed at lowering fuel consumption as well as CO_2 and particulate emissions. Since emission standards in Europe and other countries will consist of increasingly stringent reduction targets in the future, the number of hybrid vehicles and all-electric vehicles is expected to increase significantly over the next few years. Demand for products and systems for combustion engines is likely to fall as a result.

- The trend toward more electronic and digitalized products may negatively affect demand for established analog/mechanical products and systems.

As a result of the market trends and technological developments described previously, the vehicle mix sold by Continental's customers, as well as the vehicle equipment, has changed considerably in the last few years and may also continue to change in the future. Continental is reacting to this development with a balanced and innovative product portfolio.

Continental could be affected by the consequences of the outbreak of the new coronavirus (SARS-CoV-2).
Due to the spread of the new coronavirus (SARS-CoV-2), Continental is exposed to procurement- as well as sales-related risks. The suspension of production imposed by the Chinese government is affecting Continental's production sites and those of its suppliers and customers in China, and consequently in other countries. This is having an impact on the availability of raw materials and components as well as on our sales volumes. Beyond this, the negative macroeconomic effects of this situation cannot yet be predicted. In spite of risk-minimizing measures, such as switching to alternative sources of supply, Continental's business and earnings situation could be exposed to significant adverse effects if the outbreak cannot be swiftly contained or stemmed to a considerable extent.

Continental is exposed to risks associated with additional or higher tariffs.
Due to the trend toward protectionism and the increase in trade conflicts around the world as well as political developments such as Brexit, Continental sees itself at risk from additional or higher tariffs on automobiles and on the products, components and raw materials it supplies or purchases. These tariffs could cause demand for Continental's products to drop and costs to increase, which would have an adverse effect on Continental's business and earnings situation.

Continental is exposed to fluctuations in the prices of raw materials and electronic components.
For the divisions of the Automotive Group, higher prices for raw materials and electronic components in particular can result in cost increases. The divisions of the Rubber Group mainly depend on the development of oil, natural rubber and synthetic rubber prices. The prices for these raw materials and components are exposed to sometimes considerable fluctuations worldwide. At present, Continental does not actively hedge against the risk of rising prices of electronic components or raw materials by using derivative instruments. If the company is not able to compensate for the increased costs or to pass them on to customers, the price increases could reduce Continental's earnings by €100 million to €200 million.

Risks Related to Continental's Business Operations

Continental is exposed to risks in connection with its pension commitments.
Continental provides defined benefit pension plans in Germany, the U.S.A., the U.K. and certain other countries. As at December 31, 2019, the pension obligations amounted to €7,875.1 million. These existing obligations are financed predominantly through externally invested pension plan assets. In 2006, Continental established legally independent trust funds under contractual trust arrangements (CTAs) for the funding of pension obligations of certain subsidiaries in Germany. In 2007, Continental assumed additional CTAs in connection with the acquisition of Siemens VDO. As at December 31, 2019, Continental's net pension obligations (defined benefit obligations less the fair value of plan assets) amounted to €4,842.2 million.

Continental's externally invested plan assets are funded by externally managed funds and insurance companies. While Continental generally prescribes the investment strategies applied by these funds and takes this into account when selecting external fund managers, it does not have any influence over their individual investment decisions. The assets are invested in different asset classes, including equity, fixed-income securities, real estate and other investment vehicles. The values attributable to the externally invested plan assets are subject to fluctuations in the capital markets that are beyond Continental's influence. Unfavorable developments in the capital markets could result in a substantial coverage shortfall for these pension obligations, resulting in a significant increase in Continental's net pension obligations.

Any such increase in Continental's net pension obligations could adversely affect Continental's financial condition due to an increased additional outflow of funds to finance the pension obligations. Also, Continental is exposed to risks associated with longevity and interest-rate changes in connection with its pension commitments, as an interest-rate decrease could have an adverse effect on Continental's liabilities under these pension plans. Furthermore, certain U.S.-based subsidiaries of Continental have entered into obligations to make contributions to healthcare costs of former employees and retirees. Accordingly, Continental is exposed to the potential risk that these costs may increase in the future.

If the discount rates used to calculate net pension obligations were to decrease by 0.5 percentage points at the end of the year, ceteris paribus, this would lead to a rise in net pension obligations of €800 million to €900 million, which would not be reduced by taking measures to minimize risk. However, this would not affect EBIT.

Continental is exposed to warranty and product liability claims.
Continental is constantly subject to product liability claims and proceedings alleging violations of due care, violation of warranty obligations or material defects, and claims arising from breaches of contract due to recalls or government proceedings. Any such lawsuits, proceedings and other claims could result in increased costs for Continental. Moreover, defective products could result in loss of sales and loss of customer and market acceptance. Such risks are insured up to levels considered economically reasonable by Continental, but its insurance coverage could prove insufficient in individual cases. Additionally, any defect in one of Continental's products (in particular tires and other safety-related products) could also have a considerable adverse effect on the company's reputation and market perception. This could in turn have a negative impact on Continental's sales and income. Moreover, vehicle manufacturers are increasingly requiring a contribution from their suppliers for potential product liability, warranty and recall claims. In addition, Continental has long been subject to continuing efforts by its customers to change contract terms and conditions concerning the contribution to warranty and recall cost. Furthermore, Continental manufactures many products pursuant to OEM customer specifications and quality requirements. If the products manufactured and delivered by Continental do not meet the requirements stipulated by its OEM customers at the agreed date of delivery, production of the relevant products is generally discontinued until the cause of the product defect has been identified and remedied. Under certain circumstances, this could lead to losses of sales and earnings. Furthermore, Continental's OEM customers could potentially claim damages, even if the cause of the defect is remedied at a later point in time. Moreover, failure to fulfill quality requirements could have an adverse effect on the market acceptance of Continental's other products and its market reputation in various market segments.

The quantifiable risks from warranty and product liability claims as at December 31, 2019, taking into account provisions, amounted to between €100 million and €200 million.

Continental depends on a limited number of key suppliers for certain products.
Continental is subject to the potential risk of unavailability of certain raw materials and production materials. Although Continental's general policy is to source input products from a number of different suppliers, single sourcing cannot always be avoided and, consequently, Continental is dependent on certain suppliers in the Rubber Group as well as with respect to certain products manufactured in the Automotive Group. Since Continental's procurement logistics are mostly organized on a just-in-time or just-in-sequence basis, supply delays, cancellations, strikes, insufficient quantities or inadequate quality can lead to interruptions in production and, therefore, have a negative impact on Continental's business operations in these areas. Continental tries to limit these risks by endeavoring to select suppliers carefully and monitor them regularly. However, if one of Continental's suppliers is unable to meet its delivery obligations for any reason (e.g. insolvency, destruction of production plants as a result of natural disasters, or refusal to perform following a change in control), Continental may be unable to source input products from other suppliers on short notice at the required volume. Such developments and events can therefore cause delays in the delivery or completion of Continental products or projects and could result in Continental having to purchase products or services from third parties at higher costs or even to financially support its own suppliers. Furthermore, in many cases OEM customers have approval rights with respect to the suppliers used by Continental, which could make it impossible for Continental to source input products from other suppliers upon short notice if the relevant OEM customer has not already approved other suppliers at an earlier point in time. All of this could lead to order cancellations or even claims for damages. Furthermore, Continental's reputation among OEM customers could suffer, with the possible consequence that they select a different supplier.

Continental could be adversely affected by property loss and business interruption.
Fire, natural hazards, terrorism, power failures or other disturbances at Continental's production facilities or within Continental's supply chain – with customers and with suppliers – can result in severe damage and loss. Such far-reaching negative consequences can also arise from political unrest or instability. The risks arising from business interruption, loss of production, or the financing of facilities are insured up to levels considered economically reasonable by Continental, but its insurance coverage could prove insufficient in individual cases. Furthermore, such events could injure or damage individuals, third-party property or the environment, which could, among other things, lead to considerable financial costs for Continental.

Continental is exposed to information-technology risks.
With regard to its business and production processes, products and its internal and external communication, Continental is highly dependent on centralized and standardized information-technology systems and networks. These systems and networks as well as the products themselves are potentially exposed to the risk of various forms of cybercrime as well as damage and disruption that can have a wide range of other causes. In hacker attacks, third parties could attempt to gain unauthorized access to confidential information and data that is stored, processed or communicated in the systems and networks. In addition, data, products and systems could be blocked, damaged, controlled or destroyed as a result of becoming infected with viruses or malware.

Although Continental has taken appropriate precautions to manage the risks associated with system and network disruptions and corresponding attacks, a prolonged outage in a computer center or telecommunication network or a comparable incident could result in systems or networks becoming unexpectedly unavailable over an extended period. The measures taken to minimize such risks include technical and organizational precautions such as duplicated data storage and contingency plans, as well as suitable training measures that are continuously expanded, particularly to raise awareness of the growing threat from cybercrime.

Should the precautions taken prove insufficient to adequately protect the systems, networks, products and information, Continental could suffer considerable damage and disadvantages as a result of outages or the knowledge and use of its information by third parties.

Continental is exposed to risks in connection with its interest in MC Projects B.V.

Continental and Compagnie Financière Michelin SCmA, Granges-Paccot, Switzerland (Michelin), each hold a 50% stake in MC Projects B.V., Maastricht, Netherlands, a company to which Michelin contributed the rights to the Uniroyal brand for Europe as well as for certain countries outside Europe. In turn, MC Projects B.V. licensed to Continental certain rights to use the Uniroyal brand on or in connection with tires in Europe and elsewhere. Under the terms of the agreement concluded in this connection, both the agreement and the Uniroyal license can be terminated if a major competitor in the tire business acquires more than 50% of the voting rights of Continental AG or of its tire business. Furthermore, in this case Michelin also has the right to acquire a majority in MC Projects B.V. and to have MC Projects B.V. increase its minority stake in the manufacturing company Continental Barum s.r.o., Otrokovice, Czechia – one of Continental's largest tire plants in Europe – to 51%. These events could have an adverse effect on the business and earnings position of Continental's Tire division.

Legal and Environmental Risks

Continental could become subject to additional burdensome environmental or safety regulations, and new regulations could adversely affect demand for the corporation's products and services.

As a corporation that operates worldwide, Continental must observe a large number of different regulatory systems in numerous countries that change frequently and are continuously evolving and becoming more stringent, particularly with respect to the environment, chemicals and hazardous materials, as well as health regulations. This also applies to air, water and soil pollution regulations and to waste legislation, all of which have recently become more stringent through new laws, particularly in the E.U. and the U.S.A. Moreover, Continental's sites and operations necessitate various permits and the requirements specified therein must be complied with. In the past, adjusting to new requirements has necessitated significant investments and Continental assumes that further significant investments in this regard will be required in the future.

Continental could be unsuccessful in adequately protecting its intellectual property and technical expertise.

Continental's products and services are highly dependent upon its technological know-how and the scope and limitations of its proprietary rights therein. Continental has obtained or applied for a large number of patents and other industrial property rights that are of considerable importance to its business. The process of obtaining patent protection can be lengthy and expensive. Furthermore, patents may not be granted on currently pending or future applications or may not be of sufficient scope or strength to provide Continental with meaningful protection or commercial advantage. In addition, although there is a presumption that patents are valid, this does not necessarily mean that the patent concerned is effective or that possible patent claims can be enforced to the degree necessary or desired.

A major part of Continental's know-how and trade secrets is not patented or cannot be protected through industrial property rights. Consequently, there is a risk that certain parts of Continental's know-how and trade secrets could be transferred to collaboration partners, customers and suppliers, including Continental's machinery suppliers or plant vendors. This poses a risk that competitors will copy Continental's know-how without incurring any expenses of their own. Moreover, Continental has concluded a number of license, cross-license, collaboration and development agreements with its customers, competitors and other third parties under which Continental is granted rights to industrial property and/or know-how of such third parties. It is possible that license agreements could be terminated under certain circumstances in the event of the licensing partner's insolvency or bankruptcy and/or in the event of a change of control in either party, leaving Continental with reduced access to intellectual property rights to commercialize its own technologies.

There is a risk that Continental could infringe on the industrial property rights of third parties.

There is a risk that Continental could infringe on the industrial property rights of third parties, since its competitors, suppliers and customers also submit a large number of inventions for industrial property protection. It is not always possible to determine with certainty whether there are effective and enforceable third-party industrial property rights to certain processes, methods or applications. Therefore, third parties could assert claims (including illegitimate ones) of alleged infringements of industrial property rights against Continental. As a result, Continental could be required to cease manufacturing, using or marketing the relevant technologies or products in certain countries, or be forced to make changes to manufacturing processes and/or products. In addition, Continental could be liable to pay compensation for infringements or could be forced to purchase licenses to continue using technology from third parties. Continental, for example, supplies telecommunication modules that transmit vehicle data, enable voice and internet functionality, and are compatible with cellular communication standards. In this respect, there is a risk that Continental or its suppliers may be denied their own direct license to use patents relating to these standards (standard essential patents), especially in the field of telecommunications standards such as 3G, 4G or 5G, and that Continental may become dependent on licenses and the conditions under which they are granted to customers. In addition, Continental is subject to efforts by its customers to change contract terms and conditions concerning the participation in disputes regarding alleged infringements of intellectual property rights.

Continental could be threatened with fines and claims for damages for alleged or actual antitrust behavior.
In May 2005, the Brazilian competition authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Indústria Automotiva Ltda., Guarulhos, Brazil (CBIA), following a complaint of anticompetitive behavior in the area of commercialization of tachographs. On August 18, 2010, the Brazilian antitrust authorities determined an "invitation to cartel" and imposed a fine of BRL 12 million (around €2.7 million) on CBIA, which was then reduced to BRL 10.8 million (around €2.4 million). CBIA denies the accusation that it has infringed Brazilian antitrust law. Although the court of first instance appealed to by CBIA upheld the decision, on CBIA's further appeal the next higher court annulled this decision and remanded the matter. In case an infringement of Brazilian antitrust law is found, third parties may, in addition, claim damages from CBIA.

On October 2, 2006, South African antitrust authorities received a complaint from a third party accusing several South African tire manufacturers of alleged antitrust behavior, including Continental Tyre South Africa (Pty.) Ltd., Port Elizabeth (CTSA), a subsidiary of Continental. On August 31, 2010, the South African antitrust authorities came to the conclusion that CTSA had violated South African antitrust law and referred the matter to the responsible antitrust court for a decision. CTSA denies the allegation of infringements of South African antitrust law. However, the tribunal could impose a fine of up to 10% of CTSA's sales. In addition, third parties may also claim damages from CTSA in case of an infringement of South African competition law.

In October 2012, Continental Automotive Systems US, Inc., Auburn Hills, Michigan, U.S.A., and two of Continental's South Korean subsidiaries became aware of investigations by the U.S. Department of Justice (DOJ) and the Korean Fair Trade Commission (KFTC) in connection with the suspected involvement in violations of U.S. and South Korean antitrust law in instrument cluster business. CAE successfully appealed against the fine of KRW 45,992 million (around €36 million) that the KFTC had originally imposed on Continental Automotive Electronics LLC, Bugang-myeon, South Korea (CAE), in this case on December 23, 2013. On May 21, 2018, the KFTC subsequently adjusted the fine to KRW 32,101 million (around €25 million). This decision is final. On November 24, 2014, CAE and Continental Automotive Korea Ltd., Seongnam-si, South Korea, entered into an agreement with the DOJ that was confirmed by the competent U.S. court on April 1, 2015. Under this agreement, the two companies admitted to charges of violating U.S. antitrust law and agreed to pay a fine of U.S. $4.0 million (around €3.6 million). In the proceedings relating to class action lawsuits filed in the U.S.A. for alleged damages resulting from the antitrust violations, settlements totaling U.S. $5.0 million (around €4.5 million) were concluded in 2018. The risk of investigations by other antitrust authorities into this matter and further claims for damages by further alleged victims remain unaffected by the fines imposed. Continental has conducted internal audits in certain business units to check compliance with antitrust law. These audits revealed anticompetitive behavior with respect to product groups. Continental took measures to end this behavior. There is a risk that antitrust authorities may conduct investigations due to this behavior and impose fines and that third parties, especially customers, may file claims for damages. The amount of such fines and any subsequent claims is unknown from the current perspective, but could be significant. It also cannot be ruled out that future internal audits may reveal further actual or potential violations of antitrust law that in turn could result in fines and claims for damages. In addition, alleged or actual antitrust behavior could seriously disrupt the relationships with business partners.

In September 2014, the European Commission conducted a search at a subsidiary of Continental. On February 21, 2018, the Commission imposed a fine of €44.0 million on Continental AG; Continental Teves AG & Co. oHG, Frankfurt am Main, Germany; and Continental Automotive GmbH, Hanover, Germany; for the unlawful exchange of information. This involved specific brake components. Continental has set aside provisions that cover this fine. Continental cannot rule out the possibility that customers will claim for damages with reference to the commission's decision. At this point in time, it is not possible to say whether such claims will be submitted and, if they are, how much the damages will be – irrespective of whether or not the claims are justified. As a result, it cannot be ruled out that the resulting expenses will exceed the provisions that have been set aside for this purpose. In accordance with IAS 37.92 and GAS 20.154, no further disclosures will be made with regard to the proceedings and the related measures so as not to adversely affect the company's interests.

Continental is exposed to risks from legal disputes.
Companies from the Continental Corporation are involved in a number of legal and arbitration proceedings and could become involved in other such proceedings in the future. These proceedings could involve substantial claims for damages or payments, particularly in the U.S.A. For more information on legal disputes, see Note 35 of the notes to the consolidated financial statements.

Material Opportunities

Unless the emphasis is placed on a specific division, the opportunities apply to all divisions.

There are opportunities for Continental if the economy performs better than anticipated.
If the general economic conditions develop better than we have anticipated, we expect that global demand for vehicles, replacement tires and industrial products will also develop better than we have anticipated. Due to the increased demand for Continental's products among vehicle manufacturers and industrial clients and in the replacement business that would be expected as a consequence, sales could rise more significantly than expected and there could be positive effects with regard to fixed cost coverage.

There are opportunities for Continental if the sales markets develop better than anticipated.
If demand for automobiles and replacement tires develops better than we have anticipated, particularly on the European market, this would have positive effects on Continental's sales and earnings due to the high share of sales generated in this region (48%).

There are opportunities for Continental if there is a stable price level on the raw materials markets relevant to us.
Continental's earnings situation is affected to a significant extent by the cost of raw materials, electronic components and energy. For the Automotive Group divisions, this particularly relates to the cost of electronic components as well as metals and plastics. If we succeed even better than before in offsetting possible cost increases or compensating for them through higher prices for our products, this would then have a positive effect on Continental's earnings. The earnings situation of the Rubber Group divisions is significantly impacted by the cost of oil and of natural and synthetic rubber. If prices for natural rubber in particular decline again, and at the same time the prices for synthetic rubber stabilize at the low level at the end of 2019, this could have a positive impact on Continental's earnings.

There are opportunities for Continental from changes in the legal framework.
The further tightening of the regulatory provisions on fuel consumption and emission standards for motor vehicles could trigger higher demand for Continental's products. With our comprehensive portfolio, we already provide solutions that facilitate compliance with these changes in the legal framework. Our portfolio ranges in particular from sensors, actuators, exhaust-gas aftertreatment, tailor-made electronics, fuel supply systems, engine management and transmission control units to systems and components for hybrid and electric drives as well as tires with optimized rolling resistance and tires for hybrid and electric vehicles. An increase in the installation rates for these products due to increased regulatory provisions would have a positive influence on our sales and earnings.

Additional legal regulations with the aim of further improving traffic safety would also provide an opportunity for a rise in demand for Continental's products. We are already among the leading providers of electronic brake systems as well as control electronics for airbags and seat belts. Based on our broad product portfolio for active vehicle safety, we have developed more advanced safety systems over the past years, including emergency brake assist, lane departure warning and blind spot detection systems, as well as the head-up display. At present, these systems are mainly optionally installed in luxury vehicles, but they are increasingly being installed in other classes of vehicle too. Further volume growth is expected as a result of more stringent requirements in various regional safety tests, since an increasing number of safety systems have been recognized as having achieved the very highest level of safety. In addition, more and more legal requirements in individual countries are being expanded to include active safety systems.

There are opportunities for Continental from digitalization and particularly from the intelligent interconnection of vehicles with each other and with the internet.
By intelligently connecting advanced driver assistance systems and driver information systems with each other and with the internet, we are laying the foundations for gradually making automated driving possible in the coming years. We also plan to implement fully automated driving in the current decade by means of collaborations with leading providers from the technology and internet sector. To this end, we are developing new system, service and software solutions that can offer substantial growth potential for Continental with positive effects on its future sales and attainable margins. This also includes the intelligent use of automotive data. This digitalization opens up new markets for mobility services.

In addition, the increasing digitalization of our products gives us the opportunity to offer our customers software-based services as well as the product itself (servitization). Additional sales in these fields would bring Continental closer to achieving its strategic goal of greater independence from the automotive industry.

The trend toward automated driving presents Continental with opportunities.
In recent years, the trend from assisted driving to fully automated driving has continued. Some OEMs expect to be able to provide this function in just a few years. A key requirement for fully automated driving is that vehicles be equipped with sensors. Today, an average of two sensors for assisted driving are installed per vehicle. Merely for partly automated driving, an average of 16 sensors are required, including radar, laser and camera sensors. OEMs estimate that more than 40 sensors are needed in order to realize fully automated driving. Since Continental is already one of the leading providers of advanced driver assistance systems, the increasing volume of sensors and electronic control units for automated driving could result in considerable sales and earnings opportunities.

Urbanization presents Continental with opportunities.
Forecasts predict that by 2050 more than two-thirds of the world's population will live in large cities. The vehicle fleet will have grown to over two billion vehicles by that time, and the majority of these vehicles will be used in large cities. This will pose huge challenges in terms of infrastructure, safety and vehicle emissions. In view of our broad portfolio of safety technologies, products for local zero-emission and low-emission mobility, and solutions for intelligently connecting vehicles with one another and with the infrastructure, this trend will bring opportunities to generate sales in the future. At the same time, it will also enhance the opportunities arising from digitalization, electrification and automated driving.

Statement on Overall Risk and Opportunities Situation

In the opinion of the Executive Board, the risk situation of the Continental Corporation has not changed significantly in the past fiscal year, but has generally become more volatile.

The duration of the current market weakness and the extent to which the automotive industry is drawn into ongoing trade disputes in the future remain to be seen, as does the extent to which the effects of the coronavirus impact our business in the current year.

However, despite the changes in individual risks, the analysis in the corporation-wide risk management system for the year under review did not reveal any risks that, individually or collectively, pose a threat to the company or the corporation as a going concern. In the opinion of the Executive Board, there are also no discernible risks to the corporation as a going concern in the foreseeable future.

Considering the material opportunities, the overall risk assessment for the Continental Corporation presents a reasonable risk and opportunities situation to which our strategic goals have been aligned accordingly.

Report on Expected Developments
Future General Conditions

Forecast of Macroeconomic Development

In February 2020, the International Monetary Fund (IMF) lowered its 2020 growth forecast for the global economy from its World Economic Outlook Update (WEO Update) in January by 0.1 percentage points to 3.2%. This is due to the expected economic damage from the current coronavirus outbreak.

According to the IMF, the higher year-on-year growth will be driven in particular by emerging and developing economies. Most notably, it forecasts an increase in gross domestic product (GDP) of 5.8% in India, 2.2% in Brazil and 1.9% in Russia, according to its WEO Update. But in many other emerging and developing economies, too, the IMF expects growth to increase slightly in 2020. Growth in the Chinese economy is likely to slow further, however, in particular due to the expected negative effects of the coronavirus. In February 2020, the IMF lowered its GDP forecast for China from 6.0% to 5.6% for the current year.

For the eurozone, the IMF anticipates that GDP will rise by 1.3% in 2020 according to its WEO Update. A key factor here is the German economy, for which the IMF estimates GDP growth of 1.1%.

For the U.S.A., the IMF predicts a decline in GDP growth to 2.0% for 2020 in its WEO Update. The IMF expects the effects of U.S. fiscal and monetary policy to subside and anticipates a more restrictive budget policy.

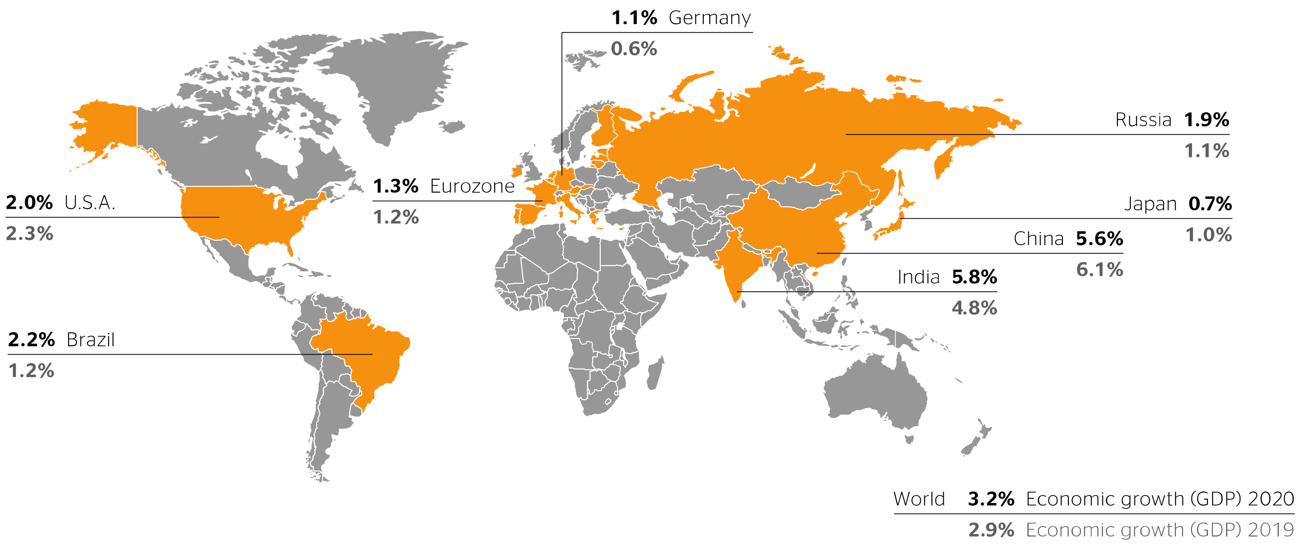
For Japan, the IMF believes that the expansive fiscal policy measures announced by the Japanese government at the start of December 2019 will have only a limited positive effect. For 2020, it forecasts moderate growth of 0.7% in its WEO Update.

Key opportunities for the global economy identified by the IMF in its WEO Update include in particular stronger-than-expected economic growth in major emerging markets and positive effects from the ongoing expansionary monetary policy in many countries. In addition, the partial agreement in the trade conflict between the U.S.A. and China could have a positive impact on business and consumer sentiment.

According to its WEO Update, the IMF sees key risks in growing geopolitical tensions, in particular between the U.S.A. and Iran, and in an escalation of various trade conflicts. Due to the high level of public and private debt, this could lead to an abrupt deterioration in general sentiment, companies' propensity to invest and financial market conditions.

As of February 2020, the IMF anticipates that the economic damage caused by the spread of the coronavirus will be manageable. Its amendments in February assume that China's economy will return to normal in the second quarter of 2020 and that a global pandemic can be avoided.

Year-on-year economic growth (GDP) in 2020



Sources: IMF, Eurostat, statistical offices of the respective countries, Bloomberg.

Forecast for Key Customer Sectors

Forecast for production of passenger cars and light commercial vehicles
We currently expect the global production of passenger cars and light commercial vehicles weighing less than 6 metric tons to decline by 2% to 5% year-on-year in 2020. This estimate takes into account the expected impact of the coronavirus on production volumes in the first quarter of 2020. We currently assume that production will decline by more than 10% year-on-year. Our market forecast does not, however, include possible further disruptions to production and the supply chain as well as demand as a result of the continuing spread of the coronavirus. Such disruptions cannot be gauged at the current time.

For China, we anticipate that production volumes will fall by 5% in the current year if the consequences of the coronavirus outbreak remain limited to the first quarter of 2020. Based on current data, we expect production to decline by at least 30% year-on-year in the first quarter of 2020. For the year as a whole, we currently expect a decrease in production of 5% to 10% compared to the previous year.

For Europe, we anticipate a decrease in production volumes of 3% to 5% in 2020. A recovery in demand is not yet in sight. Moreover, the entry into force of new CO_2 emissions standards in the European Union (E.U.) are also likely to affect manufacturers' production volumes in the current year. In North America, we currently expect production to decrease by 0% to 2%.

Forecast for production of medium and heavy commercial vehicles
According to our estimates, the global production of commercial vehicles weighing more than 6 metric tons will fall by 5% to 10% year-on-year in 2020.

We expect production in the U.S.A. and Europe to decline in particular as a result of a sharp decrease in order intake. We therefore forecast a slump in production in North America of 15% to 25%, and a decline in Europe of 5% to 15%.

In China, we likewise expect subdued demand due to the spread of the coronavirus and a decline in production volumes of 5% to 10%.

Forecast for replacement-tire markets for passenger cars and light commercial vehicles
The low growth in sales volumes of replacement tires for passenger cars and light commercial vehicles weighing less than 6 metric tons is not expected to continue in 2020. On a global level, we anticipate a decline of 0% to 2%.

In China, quarantine measures to contain the coronavirus are expected to cause the number of kilometers driven to decline, with demand for replacement tires likely to fall sharply in the first quarter of 2020 as a result. In the following quarters, we expect the situation to stabilize at the previous year's level. For 2020 as a whole, we anticipate a 5% to 10% decline in demand in China.

In Europe, we expect a 0% to -1% change in demand for replacement tires for passenger cars and light commercial vehicles in 2020. In North America, we anticipate a slight increase of between 0% to 1%.

Forecast for replacement-tire markets for medium and heavy commercial vehicles
Currently, global demand for replacement tires for commercial vehicles weighing more than 6 metric tons is likely to decline by 0% to 2% in 2020.

In China in particular, demand in the first quarter of 2020 is likely to be affected by quarantine measures to contain the coronavirus. For 2020 as a whole, we expect demand for replacement tires for medium and heavy commercial vehicles to decrease by 5% to 10%.

In Europe, we anticipate a -1% to 1% change in sales volumes. We also expect demand in North America to change by -1% to 1%.

2020 forecast for changes compared to 2019 in vehicle production and sales volumes in the tire-replacement business

	Vehicle production		Replacement sales of tires	
	of passenger cars and light commercial vehicles	of medium and heavy commercial vehicles	for passenger cars and light commercial vehicles	for medium and heavy commercial vehicles
Europe	-3% to -5%	-5% to -15%	0% to -1%	-1% to 1%
North America	0% to -2%	-15% to -25%	0% to 1%	-1% to 1%
China	-5% to -10%	-5% to -10%	-5% to -10%	-5% to -10%
Worldwide	**-2% to -5%**	**-5% to -10%**	**0% to -2%**	**0% to -2%**

Sources: Own estimates.

Outlook for the Continental Corporation

Forecast process
In January 2019, Continental announced its initial expectations regarding the most important production and sales markets for the new fiscal year. This formed the basis of our forecast for the corporation's key performance indicators, which we published at the same time. These included sales and the adjusted EBIT margin for the corporation. In addition, we provided information on the assessment of important factors influencing EBIT. These included the expected negative or positive effect of the estimated development of raw materials prices for the current year, the expected development of special effects and the amount of amortization from purchase price allocations. We thus allowed investors, analysts and other interested parties to estimate the corporation's expected EBIT. Furthermore, we published an assessment of the development of interest income and expenses as well as the tax rate for the corporation, which in turn allowed the corporation's expected net income to be estimated. We also published a forecast of the capital expenditures planned for the current year and the free cash flow before acquisitions and the effects of transforming the Powertrain division into an independent legal entity.

In the 2018 Annual Report, we supplemented this forecast for the corporation with a forecast of the sales and adjusted EBIT margins of the two core business areas: the Automotive Group and the Rubber Group. We then published this forecast in March 2019 as part of our annual financial press conference and the publication of our annual report for 2018.

Our forecast for the current year, like every year, was reviewed continually. Possible changes to the forecast were described at the latest in the financial report for the respective quarter.

The medium-term forecast prepared by Continental in 2015 had to be withdrawn at the end of July 2019 due to the strong and foreseeable sustained decrease in global vehicle production. Continental currently expects that the global production of passenger cars and light commercial vehicles weighing less than 6 metric tons will not increase substantially until 2024.

Comparison of the past fiscal year against forecast
Our original forecast for fiscal 2019, which we published in full in March 2019, was based on the expectation that the global production of passenger cars and light commercial vehicles would be at roughly the same level as in 2018. At the same time, we anticipated that global demand for replacement tires for passenger cars and light commercial vehicles would grow by 2%.

Based on these market assumptions – and provided that exchange rates remained constant – we anticipated total sales of between around €45 billion and €47 billion and an adjusted EBIT margin of approximately 8% to 9% in fiscal 2019. For the Automotive Group, assuming constant exchange rates, we anticipated sales of approximately €27 billion to €28 billion with an adjusted EBIT margin of around 6% to 7%. For the Rubber Group, assuming constant exchange rates and an adverse effect from rising raw material prices of around €50 million, we anticipated sales of approximately €18 billion to €19 billion with an adjusted EBIT margin of around 12% to 13%. In 2019, we expected the negative financial result before effects from currency translation, effects from changes in the fair value of derivative instruments, and other valuation effects to be in the region of €220 million. The tax rate – including the tax effects of transforming the Powertrain division into an independent legal entity – was expected to be around 27% in 2019. For 2019, taking into account expenses relating to the transformation of the Powertrain division into an independent legal entity, we expected negative special effects to total €200 million. The amortization of purchase price allocations was forecast at around €200 million. The capital expenditure ratio before financial investments was estimated at about 8% of sales due to the recognition of leases as a result of the first-time adoption of IFRS 16. Free cash flow before acquisitions and before the effects of transforming the Powertrain division into an independent legal entity was expected to total around €1.4 billion to €1.6 billion. All aspects of the forecast were confirmed in the reporting on the first quarter of 2019.

On July 22, 2019, we announced that a number of factors had led to an adjustment of the forecast for fiscal 2019. Specifically, these were lower sales expectations for the second half of 2019 due to the decline in global production of passenger cars and light commercial vehicles, reduced volumes for certain products of the Automotive Group as a result of changes in customer demand, and potential warranty claims in the Automotive Group.

The forecast for consolidated sales in 2019 – assuming constant exchange rates compared with the first half of 2019 – was reduced to around €44 billion to €45 billion, while the forecast for the corporation's adjusted EBIT margin was lowered to a range of around 7.0% to 7.5%. The expectation for sales in the Automotive Group was reduced to around €26 billion to €26.5 billion, and the adjusted EBIT margin was specified in the range of around 4.2% to 4.8%. The sales forecast for the Rubber Group was narrowed to roughly €18 billion to €18.5 billion, and the adjusted EBIT margin was specified in the range of around 12.0% to 12.5%. The capital expenditure ratio before financial investments, including IFRS 16, was adjusted to below 8% of sales. Free cash flow before acquisitions, including IFRS 16 and before the effects of transforming the Powertrain division into an independent legal entity, was then expected to be in the range of around €1.2 billion to €1.4 billion. All other elements of the previous forecast remained unchanged.

On October 22, 2019, we announced that an impairment of around €2.5 billion would be recognized in the third quarter of 2019. This impairment mainly resulted from the assumption that global production of passenger cars and light commercial vehicles was not expected to increase substantially until 2024. There were also restructuring provisions of €97 million in the first nine months of 2019, which were incurred in the scope of the Transformation 2019–2029 structural program announced on September 25, 2019 Further expenses for restructuring provisions related to this program were expected to be recognized in the fourth quarter of 2019. The

Comparison of fiscal 2019 against forecast

	Corporation					Automotive Group		Rubber Group	
	Sales (€ billions)	Adjusted EBIT margin	Negative special effects (€ billions)	Investments (in % of sales)	Free cash flow[3] (€ billions)	Sales (€ billions)	Adjusted EBIT margin	Sales (€ billions)	Adjusted EBIT margin
First forecast for 2019 on January 14, 2019	~45-47[1]	~8-9%	~0.2	~8%	~1.4-1.6				
Annual financial press conference on March 7, 2019	~45-47[1]	~8-9%	~0.2	~8%	~1.4-1.6	~27-28[1]	~6-7%	~18-19[1]	~12-13%
Forecast adjustment on July 22, 2019	~44-45[2]	~7.0-7.5%	~0.2	<8%	~1.2-1.4	~26-26.5[2]	~4.2-4.8%	~18-18.5[2]	~12.0-12.5%
Forecast adjustment on October 22, 2019	~44-45[2]	~7.0-7.5%	>2.8	<8%	~1.2-1.4	~26-26.5[2]	~4.2-4.8%	~18-18.5[2]	~12.0-12.5%
2019 Annual Report	**44.5[2]**	**7.4%**	**3.3**	**7.4%**	**1.3**	**26.5[2]**	**4.4%**	**18.0[2]**	**12.4%**

1 Assuming exchange rates remain constant year-on-year.
2 Reported sales including exchange-rate effects. The positive exchange-rate effect on the corporation's sales amounted to €648 million in 2019. Around two-thirds of this was attributable to the Automotive Group, and the other third to the Rubber Group.
3 Before acquisitions and the effects of transforming the Powertrain division into an independent legal entity.

impairment and the restructuring provisions did not affect the key financial indicators used in the outlook for 2019. But after incurring around €200 million in negative special effects and taking into account expenses relating to the transformation of the Powertrain division into an independent legal entity, we then anticipated negative special effects of at least €2.8 billion for fiscal 2019. All other elements of the revised forecast from July 22, 2019 were confirmed.

Continental achieved consolidated sales of €44.5 billion and a consolidated adjusted EBIT margin of 7.4% in fiscal 2019. The Automotive Group generated sales of €26.5 billion and an adjusted EBIT margin of 4.4%. The Rubber Group generated sales of €18.0 billion and an adjusted EBIT margin of 12.4%.

The negative financial result before effects from currency translation, effects from changes in the fair value of derivative instruments, and other valuation effects decreased to €170.1 million in 2019, which was below our forecast of around €220 million from January 2019.

Negative special effects for fiscal 2019, including the restructuring provisions recognized in the fourth quarter, totaled €3.3 billion.

Despite the negative earnings before tax of €588.6 million, income tax expense amounted to €582.4 million in the reporting year because the goodwill impairment and the expenses associated with the transformation of the Powertrain division into an independent legal entity were mostly not tax deductible.

The capital expenditure ratio increased to 7.4% in 2019. This increase was chiefly attributable to the recognition of leases as a result of the first-time adoption of IFRS 16.

Free cash flow before acquisitions and before the effects of transforming the Powertrain division into an independent legal entity amounted to €1.3 billion in 2019. This metric was therefore within the reduced range from July 22, 2019.

Order situation

The order situation in the Automotive Group was noticeably weaker in the reporting period compared with the previous year due to the global decline in demand for passenger cars. Incoming orders for the three Automotive divisions were therefore well below the record levels achieved in the two previous years. Altogether, the Chassis & Safety, Powertrain and Interior divisions acquired orders for a total value of roughly €33 billion for the entire duration of the deliveries. These lifetime sales are based primarily on assumptions regarding production volumes of the respective vehicle or engine platforms, the agreed cost reductions and the development of key raw materials prices. The volume of orders calculated in this way represents a reference point for the resultant sales achievable in the medium term that may, however, be subject to deviations if these factors change. Should the assumptions prove to be accurate, the lifetime sales are a good indicator for the sales volumes that can be achieved in the Automotive Group in four to five years.

The replacement tire business accounts for a large portion of the Tire division's sales, which is why it is not possible to calculate a reliable figure for order volumes. The same applies to the ContiTech division, which has seven business units operating in various markets and industrial sectors, each in turn with their own relevant factors. Consolidating the order figures from the various ContiTech business units would thus be meaningful only to a limited extent.

Outlook for fiscal 2020

For 2020, we do not anticipate any recovery in the economic environment. We expect global production of passenger cars and light commercial vehicles to decline for the third successive in succession. Global automotive production is expected to decrease by around 2% to 5% year-on-year in 2020. From today's perspective, the decline in incoming orders suggests the global production of medium and heavy commercial vehicles is likely to slump by 10% to 15% compared to the previous year in 2020. These estimates take into account the expected impact of the coronavirus on production volumes in the first quarter of 2020. We currently assume that production will decline by more than 10% year-on-year. In China, the decrease is likely to be at least 30% in this period. Our market forecast does not, however, include possible further disruptions to production and the supply chain as well as demand as a result of the continuing spread of the coronavirus. Such disruptions cannot be gauged at the current time.

Based on these production assumptions, we currently expect our Automotive divisions to realize sales of around €25.5 billion to €26.5 billion for the 2020 fiscal year – net of changes in the scope of consolidation and assuming constant exchange rates – and an adjusted EBIT margin of around 3% to 4%. The planned spin-off of Vitesco Technologies in the course of the second half of 2020 has not yet been taken into account and would – depending on the timing of the spin-off – lead to a correspondingly lower sales target for our Automotive divisions and the Continental Corporation.

We expect our Rubber divisions to achieve sales of around €17 billion to €18 billion – assuming constant exchange rates – and an adjusted EBIT margin of around 10% to 11% in fiscal 2020. In addition to the aforementioned production assumptions for the vehicle manufacturer business, the basis for this is our forecasts for the development of replacement-tire markets. We expect a decline of 0% to 2% in global demand for replacement tires for both passenger cars and light commercial vehicles as well as medium and heavy commercial vehicles in 2020. We also anticipate a further weakening of the industrial business, which will affect our ContiTech business area. For our Rubber divisions, we anticipate higher fixed costs, depreciation and amortization in 2020. These increases result primarily from the considerable expansion of capacity in recent years in the Tire division. The utilization of the new capacity and the generation of related sales will lead to economies of scale only in the upcoming years when the utilization of the new plants' capacity increases. We expect the intense competitive pressure, particularly in the European market, to continue amid rising wage costs. From our perspective, raw material prices are likely to remain roughly unchanged in fiscal 2020 compared with the previous year.

We expect the Continental Corporation to achieve total sales – assuming constant exchange rates – in the range of around €42.5 billion to €44.5 billion and an adjusted EBIT margin of around 5.5% to 6.5% in fiscal 2020.

For 2020, taking into account expenses relating to the Transformation 2019–2029 structural program, among other factors, we expect negative special effects to total around €600 million.

Amortization from purchase price allocations is again expected to total approximately €200 million and affect mainly the ContiTech and Vehicle Networking and Information (until December 31, 2019: primarily the Interior division) business areas.

In 2020, we expect the negative financial result to be in the region of €200 million before effects from currency translation, effects from changes in the fair value of derivative instruments, and other valuation effects. The tax rate is expected to be around 27% in 2020.

The capital expenditure ratio is expected to be around 7.5% of sales in fiscal 2020.

In 2020, we are planning on free cash flow of approximately €0.7 billion to €1.1 billion, before acquisitions and before the effects of transforming the Powertrain division into an independent legal entity.

Consolidated Financial Statements

Statement of the Executive Board

The Executive Board of Continental AG is responsible for the preparation, completeness and integrity of the consolidated financial statements and the management report for the corporation and Continental AG, as well as for the other information provided in the annual report. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the E.U., and include any necessary and appropriate estimates. The management report for the corporation and Continental AG contains an analysis of the earnings, financial and net assets position of the corporation, as well as further information provided in accordance with the provisions of the German Commercial Code *(Handelsgesetzbuch – HGB)*.

An effective internal management and control system is employed to ensure that the information used for the preparation of the consolidated financial statements, including the management report for the corporation and Continental AG, as well as for internal reporting, is reliable. This includes standardized guidelines at corporation level for accounting and risk management in accordance with Section 91 (2) of the German Stock Corporation Act *(Aktiengesetz – AktG)* and an integrated financial control system as part of the corporation's value-oriented management, plus audits by Corporate Audit. The Executive Board is thus in a position to identify significant risks at an early stage and to take countermeasures.

KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, Germany, was engaged as the auditor for fiscal 2019 by the Annual Shareholders' Meeting of Continental AG. The audit mandate was issued by the Audit Committee of the Supervisory Board. KPMG audited the consolidated financial statements prepared in accordance with IFRS and the management report for the corporation and Continental AG. The auditor will issue the independent auditor's report.

The consolidated financial statements, the management report for the corporation and Continental AG, the auditor's report and the risk management system in accordance with Section 91 (2) *AktG* are discussed in detail by the Audit Committee of the Supervisory Board together with the auditor. These documents relating to the annual financial statements and these reports will then be discussed with the entire Supervisory Board, also in the presence of the auditor, at the meeting of the Supervisory Board held to approve the financial statements.

Hanover, March 2, 2020

The Executive Board

Independent Auditor's Report

To Continental Aktiengesellschaft, Hanover

Report on the Audit of the Consolidated Financial Statements and the Corporate Management Report

Opinions

We have audited the consolidated financial statements of Continental Aktiengesellschaft and its subsidiaries (the corporation), which comprise the Consolidated Statement of Financial Position as at December 31, 2019, the Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the fiscal year from January 1, 2019, to December 31, 2019, and the Notes to the Consolidated Financial Statements, including a summary of significant accounting policies. In addition, we have audited the corporate management report of Continental Aktiengesellschaft for the fiscal year from January 1, 2019, to December 31, 2019. In line with the German legal regulations, we have not audited the content of the parts of the corporate management report mentioned in the "Other information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with IFRS as adopted by the E.U. and the additional requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code *(Handelsgesetzbuch – HGB)* and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the corporation as at December 31, 2019, and of its financial performance for the fiscal year from January 1, 2019, to December 31, 2019, and

- the accompanying corporate management report as a whole provides an appropriate view of the corporation's position. In all material respects, this corporate management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the corporate management report does not cover the content of the parts of the corporate management report mentioned in the "Other information" section.

Pursuant to Section 322 (3) sentence 1 *HGB*, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the corporate management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the corporate management report in accordance with Section 317 *HGB* and the E.U. Audit Regulation No. 537/2014 (referred to subsequently as "E.U. Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the *Institut der Wirtschaftsprüfer* (Institute of Public Auditors in Germany, IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the corporate management report" section of our auditor's report. We are independent of the corporation's entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) point (f) of the E.U. Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the E.U. Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the corporate management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from January 1, 2019, to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters.

Recoverability of the carrying amount of goodwill

The accounting policies as well as the assumptions made are disclosed in Note 2 of the notes to the consolidated financial statements. Disclosure of the amount of goodwill is provided in the notes to the consolidated financial statements in Note 13.

THE FINANCIAL STATEMENT RISK

As at December 31, 2019, goodwill totaled €5,114 million, thus comprising a substantial portion of net assets at 12%.

Goodwill is tested for impairment annually at the level of the cash-generating units. The carrying amount is thereby compared with the recoverable amount of the respective cash-generating unit. If the carrying amount exceeds the recoverable amount, an impairment is recorded. The recoverable amount is the higher of the fair value less costs to sell and value in use of the cash-generating unit. The impairment test, which must take place once a year, was carried out on November 30, 2019. Continental AG also carried out an ad-hoc impairment test on September 30, 2019.

The goodwill impairment test is complex and is based on a number of judgmental assumptions. These include, among others, the expected business and earnings development of the cash-generating units for the upcoming five years, the assumed long-term growth rates and the discount rate used.

Within the context of the annual planning process, the company did not expect global production of passenger cars and light commercial vehicles to increase substantially in the coming years (2020–2024). The reduction in expected future cash flows resulted, on the basis of the ad-hoc impairment test carried out on September 30, 2019, in goodwill impairment of €2,291.2 million. If financial performance is worse than expected or the discount rate on which the impairment test was based increases, further impairment will be required.

On the basis of the annual impairment test carried out on November 30, 2019, no additional need for impairment was identified. The company's sensitivity analysis has shown that reasonably possible changes not only in the discount rate and in the long-term growth rate in perpetuity but also in sales would lead to additional impairment.

There is a risk for the consolidated financial statements that the impairment recorded in the financial statements may not have been appropriately accounted for. In addition, there is a risk that the disclosures in the notes associated with the subsequent measurement of goodwill may not be appropriate.

OUR AUDIT APPROACH

With the support of our valuation specialists, we assessed, among other things, the appropriateness of the significant assumptions as well as the company's valuation model. This included a discussion of the expected development of the business and results as well as of the assumed underlying long-term growth rates with those responsible for the planning process. Furthermore, reconciliations were made with the annual planning prepared by the Executive Board which was approved by the Supervisory Board and the long-term planning of which the Supervisory Board took note. We also assessed the consistency of the assumptions with external market expectations.

We also assessed the company's planning accuracy by comparing projections for previous fiscal years with the actual results realized and analyzing deviations. Since small changes in the discount rate can have a substantial impact on the results of the impairment test, we compared the assumptions and parameters underlying the discount rate – the risk-free rate, the market risk premium and the beta factor – with own assumptions and publicly available information.

To ensure the calculative correctness of the valuation model utilized, we verified the company's calculations on the basis of elements selected in a risk-oriented manner.

To reflect the existing uncertainty with respect to forecasts as well as the earlier valuation date for the impairment test, we assessed reasonably possible changes in sales, the discount rate and the EBIT margin on the recoverable amount (sensitivity analysis) by calculating alternative scenarios and comparing these with the company's valuation results. The risk-oriented focal point of our analysis was on seven cash-generating units, for which we performed detailed analyses.

Finally, we assessed whether the disclosures in the notes with respect to the recoverability of the carrying amount of the goodwill are appropriate.

OUR OBSERVATIONS

The underlying valuation model used in the impairment test of goodwill is appropriate and consistent with the applicable accounting principles.

The company's assumptions and parameters underlying the valuation are within an acceptable bandwidth and are, on the whole, balanced.

The disclosures in the notes associated herewith are appropriate.

Recoverability of the carrying amount of deferred tax assets

The accounting policies as well as the assumptions made are disclosed in Notes 2 and 19 of the notes to the consolidated financial statements.

THE FINANCIAL STATEMENT RISK

As at December 31, 2019, deferred tax assets of €2,174 million – €389 million of which resulted from loss carryforwards and limitation of interest deduction – were reported in the consolidated financial statements of Continental AG.

For the recognition of deferred tax assets, it is necessary to estimate the extent to which the existing deferred tax assets can be used in the following reporting periods. The realization of these assets is subject to the condition that sufficient taxable income is generated in the future. If there are any doubts about the future usability of the deferred tax assets calculated, deferred tax assets may not be recognized or – if they have already been recognized – must be derecognized.

The measurement of deferred tax assets is highly dependent on the estimates and assumptions made by the Executive Board in relation to the operating performance of the country units and tax planning for the corporation, and is therefore subject to significant uncertainties. Realization is also dependent on the respective tax environment.

The global production of passenger cars and light commercial vehicles declined in fiscal 2019. This will have a negative effect on future business and earnings prospects. In Continental's opinion, it can be assumed, in spite of market developments, that existing deferred tax assets can be used, so that deferred tax assets can continue to be capitalized.

There is a risk for the consolidated financial statements that Continental AG's opinion may not be appropriate and that the recognized deferred tax assets may not be recoverable.

OUR AUDIT APPROACH

To assess tax matters, we involved our tax specialists in the audit. To begin with, we took a critical look at the temporary differences between the IFRS carrying amounts and the respective tax base carrying amounts for the corporation's entities. We also reconciled the losses carried forward to tax assessments and tax calculations for the current fiscal year and acknowledged off-balance-sheet corrections.

We assessed the recoverability of the carrying amount of deferred tax assets on the basis of internal projections issued for the corporation's entities on future taxable income, and critically examined the underlying assumptions. In this regard, we reconciled in particular the planning of future taxable income with the planning issued by the Executive Board, and reviewed the consistency of the underlying parameters. We also assessed the planning accuracy of the corporation's entities by comparing projections for previous fiscal years with the actual results realized and analyzing deviations.

Continental AG's opinion on the financial performance of the corporation's entities with an existing history of losses was presented to us by the Executive Board. If deferred tax assets are reported for these entities, we are convinced of the sustainability of the taxable income.

OUR OBSERVATIONS
The assumptions underlying the measurement of deferred tax assets are appropriate overall.

Recognition and measurement of restructuring provisions
The accounting policies as well as the assumptions made are disclosed in Notes 2 and 28 of the notes to the consolidated financial statements.

THE FINANCIAL STATEMENT RISK
As at December 31, 2019, restructuring provisions of €599 million were reported in the consolidated financial statements of Continental AG.

For restructuring measures, where there are general or illustrative recognition criteria for the relevant conditions, corresponding provisions must be drawn up. The measurement of significant restructuring provisions is highly dependent on the estimates and assumptions made by the Executive Board, particularly in relation to the arrangement of social schemes, compensation amounts, staff cuts and site closure costs.

There is a risk for the consolidated financial statements that the conditions for recognition of the restructuring provisions may not be met or may not be measured appropriately.

OUR AUDIT APPROACH
We initially assessed, within the scope of our engagement, whether the recognition criteria had been met in each case as at December 31, 2019. In this regard, we assessed in particular whether or not there was a detailed, formal restructuring plan in each case and whether the key elements of the restructuring measures had been communicated to the employees affected or implementation of the restructuring measures had begun.

The assumptions underlying the measurement of the restructuring provisions were then presented to us. We assessed the consistency of the assumptions with the detailed, formal restructuring plans. We also critically examined contracts and agreements that had already been concluded as at the end of the reporting period.

OUR OBSERVATIONS
The assumptions made by the Executive Board are appropriate.

Other information
The Executive Board and the Supervisory Board are responsible for the other information. The other information comprises the following parts of the management report. The content of these parts has not been audited:

› the combined corporate non-financial statement, which is in the "Sustainability and Combined Corporate Non-Financial Statement" section of the management report, and

› the corporate governance declaration, which is referred to in the section of the same name of the corporate management report.

The other information also comprises the remaining parts of the annual report.

The other information does not comprise the consolidated financial statements, the disclosures in the corporate management report audited with respect to content, and our auditor's report.

Our opinions on the consolidated financial statements and on the corporate management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

› is materially inconsistent with the consolidated financial statements, the disclosures in the corporate management report audited with respect to content or our knowledge obtained in the audit, or

› otherwise appears to be materially misstated.

In accordance with our engagement, we performed a separate operational audit of the combined corporate non-financial statement. The type, scope and results of this operational audit are disclosed in our unqualified audit opinion dated March 3, 2020.

Responsibilities of the Executive Board and the Supervisory Board for the consolidated financial statements and the corporate management report
The Executive Board is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the E.U. and the additional requirements of German commercial law pursuant to Section 315e (1) *HGB* and for ensuring that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the corporation. In addition, the Executive Board is responsible for internal controls that it deems necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Executive Board is responsible for assessing the corporation's ability to continue as a going concern. It also is responsible for disclosing, as applicable, matters related to the going concern. In addition, the Executive Board is responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the corporation or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Executive Board is responsible for the preparation of the corporate management report that, as a whole, provides an appropriate view of the corporation's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the Executive Board is responsible for arrangements and measures (systems) that it considers necessary to enable the preparation of the corporate management report that is in accordance with the applicable German legal requirements and to be able to provide sufficient appropriate evidence for the assertions in the corporate management report.

The Supervisory Board is responsible for overseeing the corporation's financial reporting process for the preparation of the consolidated financial statements and of the corporate management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the corporate management report
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the corporate management report as a whole provides an appropriate view of the corporation's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements, and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the corporate management report.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with Section 317 *HGB* and the E.U. Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this corporate management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the corporate management report, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the corporate management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the Executive Board and the reasonableness of estimates made by the Executive Board and related disclosures.

- Conclude on the appropriateness of the Executive Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the corporate management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the corporation to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in such a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the corporation in compliance with IFRS as adopted by the E.U. and the additional requirements of German commercial law pursuant to Section 315e (1) *HGB*.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the corporation to express opinions on the consolidated financial statements and on the corporate management report. We are responsible for the direction, supervision and performance of the corporate audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the corporate management report with the consolidated financial statements, its conformity with German law and the view of the corporation's position it provides.

- Perform audit procedures on the prospective information presented by the Executive Board in the corporate management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the Executive Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further information pursuant to Art. 10 of the E.U. Audit Regulation
We were elected as corporate auditor by the Annual Shareholders' Meeting on April 26, 2019. We were engaged by the Supervisory Board on November 13, 2019. We have been the corporate auditor of Continental Aktiengesellschaft without interruption for more than 30 years.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the E.U. Audit Regulation (long-form audit report).

We have provided to the corporation's entities the following services that are not disclosed in the consolidated financial statements or the corporate management report:

In addition to the audit of the consolidated and annual financial statements as well as the review of the half-year financial statements of Continental Aktiengesellschaft, we conducted various audits of financial statements as well as reviews of half-year financial statements of subsidiaries. Project-related IT audits, audits of various IT systems and IT processes as well as migration audits were carried out. We have also provided other attestation services, such as the granting of a comfort letter, and legal or contractual attestation services, such as audits according to the EEG, EMIR audits in accordance with Section 20 *WpHG*, the audit of the combined corporate non-financial statement, the audit of transfer prices, and audits of the use of funds. We have issued confirmations of compliance with contractual arrangements. Related to the first-time adoption of new accounting standards, such as IFRS 16, we supported the implementation of regulatory requirements in a quality-assured manner. Furthermore, workshops on accounting-related issues and tax issues were conducted. Tax advisory services provided by us also include support services in the preparation of tax returns and in tax audits, as income tax and sales tax advice on individual matters, as well as project-related support for the implementation of a tax compliance management system.

German public auditor
The German public auditor responsible for the engagement is Andreas Modder.

Hanover, March 3, 2020

KPMG AG Wirtschaftsprüfungsgesellschaft

Dr. Tonne
Wirtschaftsprüfer

Modder
Wirtschaftsprüfer

Consolidated Statement of Income

€ millions	See Note	2019	2018
Sales	6	**44,478.4**	**44,404.4**
Cost of sales		–33,893.4	–33,299.5
Gross margin on sales		**10,585.0**	**11,104.9**
Research and development expenses	7	–4,471.8	–4,280.2
Selling and logistics expenses		–2,718.9	–2,494.3
Administrative expenses		–1,110.2	–1,149.0
Other income	8	1,774.6	1,803.4
Other expenses	8	–4,203.2	–1,027.5
Income from equity-accounted investees	10	–124.3	69.6
Other income from investments	10	0.5	0.8
EBIT		**–268.3**	**4,027.7**
Interest income	11	147.2	122.9
Interest expense	11	–317.3	–276.2
Effects from currency translation	11	–30.5	–30.4
Effects from changes in the fair value of derivative instruments, and other valuation effects	11	–119.7	5.9
Financial result	11	**–320.3**	**–177.8**
Earnings before tax		**–588.6**	**3,849.9**
Income tax expense	12	–582.4	–891.6
Net income		**–1,171.0**	**2,958.3**
Non-controlling interests		–54.0	–61.0
Net income attributable to the shareholders of the parent		–1,225.0	2,897.3
Basic earnings per share in €	37	**–6.13**	**14.49**
Diluted earnings per share in €	37	**–6.13**	**14.49**

IFRS 16, Leases, was adopted on and has been applied since January 1, 2019. It is applied using the modified retrospective approach, under which the previous year’s figures are not adjusted. As a result, some of these figures are not comparable with the prior-year period.

Consolidated Statement of Comprehensive Income

€ millions	2019	2018
Net income	**-1,171.0**	**2,958.3**
Reclassification within equity not affecting net income	**—**	**-0.3**
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit plans[1]	-808.8	-105.7
Fair value adjustments[1]	-797.6	-93.8
Reclassification from disposals of pension obligations	—	0.3
Investment in equity-accounted investees[2]	0.0	0.0
Currency translation[1]	-11.2	-12.2
Other investments	-3.6	-3.9
Fair value adjustments[1]	—	-3.9
Investment in equity-accounted investees[2]	-3.6	—
Tax on other comprehensive income	236.9	30.7
Items that may be reclassified subsequently to profit or loss		
Currency translation[1]	287.4	107.7
Difference from currency translation[1]	279.4	103.0
Reclassification adjustments to profit and loss	0.0	14.5
Investment in equity-accounted investees[2]	8.0	-9.8
Cash flow hedges	-0.9	-2.3
Fair value adjustments	-8.5	-24.9
Reclassification adjustments to profit and loss	7.6	22.6
Tax on other comprehensive income	0.5	2.7
Other comprehensive income	**-288.5**	**29.2**
Comprehensive income	**-1,459.5**	**2,987.2**
Attributable to non-controlling interests	-63.8	-70.3
Attributable to the shareholders of the parent	-1,523.3	2,916.9

1 Including non-controlling interests.
2 Including taxes.

Consolidated Statement of Financial Position

Assets

€ millions	See Note	December 31, 2019	December 31, 2018
Goodwill	13	5,113.5	7,233.4
Other intangible assets	13	1,691.8	1,566.3
Property, plant and equipment	14, 15	14,932.7	12,375.5
Investment property	16	11.7	12.0
Investments in equity-accounted investees	17	397.7	644.9
Other investments	18	197.6	192.9
Deferred tax assets	19	2,174.4	1,464.4
Defined benefit assets	27	7.8	27.8
Long-term contract assets	6	0.1	0.1
Long-term derivative instruments and interest-bearing investments	31	54.0	32.4
Long-term other financial assets	20	114.6	81.4
Long-term other assets	21	28.6	27.6
Non-current assets		**24,724.5**	**23,658.7**
Inventories	22	4,694.4	4,521.1
Trade accounts receivable[1]	23	7,711.6	7,858.2
Short-term contract assets	6	89.1	67.4
Short-term other financial assets[1]	20	118.5	94.4
Short-term other assets	21	1,406.7	1,124.2
Income tax receivables		240.5	208.2
Short-term derivative instruments and interest-bearing investments	31	151.5	151.8
Cash and cash equivalents	24	3,341.8	2,761.4
Assets held for sale	25	89.6	–
Current assets		**17,843.7**	**16,786.7**
Total assets		**42,568.2**	**40,445.4**

IFRS 16, Leases, was adopted on and has been applied since January 1, 2019. It is applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some of these figures are not comparable with the prior-year period.

1 From the 2019 fiscal year onward, the presentation of receivables from related parties is made more transparent by reclassifying receivables from operating service business from short-term other financial assets to trade accounts receivable among these items of the statement of financial position. The figures from the comparative period have been adjusted accordingly.

Equity and liabilities

€ millions	See Note	**December 31, 2019**	December 31, 2018
Subscribed capital		512.0	512.0
Capital reserves		4,155.6	4,155.6
Retained earnings		13,522.1	15,697.2
Other comprehensive income		–2,794.4	–2,514.4
Equity attributable to the shareholders of the parent		**15,395.3**	**17,850.4**
Non-controlling interests		480.4	482.9
Total equity	26	**15,875.7**	**18,333.3**
Long-term employee benefits	27	5,406.3	4,407.0
Deferred tax liabilities	19	305.4	315.7
Long-term provisions for other risks and obligations	28	666.1	163.7
Long-term indebtedness	30	3,375.2	1,449.0
Long-term other financial liabilities	32	31.7	38.4
Long-term contract liabilities	6	16.7	11.0
Long-term other liabilities	34	20.0	13.4
Non-current liabilities		**9,821.4**	**6,398.2**
Short-term employee benefits	27	1,368.7	1,454.2
Trade accounts payable[1]	33	7,111.0	7,525.6
Short-term contract liabilities	6	234.9	150.2
Income tax payables	29	938.6	750.7
Short-term provisions for other risks and obligations	28	1,261.6	1,066.1
Short-term indebtedness	30	4,243.8	3,157.9
Short-term other financial liabilities[1]	32	1,046.3	1,042.6
Short-term other liabilities	34	666.2	566.6
Current liabilities		**16,871.1**	**15,713.9**
Total equity and liabilities		**42,568.2**	**40,445.4**

IFRS 16, Leases, was adopted on and has been applied since January 1, 2019. It is applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some of these figures are not comparable with the prior-year period.

1 From the 2019 fiscal year onward, the presentation of liabilities to related parties is made more transparent by reclassifying liabilities from operating service business from short-term other financial liabilities to trade accounts payable among these items of the statement of financial position. The figures from the comparative period have been adjusted accordingly.

Consolidated Statement of Cash Flows

€ millions	See Note	2019	2018
Net income		**-1,171.0**	**2,958.3**
Income tax expense	12	582.4	891.6
Financial result	11	320.3	177.8
EBIT		**-268.3**	**4,027.7**
Interest paid[1]		-157.9	-130.4
Interest received[1]		75.0	39.1
Income tax paid[1]	12, 29	-866.0	-848.1
Dividends received		67.3	45.0
Depreciation, amortization, impairment and reversal of impairment losses	8, 13, 14, 16	5,245.5	2,208.0
Income from equity-accounted investees and other investments, incl. impairment and reversal of impairment losses	10, 17	123.8	-70.4
Gains/losses from the disposal of assets, companies and business operations		-15.5	-176.0
Changes in			
inventories	22	-49.1	-358.4
trade accounts receivable[1]	23	337.8	-11.5
trade accounts payable[1]	33	-544.7	430.1
employee benefits and other provisions	27	658.3	-232.1
other assets and liabilities[1]		-191.8	54.2
Cash flow arising from operating activities		**4,414.4**	**4,977.2**
Cash flow from the disposal of assets	13, 14	53.9	64.0
Capital expenditure on property, plant and equipment, and software	13, 14	-2,977.5	-3,124.4
Capital expenditure on intangible assets from development projects and miscellaneous	13	-242.8	-161.0
Cash flow from the disposal of companies and business operations	5	1.3	13.1
Acquisition of companies and business operations	5	-487.6	-417.9
Cash flow arising from investing activities		**-3,652.7**	**-3,626.2**
Cash flow before financing activities (free cash flow)		**761.7**	**1,351.0**
Net cash change in short-term indebtedness	30	-1,049.5	453.7
Cash change in long-term indebtedness	30	1,907.5	13.9
Other cash changes		-24.9	23.7
Successive purchases		-71.0	-19.2
Dividends paid		-950.0	-900.0
Dividends paid to and cash changes from equity transactions with non-controlling interests		-32.5	-45.4
Cash and cash equivalents arising from the first-time consolidation of subsidiaries		0.4	2.0
Cash flow arising from financing activities		**-220.0**	**-471.3**
Change in cash and cash equivalents		**541.7**	**879.7**
Cash and cash equivalents as at January 1		2,761.4	1,881.5
Effect of exchange-rate changes on cash and cash equivalents		38.7	0.2
Cash and cash equivalents as at December 31	24	**3,341.8**	**2,761.4**

IFRS 16, Leases, was adopted on and has been applied since January 1, 2019. It is applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some of these figures are not comparable with the prior-year period.

1 The previous year's figures have been adjusted due to the change in recognition of interest and penalties on income taxes. To increase transparency, receivables from and liabilities to related parties have been reclassified from changes in other assets and liabilities to changes in trade accounts receivable and payable, beginning in the 2019 fiscal year. The figures from the comparative period have been adjusted accordingly.

Consolidated Statement of Changes in Equity

					Difference from					
€ millions	Subscribed capital[1]	Capital reserves	Retained earnings	Successive purchases[2]	remeasurement of defined benefit plans[3]	currency translation[4]	financial instru-ments[5]	Subtotal	Non-controlling interests	**Total**
As at January 1, 2018	**512.0**	**4,155.6**	**13,669.3**	**-183.3**	**-1,720.7**	**-610.2**	**5.7**	**15,828.4**	**461.9**	**16,290.3**
Effects from the first-time adoption of new standards (IFRS 9/15)[6]	–	–	30.8	–	–	–	-3.4	27.4	-0.1	**27.3**
Adjusted as at January 1, 2018	**512.0**	**4,155.6**	**13,700.1**	**-183.3**	**-1,720.7**	**-610.2**	**2.3**	**15,855.8**	**461.8**	**16,317.6**
Net income	–	–	2,897.3	–	–	–	–	2,897.3	61.0	**2,958.3**
Comprehensive income	–	–	-0.2	–	-74.8	100.2	-5.6	19.6	9.3	**28.9**
Net profit for the period	**–**	**–**	**2,897.1**	**–**	**-74.8**	**100.2**	**-5.6**	**2,916.9**	**70.3**	**2,987.2**
Dividends paid	–	–	-900.0	–	–	–	–	-900.0	-45.6	**-945.6**
Successive purchases	–	–	–	-21.0	–	–	–	-21.0	-0.8	**-21.8**
Other changes[7]	–	–	–	-1.3	–	–	–	-1.3	-2.8	**-4.1**
As at December 31, 2018	**512.0**	**4,155.6**	**15,697.2**	**-205.6**	**-1,795.5**	**-510.0**	**-3.3**	**17,850.4**	**482.9**	**18,333.3**
Net income	–	–	-1,225.0	–	–	–	–	-1,225.0	54.0	**-1,171.0**
Comprehensive income	–	–	-0.1	–	-570.9	276.9	-4.2	-298.3	9.8	**-288.5**
Net profit for the period	**–**	**–**	**-1,225.1**	**–**	**-570.9**	**276.9**	**-4.2**	**-1,523.3**	**63.8**	**-1,459.5**
Dividends paid/resolved	–	–	-950.0	–	–	–	–	-950.0	-35.7	**-985.7**
Successive purchases	–	–	–	18.0	–	–	–	18.0	-33.3	**-15.3**
Other changes[7]	–	–	–	0.2	–	–	–	0.2	2.7	**2.9**
As at December 31, 2019	**512.0**	**4,155.6**	**13,522.1**	**-187.4**	**-2,366.4**	**-233.1**	**-7.5**	**15,395.3**	**480.4**	**15,875.7**

1 Divided into 200,005,983 shares outstanding.
2 Includes an amount of €18.0 million (PY: -€20.7 million) from successive purchases of shares in fully consolidated companies (of which €29.2 million relates to the exercise of the put option for Zonar Systems Inc. and -€11.2 million to the acquisition of remaining shares in ContiTech Fluid Technology (Changchun) Co., Ltd. (formerly ContiTech Grand Ocean Fluid (Changchun) Co., Ltd.)) and an amount of €0.2 million (PY: -€1.3 million) relating to effects from the first-time consolidation of previously non-consolidated subsidiaries. The prior-year period also includes the change in value of a put option of -€0.3 million for the acquisition of remaining shares in a fully consolidated company.
3 Includes shareholder's portion of €0.0 million (PY: €0.0 million) in non-realized gains and losses from pension obligations of equity-accounted investees.
4 Includes shareholder's portion of €8.0 million (PY: -€9.8 million) in the currency translation of equity-accounted investees.
5 The change in the difference arising from financial instruments, including deferred taxes, was due to the expiry of cash flow hedges for interest and currency hedging of -€0.6 million (PY: -€1.7 million) and other investments of -€3.6 million (PY: -€3.9 million).
6 Please see the "Revenue from Contracts with Customers" and "Financial Instruments" notes in the 2018 Annual Report
7 Other changes in non-controlling interests due to changes in the scope of consolidation and capital increases.

Notes to the Consolidated Financial Statements

1. Segment Reporting

Notes to segment reporting
In accordance with the provisions of IFRS 8, *Operating Segments*, Continental AG's segment reporting is based on the management approach with regard to segment identification, under which information regularly provided to the chief operating decision maker for decision-making purposes is considered decisive.

Given the affinity of certain products, these have been combined as segments. This can mainly be seen in product requirements, market trends, customer groups and distribution channels.

The activities of the Continental Corporation are divided into the following segments:

Chassis & Safety integrates safety technologies and controls vehicle dynamics to enable safe, easy driving.

Powertrain offers efficient and clean vehicle drive systems. It focuses on intelligent systems and components for the electrification of vehicles, as well as on electronic control units, sensors, actuators and exhaust-gas aftertreatment solutions.

Interior develops components and end-to-end systems for connected mobility – hardware, software and services – across the strategic pillars of networking, information and integration.

Tires offers the right tires for a broad range of applications – from cars, trucks, buses and specialist vehicles to bicycles and motorcycles.

ContiTech develops, manufactures and markets products, systems and intelligent components made of rubber, plastic, metal and fabric. They are used in mining, agriculture, railway engineering, machine and plant construction, the automotive industry and other important sectors of the future.

Other/consolidation
This comprises centrally managed subsidiaries and affiliates, such as holding, financing and insurance companies, as well as the holding function of Continental AG and certain effects of consolidation. It also contains the effects on earnings of uncertain risks, particularly those in connection with contractual and similar claims or obligations representing, among other things, risks from investments that cannot currently be assigned to the individual operating units.

Internal control and reporting within the Continental Corporation are based on International Financial Reporting Standards (IFRS) as described in Note 2. The corporation measures the performance of its segments on the basis of their adjusted operating result (adjusted EBIT). Their performance is expressed as the return on sales (adjusted EBIT divided by adjusted sales) and as the return on capital employed (ROCE), which represents EBIT as a percentage of average operating assets. Intersegment sales and other proceeds are determined at arm's length prices. For administrative services performed by centrally operated companies or by the corporation's management, costs are calculated on an arm's length basis in line with utilization. Where direct allocation is not possible, costs are assigned according to the services performed.

The segment assets comprise the operating assets of the assets side of the statement of financial position as at the end of the reporting period. The segment liabilities show the operating asset parts on the liabilities side of the statement of financial position.

Capital expenditure relates to additions to property, plant and equipment, and software, as well as additions to capitalized right-of-use assets in line with IFRS 16, *Leases*, and additions to capitalized borrowing costs in line with IAS 23, *Borrowing Costs*. Depreciation and amortization include the scheduled diminution of and the impairment on intangible assets, property, plant and equipment, and investment properties as well as the impairment on goodwill. This figure does not include impairment on financial investments.

Non-cash expenses/income mainly include the changes in provisions for pension liabilities – except for contributions to or withdrawals from the associated funds – and the profit or loss from impairment and reversal of impairment losses on the value of equity-accounted investees.

In the segment information broken down by country and region, sales are allocated on the basis of the domicile of the respective customers; in contrast, capital expenditure and segment assets are allocated on the basis of the domicile of the respective companies.

Viewed across all segments, Continental recorded sales totaling €6,087.7 million (PY: €6,295.8 million) with a group of companies under common control in the year under review.

In 2019, 19% (PY: 20%) of sales were generated in Germany. Other than this, there were no countries except the U.S.A. and China in which more than 10% of sales were achieved, as was also the case in the previous year.

For information on the objectives, policies and processes for managing capital, please see the Corporate Management section of the management report.

Segment report for 2019

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
External sales	9,348.2	7,614.9	9,540.6	11,671.3	6,303.4	—	44,478.4
Intercompany sales	33.4	187.4	54.9	56.7	98.1	-430.5	—
Sales (total)	**9,381.6**	**7,802.3**	**9,595.5**	**11,728.0**	**6,401.5**	**-430.5**	**44,478.4**
EBIT (segment result)	-120.3	-662.1	-1,325.3	1,651.6	305.9	-118.1	-268.3
in % of sales	-1.3	-8.5	-13.8	14.1	4.8	—	-0.6
thereof income from equity-accounted investees	9.6	6.7	-147.0	6.2	0.5	-0.3	-124.3
Capital expenditure[1]	720.6	657.7	683.7	926.2	261.7	58.7	3,308.6
in % of sales	7.7	8.4	7.1	7.9	4.1	—	7.4
Depreciation and amortization[2]	1,265.6	854.6	1,907.7	846.1	364.6	6.9	5,245.5
thereof impairment[3]	750.0	351.9	1,373.2	22.5	12.3	—	2,509.9
Internally generated intangible assets	2.0	67.9	130.5	0.0	0.0	—	200.4
Significant non-cash expenses/income	-0.1	-40.3	-179.4	-16.4	-21.9	6.5	-251.6
Segment assets	7,379.2	6,063.6	7,521.6	10,073.9	4,776.8	162.0	35,977.1
thereof investments in equity-accounted investees	128.5	68.4	63.4	109.2	19.9	8.3	397.7
Segment liabilities	2,662.4	2,716.3	2,764.4	2,518.7	1,285.5	38.8	11,986.1
Operating assets as at December 31	4,716.8	3,347.3	4,757.2	7,555.2	3,491.3	123.2	23,991.0
Operating assets (average)	5,159.9	3,906.3	5,760.2	7,797.5	3,519.8	34.8	26,178.5
ROCE	-2.3	-16.9	-23.0	21.2	8.7	—	-1.0
Number of employees as at December 31[4]	48,434	41,744	48,117	56,884	45,801	478	241,458
Adjusted sales[5]	9,381.6	7,802.3	9,448.5	11,468.7	6,197.1	-430.5	43,867.7
Adjusted operating result (adjusted EBIT)[6]	675.9	57.0	433.4	1,708.3	466.9	-107.6	3,233.9
in % of adjusted sales	7.2	0.7	4.6	14.9	7.5	—	7.4

IFRS 16, Leases, was adopted on and has been applied since January 1, 2019. It is applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some of these figures are not comparable with the prior-year period.

1 Capital expenditure on property, plant and equipment, and software.
2 Excluding impairment on financial investments.
3 Impairment also includes necessary reversal of impairment losses.
4 Excluding trainees.
5 Before changes in the scope of consolidation.
6 Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Segment report for 2018

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
External sales	9,559.3	7,612.0	9,668.9	11,315.9	6,248.3	–	44,404.4
Intercompany sales	28.7	129.0	38.3	36.3	96.4	-328.7	–
Sales (total)	**9,588.0**	**7,741.0**	**9,707.2**	**11,352.2**	**6,344.7**	**-328.7**	**44,404.4**
EBIT (segment result)	782.5	119.8	988.1	1,882.1	396.2	-141.0	4,027.7
in % of sales	8.2	1.5	10.2	16.6	6.2	–	9.1
thereof income from equity-accounted investees	18.8	0.2	34.1	15.7	0.2	0.6	69.6
Capital expenditure[1]	749.7	691.0	578.4	837.1	250.2	18.0	3,124.4
in % of sales	7.8	8.9	6.0	7.4	3.9	–	7.0
Depreciation and amortization[2]	430.8	454.8	401.1	613.1	305.2	3.0	2,208.0
thereof impairment[3]	1.5	19.3	-1.6	1.2	0.3	0.0	20.7
Internally generated intangible assets	0.0	55.5	102.4	0.0	0.0	0.1	158.0
Significant non-cash expenses/income	4.5	-37.0	14.0	-2.2	-21.2	10.0	-31.9
Segment assets	7,700.1	5,830.5	8,389.4	9,089.6	4,391.8	76.4	35,477.8
thereof investments in equity-accounted investees	124.5	61.0	336.6	112.1	2.0	8.7	644.9
Segment liabilities	2,709.6	2,272.8	2,601.3	2,654.3	1,270.9	215.2	11,724.1
Operating assets as at December 31	4,990.5	3,557.7	5,788.1	6,435.3	3,120.9	-138.8	23,753.7
Operating assets (average)	4,887.1	3,582.2	5,626.3	6,471.2	3,146.9	-73.2	23,640.5
ROCE	16.0	3.3	17.6	29.1	12.6	–	17.0
Number of employees as at December 31[4]	49,509	42,601	47,906	55,840	46,923	447	243,226
Adjusted sales[5]	9,588.0	7,888.0	9,566.8	11,352.2	6,336.7	-357.5	44,374.2
Adjusted operating result (adjusted EBIT)[6]	785.3	220.1	863.2	1,902.6	486.8	-141.0	4,117.0
in % of adjusted sales	8.2	2.8	9.0	16.8	7.7	–	9.3

1 Capital expenditure on property, plant and equipment, and software.
2 Excluding impairment on financial investments.
3 Impairment also includes necessary reversal of impairment losses.
4 Excluding trainees.
5 Before changes in the scope of consolidation.
6 Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Reconciliation of sales to adjusted sales and of EBITDA to adjusted operating result (adjusted EBIT) in 2019

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Sales	**9,381.6**	**7,802.3**	**9,595.5**	**11,728.0**	**6,401.5**	**-430.5**	**44,478.4**
Changes in the scope of consolidation[1]	–	–	-147.0	-259.3	-204.4	–	-610.7
Adjusted sales	**9,381.6**	**7,802.3**	**9,448.5**	**11,468.7**	**6,197.1**	**-430.5**	**43,867.7**
EBITDA	**1,145.3**	**192.5**	**582.4**	**2,497.7**	**670.5**	**-111.2**	**4,977.2**
Depreciation and amortization[2]	-1,265.6	-854.6	-1,907.7	-846.1	-364.6	-6.9	-5,245.5
EBIT	**-120.3**	**-662.1**	**-1,325.3**	**1,651.6**	**305.9**	**-118.1**	**-268.3**
Amortization of intangible assets from purchase price allocation (PPA)	–	10.7	57.2	20.0	94.6	–	182.5
Changes in the scope of consolidation[1]	0.1	–	-7.4	2.9	11.9	–	7.5
Special effects							
Impairment on goodwill	719.8	223.5	1,347.9	–	2.3	–	2,293.5
Impairment[3]	29.1	48.9	25.3	3.5	4.9	–	111.7
Restructuring[4]	42.7	402.6	172.9	32.5	46.5	–	697.2
Gains and losses from disposals of companies and business operations	–	–	–	–	0.0	–	0.0
Other	4.5	33.4	162.8	-2.2	0.8	10.5	209.8
Adjusted operating result (adjusted EBIT)	**675.9**	**57.0**	**433.4**	**1,708.3**	**466.9**	**-107.6**	**3,233.9**

Reconciliation of sales to adjusted sales and of EBITDA to adjusted operating result (adjusted EBIT) in 2018

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Sales	**9,588.0**	**7,741.0**	**9,707.2**	**11,352.2**	**6,344.7**	**-328.7**	**44,404.4**
Changes in the scope of consolidation[1]	–	147.0	-140.4	–	-8.0	-28.8	-30.2
Adjusted sales	**9,588.0**	**7,888.0**	**9,566.8**	**11,352.2**	**6,336.7**	**-357.5**	**44,374.2**
EBITDA	**1,213.3**	**574.6**	**1,389.2**	**2,495.2**	**701.4**	**-138.0**	**6,235.7**
Depreciation and amortization[2]	-430.8	-454.8	-401.1	-613.1	-305.2	-3.0	-2,208.0
EBIT	**782.5**	**119.8**	**988.1**	**1,882.1**	**396.2**	**-141.0**	**4,027.7**
Amortization of intangible assets from purchase price allocation (PPA)	0.0	11.4	51.1	19.3	91.2	–	173.0
Changes in the scope of consolidation[1]	–	17.8	-20.8	–	-0.5	–	-3.5
Special effects							
Impairment[3]	1.5	16.0	1.2	1.2	0.1	–	20.0
Restructuring[5]	–	22.8	-3.0	0.0	0.2	–	20.0
Gains and losses from disposals of companies and business operations	-3.0	–	-154.8	0.0	-0.4	–	-158.2
Other	4.3	32.3	1.4	–	–	–	38.0
Adjusted operating result (adjusted EBIT)	**785.3**	**220.1**	**863.2**	**1,902.6**	**486.8**	**-141.0**	**4,117.0**

1 Changes in the scope of consolidation include additions and disposals as part of share and asset deals. Adjustments were made for additions in the reporting year and for disposals in the comparative period of the prior year.
2 Excluding impairment on financial investments.
3 Impairment also includes necessary reversal of impairment losses. This item does not include impairment that arose in connection with a restructuring and impairment on financial investments.
4 This includes impairment losses totaling €104.8 million (Powertrain €79.6 million; Chassis & Safety €1.2 million; Tires €19.0 million; ContiTech €5.0 million).
5 This includes impairment losses totaling €3.5 million (Powertrain €3.3 million; ContiTech €0.2 million) and a reversal of impairment losses of €2.8 million in the Interior segment.

Reconciliation of EBIT to net income

€ millions	2019	2018
Chassis & Safety	-120.3	782.5
Powertrain	-662.1	119.8
Interior	-1,325.3	988.1
Tires	1,651.6	1,882.1
ContiTech	305.9	396.2
Other/consolidation	-118.1	-141.0
EBIT	**-268.3**	**4,027.7**
Financial result	-320.3	-177.8
Earnings before tax	**-588.6**	**3,849.9**
Income tax expense	-582.4	-891.6
Net income	**-1,171.0**	**2,958.3**
Non-controlling interests	-54.0	-61.0
Net income attributable to the shareholders of the parent	**-1,225.0**	**2,897.3**

Segment report by region

€ millions	Germany	Europe excluding Germany	North America	Asia	Other countries	Continental Corporation
External sales 2019	**8,349.6**	**13,102.9**	**11,628.0**	**9,752.0**	**1,645.9**	**44,478.4**
External sales 2018	8,826.8	13,046.1	10,975.1	9,888.7	1,667.7	44,404.4
Capital expenditure 2019[1]	**812.9**	**1,108.3**	**646.9**	**691.9**	**48.6**	**3,308.6**
Capital expenditure 2018[1]	775.1	925.6	594.1	771.9	57.7	3,124.4
Segment assets as at December 31, 2019	**10,289.5**	**9,509.2**	**8,208.7**	**7,402.8**	**566.9**	**35,977.1**
Segment assets as at December 31, 2018	11,231.8	8,702.0	7,707.2	7,241.0	595.8	35,477.8
Number of employees as at December 31, 2019[2]	**61,474**	**77,063**	**45,912**	**47,631**	**9,378**	**241,458**
Number of employees as at December 31, 2018[2]	63,396	76,576	44,887	48,499	9,868	243,226

1 Capital expenditure on property, plant and equipment, and software.
2 Excluding trainees.

Reconciliation to operating assets in 2019

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Total assets	**7,355.0**	**6,026.6**	**7,471.0**	**10,077.9**	**4,784.0**	**6,853.7**	**42,568.2**
Cash and cash equivalents	–	–	–	–	–	3,341.8	3,341.8
Short- and long-term derivative instruments, interest-bearing investments	–	–	–	–	–	205.5	205.5
Other financial assets	9.6	13.1	23.1	17.6	7.6	18.7	89.7
Less financial assets	**9.6**	**13.1**	**23.1**	**17.6**	**7.6**	**3,566.0**	**3,637.0**
Less other non-operating assets	**-33.8**	**-50.1**	**-73.7**	**-13.6**	**-0.4**	**710.8**	**539.2**
Deferred tax assets	–	–	–	–	–	2,174.4	2,174.4
Income tax receivables	–	–	–	–	–	240.5	240.5
Less income tax assets	**–**	**–**	**–**	**–**	**–**	**2,414.9**	**2,414.9**
Segment assets	**7,379.2**	**6,063.6**	**7,521.6**	**10,073.9**	**4,776.8**	**162.0**	**35,977.1**
Total liabilities and provisions	**4,145.5**	**3,579.6**	**3,786.7**	**3,399.9**	**1,972.9**	**9,807.9**	**26,692.5**
Short- and long-term indebtedness	–	–	–	–	–	7,619.0	7,619.0
Interest payable and other financial liabilities	–	–	–	–	–	25.1	25.1
Less financial liabilities	**–**	**–**	**–**	**–**	**–**	**7,644.1**	**7,644.1**
Deferred tax liabilities	–	–	–	–	–	305.4	305.4
Income tax payables	–	–	–	–	–	938.6	938.6
Less income tax liabilities	**–**	**–**	**–**	**–**	**–**	**1,244.0**	**1,244.0**
Less other non-operating liabilities	**1,483.1**	**863.3**	**1,022.3**	**881.2**	**687.4**	**881.0**	**5,818.3**
Segment liabilities	**2,662.4**	**2,716.3**	**2,764.4**	**2,518.7**	**1,285.5**	**38.8**	**11,986.1**
Operating assets	**4,716.8**	**3,347.3**	**4,757.2**	**7,555.2**	**3,491.3**	**123.2**	**23,991.0**

IFRS 16, Leases, was adopted on and has been applied since January 1, 2019. It is applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some of these figures are not comparable with the prior-year period.

Reconciliation to operating assets in 2018

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Total assets	**7,668.6**	**5,797.3**	**8,313.9**	**9,083.9**	**4,412.5**	**5,169.2**	**40,445.4**
Cash and cash equivalents	–	–	–	–	–	2,761.4	2,761.4
Short- and long-term derivative instruments, interest-bearing investments	–	–	–	–	–	184.2	184.2
Other financial assets	9.9	20.4	14.5	20.1	5.9	4.1	74.9
Less financial assets	**9.9**	**20.4**	**14.5**	**20.1**	**5.9**	**2,949.7**	**3,020.5**
Less other non-operating assets	**-41.4**	**-53.6**	**-90.0**	**-25.8**	**14.8**	**470.5**	**274.5**
Deferred tax assets	–	–	–	–	–	1,464.4	1,464.4
Income tax receivables	–	–	–	–	–	208.2	208.2
Less income tax assets	**–**	**–**	**–**	**–**	**–**	**1,672.6**	**1,672.6**
Segment assets	**7,700.1**	**5,830.5**	**8,389.4**	**9,089.6**	**4,391.8**	**76.4**	**35,477.8**
Total liabilities and provisions	**3,856.1**	**3,131.0**	**3,283.8**	**3,433.9**	**1,822.3**	**6,585.0**	**22,112.1**
Short- and long-term indebtedness	–	–	–	–	–	4,606.9	4,606.9
Interest payable and other financial liabilities	–	–	–	–	–	75.8	75.8
Less financial liabilities	**–**	**–**	**–**	**–**	**–**	**4,682.7**	**4,682.7**
Deferred tax liabilities	–	–	–	–	–	315.7	315.7
Income tax payables	–	–	–	–	–	750.7	750.7
Less income tax liabilities	**–**	**–**	**–**	**–**	**–**	**1,066.4**	**1,066.4**
Less other non-operating liabilities	**1,146.5**	**858.2**	**682.5**	**779.6**	**551.4**	**620.7**	**4,638.9**
Segment liabilities	**2,709.6**	**2,272.8**	**2,601.3**	**2,654.3**	**1,270.9**	**215.2**	**11,724.1**
Operating assets	**4,990.5**	**3,557.7**	**5,788.1**	**6,435.3**	**3,120.9**	**-138.8**	**23,753.7**

2. General Information and Accounting Principles

Continental Aktiengesellschaft (Continental AG), whose registered office is Vahrenwalder Straße 9, Hanover, Germany, is the parent company of the Continental Corporation and a listed stock corporation. It is entered in the commercial register of the Hanover Local Court *(Amtsgericht)* under HR B 3527. Continental AG is a supplier to the automotive industry, with worldwide operations. The areas of business and main activities in which Continental AG is engaged are described in more detail in the Segment Reporting section. The consolidated financial statements of Continental AG for fiscal 2019 were prepared by resolution of the Executive Board of March 2, 2020, and will be submitted to and published in the German Federal Gazette *(Bundesanzeiger)*. Continental AG is included in the consolidated financial statements of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, which are published in the German Federal Gazette.

The consolidated financial statements of Continental AG as at December 31, 2019, have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, pursuant to E.U. Regulation (E.C.) No. 1606/2002 in conjunction with Section 315e (1) of the German Commercial Code *(Handelsgesetzbuch – HGB)*. The term IFRS also includes the International Accounting Standards (IAS), the interpretations issued by the International Financial Reporting Standards Interpretations Committee or its predecessor the International Financial Reporting Interpretations Committee (IFRIC), and those of the former Standing Interpretations Committee (SIC). All International Financial Reporting Standards mandatory for fiscal 2019 have been applied, subject to endorsement by the European Union.

The consolidated financial statements were prepared on the basis of historical cost, with the exception of certain financial assets and liabilities (including derivative instruments), which are measured at fair value; assets held for sale, which are measured at fair value less costs to sell; and defined benefit pension plans, for which the plan assets are measured at fair value.

The annual financial statements of companies included in the corporation have been prepared using uniform accounting policies, in accordance with IFRS 10, *Consolidated Financial Statements*. The reporting date for the individual financial statements of companies included in the corporation is the same as the reporting date for the consolidated financial statements.

The first-time adoption of IFRS 16, *Leases*, affected the reporting period.

The consolidated financial statements have been prepared in euros. Unless otherwise stated, all amounts are shown in millions of euros (€ millions). Please note that differences may arise as a result of the use of rounded amounts and percentages.

Companies consolidated

All major subsidiaries that Continental AG controls in accordance with the provisions of IFRS 10 have been included in the consolidated financial statements and are fully consolidated. To meet this definition, Continental AG must have the decision-making power to control the relevant activities and a right to variable returns from the associated company. Furthermore, it must be able to use its decision-making power to determine the amount of these returns. The companies consolidated may therefore also include companies that are controlled by Continental AG irrespective of the share of voting rights by way of other substantial rights such as contractual agreements, as is the case with structured units included in the consolidated financial statements.

The consolidation of subsidiaries is based on the acquisition method by offsetting the acquisition cost against the proportion of net assets attributed to the parent company at fair value at the acquisition date. Intangible assets not previously recognized in the separate financial statements of the acquired company are carried at fair value. Intangible assets identified in the course of a business combination – including, for example, brand names, patents, technology, customer relationships and order backlogs – are recognized separately at the acquisition date only if the requirements under IAS 38, *Intangible Assets*, for an intangible asset are met. Measurement at the acquisition date is usually provisional only. Increases or reductions of assets and liabilities that become necessary within 12 months after the acquisition are made retrospectively as at the acquisition date. Significant adjustments are presented in the notes to the financial statements.

Any positive remaining amount is capitalized as goodwill. The share of non-controlling interests is measured using the pro rata (remeasured) net assets of the subsidiary. In order to ensure the recoverability of goodwill arising from an as yet incomplete measurement and the corresponding purchase price allocation, the goodwill is allocated provisionally to the affected business units as at the end of the reporting period. This provisional allocation can deviate significantly from the final allocation. Any negative difference that arises is recognized in other income after the fair value of the acquired assets and liabilities has again been reviewed.

Non-controlling interests in the net assets of subsidiaries that are not attributable to the corporation are shown under "Non-controlling interests" as a separate component of total equity.

Once control has been obtained, any differences arising from successive purchases of shares from non-controlling interests between the purchase price and the carrying amount of those non-controlling interests are recognized in other comprehensive income.

Where there are successive purchases of shares resulting in control, the difference between the carrying amount and the fair value at the time of first-time consolidation for those shares already held is recognized in profit and loss under other income and expenses.

Significant investments where Continental AG can exert significant influence on the associated companies (associates) are accounted for using the equity method. The carrying amount of these associates is adjusted to reflect the share in the associates' net equity. If the financial statements of the associates are not available, the pro rata earnings or losses are recognized as necessary based on estimated amounts. Goodwill arising from first-time consolidation is reported using the equity method. Goodwill is not amortized, but the carrying amount of investments in associates consolidated using the equity method is tested for impairment if there are relevant indications.

Companies that are dormant or have only a low level of business activity and therefore no significant impact on the earnings, financial and net assets position of the Continental Corporation are not included in the consolidated financial statements. These are accounted for as other investments at fair value (FVOCI).

Intercompany receivables and payables, in addition to income and expenses, are eliminated on consolidation. Intercompany profits arising from internal transactions and dividend payments made within the corporation are eliminated on consolidation. Deferred taxes on the elimination of intercompany transactions are carried in the amount derived from the average income tax rate for the corporation.

Currency translation

The statements of financial position of foreign subsidiaries with a functional currency other than the euro are translated into euros using the middle rate at the end of the reporting period (closing rate). The income statements are translated at the average exchange rate for the year. Differences resulting from currency translation are recognized in the difference from currency translation in equity until the disposal of the subsidiary, without recognizing deferred taxes.

In the separate financial statements of Continental AG and its subsidiaries, foreign-currency receivables and payables are measured on recognition at the transaction rate and adjusted at the end of the reporting period to the related closing rates. Gains and losses arising on currency translation are recognized in profit or loss, except for certain loans. Exchange-rate adjustments relating to the translation of intercompany financing made in the functional currency of one of the parties are recognized in the difference from currency translation in equity if repayment of these intercompany loans is not expected in the foreseeable future.

Goodwill is recognized directly as an asset of the subsidiary acquired and therefore also translated into euros for subsidiaries whose functional currencies are not the euro at the end of the reporting period using the middle rate (closing rate). Differences resulting from currency translation are recognized in the difference from currency translation in equity.

The following table summarizes the exchange rates used in currency translation that had a material effect on the consolidated financial statements:

Currencies		**Closing rate**		**Average rate for the year**	
€1 in		**December 31, 2019**	December 31, 2018	**2019**	2018
Brazil	BRL	4.51	4.44	4.42	4.31
Switzerland	CHF	1.09	1.13	1.11	1.16
China	CNY	7.81	7.88	7.73	7.80
Czechia	CZK	25.41	25.71	25.67	25.64
United Kingdom	GBP	0.85	0.90	0.88	0.88
Hungary	HUF	330.55	321.05	325.32	318.74
Japan	JPY	121.78	126.02	122.07	130.43
South Korea	KRW	1,294.82	1,276.08	1,304.91	1,299.44
Mexico	MXN	21.23	22.49	21.56	22.71
Malaysia	MYR	4.59	4.73	4.64	4.76
Philippines	PHP	56.82	60.11	57.97	62.26
Romania	RON	4.78	4.67	4.75	4.65
U.S.A.	USD	1.12	1.14	1.12	1.18
South Africa	ZAR	15.72	16.47	16.17	15.60

Revenue recognition
Only sales of products and services resulting from the ordinary business activities of the company are shown as revenue.

In accordance with IFRS 15, *Revenue from Contracts with Customers*, Continental recognizes as revenue from contracts with customers the amount that is received as consideration for the transfer of goods or services to customers. The relevant point in time or period of time is the transfer of control of the goods or services to the customer (control approach).

To determine when to recognize revenue and at what amount, the five-step model is applied. By applying the five-step model in the Continental Corporation to contracts with customers, distinct performance obligations are identified. The transaction price is determined – and allocated to the performance obligations – according to the requirements of IFRS 15. Variable consideration in contracts with customers, such as rebates, bonus agreements or other kinds of price concessions, is analyzed, measured and included in the revenue recognition. The allocation of the transaction price in the case of more than one performance obligation at hand would be performed by using observable prices if possible. Otherwise the allocation would be performed using the adjusted market assessment approach or the approach of cost plus a margin. For every performance obligation that, in accordance with IFRS 15, is distinct within the context of the contract, the revenue recognition is determined to be at a point in time or to be satisfied over time.

Multi-component contracts that contain distinct performance obligations with different timing of revenue recognition are not currently material.

Research and development expenses
Research and development expenses comprise expenditure on research and development and expenses for customer-specific applications, prototypes and testing. Where refunds from customers for research and development expenses are provided for, these costs are recognized in inventories until control is transferred. Once control is transferred, they are stated under other income. In addition, the expenses are reduced by the amount relating to the application of research results from the development of new or substantially improved products, if the related activity fulfills the recognition criteria for internally generated intangible assets set out in IAS 38. This portion of the expenses is capitalized as an asset and amortized over a period of three to seven years from the date that the developed products become marketable. However, expenses for customer-specific applications, pre-production prototypes or tests for products already being marketed (application engineering) do not qualify as development expenditure which may be recognized as an intangible asset. Furthermore, expenses incurred directly in connection with the launch of new production operations and plants are recognized directly in profit or loss.

New developments for the original equipment business are not marketable until Continental AG has been nominated as the supplier for the particular vehicle platform or model and, furthermore, has successfully fulfilled pre-production release stages. Moreover, these release stages serve as the prerequisite to demonstrate the technical feasibility of the product, especially given the high demands imposed on safety and comfort technology. Accordingly, development costs are recognized as an asset only as at the date of nomination as supplier and upon fulfillment of a specific pre-production release stage. The development is considered to be completed once the final approval for the unlimited production is granted. Only very few development projects fulfill the recognition criteria.

Although suppliers are nominated by original equipment manufacturers with the general obligation to supply products over the entire life of the particular model or platform, these supply agreements constitute neither long-term contracts nor firm commitments, in particular because the original equipment manufacturers make no commitments in regard to purchase quantities. For this reason, all pre-production expenses – with the exception of the capitalized development costs as previously described – are recognized immediately in profit or loss.

Product-related expenses
Costs for advertising, sales promotion and other sales-related items are expensed as incurred. Provisions are recognized for possible warranty claims on sold products on the basis of past experience, as well as legal and contractual terms. Additional provisions are recognized for specific known cases.

Financial result and investment income
Interest income and expenses are recognized for the period to which they relate. Distributions are recognized at the time of payment.

Dividends receivable are recognized upon the legal entitlement to payment.

Earnings per share
Basic earnings per share are calculated on the basis of the weighted average number of shares issued. Treasury stock is deducted for the period it is held. Diluted earnings per share also include shares from the potential exercise of option or conversion rights. The corresponding expenses that would no longer be incurred after the conversion or exchange are eliminated.

Statement of financial position classification
Assets and liabilities are reported as non-current assets and liabilities in the statement of financial position if they have a remaining term of over one year and, conversely, as current assets and liabilities if the remaining term is shorter. Liabilities are treated as current if there is no unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Provisions for pensions and other post-employment benefits, other employee benefits, as well as deferred tax assets and liabilities are accounted for as non-current. If assets and liabilities have both current and non-current portions, the amounts are classified separately and shown as current and non-current assets or liabilities.

Goodwill
Goodwill corresponds to the difference between the acquisition cost and the fair value of the acquired assets and liabilities of the business combination. Goodwill is not subject to amortization; it is tested for impairment at least annually and, if necessary, impaired.

The details of the annual impairment test are described under "Impairment." Once an impairment loss has been recognized on goodwill, it is not reversed in subsequent periods.

Intangible assets
Purchased intangible assets are carried at acquisition costs and internally generated intangible assets at their production costs, provided that the conditions for recognition of an internally generated intangible asset are met in accordance with IAS 38. If intangible assets have finite useful lives, they are amortized on a straight-line basis over a useful life of three to eight years in general. Intangible assets with indefinite useful lives are tested at least annually for impairment and, if necessary, impaired.

The details of the annual impairment test are described under "Impairment."

Property, plant and equipment
Property, plant and equipment is measured at cost less straight-line depreciation. If necessary, additional impairment is recognized on the affected items.

Production cost consists of the direct costs and attributable material and manufacturing overheads, including depreciation.

Under certain conditions, portions of the borrowing costs are capitalized as part of the acquisition cost. This also applies to finance leases and investment property.

As soon as an asset is available for its intended use, subsequent cost is capitalized only to the extent the related modification changes the function of the asset or increases its economic value and the cost can be clearly identified. All other subsequent expenditure is recognized as current maintenance expense.

Property, plant and equipment is broken down into the lowest level of the components that have significantly different useful lives and, to the extent integrated in other assets, when they are likely to be replaced or overhauled during the overall life of the related main asset. Maintenance and repair costs are recognized in profit or loss as incurred. The corporation has no property, plant or equipment that by the nature of its operation and deployment can be repaired and serviced only in intervals over several years. The useful lives are up to 25 years for buildings and land improvements; up to 20 years for technical equipment and machinery; and up to 12 years for operating and office equipment.

When assets are sold, closed down or scrapped, the difference between the net proceeds and the net carrying amount of the assets is recognized as gain or loss in other operation income or expense, respectively.

Government grants
Government grants are reported if there is reasonable assurance that the conditions in place in connection with the grants will be fulfilled and that the grants will be awarded.

Monetary government grants that are directly attributable to depreciable fixed assets are deducted from the cost of the assets in question. All other monetary grants are recognized as income in line with planning and are presented alongside the corresponding expenses. Non-monetary government grants are recognized at fair value.

Investment property
Land and buildings held for the purpose of generating rental income instead of production or administrative purposes are carried at depreciated cost. Depreciation is charged on a straight-line basis over the useful lives, which correspond to those for real estate in use by the company.

Leases
A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lessee shall recognize a right-of-use asset and a corresponding lease liability, which represents the lessee's obligation to make lease payments.

The lease liability is measured at the present value of the lease payments not yet made. It is recognized under indebtedness. Discounting is determined using the weighted-average incremental borrowing rates, as the interest rates underlying the leases often cannot be determined regularly. The right-of-use-asset recognized by the lessee is measured at cost. This amount comprises the corresponding lease liability and prepaid lease payments, taking into account any lease incentives received. It is recognized in property, plant and equipment. Depreciation is charged on a straight-line basis. The lease liability is subsequently measured according to the effective interest method. The resulting interest expense is recognized in the financial result.

Continental utilizes the exemptions for short-term leases and for leases in which the underlying asset is of low value.

Continental leases property, plant and equipment, especially buildings.

As lessor, Continental classifies leases as operating leases or finance leases. For this classification, Continental considers whether the lease transfers substantially all the risks and rewards incidental to ownership of an underlying asset. If this is the case, it is a finance lease; otherwise, it is an operating lease.

If Continental acts as an intermediate lessor, the interests arising from the head lease and sublease are accounted for separately. The sublease is measured based on the value of the right-of-use asset resulting from the head lease and not based on the underlying asset. If the head lease is a short-term lease for which the corporation applies the exemption described in Note 3, it classifies the sublease as an operating lease.

The corporation applies IFRS 15, *Revenue from Contracts with Customers*, when allocating the consideration in the contract to each lease and non-lease.

Impairment

The corporation immediately reviews intangible assets and property, plant and equipment, investment property and goodwill as soon as there is an indication of impairment (triggering event). Impairment is assessed by comparing the carrying amount with the recoverable amount. The recoverable amount is the higher of the fair value less cost of disposal and the present value of the expected future cash flows from the continued use of the asset (value in use). If the carrying amount is higher than the recoverable amount, the difference is recognized as impairment. If the indications for the prior recognition of impairment no longer apply, the impairment losses are reversed for intangible assets, property, plant and equipment, and investment property.

Within the context of the annual planning process, global production of passenger cars and light commercial vehicles was not expected to increase substantially in the coming years (2020–2024). Due to this triggering event and other significant assumptions made when calculating the value in use of a cash-generating unit (CGU) – such as free cash flows, the discount rate and its parameters, and the long-term growth rate – goodwill was impaired by €2,291.2 million (September 30, 2019: €2,305.2 million). The Interior segment accounted for €1,347.9 million (September 30, 2019: €1,358.6) million of this, the Chassis & Safety segment for €719.8 million (September 30, 2019: €722.4 million), and the Powertrain segment for €223.5 million (September 30, 2019: €224.2 million). This impairment of goodwill is recognized in other expenses. The changes compared to September 30, 2019, are exclusively attributable to exchange-rate changes.

The impairment test as at September 30, 2019, was performed on the basis of the bottom-up business plan for 2019–2023 approved by management but adjusted for the changes in expectations for the global production of passenger cars and light commercial vehicles. For the CGUs of the Interior and Chassis & Safety segments, the cash flows were discounted with an interest rate before tax of 10.0%; for those of the Powertrain segment, they were discounted with an interest rate of 9.6%; and for those of the Tire and ContiTech segments, with an interest rate of 8.2%. At the time the test was performed, this pre-tax WACC was based on the capital structure of the respective relevant peer group on average over the last five years. The risk-free interest rate was -0.03% and the market risk premium 7.0%. Borrowing costs were calculated as the total of the risk-free interest rate plus the credit spreads of peer group companies rated by Standard & Poor's, Moody's or Fitch.

On average, the growth rate in the detailed planning period for the CGUs in the Interior segment was 6.1% (PY: 8.5%), in Chassis & Safety 4.0% (PY: 6.8%), in Powertrain 5.9% (PY: 6.5%), in Tires 3.8% (PY: 5.5%) and in ContiTech 3.5% (PY: 7.1%). The long-term growth rate was 1.5% for the CGUs of the Interior and Chassis & Safety segments and 1.0% for those of the Powertrain segment. For those of the Tire and ContiTech segments, the long-term growth rate was 0.5%. These growth rates do not exceed the long-term average growth rates for the markets in which the CGUs operate.

Capitalized goodwill is also tested for impairment once a year as at November 30 at the level of CGUs. CGUs are units that come below the segments and are the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. This represents the lowest level at which goodwill is monitored for internal management purposes. The impairment test is performed by comparing the carrying amount of the business unit including its goodwill and the recoverable amount of this business unit. The recoverable amount in this case is the value in use calculated on the basis of discounted cash flows before interest and tax. Impairment is recognized to the extent the carrying amount exceeds the recoverable amount for a business unit. If the reasons for this cease to apply in the future, impairment losses on goodwill are not reversed.

The expected cash flows for the business units are derived from long-term planning that covers the next five years and is approved by management. The plans are based in particular on assumptions regarding macroeconomic developments, as well as trends in sales prices, raw material prices and exchange rates. In addition to these current market forecasts, past developments and experience are also taken into account. For the perpetuity beyond the period of five years, the cash flow is extrapolated using the expected long-term growth rates for the individual business units. For the two CGUs High Voltage Power Applications and Low Voltage & Control Unit Applications of the Hybrid & Electric Vehicles (HEV) business unit, a detailed model with long-term detailed planning was used as a basis due to the specific situation of a start-up. For the CGU Engine & Drivetrain Systems, a detailed model with long-term detailed planning was used as a basis due to the discontinuation of business activities and the associated restructuring in the coming years.

The main assumptions when calculating the value in use of a CGU are the free cash flows, the discount rate and its parameters, and the long-term growth rate.

Annual impairment testing was performed on the basis of the bottom-up business plan for the next five years approved by management in the period under review. For the CGUs of the Interior and Chassis & Safety segments, the cash flows were discounted with an interest rate before tax of 11.1 % (PY: 10.7%) in the reporting year; for those of the Powertrain segment, they were discounted with an interest rate of 10.7% (PY: 10.7%); and for those of the Tire and ContiTech segments, with an interest rate of 9.2% (PY: 9.8%). These pre-tax WACCs are based on the capital structure of the respective relevant peer group on average over the last five years. The risk-free interest rate is 0.2% (PY: 1.1%) and the market risk premium

7.5% (PY: 6.75%). Borrowing costs were calculated as the total of the risk-free interest rate plus the credit spreads of peer group companies rated by Standard & Poor's, Moody's or Fitch.

For the annual impairment test, the average growth rate in the detailed planning period for the CGUs in the Interior segment was 6.1% (PY: 8.5%), in Chassis & Safety 4.0% (PY: 6.8%), in Powertrain 5.9% (PY: 6.5%), in Tires 3.8% (PY: 5.5%) and in ContiTech 3.5% (PY: 7.1%). The long-term growth rate was 1.5% (PY: 1.5%) for the CGUs of the Interior and Chassis & Safety segments and 1.0% (PY: 1.5%) for those of the Powertrain segment. For those of the Tire and ContiTech segments, the long-term growth rate was 0.5% (PY: 0.5%). These growth rates do not exceed the long-term average growth rates for the markets in which the CGUs operate.

The recoverable amount of the CGUs affected by impairment during the course of the year corresponds to at least their value in use at the time the annual impairment test is performed.

	December 31, 2019		September 30, 2019
Cash-generating unit in € millions	**Value in use**	**Impairment**	**Impairment**
Infotainment & Connectivity	385.0	568.5	570.2
Instrumentation & Driver HMI	1,664.0	779.4	788.4
Hydraulic Brake Systems	920.3	267.2	268.5
Vehicle Dynamics	1,946.1	452.6	453.9
Engine & Drivetrain Systems	2,377.9	223.5	224.2
		2,291.2	**2,305.2**

The annual impairment testing of goodwill determined no further requirements for impairment for 2019.

Assuming a 0.5-percentage-point increase in the discount rate to 11.6% for the Interior and Chassis & Safety segments,11.2% for the Powertrain segment and 9.7% for the Tire and ContiTech segments would potentially result in an additional asset impairment in Instrumentation & Driver HMI of around €28 million. Goodwill would additionally be impaired by around €76 million in Vehicle Dynamics. Reducing the long-term growth rate by 0.5 percentage points would result in an additional impairment of goodwill of around €44 million in Vehicle Dynamics. If sales in perpetuity would decline by 5.0%, consequently reducing free cash flow as a key planning parameter, this would potentially result in an asset impairment of around €21 million in Instrumentation & Driver HMI. Goodwill would additionally be impaired by around €46 million in Vehicle Dynamics.

The corporation recognized a goodwill impairment of €2.3 million in the ContiTech segment for the CGU Special Technologies and Solutions due to the discontinuation of a business activity.

Assets held for sale and related liabilities
A non-current asset (or disposal group) is classified as held for sale and is presented separately in the statement of financial position if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

A non-current asset (or disposal group) held for sale is measured at the lower of its carrying amount and fair value less costs to sell where it meets the held for sale criteria. Depreciation of these assets ceases once they are classified as held for sale. Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts shall be measured in accordance with the applicable IFRS.

A non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners. For this to be the case, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. A non-current asset (or disposal group) held for distribution is measured at the lower of its carrying amount and fair value less costs to distribute.

On subsequent remeasurement of a disposal group, the carrying amounts of any assets and liabilities that are not within the scope of the measurement requirements of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, but are included in a disposal group classified as held for sale, shall be remeasured in accordance with the applicable IFRS before the fair value less costs to sell of the disposal group is remeasured.

A discontinued operation can also be classified as held for sale under IFRS 5. A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The classification of a component of an entity as a discontinued operation is also appropriate in the case of classification as held for distribution, provided the criteria are met.

In the context of IFRS 5, the intended spin-off of the companies which were the subject of the carve-out and the transformation of the Vitesco Technologies Group into an independent legal entity is significant in the reporting period. After critical assessment of the overall circumstances, there is no obligation to report these spun-off companies as discontinued operations in accordance with IFRS 5 as at December 31, 2019. According to critical analysis, the above explained criteria relevant for the classification in accordance with IFRS 5 were not met due to the existing uncertainty as at the end of the reporting period. The relevant requirements of IFRS 5 are therefore not applied in the consolidated financial statements.

Financial instruments

A financial instrument in accordance with IAS 32, *Financial Instruments: Presentation*, is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

In the Continental Corporation, a purchase or sale of financial assets or financial liabilities is recognized or derecognized at the settlement date.

Financial assets

Financial assets are recognized in the statement of financial position as at the date Continental becomes a contractual party to the financial instrument. At the acquisition date, they must be classified into measurement categories that determine the subsequent accounting.

Receivables from the receivables factoring programs carried out in the corporation are recognized in the statement of financial position when the risks and rewards, in particular credit and default risk, have not been essentially transferred. The repayment obligations therefrom are, as a rule, then shown as short-term financial liabilities.

The classification and measurement of financial assets is based on the business model in which the assets are managed and on their cash flow characteristics. These conditions are cumulative criteria whose audit sequence is irrelevant.

It is therefore necessary to analyze the business model in which the asset to be classified is held. This relates to the investigation of the way in which financial assets held in order to collect cash flows are managed. The corporation reclassifies debt instruments only if the corresponding business model changes.

IFRS 9, *Financial Instruments*, distinguishes between three business models.

- Hold-to-collect: The objective of this business model is to hold the financial assets and generate the contractual cash flows. This model is the prevalent business model in the Continental Corporation.

- Hold-to-collect and sale: This business model aims to collect the contractual cash flows or sell the financial assets. This business model does occur – for example, in connection with notes receivable – but is fundamentally of subordinate importance in the Continental Corporation.

- Other: This business model constitutes a catch-all category. This model occurs in the corporation in connection with recognized trade accounts receivable from third parties which will probably be sold under a true sale-of-receivables factoring agreement; however, it is fundamentally of subordinate importance in the Continental Corporation.

In addition to the analysis of the business model, the contractual terms applicable on acquisition of the financial instrument must also be assessed (SPPI (solely payments of principal and interest) criterion). The SPPI criterion is met when the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement.

On the basis of these two conditions, a distinction is drawn between the following measurement categories:

- Measured at cost: The financial asset, which constitutes a debt instrument, is held within a business model whose objective is to hold assets in order to collect contractual cash flows. Furthermore, the contractual cash flows can be characterized as payments of principal and interest on the principal amount outstanding. Interest income is recognized in the financial result using the effective interest method. Gains or losses arising from derecognition are recognized in profit or loss together with the foreign-currency gains and losses. Impairment losses are likewise recognized separately in the income statement.

- Measured at fair value through other comprehensive income with reclassification (FVOCIwR): The financial asset, which constitutes a debt instrument, is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Furthermore, the contractual cash flows can be characterized as payments of principal and interest on the principal amount outstanding. Changes in the carrying amount are recognized in other comprehensive income. Income or expenses from impairment, interest income and foreign-currency gains and losses are recognized in profit or loss. The cumulative gain or loss stated in other comprehensive income is reclassified from equity to the income statement when the financial asset is derecognized. Interest income is recognized in the financial result using the effective interest method. Foreign-currency gains and losses are recognized in other income and expenses.

- Measured at fair value through profit or loss (FVPL): The financial asset, which constitutes a debt instrument, is not to be measured at cost or at fair value through other comprehensive income with reclassification (FVOCIwR), as either the SPPI criterion was not met or the “Other” business model applies. Classification to the “measured at fair value through profit or loss (FVPL)” category can also be appropriate if the fair value option is applied to debt instruments that should actually be classified as measured at cost or at fair value through other comprehensive income with reclassification (FVOCIwR). However, the Continental Corporation does not currently intend to apply the fair value option to debt instruments. The financial asset, which constitutes an equity instrument, is to be measured at fair value through profit or loss if there is a trading intention or if there is no trading intention and the fair value option is not used. Income or expense from a financial asset measured at fair value through profit or loss is recognized in the income statement.

- Measured at fair value through other comprehensive income without reclassification (FVOCIwoR): In the case of a financial asset that constitutes an equity instrument and is not held for trading, changes in the carrying amount are recognized in other comprehensive income if the fair value option is used. The Continental Corporation regularly exercises this option. The cumulative gain or loss in other comprehensive income is not reclassified to the income statement when the financial asset is derecognized. Dividends are recognized in other income from investments.

Investments that fall within the scope of IFRS 9, *Financial Instruments*, and meet the definition of equity must generally be measured at fair value. For equity instruments that are neither held for trading nor constitute contingent consideration accounted for by the acquirer in a business combination according to IFRS 3, *Business Combinations*, the Continental Corporation regularly exercises the option at the acquisition date of recognizing changes in fair value in other comprehensive income without later reclassification. Dividends are an exception to this and continue to be recognized in profit or loss when the legal entitlement is established, unless this relates to a partial restitution of acquisition costs. Equity instruments held for trading are without exception recognized at fair value through profit or loss.

On initial recognition, the corporation measures a financial asset at fair value plus the transaction costs directly attributable to the acquisition, with the exception of financial assets measured at fair value through profit or loss, for which associated transaction costs are recognized as expense in the income statement.

Impairment is recognized using the expected loss model. The impairment model applies to financial assets measured at amortized cost or at fair value through other comprehensive income (FVOCI) (except for investments in equity instruments), contract assets that result from IFRS 15, *Revenue from Contracts with Customers*, lease receivables, loan commitments and financial guarantee contracts.

Loss allowances are measured on the basis of 12-month expected credit losses or on the basis of lifetime expected credit losses. 12-month expected credit losses result from possible default events within 12 months after the reporting date. Lifetime expected credit losses result from all possible default events over the expected life of a financial instrument.

Lifetime expected credit loss measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition, and 12-month expected credit loss measurement applies if it has not. The credit risk of a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due on the reporting date.

For trade accounts receivable and contract assets with and without significant financing components, lease payments receivable and current receivables from related parties, only lifetime expected credit loss measurement is applied. Under this approach, the lifetime expected credit losses must be recognized from the initial recognition of the receivable.

A financial asset is in default or credit-impaired if one of the following criteria is met:

- Insolvency or a similar event that indicates significant financial difficulty and a probable default of the counterparty.
- Probable debt waiver.
- A breach of contract that leads to the assumption that it is more probable that one or more receivables are not collectible.
- Other reasons in the assessment of credit management that lead to the assumption that it is more probable that the receivables are not collectible.

If there is evidence of uncollectibility, the financial asset is derecognized. If creditworthiness improves, the allowance is reversed.

Financial liabilities

Financial liabilities are recognized in the statement of financial position as at the date Continental becomes a contractual party to the financial instrument.

Financial liabilities are generally measured at amortized cost using the effective interest method. Instruments that are held for trading are classified as “financial liabilities measured at fair value through profit or loss.” For financial liabilities not held for trading, the fair value option can be exercised. If the fair value option is used, the portion of the change in the fair value due to changes in the credit risk of the liability is recognized in other comprehensive income. The fair value option is not currently exercised in the corporation. In the consolidated financial statements of Continental AG, all non-derivative financial liabilities are measured at amortized cost, which as a rule comprises the remaining principal balance and issuing costs, net of any unamortized premium or discount. Liabilities from finance leases are shown at the present value of the remaining lease payments based on the implicit lease interest rate. Financial obligations with fixed or determinable payments that comprise neither financial liabilities nor derivative financial liabilities and are not quoted in an active market are reported in the statement of financial position under other financial liabilities in accordance with their term.

In the case of information reported in accordance with IFRS 7, *Financial Instruments: Disclosures*, classification is in line with the items disclosed in the statement of financial position and/or the measurement category used in accordance with IFRS 9.

Derivative financial instruments and hedge accounting

Derivative financial instruments are measured at fair value through profit or loss (FVPL). The fair value is generally the market or exchange price. In the absence of an active market, the fair value is determined using financial models.

Fair values of currency forwards are calculated by way of future cash flows being translated into one of the two currencies using forward rates, netted, discounted with risk-free interest rates and then translated into the functional currency of the respective subsidiary at current spot exchange rates if applicable (par method).

The value of options is determined by applying recognized option pricing models.

To calculate the fair value of interest-rate swaps and cross-currency interest-rate swaps, the future cash flows are discounted with the interest rates for the respective maturities, with primarily deposit or IBOR rates used as short-term interest rates while long-term interest rates are based on the swap rates in the respective currency. Future cash flows are forecast using interest-rate curves with an appropriate payment tenor. When discounting, currency basis spreads or, if applicable, tenor basis spreads are taken into account.

The measurement of derivative instruments takes into account the credit spread in general.

Derivative instruments are recognized at the date when the obligation to buy or sell the instrument arises.

Hedge accounting is applied using derivative instruments as hedges, provided the conditions for this are met. Continental designates the hedges in their entirety only. Continental prepares documentation on the designation of the hedges and on the documentation of the fulfillment of the conditions for the application of hedge accounting.

Changes in the fair values of derivative instruments that are designated to hedge cash flows where effectiveness is demonstrated are recognized in the cash flow hedge reserve in the difference from financial instruments in equity. If these cumulative fair value changes from inception of the hedge exceed the cumulative present value changes of the hedged items, the excess amounts are recognized directly in the income statement. The cash flow hedge reserve is reclassified to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss.

If the hedged cash flows are no longer expected to occur, that amount is immediately reclassified from the reserve to profit or loss.

Hedge accounting under these separate rules is discontinued if the criteria for this are no longer met or the hedging instrument expires or is sold, terminated or exercised. In this case, the cash flow hedge reserve in place at the time of discontinuation is reclassified to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss, as long as the hedged future cash flows are still expected to occur. If they are not expected to occur, the cash flow hedge reserve is reclassified to profit or loss immediately.

The amount of the effective portion of the change in value of the hedges remaining from the hedging of foreign-currency risks from net investments in foreign operations is still recognized together with the effect from the currency translation of the net investment in the difference from currency translation in equity. The accumulated currency effects are not reclassified in profit and loss until the foreign operations are sold or liquidated.

Embedded derivatives

An embedded derivative is a component of a hybrid contract alongside a non-derivative host contract. A portion of the cash flows of the hybrid contract is therefore subject to similar variability as a separate derivative.

Non-derivative host contracts, with the exception of financial assets, are regularly inspected for embedded derivatives.

If the host contract does not fall under the scope of IFRS 9 or if the host contract is a financial liability, embedded derivatives must be separated from the host contract if the assessment finds that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms would meet the definition of a derivative and Continental does not exercise the option to measure the entire hybrid instrument at fair value through profit or loss.

If separation is appropriate, the host contract is accounted for in accordance with the relevant IFRS requirements. The embedded derivative is recognized at fair value through profit or loss (FVPL).

Inventories

Inventories are recognized at the lower of cost and net realizable value. Acquisition cost is generally determined using the weighted-average method. Production cost includes direct costs, production-related material costs, overheads and depreciation. Inventory risks resulting from decreased marketability or excessive storage periods are accounted for with write-downs.

Other assets

Other assets are recognized at amortized cost. Allowances are recognized as appropriate to reflect any possible risk related to recoverability.

Accounting for income taxes

Income taxes are measured using the concept of the statement of financial position liability method in accordance with IAS 12, *Income Taxes*. Tax expenses and refunds that relate to income are recognized as income taxes. Late payment fines and interest arising from subsequently assessed taxes are not reported as tax expenses but as financial expenses.

Current taxes owed on income are recognized as expenses when they are incurred.

Deferred taxes include expected tax payments and refunds from temporary differences between the carrying amounts in the consolidated financial statements and the related tax bases, as well as from the utilization of loss carryforwards. No deferred tax is recognized for non-tax-deductible goodwill. The deferred tax assets and liabilities are measured at the applicable tax rates related to the period when the temporary differences are expected to reverse. Changes in tax rates are recognized once the rate has been substantially enacted. Deferred tax assets are not recognized if it is not probable that they will be realized in the future.

Income tax receivables and liabilities are recognized as current items, as they are due immediately and this due date often cannot be deferred.

Employee benefits
The retirement benefits offered by the corporation comprise both defined benefit and defined contribution plans.

Pension liabilities under defined benefit plans are actuarially measured pursuant to IAS 19, *Employee Benefits* (revised 2011), using the projected unit credit method that reflects salary, pension and employee fluctuation trends. The discount rate to determine the present value is based on long-term loans in the respective capital market. Actuarial gains and losses are recognized in other comprehensive income. Expenses from interest cost on pension liabilities and income from pension funds are reported separately in the financial result.

Accordingly, the interest effects of other long-term employee benefits are reported in the financial result. Pension liabilities for some companies of the corporation are covered by pension funds. Furthermore, plan assets comprise all assets, as well as claims from insurance contracts, that are held exclusively toward payments to those entitled to pensions and are not available to meet the claims of other creditors. Pension obligations and plan assets are reported on a net basis in the statement of financial position.

The other post-employment benefits also shown under the employee benefits relate to obligations to pay for health costs for retired workers in the U.S.A. and Canada in particular.

Defined contribution plans represent retirement benefits where the company only contributes contractually fixed amounts for current service entitlements, which are generally invested by independent, external asset managers until the date of retirement of the employee. The fixed amounts are partly dependent on the level of the employee's own contribution. The company gives no guarantees of the value of the asset after the fixed contribution, either at the retirement date or beyond. The entitlement is therefore settled by the contributions paid in the year.

Provisions for other risks and obligations
Provisions are recognized when a legal or constructive obligation has arisen that is likely to result in a future cash outflow to third parties and the amount can be reliably determined or estimated. The provisions are recognized as at the end of the reporting period at the value at which the obligations could probably be settled or transferred to a third party. Non-current provisions such as those for litigation or environmental risks are discounted to their present value. The resulting periodic interest charge for the provisions is shown under the financial result including an effect from a change in interest.

Non-financial liabilities
Current non-financial liabilities are carried at their payable amount. Non-current non-financial liabilities are measured at amortized cost.

Share-based payments
Cash-settled share-based payments are measured at fair value using a Monte Carlo simulation. The liabilities are recognized under other financial liabilities until the end of the holding period.

Estimates
Proper and complete preparation of the consolidated financial statements requires management to make estimates and assumptions affecting the assets, liabilities and disclosures in the notes, as well as the income and expenses for the reporting period.

The most important estimates relate to the determination of the useful lives of intangible assets and property, plant and equipment; the impairment testing of goodwill and non-current assets, in particular the underlying cash flow forecasts and discount rates; the recoverability of amounts receivable and other assets as well as income tax receivable; the financial modeling parameters for share-based payments; the recognition and measurement of liabilities and provisions, especially the actuarial parameters for pensions and other post-employment obligations; the parameters for measuring restructuring provisions; and the probabilities of claims and amounts of settlements for warranty, litigation or environmental risks.

The assumptions and estimates are based on the information currently available at the date of preparation of the consolidated financial statements. The underlying information is regularly reviewed and updated to reflect actual developments as necessary.

Consolidated statement of cash flows
The statement of cash flows shows the sources during the reporting period that generated cash and cash equivalents as well as the application of cash and cash equivalents. This includes all cash and cash equivalents and demand deposits. Cash equivalents are short-term, highly liquid financial investments that can be readily converted into known cash amounts and are subject to an insignificant risk of changes in value.

The restrictions that may impact the availability of capital are also understood to comprise all existing restrictions on the cash and cash equivalents. In the Continental Corporation, the cash and cash equivalents are restricted with regard to pledged amounts and balances in countries with foreign-exchange restrictions or other barriers to accessing liquidity. Taxes to be paid on the transfer of cash assets from one country to another are not usually considered to represent a restriction on cash and cash equivalents.

Financial investments are considered to be cash equivalents only if they have a remaining term not exceeding three months.

Accounting policies applied until December 31, 2018
In the 2019 reporting year, the corporation applied IFRS 16, *Leases*, retrospectively for the first time, making use of the exemption from restating comparative information retrospectively. The comparative information is therefore still reported in accordance with the corporation's previous accounting policies. It is based on IAS 17, *Leases*, and its related interpretations (IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, SIC-15, *Operating Leases – Incentives*, and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*), which have been replaced by IFRS 16.

The previous accounting policies relevant for the comparative period regarding leases of property, plant and equipment, especially buildings, are explained below:

Continental leases property, plant and equipment, especially buildings. If the substantial risks and rewards from the use of the leased asset are controlled by Continental, the agreement is treated as a finance lease and an asset and related financial liability are recognized. In the case of an operating lease, where the economic ownership remains with the lessor, only the lease payments are recognized as incurred and charged to income. Other arrangements, particularly service contracts, are also treated as leases to the extent they require the use of a particular asset to fulfill the arrangement and the arrangement conveys a right to control the use of the asset.

3. New Accounting Pronouncements

In accordance with E.U. Regulation (E.C.) No. 1606/2002 in conjunction with Section 315e (1) of the German Commercial Code *(Handelsgesetzbuch – HGB)*, Continental AG has prepared its consolidated financial statements in compliance with IFRS as adopted by the Commission of the European Communities under the European Union endorsement procedure. Accordingly, IFRS are only required to be applied following endorsement of the new standards by the E.U. Commission.

The following endorsed standards, interpretations issued in relation to published standards and amendments that were applicable to the consolidated financial statements of Continental AG became effective in 2019 and have been adopted accordingly:

IFRS 16, *Leases*, replaces the existing guidance for the accounting of leases and supersedes IAS 17, *Leases*; IFRIC 4, *Determining Whether an Arrangement Contains a Lease*; SIC-15, *Operating Leases – Incentives*; and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for the lessee and the lessor. IFRS 16 includes significant changes to lessee accounting with the removal of the distinction between finance lease and operating lease and the general recognition of all leases in the statement of financial position. In accordance with IFRS 16, the lessee shall recognize a right-of-use asset and a corresponding lease liability, which represents the lessee's obligation to make lease payments. The standard grants exemptions for short-term leases and for leases in which the underlying asset is of low value. Continental AG has made use of these exemptions. Regarding lessor accounting, the standard maintains the requirements of IAS 17. Accordingly, the lessor continues to classify leases as finance or operating leases. The standard and the consequential amendments to other standards are required to be applied for annual periods beginning on or after January 1, 2019. When adapting to the new lease standard, the company can select either the full retrospective approach or the modified retrospective approach including optional practical expedients. Continental applied IFRS 16 for the first time as of January 1, 2019, and selected the modified retrospective approach. The values for comparative periods are based on the accounting principles of IAS 17 and are shown unadjusted. Effects from the first-time adoption are presented in the opening statement of financial position as at January 1, 2019. The standard and the consequential amendments to other standards had a significant effect on the consolidated financial statements of Continental AG.

The amendments to IAS 19, *Employee Benefits (Plan Amendment, Curtailment or Settlement)*, clarify the accounting for plan amendments, curtailments and settlements. When there is a plan amendment, curtailment or settlement, the net defined benefit liability (asset) shall be remeasured using the current fair value of plan assets and current actuarial assumptions in order to determine past service cost or a gain or loss on settlement. In such cases, the amendments specify that current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment and settlement shall be determined using the updated actuarial assumptions as well. The net interest for the remainder of the annual reporting period after the plan amendment, curtailment and settlement shall be determined on the basis of the remeasured net defined benefit liability (asset). The amendments are required to be applied for annual periods beginning on or after January 1, 2019. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The amendments to IAS 28, *Investments in Associates and Joint Ventures (Long-term Interests in Associates and Joint Ventures)*, clarify that IFRS 9, *Financial Instruments*, applies to entities' long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the entity's net investment in an associate or joint venture. The amendments clarify that an entity has to apply the IFRS 9 requirements before applying the loss allocation and impairment requirements in IAS 28. Furthermore, in applying IFRS 9, an entity does not take account of any adjustments to the carrying amount of long-term interests that result from the application of IAS 28. Planned as proposed amendments to the IASB's annual improvements project, *Improvements to IFRSs, December 2017, Cycle 2015–2017*, it was finally decided to issue these amendments to IAS 28 separately. The amendments are required to be applied for annual periods beginning on or after January 1, 2019. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The amendments to IFRS 9, *Financial Instruments (Prepayment Features with Negative Compensation)*, state that particular financial assets with prepayment features that may result in reasonable negative compensation for the early termination of such contracts are eligible to be measured at amortized cost or at fair value through other comprehensive income. Regarding the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in derecognition, the amendments in the basis for conclusions clarify that any adjustment to the amortized cost should be recognized in profit or loss at the date of the modification or exchange. The amendments are required to be applied for annual periods beginning on or after January 1, 2019. The amendments had no significant effect on the consolidated financial statements of Continental AG.

IFRIC 23, *Uncertainty over Income Tax Treatments*, clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. According to IFRIC 23, uncertain tax treatments shall be considered separately or together with one or more other uncertain tax treatments depending on which approach better predicts the resolution of the uncertainty. For the assessment, it is assumed that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. Depending on which method the entity expects to better predict the resolution of the uncertainty, the most likely amount or the expected value can be used to reflect the effect of uncertainty for each uncertain tax treatment. If an uncertain tax treatment affects current tax and deferred tax, consistent judgments and estimates shall be made for both current and deferred tax. Furthermore, the interpretation contains a guideline for the consideration of changes in facts and circumstances and refers to existing disclosure requirements for uncertain tax positions. The interpretation and the consequential amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, are required to be applied for annual periods beginning on or after January 1, 2019. The interpretation had no significant effect on the consolidated financial statements of Continental AG.

Under the IASB's annual improvements project, *Improvements to IFRSs, December 2017, Cycle 2015–2017*, the following amendments are effective:

- The amendments to IFRS 3, *Business Combinations (Previously Held Interests in a Joint Operation)*, clarify that, if control of a business that is a joint operation is obtained, the previously held interest in a joint operation is remeasured. Such a transaction is a business combination achieved in stages. In this context, IFRS 11, *Joint Arrangements*, was also amended to make clear that previously held interests in the joint operation are not remeasured in case an entity obtains joint control of a business that is a joint operation. This transaction is similar to an investment in an associate becoming an investment in a joint venture and vice versa.

- The amendments to IAS 12, *Income Taxes (Income Tax Consequences of Payments on Financial Instruments Classified as Equity)*, specify that income tax consequences of dividends on financial instruments classified as equity should be recognized according to where the past transactions or events that generate distributable profits were recognized originally. These requirements apply to all income tax consequences of dividends. In the context of the amendments to IAS 12, the basis for conclusions in IAS 32, *Financial Instruments: Presentation*, was extended.

- The amendments to IAS 23, *Borrowing Costs (Borrowing Costs Eligible for Capitalization)*, clarify that specific borrowings that remain outstanding after the related qualifying asset is ready for its intended use or sale become part of the funds an entity borrows generally. Thus, these borrowings are included in the calculation of the capitalization rate for qualifying assets for which no specific funds were borrowed.

The amendments are required to be applied for annual periods beginning on or after January 1, 2019. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The following standards, interpretations issued in relation to published standards and amendments have already been adopted by the E.U. but will not take effect until a later date:
The amendments to IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *(Definition of Material)*, clarify the definition of materiality and standardize it in all standards and the Conceptual Framework of the IFRS. The amendments and the consequential amendments to other standards and publications are required to be applied for annual periods beginning on or after January 1, 2020. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 7, *Financial Instruments: Disclosures*, *(Interest Rate Benchmark Reform)*, modify some specific hedge accounting requirements and require additional information about hedging relationships in the context of the uncertainty caused by the IBOR reform. The amendments are required to be applied for annual periods beginning on or after January 1, 2020. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The *Amendments to References to the Conceptual Framework in IFRS Standards* set out amendments to IFRS Standards, the accompanying documents and IFRS practice statements to reflect the issue of the revised Conceptual Framework (2018). The amendments are required to be applied for annual periods beginning on or after January 1, 2020. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The following standards, interpretations issued in relation to published standards and amendments have not yet been adopted by the E.U. and will become effective at a later date:
The amendments to IAS 1, *Presentation of Financial Statements (Classification of Liabilities as Current or Non-Current)*, clarify the classification of a liability. For a liability to be classified as non-current, the entity must have an unconditional right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The entity's intention to actually exercise this right is irrelevant. If the rights are dependent on certain terms, these must be fulfilled as at the end of the reporting period. If terms are attached to the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments, these do not affect its classification as current or non-current, provided the option is classified as an equity instrument and is reported separately as an equity component of a compound financial instrument in accordance with IAS 32, *Financial Instruments: Presentation*. The amendments are required to be applied for annual periods beginning on or after January 1, 2022. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRS 17, *Insurance Contracts*, replaces IFRS 4, *Insurance Contracts*, and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The standard and the consequential amendments to other standards are required to be applied for annual periods beginning on or after January 1, 2021. The standard and the consequential amendments to other standards are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 3, *Business Combinations (Definition of a Business)*, clarify the definition of a business with the objective to identify uniquely whether a transaction should be accounted for as a business combination or as an asset acquisition. An acquired set of activities and assets must include an input and a substantive process that together significantly contribute to the ability to create output in order to be considered a business. The amendments add guidance and illustrative examples to assess whether a substantive process has been acquired and refine the definition of business and output. An assessment of whether market participants are capable of replacing missing elements or integrating the acquired activities and assets is no longer necessary. Furthermore, an optional concentration test was added to permit a simplified assessment of whether an acquired set of activities and assets is not a business. Under this optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. The amendments are required to be applied to acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

4. Companies Consolidated and Information on Subsidiaries and Investments

Companies consolidated
In addition to the parent company, the number of companies consolidated include 581 (PY: 572) domestic and foreign companies that Continental AG incorporates according to the regulations of IFRS 10, *Consolidated Financial Statements*, or that are classified as joint arrangements or associated companies. Of these, 451 (PY: 442) are fully consolidated and 130 (PY: 130) are accounted for using the equity method.

The number of companies consolidated has increased by a total of nine since the previous year. Three companies were formed, 17 were acquired and five previously unconsolidated entities were included in consolidation for the first time. Six structured entities were also fully consolidated according to IFRS 10. Three companies were liquidated, and the number of companies consolidated was reduced by 13 as a result of mergers.

The additions to the scope of consolidation in 2019 resulted mainly from acquisitions for the corporate restructuring.

A total of 38 (PY: 35) companies whose assets and liabilities, expenses and income – individually and combined – are not material for the earnings, financial and net assets position of the corporation, are not included in consolidation. 34 (PY: 34) of these are affiliated companies, three (PY: three) of which are currently inactive. Four (PY: one) further companies not included in consolidation are associated companies. These units are active.

Information on subsidiaries and investments
As at December 31, 2019, non-controlling interests were not of significance to the corporation. There are no significant restrictions in terms of access to or the use of assets of the corporation due to statutory, contractual or regulatory restrictions or property rights of non-controlling interests.

Noisetier SAS, Paris, France; Continental Teves Taiwan Co., Ltd., Tainan, Taiwan; and e.solutions GmbH, Ingolstadt, Germany, each of which has a 51% share of voting rights, and Carrel Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz, Germany, which has a 94% share of voting rights, are not fully consolidated as, under the companies' statutes, these interests are not enough to direct the relevant activities of these investments.

EasyMile SAS, Toulouse, France, which has a 13% share of voting rights, is classified as an associated company, as significant influence can be exerted on the basis of the company's Articles of Incorporation. Continental AG consolidates 18 (PY: 18) structured entities. These structured entities are characterized, among other things, by limited activities and a narrowly defined business purpose. Continental holds no voting rights or investments in the fully consolidated structured entities. However, Continental directs the business activities of these entities on the basis of contractual rights. The shareholders therefore have no influence. Furthermore, Continental is also exposed to variable returns from these entities and can influence these by directing business activities. There are no significant shares or rights in non-consolidated structured entities.

Further information on equity investments and an overview of the German companies and partnerships that utilized the exemption provisions of Sections 264 (3) and 264b of the German Commercial Code *(Handelsgesetzbuch – HGB)* can be found in Note 41.

5. Acquisition and Disposal of Companies and Business Operations

Acquisition of companies and business operations

In the Tire segment, as a result of the final purchase price settlement for the acquisition of Tyre and Auto Pty Ltd., Melbourne, Australia, in 2018, the purchase price increased by €0.8 million. The final purchase price allocation resulted in an increase in goodwill of €13.3 million to a total of €193.8 million, due among other things to a reduction in the valuation of intangible assets of €10.2 million and an increase in provisions of €7.9 million.

Four asset deals and two share deals also took place in the Tire segment. The purchase prices totaling €10.8 million were paid in cash. The purchase price allocations resulted in goodwill of €3.0 million, intangible assets of €1.5 million and a bargain purchase effect of €2.2 million, which was recognized in profit or loss under other income. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2019.

In the Chassis & Safety segment, there was a reduction in the purchase price of €2.0 million from €3.5 million to €1.5 million for a share deal from fiscal 2018 in connection with the final purchase price settlement. The final purchase price allocation resulted in goodwill of €1.1 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2019.

In the Interior segment, Continental Automotive GmbH, Hanover, Germany, acquired 100% of the shares in Kathrein Automotive GmbH, Hildesheim, Germany, on February 1, 2019. The company, a leading manufacturer of antenna and satellite technology as well as a broad range of communications technology, generated sales of €135.5 million in fiscal 2018. The acquisition augments the Body & Security business unit's expertise with the key segment of intelligent vehicle antennas. The purchase price for Kathrein Automotive GmbH now totals €149.9 million and was paid in cash. The total incidental acquisition costs incurred were recognized as other expenses in the amount of €0.5 million in fiscal 2018 and €0.8 million in fiscal 2019. The final purchase price allocation resulted mainly in goodwill of €38.9 million and other intangible assets of €93.7 million for the Interior segment. If the transaction had already been completed on January 1, 2019, net income after tax would have been €0.0 million lower and sales would have been up by €15.1 million. The transaction was closed on February 1, 2019. Since then, the company has generated sales of €143.6 million and, taking into account the effects of purchase price allocation, contributed net income after tax of -€0.3 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2019.

Also in the Interior segment, the put option on the acquisition of non-controlling interests in Zonar Systems, Inc., Seattle, Washington, U.S.A., was exercised for an exercise price of €55.3 million. The resulting difference of €29.2 million between the exercise price and the non-controlling interests was recognized in other comprehensive income.

In the ContiTech segment, a share and asset deal took place on April 1, 2019, for the acquisition of the anti-vibration systems business of Cooper-Standard Automotive Inc., Novi, Michigan, U.S.A. The business, which comprises the manufacturing of weight-optimized anti-vibration solutions to reduce noise and vibration in vehicles, generated sales of €294.7 million in fiscal 2018. The acquisition boosts the Vibration Control business unit's global presence in the area of vibration control and noise isolation, particularly in North America. The preliminary purchase price totals €216.8 million and was paid in cash. The total incidental acquisition costs incurred were recognized as other expenses in the amount of €2.1 million in fiscal 2018. The provisional purchase price allocation resulted mainly in goodwill of €72.8 million and other intangible assets of €78.9 million for the ContiTech segment. If the transaction had already been completed on January 1, 2019, net income after tax would have been €8.5 million higher and sales would have been up by €53.1 million. The transaction was closed on April 1, 2019. Since then, the business has generated sales of €191.2 million. Taking into account the effects of purchase price allocation and incurred integration costs, the business has contributed net income after tax of -€12.9 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2019.

Also in the ContiTech segment, there was an acquisition of remaining shares for a purchase price of €15.6 million. The resulting difference of €11.2 million between the purchase price and the carrying amount of the acquired shares was recognized in other comprehensive income.

One other asset deal took place in the ContiTech segment. The purchase price of €15.1 million was paid in cash. The purchase price allocation resulted in goodwill of €3.9 million, intangible assets of €4.4 million and inventories of €6.8 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2019.

Also in the ContiTech segment, 100% of the shares in Merlett Tecnoplastic S.p.A., Daverio, Italy, were acquired as part of a share deal. The deal was closed on November 4, 2019. With this acquisition, Continental intends to expand its material expertise beyond rubber, particularly with regard to high-performance thermoplastics technologies and solutions.

The purchase price for the shares amounts to €64.6 million and was paid in cash. The total incidental acquisition costs incurred were recognized as other expenses in the amount of €1.4 million in fiscal 2019. The provisional purchase price allocation resulted mainly in goodwill of €7.2 million and other intangible assets of €21.0 million for the ContiTech segment. If the transaction had already been completed on January 1, 2019, net income after tax would have been €4.2 million higher and sales would have been up by €67.4 million.

The transaction was closed on November 4, 2019. Since then, the company has generated sales of €10.0 million and, taking into account the effects of purchase price allocation, contributed net income after tax of -€3.8 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2019.

Assets and liabilities that were part of the aforementioned acquisitions and adjustments to purchase price allocations from the previous year and were included in the consolidated statement of financial position were carried in the following amounts in fiscal 2019:

	Fair value at date of first-time consolidation			
Acquired net assets in € millions	**Kathrein**	**Cooper-Standard**	**Merlett**	**Other**
Other intangible assets[1]	93.7	78.9	21.0	-4.3
Property, plant and equipment	28.4	67.8	10.3	5.7
Investments in equity-accounted investees	0.0	17.6	0.0	0.0
Other investments	4.8	0.0	0.9	0.1
Deferred tax assets	0.1	0.0	0.0	4.8
Long-term other financial assets	1.5	0.0	0.0	0.0
Long-term other assets	0.1	0.0	0.0	0.0
Inventories	16.9	13.1	23.2	17.6
Trade accounts receivable	17.4	45.2	16.7	8.1
Short-term other financial assets	0.0	4.9	0.0	0.0
Short-term other assets	5.0	5.1	1.0	0.0
Income tax receivables	0.3	0.0	1.0	0.0
Cash and cash equivalents	6.3	0.0	9.8	3.6
Long-term employee benefits	-3.7	-22.4	-5.2	-1.4
Deferred tax liabilities	-15.6	-4.6	-5.9	0.1
Long-term provisions for other risks and obligations	-3.4	-2.3	-0.6	-7.3
Long-term indebtedness	-4.2	-8.2	0.0	-0.4
Short-term employee benefits	-3.1	-5.0	-2.7	-1.6
Trade accounts payable	-19.3	-38.1	-9.1	-6.3
Short-term contract liabilities	0.0	-4.7	-0.1	0.0
Income tax payables	-3.0	0.0	-0.2	0.0
Short-term provisions for other risks and obligations	-2.6	0.0	-0.7	-0.1
Short-term indebtedness	-2.0	-1.5	0.0	-7.0
Short-term other financial liabilities	0.0	-0.5	-0.2	0.1
Short-term other liabilities	-6.6	-1.3	-1.8	-3.0
Purchased net assets	**111.0**	**144.0**	**57.4**	**8.7**
Purchase price	149.9	216.8	64.6	24.7
Bargain purchase effect				2.2
Goodwill	**38.9**	**72.8**	**7.2**	**18.2**

1 This includes €1.5 million for purchased software.

Notes to the Consolidated Statement of Income

6. Revenue from Contracts with Customers

In addition to the comments in Note 2 (General Information and Accounting Principles), the disclosure requirements that arise in relation to IFRS 15, *Revenue from Contracts with Customers*, are grouped together in this note.

Revenue in the Continental Corporation
Revenue from contracts with customers and revenue from other sources are shown in the two tables below:

€ millions	2019	2018
Sales	44,478.4	44,404.4
Other revenues from research and development	1,107.6	1,071.2
Other revenues	75.5	63.0
Revenues from contracts with customers	**45,661.5**	**45,538.6**
Other ancillary business	109.6	111.9
Governmental grants	81.5	64.4
Sale of fixed assets	31.8	29.1
Revenues from franchising and trademarks	20.5	4.3
Sale of energy and scrap	10.7	15.1
Gains from sale of a company	0.0	49.2
Others	3.7	8.5
Revenues from other sources	**257.8**	**282.5**
Total revenues	**45,919.3**	**45,821.1**

Sales from contracts with customers from January 1 to December 31, 2019

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Germany	1,745.7	1,532.3	2,549.9	1,551.4	1,217.1	-246.8	8,349.6
Europe excluding Germany	2,051.1	2,109.5	2,611.7	4,761.8	1,631.4	-62.6	13,102.9
North America	2,336.3	1,871.1	2,322.9	3,166.3	2,015.1	-83.7	11,628.0
Asia	3,089.3	2,181.0	1,889.7	1,502.6	1,119.8	-30.4	9,752.0
Other countries	159.2	108.4	221.3	745.9	418.1	-7.0	1,645.9
Sales by region	**9,381.6**	**7,802.3**	**9,595.5**	**11,728.0**	**6,401.5**	**-430.5**	**44,478.4**
Automotive original equipment business	9,379.1	7,518.3	8,592.8	3,059.4	3,230.1	-254.0	31,525.7
Industrial/replacement business	2.5	284.0	1,002.7	8,668.6	3,171.4	-176.5	12,952.7
Sales by customer type	**9,381.6**	**7,802.3**	**9,595.5**	**11,728.0**	**6,401.5**	**-430.5**	**44,478.4**

Sales from contracts with customers from January 1 to December 31, 2018

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Germany	1,905.6	1,447.2	2,647.4	1,639.3	1,371.9	-184.6	8,826.8
Europe excluding Germany	2,113.7	2,120.8	2,549.5	4,690.6	1,637.3	-65.8	13,046.1
North America	2,261.7	1,809.6	2,214.6	2,953.5	1,780.3	-44.6	10,975.1
Asia	3,165.9	2,248.6	2,015.0	1,332.6	1,154.0	-27.4	9,888.7
Other countries	141.1	114.8	280.7	736.2	401.2	-6.3	1,667.7
Sales by region	**9,588.0**	**7,741.0**	**9,707.2**	**11,352.2**	**6,344.7**	**-328.7**	**44,404.4**
Automotive original equipment business	9,438.6	7,656.8	8,767.5	3,188.0	3,219.5	-255.4	32,015.0
Industrial/replacement business	149.4	84.2	939.7	8,164.2	3,125.2	-73.3	12,389.4
Sales by customer type	**9,588.0**	**7,741.0**	**9,707.2**	**11,352.2**	**6,344.7**	**-328.7**	**44,404.4**

Revenue from research and development is presented in Note 7 (Research and Development Expenses) of the notes to the consolidated financial statements.

Description of sales revenue in automotive original equipment business

The type of performance obligations to customers in automotive original equipment business relates to the diverse and predominantly customer-specific products of the Automotive Group, the ContiTech segment and the original equipment business of the Tire segment; please also refer to the descriptions of the divisions in the corporate management report. Invoices are generally prepared once a month, while the payment terms average 60 days and differ mostly on a regional basis only. Payments are made by bank transfer in the vast majority of cases and no significant discounts on the invoice amount are granted; however, customer bonuses and other price reductions are included in the transaction price as variable price components in line with expectations. The customers do not usually make any significant advance payments. Revenue is almost always recognized over time using an output-based measurement method, and sales revenue is measured based on the products that leave the production plant, as the products are produced and delivered “just in time.” There are no significant obligations from the right of customers to return products, or from reimbursements to customers or similar obligations, or from warranty commitments that include a service component.

Description of sales revenue in industrial and replacement business

The type of performance obligations to customers in industrial and replacement business relates to the replacement tire and retail business of the Tire segment, the industrial and retail business of the ContiTech segment, and the replacement parts and retail business of the Automotive Group; please also refer to the descriptions of the divisions in the corporate management report. Invoices are generally prepared once a month, while the payment terms average 60 days and differ mostly depending on the region and/or product group. Payments are made by bank transfer in the vast majority of cases, with the exception of business with end customers and consumers, who often pay in cash. No significant discounts on the invoice amount are granted; however, customer bonuses and other price reductions are included in the transaction price as variable price components in line with expectations. The customers do not usually make any significant advance payments. Revenue is recognized at the point in time when control is transferred to the customer, also taking account of the agreed incoterms. There are no significant obligations from the right of customers to return products, or from reimbursements to customers or similar obligations, or from warranty commitments that include a service component.

Description of revenue in smaller business activities

Revenue in smaller business activities is included in the sales of the automotive original equipment business, in the sales of the industrial and replacement business, and in other revenues. On the one hand, services are provided and, on the other, project business is conducted in which developments for customers are made, goods produced or services provided over a medium-term or longer period. Except in the case of revenue from research and development, these smaller business activities are only of minor significance for Continental. For all of this revenue, there are no significant obligations from the right of customers to return products, or from reimbursements to customers or similar obligations, or from warranty commitments that include a service component.

The largest component of this revenue relates to revenue from research and development, which is recognized at a point in time, either when the entire development is completed or when identifiable milestones within a development are reached. Invoices are generally prepared after completion – of an entire development or a milestone – and acceptance by the customer. Payments are made by bank transfer in most cases. No significant discounts on the invoice amount are granted. The customers do not usually make any significant advance payments.

In addition and in smaller amounts, services that are performed alongside the main business lead to revenue recognition over time. Both input- and output-based measurement methods are used and sales are measured either based on the hours or days worked or the costs incurred (input), or based on the goods or services provided (output). Invoices are generally prepared at least once a month and payments are made by bank transfer in the vast majority of cases. No significant discounts on the invoice amount are granted. The customers do not usually make any significant advance payments.

In addition, project business is conducted, in which generally customer-specific goods or services are produced or provided for customers over a medium-term or longer period. Revenue from this is likewise recognized over time and sales are mostly measured using input-based measurement methods, taking account of the costs incurred. Invoices are generally issued as contractually agreed. Advance payments averaging 30% are usually made by the customers before the start of a project. Payments are made by bank transfer in the vast majority of cases. No significant discounts on the invoice amount are granted.

Information on contract assets and contract liabilities

Contract assets primarily arise in the project business described above from customer-specific goods or services for customers, but are only of minor significance in the Continental Corporation. Because in these cases the goods or services are provided over a medium-term or longer period in which goods or services have already been provided by Continental but there is not yet an unconditional right against the customer – i.e. a receivable – contract assets must be recognized. The right – or part of the right – to consideration from the customer is often only unconditional once the provision of the services has been completed and can then be recognized as a receivable and invoiced in full. The associated payments are generally made on the basis of actual invoicing. The recognition of receivables and the receipt of payments reduce the associated contract assets.

The table below shows the contract assets from contracts with customers:

€ millions	December 31, 2019	December 31, 2018
Contract assets	89.2	67.5

Contract liabilities include mainly advance payments by customers for deliveries of goods and for services to be performed. In the case of these advance payments by customers for deliveries of goods and for services to be performed, for which contract liabilities are recognized, the customer has already paid the consideration – or part of the consideration – but Continental has generally not yet satisfied its performance obligation, or has done so only to a limited extent. The provision of the corresponding services to the customers by Continental in these cases reduces the level of the associated contract liabilities.

The table below shows the contract liabilities from contracts with customers:

€ millions	December 31, 2019	December 31, 2018
Contract assets	251.6	161.2

Of the contract liabilities of €161.2 million accounted for at the beginning of the year, €153.4 million was recognized as revenue in the reporting year. As a result of performance obligations satisfied in previous years, no material revenue – for example, due to changes in the transaction price – was recognized in the reporting year.

Transaction price for performance obligations not yet satisfied

The table below shows the aggregated, anticipated amounts of transaction prices for performance obligations not yet satisfied or only partly satisfied from contracts as defined in IFRS 15 with a term of more than one year.

€ millions	2020	2021 onward
Revenue from research and development	175.7	274.0
Other revenues	45.9	47.4
Total	**221.6**	**321.4**

The amounts relate chiefly to future revenue from research and development, and the revenue is expected to be recognized within the periods shown. For contracts as defined in IFRS 15 with a term of less than one year, the practical expedient under IFRS 15.121 (a) is applied and no amounts are shown.

Use of other practical expedients

For contracts for which the time interval between the provision of the service by Continental and the expected payment by the customer comes to more than one year as at the start of the contract, the practical expedient from IFRS 15.63 is applied and the transaction price is not adjusted for any significant financing components contained.

7. Research and Development Expenses

The expenses and revenue from research and development are shown in the two tables below:

	2019					
€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Continental Corporation
Research and development expenses	-1,468.1	-1,057.7	-1,452.0	-299.4	-194.6	-4,471.8
Revenue from research and development	419.4	393.6	262.8	—	31.8	1,107.6
Research and development expenses (net)	**-1,048.7**	**-664.1**	**-1,189.2**	**-299.4**	**-162.8**	**-3,364.2**

	2018					
€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Continental Corporation
Research and development expenses	-1,399.0	-1,084.1	-1,314.0	-299.4	-183.7	-4,280.2
Revenue from research and development	375.8	411.5	249.3	—	34.6	1,071.2
Research and development expenses (net)	**-1,023.2**	**-672.6**	**-1,064.7**	**-299.4**	**-149.1**	**-3,209.0**

8. Other Income and Expenses

€ millions	2019	2018
Other income	1,774.6	1,803.4
Other expenses	-4,203.2	-1,027.5
Other income and expenses	**-2,428.6**	**775.9**

Other income

€ millions	2019	2018
Income from research and development	1,107.6	1,071.2
Income from the reversal of provisions	116.3	83.5
Income from the reimbursement of customer tooling expenses	75.5	63.0
Income from the reversal of impairment on financial assets and contract assets	37.2	29.8
Compensation from customers and suppliers	34.5	90.2
Income from the reversal of provisions for litigation and environmental risks	34.0	26.6
Income from the disposal of property, plant and equipment	31.8	29.1
Income from the reversal of provisions for severance payments	4.7	8.5
Bargain purchase effect	2.2	2.9
Income from the disposal of companies and business operations	0.0	187.1
Reversal of impairment losses on property, plant and equipment	0.0	2.8
Miscellaneous	330.8	208.7
Other income	**1,774.6**	**1,803.4**

Other income decreased by €28.8 million to €1,774.6 million (PY: €1,803.4 million) in the reporting period.

Income from research and development increased by €36.4 million to €1,107.6 million (PY: €1,071.2 million).

The reversal of specific warranty provisions and provisions for restructuring measures resulted in income of €116.3 million (PY: €83.5 million) in the reporting period.

Reimbursement of customer tooling expenses resulted in income of €75.5 million (PY: €63.0 million) in 2019.

Income from the reversal of impairment on financial assets and contract assets was €37.2 million (PY: €29.8 million).

Compensation from customers and suppliers resulted in income totaling €34.5 million (PY: €90.2 million) in the reporting period.

The reversal of provisions for litigation and environmental risks resulted in income totaling €34.0 million (PY: €26.6 million).

Income of €31.8 million (PY: €29.1 million) was generated from the disposal of property, plant and equipment in the period under review.

Income of €4.7 million (PY: €8.5 million) arose from the reversal of provisions for severance payments in 2019.

An acquisition in the reporting period resulted in a bargain purchase effect of €2.2 million (PY: €2.9 million).

Disposals of companies and business operations did not result in any notable income in 2019 (PY: €187.1 million).

Reversal of impairment losses on property, plant and equipment did not result in any notable income (PY: €2.8 million).

The “Miscellaneous” item includes proceeds from licensing agreements and income from insurance compensation due to damage to property, plant and equipment caused by force majeure. In addition, government grants amounting to €12.9 million (PY: €8.7 million) that were not intended for investments in non-current assets were received and recognized in profit or loss in the “Miscellaneous” item.

Other expenses

€ millions	**2019**	2018
Impairment on goodwill	2,293.5	–
Additions to specific warranty provisions and provisions for restructuring measures	952.7	348.4
Impairment on property, plant and equipment, and intangible assets	216.4	23.5
Additions to provisions for litigation and environmental risks	80.6	91.6
Expenses from currency translation	75.3	86.7
Expenses from impairment on financial assets and contract assets	75.3	41.6
Expenses from severance payments	61.9	63.9
Expenses from customer tooling	60.2	38.8
Losses on the disposal of property, plant and equipment, and from scrapping	27.3	22.2
Compensation to customers and suppliers	11.2	71.8
Incidental acquisition costs from acquisitions of companies and business operations	5.4	2.0
Losses on the disposal of companies and business operations	0.0	28.9
Miscellaneous	343.4	208.1
Other expenses	**4,203.2**	**1,027.5**

Other expenses increased by €3,175.7 million to €4,203.2 million (PY: €1,027.5 million) in the reporting period.

Within the context of the annual planning process, global production of passenger cars and light commercial vehicles was not expected to increase substantially in the coming years (2020–2024). Due to this triggering event and other significant assumptions made when calculating the value in use of a cash-generating unit (CGU) – such as free cash flows, the discount rate and its parameters, and the long-term growth rate – goodwill was impaired by €2,291.2 million (PY: –). Please see Note 2 for information on impairment.

The corporation recognized a goodwill impairment of €2.3 million in the ContiTech segment for the CGU Special Technologies and Solutions due to the discontinuation of a business area (PY: –).

Additions to specific warranty provisions and provisions for restructuring measures resulted in expenses totaling €952.7 million (PY: €348.4 million).

Impairment on property, plant and equipment, and intangible assets amounted to €216.4 million (PY: €23.5 million) in the reporting period.

In connection with provisions for litigation and environmental risks, there were expenses of €80.6 million (PY: €91.6 million).

In the year under review, expenses of €75.3 million (PY: €86.7 million) were incurred as a result of currency translation from operating receivables and liabilities in foreign currencies not classified as indebtedness.

Expenses from impairment on financial assets and contract assets were €75.3 million (PY: €41.6 million).

Personnel adjustments not related to restructuring led to expenses from severance payments of €61.9 million (PY: €63.9 million).

Expenses from customer tooling of €60.2 million (PY: €38.8 million) arose in 2019.

Losses on the disposal of property, plant and equipment, and from scrapping amounted to €27.3 million (PY: €22.2 million) in 2019.

Compensation to customers and suppliers that is not attributable to warranties resulted in expenses of €11.2 million (PY: €71.8 million) in the reporting period.

Incidental acquisition costs of €5.4 million (PY: €2.0 million) were incurred for the acquisition of companies and business operations.

The disposal of companies and business operations did not result in any notable losses (PY: €28.9 million).

The “Miscellaneous” item also includes expenses from other taxes and losses due to force majeure.

9. Personnel Expenses

The following total personnel expenses are included in function costs in the income statement:

€ millions	2019	2018
Wages and salaries	9,532.9	9,074.4
Social security contributions	1,838.4	1,704.5
Pension and post-employment benefit costs	378.7	346.4
Personnel expenses	**11,750.0**	**11,125.3**

Compared to the 2018 reporting year, personnel expenses rose by €624.7 million to €11,750.0 million (PY: €11,125.3 million). This increase is due primarily to the rise in the average number of employees. The average number of employees in 2019 was 244,137 (PY: 242,797). As at the end of the year, there were 241,458 (PY: 243,226) employees in the Continental Corporation. Please also see the comments in the management report.

10. Income from Investments

€ millions	2019	2018
Income from equity-accounted investees	-124.3	69.6
Other income from investments	0.5	0.8
Income from investments	**-123.8**	**70.4**

Income from investments includes, in particular, the share of income from equity-accounted investees in the amount of -€124.3 million (PY: €69.6 million). This figure includes an expense from an allowance recognized on the carrying amount in the associate OSRAM CONTINENTAL GmbH, Munich, Germany, in the amount of €157.9 million (PY: –).

11. Financial Result

€ millions	2019	2018
Interest and similar income	66.5	58.3
Expected income from long-term employee benefits and from pension funds	80.7	64.6
Interest income	**147.2**	**122.9**
Interest and similar expenses	-120.6	-124.4
Interest expenses from lease liabilities/Expense from finance leases	-32.1	-0.8
Interest expense for long-term provisions and liabilities	-3.2	-5.1
Interest expense from long-term employee benefits	-161.4	-145.9
Interest expense	**-317.3**	**-276.2**
Effects from currency translation	**-30.5**	**-30.4**
Effects from changes in the fair value of derivative instruments	-12.7	5.9
Other valuation effects	-107.0	0.0
Effects from changes in the fair value of derivative instruments, and other valuation effects	**-119.7**	**5.9**
Financial result	**-320.3**	**-177.8**

The negative financial result increased by €142.5 million year-on-year to €320.3 million (PY: €177.8 million) in 2019. This was primarily attributable to other valuation effects.

Interest income increased by €24.3 million year-on-year to €147.2 million (PY: €122.9 million) in 2019. Expected income from long-term employee benefits and from pension funds totaled €80.7 million in this period (PY: €64.6 million). This did not include the interest income from the plan assets of the pension contribution funds.

Interest expense totaled €317.3 million in 2019 and was thus €41.1 million higher than the previous year's figure of €276.2 million. The interest expense from long-term employee benefits totaled €161.4 million (PY: €145.9 million) in this period. This did not include the interest expense from the defined benefit obligations of the pension contribution funds. At €155.9 million, interest expense resulting mainly from bank borrowings, capital market transactions and other financing instruments was higher than the prior-year figure of €130.3 million. An increase in expenses resulted in particular from the new standard IFRS 16, *Leases*, the application of which has been mandatory since January 1, 2019. The recognition of all leases in the statement of financial position accordingly resulted in increased expenses from interest on lease liabilities. In 2019, this interest expense amounted to €32.1 million (PY: €0.8 million). The bonds issued by Continental AG and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., resulted in expenses of €32.4 million (PY: €54.6 million). The year-on-year decline is attributable to the repayment of two bonds. Firstly, the €750.0-million euro bond from Continental AG was repaid on July 16, 2018. This five-year bond bore interest at a rate of 3.0% p.a. Secondly, the €500.0-million euro bond from Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., was repaid on February 19, 2019. This bond was issued with a fixed interest rate of 0.5% p.a., which was exchanged via cross-currency interest-rate swaps for a U.S.-dollar-based fixed interest rate averaging 2.365%.

Effects from currency translation resulted in a negative contribution to earnings of €30.5 million (PY: €30.4 million) in the reporting year. Effects from changes in the fair value of derivative instruments, and other valuation effects, also resulted in an expense in 2019. This expense amounted to €119.7 million (PY: income of €5.9 million). The reasons for this are in particular allowances for doubtful accounts on loans to associates as well as expenses from the creation of a provision for loan commitments to these companies in the amount of €108.2 million, which are included in the other valuation effects of €107.0 million (PY: income of €0.0 million). Taking into account the sum of the effects from currency translation and changes in the fair value of derivative instruments, earnings in 2019 were negatively impacted by €43.2 million (PY: €24.5 million).

12. Income Tax Expense

The domestic and foreign income tax expense of the corporation is as follows:

€ millions	**2019**	2018
Current taxes (domestic)	–175.1	–86.2
Current taxes (foreign)	–894.1	–757.0
Deferred taxes (domestic)	173.4	–44.1
Deferred taxes (foreign)	313.4	–4.3
Income tax expense	**–582.4**	**–891.6**

The following table shows the reconciliation of the expected tax expense to the reported tax expense:

€ millions	2019	2018
Earnings before tax	**–588.6**	**3,849.9**
Non-tax-deductible impairment of goodwill	1,631.7[1]	–
Earnings before tax and impairment of goodwill	**1,043.1**	**3,849.9**
Expected tax expense at the domestic tax rate	–320.2	–1,178.1
Non-deductible expenses and non-imputable withholding taxes	–387.4	–146.1
Incentives and tax holidays	187.8	134.6
Foreign tax rate differences	146.2	277.5
Non-recognition of deferred tax assets unlikely to be realized	–117.4	–79.6
Local income tax with different tax base	–90.7	–12.3
Taxes for previous years	–79.3	100.0
Change in permanent differences	36.6	–28.6
Realization of previously non-recognized deferred taxes	22.2	27.0
Effects from changes in enacted tax rate	15.0	–6.9
Tax effect from equity-accounted investees	7.5	16.0
Initial recognition of deferred tax assets likely to be realized	7.1	–
Other	–9.8	4.9
Income tax expense	**–582.4**	**–891.6**
Effective tax rate in %	**55.8**	**23.2**

1 Earnings before tax are not adjusted for the total goodwill impairment in the amount of €2,293.5 million. A portion totaling €661.8 million resulted in the reversal of deferred tax liabilities and therefore must be excluded from the reconciliation.

The average domestic tax rate in 2019 was 30.7% (PY: 30.6%). This took into account a corporate tax rate of 15.0% (PY: 15.0%), a solidarity surcharge of 5.5% (PY: 5.5%) and a trade tax rate of 14.9% (PY: 14.8%).

The reduction in the tax expense from the difference in foreign tax rates primarily reflects the volume of activities in Eastern Europe and Asia.

As in the previous year, foreign tax rate differences as well as incentives and tax holidays had positive effects in the year under review. The tax rate was negatively impacted by non-cash allowances on deferred tax assets totaling €117.4 million (PY: €79.6 million), of which €3.9 million (PY: €16.4 million) was for previous years. Furthermore, as in the previous year, the tax rate was negatively affected by non-deductible expenses and non-imputable foreign withholding taxes. Please see Note 19.

The tax effects from government incentives and tax holidays increased in comparison to the previous year. In addition to the ongoing utilization of incentives in Europe and Asia as in the previous year, the utilization of government incentives in the U.S.A. had a further positive impact in the reporting year. In the year under review, local income taxes of €90.7 million (PY: €12.3 million) were incurred with a different tax base. This increase was attributable primarily to the alternative minimum tax in the U.S.A.

The result of equity-accounted investees included in net income resulted in tax income of €7.5 million (PY: €16.0 million) in the year under review.

The effects of the change in tax rate relate to the remeasurement of deferred tax assets and liabilities due to changes in the law already taking effect with regard to future applicable tax rates.

The following table shows the total income tax expense, also including the items reported under reserves recognized directly in equity:

€ millions	**December 31, 2019**	December 31, 2018
Income tax expense (acc. to consolidated statement of income)	**–582.4**	**–891.6**
Tax income on other comprehensive income	237.5	33.4
Remeasurement of defined benefit plans	236.9	30.7
Investment in equity-accounted investees	0.1	0.0
Currency translation	0.3	2.2
Cash flow hedges	0.2	0.5
Total income tax expense	**–344.9**	**–858.2**

Notes to the Consolidated Statement of Financial Position

13. Goodwill and Other Intangible Assets

€ millions	Goodwill	Capitalized development expenses[1]	Other intangible assets	Advances to suppliers	Total other intangible assets
As at January 1, 2018					
Cost	**9,597.7**	393.5	2,705.7	17.3	**3,116.5**
Accumulated depreciation	**-2,587.6**	-171.1	-1,338.1	–	**-1,509.2**
Book value	**7,010.1**	**222.4**	**1,367.6**	**17.3**	**1,607.3**
Net change in 2018					
Book value	**7,010.1**	222.4	1,367.6	17.3	**1,607.3**
Exchange-rate changes	**33.5**	1.2	17.2	1.2	**19.6**
Additions	**–**	157.9	54.5	19.4	**231.8**
Additions from the first-time consolidation of subsidiaries	**189.8**	–	47.4	–	**47.4**
Reclassification to assets held for sale	**–**	–	0.0	–	**0.0**
Transfers	**–**	–	7.5	-7.8	**-0.3**
Disposals	**–**	–	-0.2	-0.3	**-0.5**
Depreciation	**–**	-90.0	-249.0	–	**-339.0**
Impairment	**–**	–	0.0	–	**0.0**
Book value	**7,233.4**	**291.5**	**1,245.0**	**29.8**	**1,566.3**
As at December 31, 2018					
Cost	**9,823.5**	552.1	2,818.5	29.8	**3,400.4**
Accumulated depreciation	**-2,590.1**	-260.6	-1,573.5	–	**-1,834.1**
Book value	**7,233.4**	**291.5**	**1,245.0**	**29.8**	**1,566.3**
Net change in 2019					
Book value	**7,233.4**	291.5	1,245.0	29.8	**1,566.3**
Exchange-rate changes	**36.5**	1.0	30.3	0.0	**31.3**
Additions	**–**	200.4	99.7	26.2	**326.3**
Additions from the first-time consolidation of subsidiaries	**137.1**	0.0	189.3	–	**189.3**
Transfers	**–**	-25.4	36.9	-11.5	**0.0**
Disposals	**–**	–	-0.1	0.0	**-0.1**
Depreciation	**–**	-119.2	-251.7	–	**-370.9**
Impairment	**-2,293.5**	-12.8	-17.6	-20.0	**-50.4**
Book value	**5,113.5**	**335.5**	**1,331.8**	**24.5**	**1,691.8**
As at December 31, 2019					
Cost	**10,004.8**	631.1	3,139.9	44.5	**3,815.5**
Accumulated depreciation	**-4,891.3**	-295.6	-1,808.1	-20.0	**-2,123.7**
Book value	**5,113.5**	**335.5**	**1,331.8**	**24.5**	**1,691.8**

1 Excluding development expenses for internally generated software.

Acquisitions of companies in 2019 resulted in an addition to goodwill totaling €137.1 million (PY: €189.8 million). The carrying amount of goodwill relates principally to the acquisitions of Siemens VDO (2007), Continental Teves (1998), the automotive electronics business from Motorola (2006), Elektrobit Automotive (2015) and Veyance Technologies (2015). Please see Note 8 for information on impairment.

The table below shows the goodwill of each cash-generating unit, in line with the current organizational structure in the respective fiscal year:

	Goodwill		
€ millions	**December 31, 2019**		December 31, 2018
Vehicle Dynamics	808.7	Vehicle Dynamics	1,259.1
Hydraulic Brake Systems	143.5	Hydraulic Brake Systems	409.0
Passive Safety & Sensorics	592.7	Passive Safety & Sensorics	592.1
Advanced Driver Assistance Systems	366.1	Advanced Driver Assistance Systems	366.9
Continental Engineering Services	17.5	Continental Engineering Services	16.9
Chassis & Safety	**1,928.5**	**Chassis & Safety**	**2,644.0**
Engine & Drivetrain Systems	485.2	Engine Systems[1]	455.3
Powertrain Components	320.7	Fuel & Exhaust Management[2]	78.4
		Sensors & Actuators[2]	209.4
		Transmission[1]	250.7
Powertrain	**805.9**	**Powertrain**	**993.8**
Instrumentation & Driver HMI	0.0	Instrumentation & Driver HMI	767.5
Infotainment & Connectivity	0.0	Infotainment & Connectivity	567.3
Body & Security	757.9	Body & Security	716.6
Commercial Vehicles & Aftermarket	630.2	Commercial Vehicles & Aftermarket	658.3
Interior	**1,388.1**	**Interior**	**2,709.7**
Passenger and Light Truck Tire Original Equipment	2.0	Passenger and Light Truck Tire Original Equipment	2.0
Passenger and Light Truck Tire Replacement Business, EMEA	140.0	Passenger and Light Truck Tire Replacement Business, EMEA	139.8
Passenger and Light Truck Tire Replacement Business, APAC	193.6	Passenger and Light Truck Tire Replacement Business, APAC	180.5
Passenger and Light Truck Tire Replacement Business, The Americas	16.9	Passenger and Light Truck Tire Replacement Business, The Americas	16.6
Commercial Vehicles Tires	57.2	Commercial Vehicles Tires	53.3
Tires	**409.7**	**Tires**	**392.2**
Air Spring Systems	22.7	Air Spring Systems	22.7
Surface Solutions[3]	116.8	Benecke-Hornschuch Surface Group	116.7
Special Technologies and Solutions	1.9	Special Technologies and Solutions	4.2
Conveyor Belt Group	112.0	Conveyor Belt Group	110.4
Mobile Fluid Systems	50.3	Mobile Fluid Systems	50.1
Industrial Fluid Solutions	154.6	Industrial Fluid Solutions	144.9
Power Transmission Group	48.6	Power Transmission Group	44.1
Vibration Control	74.4	Vibration Control	0.6
ContiTech	**581.3**	**ContiTech**	**493.7**
Continental Corporation	**5,113.5**	**Continental Corporation**	**7,233.4**

1 Since January 2019: Engine & Drivetrain Systems.
2 Since January 2019: Powertrain Components.
3 Until June 2019: Benecke-Hornschuch Surface Group.

The additions to purchased intangible assets from changes in the scope of consolidation are attributable primarily to customer relationships and know-how. Other additions related mainly to software in the amount of €85.2 million (PY: €51.4 million). Under IAS 38, *Intangible Assets*, €200.4 million (PY: €158.0 million) of the total development costs incurred in 2019 qualified for recognition as an asset.

Amortization of other intangible assets amounted to €370.9 million (PY: €339.0 million). Of this, €296.7 million (PY: €271.2 million) is included in the consolidated statement of income under the cost of sales and €74.2 million (PY: €67.8 million) under administrative expenses.

The other intangible assets include carrying amounts adjusted for translation-related exchange-rate effects and not subject to amortization in the amount of €112.2 million (PY: €112.2 million). These relate in particular to the VDO brand name in the amount of €71.2 million (PY: €71.2 million), the Elektrobit brand name in the amount of €30.4 million (PY: €30.4 million), the Phoenix brand name in the amount of €4.2 million (PY: €4.2 million) and the Matador brand name in the amount of €3.2 million (PY: €3.2 million). The purchased intangible assets also include the carrying amounts of software amounting to €164.4 million (PY: €102.7 million), which are amortized on a straight-line basis as scheduled.

14. Property, Plant and Equipment

The additions to property, plant and equipment from changes in the scope of consolidation in the amount of €97.9 million resulted primarily from the acquisition of the anti-vibration systems business of Cooper-Standard Automotive Inc., Novi, Michigan, U.S.A. (€67.8 million), and Kathrein Automotive GmbH, Hildesheim, Germany (€28.4 million). Please see Note 5.

Investments in the Chassis & Safety segment focused on both increasing production capacity in Europe and expanding the locations in Asia and North America. Production capacity was hereby increased for all business units. Important additions related to the creation of new production facilities for electronic brake systems.

Production capacity in the Powertrain segment was increased at the German locations and in China, Hungary, the U.S.A., Romania and Czechia. Production capacity was hereby increased for all business units. Important additions related to the construction of new plants in Debrecen, Hungary, and Pune, India.

In the Interior segment, there were major investments to expand production capacity at the German locations and in Romania, China, Czechia, Mexico and the U.S.A. Investments focused primarily on the expansion of production capacity for the Body & Security and Instrumentation & Driver HMI business units. Important additions related to the construction of new plants in Kaunas, Lithuania, and Aguascalientes, Mexico. In addition, the Instrumentation & Driver HMI business unit expanded its production capacity for operation and display solutions.

In the Tire segment, production capacity was expanded in Europe, North America and Asia. There were major additions relating to the new plant buildings in Clinton, Mississippi, U.S.A., and Rayong, Thailand. Production capacity was also increased at existing plants in Sumter, South Carolina, and Mount Vernon, Illinois, U.S.A.; Otrokovice, Czechia; Púchov, Slovakia; and Lousado, Portugal. Quality assurance and cost-cutting measures were implemented as well.

Investments in the ContiTech segment focused on the expansion of production facilities at the German locations and in China, the U.S.A., India and Mexico, among other countries. Production capacity for the Mobile Fluid Systems, Surface Solutions, Power Transmission Group and Conveyor Belt Group business units was expanded in particular. Important additions related to the construction of new plants in Pune, India, and Changshu, China. In addition, investments were made in all business units to rationalize existing production processes.

Please see Note 8 for information on impairment and reversal of impairment losses.

Government investment grants of €38.4 million (PY: €84.6 million) were deducted directly from cost, primarily for the plant in Clinton, Mississippi, U.S.A.

As in the previous year, no borrowing costs were capitalized when applying IAS 23.

Please see Note 25 for information on reclassifications during the period to assets held for sale.

There are restrictions on title and property, plant and equipment pledged as security for liabilities in the amount of €12.3 million (PY: €13.5 million).

Please see Note 15 for information on the right-of-use assets that are recognized under property, plant and equipment in accordance with IFRS 16, *Leases*.

€ millions	Land, land rights and buildings[1]	Technical equipment and machinery	Other equipment, factory and office equipment	Advances to suppliers and assets under construction	Total
As at January 1, 2018					
Cost	4,701.4	17,266.2	2,727.5	1,984.2	**26,679.3**
Accumulated depreciation	-1,895.0	-11,579.5	-1,993.0	-9.7	**-15,477.2**
Book value	**2,806.4**	**5,686.7**	**734.5**	**1,974.5**	**11,202.1**
thereof finance leases	20.2	0.6	0.0	–	**20.8**
Net change in 2018					
Book value	2,806.4	5,686.7	734.5	1,974.5	**11,202.1**
Exchange-rate changes	-7.0	14.0	-0.2	16.8	**23.6**
Additions	120.4	866.9	186.6	1,879.7	**3,053.6**
Additions from the first-time consolidation of subsidiaries[2]	5.8	12.1	5.2	0.4	**23.5**
Amounts disposed of through disposal of subsidiaries	-8.2	-3.3	-1.6	-0.4	**-13.5**
Transfers	146.5	1,046.9	124.1	-1,318.1	**-0.6**
Disposals	-2.1	-38.0	-3.1	-1.4	**-44.6**
Depreciation	-186.5	-1,405.1	-256.3	–	**-1,847.9**
Impairment[3]	-0.4	-19.0	-0.9	-0.4	**-20.7**
Book value	**2,874.9**	**6,161.2**	**788.3**	**2,551.1**	**12,375.5**
As at December 31, 2018					
Cost	4,948.9	18,770.5	2,970.3	2,561.3	**29,251.0**
Accumulated depreciation	-2,074.0	-12,609.3	-2,182.0	-10.2	**-16,875.5**
Book value	**2,874.9**	**6,161.2**	**788.3**	**2,551.1**	**12,375.5**
thereof finance leases	8.8	0.5	1.0		**10.3**
Net change in 2019					
Book value	2,862.9	6,160.4	788.3	2,551.1	**12,362.7**
Exchange-rate changes	28.7	59.7	4.3	35.3	**128.0**
Additions	195.7	984.3	203.9	1,510.0	**2,893.9**
Additions from the first-time consolidation of subsidiaries[4]	28.9	60.5	7.5	4.8	**101.7**
Amounts disposed of through disposal of subsidiaries	–	-0.6	0.0	–	**-0.6**
Transfers	309.0	1,313.5	124.9	-1,747.4	**0.0**
Disposals	-3.2	-41.1	-5.6	-2.5	**-52.4**
Depreciation	-204.1	-1,543.9	-280.0	–	**-2,028.0**
Impairment[3]	-30.8	-100.2	-4.0	-21.9	**-156.9**
Book value	**3,187.1**	**6,892.6**	**839.3**	**2,329.4**	**13,248.4**
As at December 31, 2019					
Cost	5,481.2	20,792.0	3,224.1	2,361.6	**31,858.9**
Accumulated depreciation	-2,294.1	-13,899.4	-2,384.8	-32.2	**-18,610.5**
Book value	**3,187.1**	**6,892.6**	**839.3**	**2,329.4**	**13,248.4**

1 Investment property is shown separately in Note 16.
2 Included in the additions from the first-time consolidation of subsidiaries are additions from property, plant and equipment in the amount of €0.4 million from a previously unconsolidated entity that was included in the consolidation for the first time.
3 Impairment also includes necessary reversal of impairment losses.
4 Included in the additions from the first-time consolidation of subsidiaries are additions from property, plant and equipment in the amount of €3.8 million from a previously unconsolidated entity that was included in the consolidation for the first time.

15. Leases

In addition to the comments in Note 2 (General Information and Accounting Principles) and Note 3 (New Accounting Principles), the disclosure requirements that arise in relation to IFRS 16, *Leases*, are grouped together in this note.

Information on the transition to IFRS 16 and its first-time adoption

IFRS 16, *Leases*, was first applied as at January 1, 2019. In this context, Continental uses the modified retrospective approach. The figures from the comparative periods are based on the accounting principles of IAS 17, *Leases*, and are shown unadjusted. Adjustments are therefore presented in the opening carrying amounts as at January 1, 2019.

Leases that were previously classified as operating leases in accordance with IAS 17 are recognized pursuant to IFRS 16.C8 using the following recognition and measurement requirements and exemptions:

- As at the date of first-time adoption, Continental as lessee measures the lease liability at the present value of the lease payments not yet made. It is recognized under indebtedness. Discounting is determined using the weighted-average incremental borrowing rates on January 1, 2019, as the interest rates underlying the leases often cannot be determined.

- The right-of-use asset recognized by the lessee as at the date of first-time adoption is measured at cost. This amount comprises the corresponding lease liability and prepaid lease payments, taking into account any lease incentives received. It is recognized in property, plant and equipment. Depreciation is charged on a straight-line basis.

- The lease liability is subsequently measured according to the effective interest method. The resulting interest expenses are recognized in the financial result.

- Continental does not remeasure the leases existing as at the date of first-time adoption.

- When determining the lease term with regard to extension or termination options, Continental as lessee uses hindsight in connection with the measurement.

- The reported right-of-use assets are consequently depreciated on a straight-line basis over the entire useful life of the underlying asset, or until the end of the term of the lease. The estimated useful life of right-of-use assets is determined based on that of the property, plant and equipment. In addition, the underlying asset is periodically written down to take into account any impairment losses and adjusted for specific remeasurement of the lease liability.

For leases that were previously classified as finance leases in accordance with IAS 17:

- The right-of-use asset is recognized at the previous carrying amount resulting from the measurement of the leased asset in accordance with IAS 17 directly before the first-time adoption of IFRS 16.

- The lease liability is recognized at the previous carrying amount resulting from the measurement of the leased asset in accordance with IAS 17 directly before the first-time adoption of IFRS 16.

The first-time adoption of IFRS 16 resulted in the following effects on the earnings, financial and net assets position as at January 1, 2019:

- In total, right-of-use assets of €1,734.9 million and financial liabilities of €1,742.4 million were recognized from leases. Of the latter, €284.9 million are allocated to short-term indebtedness and €1,457.5 million to long-term indebtedness. The difference from the change in net indebtedness due to the first-time adoption of IFRS 16 is attributable to liabilities from finance leases in accordance with IAS 17 that were already accounted for as at December 31, 2018. The difference between right-of-use assets and financial liabilities from leases of €7.5 million results from the reclassification of assets and lease liabilities that were previously classified as finance leases under IAS 17 and from prepaid lease payments and lease incentives received.

- The obligations from operating leases in accordance with IAS 17 existing before the first-time adoption of IFRS 16 were discounted by a weighted-average incremental borrowing rate of 2.35% as at January 1, 2019.

- The difference between the obligations from leases in accordance with IAS 17 as at December 31, 2018, and the opening carrying amount in accordance with IFRS 16 as at January 1, 2019, amounts to €189.6 million. In addition to the effect from the discounting of operating leases in accordance with IAS 17, the amount results primarily from the use of exemptions for short-term and low-value leases and from the different treatment of extension options.

Continental as lessee

Right-of-use assets

The right-of-use assets recognized from leases relate primarily to the leasing of land and buildings at various locations worldwide. To a small extent, right-of-use assets are recognized for technical equipment and machinery as well as other equipment, factory and office equipment.

Additions within the right-of-use assets amounted to €331.0 million for the reporting year. These resulted mainly from additions to land and buildings in the amount of €277.9 million and from additions to other equipment, factory and office equipment in the amount of €50.2 million. The additions within the right-of-use assets from changes in the scope of consolidation amounted to €14.3 million. Please see Note 5.

The right-of-use assets reported as at December 31, 2019 in the amount of €1,684.3 million correspond to approximately 11.3% of all property, plant and equipment of the Continental Corporation. The weighted average lease term is approximately five years for right-of-use assets for land and buildings, approximately three years for right-of-use assets for technical equipment and machinery, and approximately three years for right-of-use assets for other equipment, factory and office equipment.

The development of right-of-use assets in the reporting year was as follows:

€ millions	Right of use for land and buildings	Right of use for technical equipment and machinery	Right of use for other equipment, factory and office equipment	**Total**
Book value as at December 31, 2018	**—**	**—**	**—**	**—**
Book value as at January 1, 2019	**1,637.9**	**8.1**	**88.9**	**1,734.9**
Net change in 2019				
Book value	1,637.9	8.1	88.9	**1,734.9**
Exchange-rate changes	21.7	0.1	1.2	**23.0**
Additions	277.9	2.9	50.2	**331.0**
Additions from the first-time consolidation of subsidiaries	11.8	1.8	0.7	**14.3**
Transfers	-0.1	-0.7	0.8	**0.0**
Disposals	-58.0	-0.6	-14.8	**-73.4**
Depreciation	-290.3	-3.7	-42.4	**-336.4**
Impairment[1]	-9.1	–	0.0	**-9.1**
Book value	**1,591.8**	**7.9**	**84.6**	**1,684.3**
As at December 31, 2019				
Cost	1,888.9	11.7	126.1	**2,026.7**
Accumulated depreciation	-297.1	-3.8	-41.5	**-342.4**
Book value	**1,591.8**	**7.9**	**84.6**	**1,684.3**

1 Impairment also includes necessary reversal of impairment losses.

Lease liabilities

As at the end of the reporting period, lease liabilities amounted to €1,715.0 million. Future cash outflows resulting from leases are shown in the following table:

€ millions	2019
Less than one year	346.3
One to two years	299.2
Two to three years	250.8
Three to four years	203.0
Four to five years	156.2
More than five years	589.7
Total undiscounted lease liabilities	**1,845.2**
Lease liabilities as at December 31	**1,715.0**
Current	318.3
Non-current	1,396.7

In the reporting year, the following amounts were recognized in the income statement:

€ millions	2019
Interest expenses on lease liabilities	32.1
Expenses relating to short-term leases	69.5
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	12.0
Expenses from variable lease payments not included in the measurement of lease liabilities	0.5
Income from subleasing right-of-use assets	0.3

In the reporting year, the following amounts were recognized in the statement of cash flows:

€ millions	2019
Cash outflow for leases	433.5

In addition to cash outflows for the interest and principal portion of recognized lease liabilities, the cash outflow for leases also includes variable lease payments and lease payments for unrecognized leases for low-value assets as well as for short-term leases.

Potential future cash outflows

The leases recognized as at December 31, 2019, include options that were not considered reasonably certain as at the reporting date and are not included in the measurement of lease liabilities. These options may result in potential future cash outflows over the coming fiscal years.

The leases in some cases include variable lease payments as well as extension, termination and purchase options. As a rule, Continental endeavors to include extension and termination options in new leases in order to ensure operational flexibility. For the initial measurement of lease liabilities, such options are recognized once it is reasonably certain that they will be exercised. If a significant event or a significant change in circumstances occurs that is within Continental's control, this will be taken into account accordingly in the remeasurement of lease liabilities. As at the end of the reporting period, potential future lease payments of €638.0 million from such options were not included in the measurement of lease liabilities. Potential future cash outflows of €2.7 million arising from variable lease payments were likewise not included in the measurement of lease liabilities as at the end of the reporting period.

The future scope of obligations arising from leases to which Continental is committed but that had not yet commenced as at the balance sheet date amounted to €216.7 million.

Continental as lessor

Continental acts as lessor in some business relationships. These are operating leases, as Continental retains the material risks and rewards incidental to ownership.

Operating leases

Lease income from operating leases in which Continental acts as lessor amounted to €1.0 million for the past fiscal year. These related primarily to the leasing of land and buildings.

Future cash inflows resulting from leases as at the end of the reporting period are shown in the following table:

€ millions	**2019**
Less than one year	0.8
One to two years	0.3
Two to three years	0.3
Three to four years	0.3
Four to five years	0.0
More than five years	0.0
Total undiscounted lease payments	**1.7**

16. Investment Property

€ millions	**2019**	2018
Cost as at January 1	22.3	20.7
Accumulated depreciation as at January 1	-10.3	-10.2
Net change		
Book value as at January 1	**12.0**	**10.5**
Exchange-rate changes	0.0	0.1
Reclassifications	0.0	1.7
Depreciation	-0.3	-0.3
Book value as at December 31	**11.7**	**12.0**
Cost as at December 31	20.7	22.3
Accumulated depreciation as at December 31	-9.0	-10.3

The fair value – determined using the gross rental method – of land and buildings accounted for as investment property as at December 31, 2019, amounted to €16.5 million (PY: €16.3 million). Rental income in 2019 amounted to €2.8 million (PY: €3.3 million), while associated maintenance costs of €1.4 million (PY: €1.4 million) were incurred.

17. Investments in Equity-Accounted Investees

€ millions	2019	2018
As at January 1	**644.9**	**414.8**
Additions	27.4	215.2
Changes in the consolidation method, and transfers	-88.4	-1.2
Share of income	33.6	69.6
Impairment	-157.9	–
Dividends received	-66.8	-44.2
Changes in other comprehensive income	4.5	-9.8
Exchange-rate changes	0.4	0.5
As at December 31	**397.7**	**644.9**

Investments in equity-accounted investees include carrying amounts of joint ventures in the amount of €204.5 million (PY: €273.5 million) and of associates in the amount of €193.2 million (PY: €371.4 million).

A material joint venture of the Tire segment in the Passenger and Light Truck Tire Original Equipment business unit is MC Projects B.V., Maastricht, Netherlands, plus its subsidiaries. The company, which is jointly controlled by Continental Global Holding Netherlands B.V., Maastricht, Netherlands, and Compagnie Financière Michelin SCmA, Granges-Paccot, Switzerland, each holding 50% of the voting rights, mainly supplies tire-wheel assemblies to automotive manufacturers. Michelin contributed the rights to the Uniroyal brand for Europe to the joint venture. MC Projects B.V. licenses these rights to Continental.

The following investments are held in material joint ventures in the Automotive Group:

- Continental AG, Hanover, holds 49% of the voting rights in Shanghai Automotive Brake Systems Co., Ltd., Shanghai, China, which is jointly controlled with Huayu Automotive Systems Co., Ltd., Shanghai, China. The main business purpose of the company is the production of hydraulic braking systems for the Chinese market; it is assigned to the Hydraulic Brake Systems and Vehicle Dynamics business units.
- SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany, is jointly controlled by Continental Automotive GmbH, Hanover, Germany, and Faurecia Automotive GmbH, Stadthagen, Germany. Both shareholders hold 50% of the voting rights. The object of the company and its subsidiaries is essentially the development, assembly and distribution of cockpits and other modules for the automotive industry. The company therefore belongs to the Instrumentation & Driver HMI business unit. Due to the planned sale of the 50% shareholding in SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany, to Faurecia Automotive GmbH, Stadthagen, Germany, at the beginning of 2020, the carrying amount of the equity-accounted investee of €88.4 million was classified as "held for sale" and included in the "Assets held for sale" item.

The figures taken from the last two available sets of IFRS-compliant financial statements (2018 and 2017) for the material joint ventures above are as follows. Amounts are stated at 100%. Furthermore, the pro rata net assets have been reconciled to the respective carrying amount of the investment. All investments are accounted for using the equity method.

	MC Projects B.V.		Shanghai Automotive Brake Systems Co., Ltd.		SAS Autosystemtechnik GmbH & Co. KG	
€ millions	2018	2017	2018	2017	2018	2017
Dividends received	4.0	5.0	21.9	21.0	15.0	10.0
Current assets	150.4	180.1	284.3	316.4	490.2	406.3
thereof cash and cash equivalents	39.8	37.5	68.6	59.2	64.7	72.9
Non-current assets	105.3	94.7	111.5	105.4	136.9	131.0
Total assets	255.7	274.8	395.8	421.8	627.1	537.4
Current liabilities	102.5	122.6	194.3	220.8	485.1	410.7
thereof other short-term financial liabilities	0.0	0.0	–	–	0.0	0.0
Non-current liabilities	5.4	7.4	13.4	14.1	4.6	5.7
thereof long-term financial liabilities	1.3	1.3	–	–	–	–
Total liabilities	107.9	129.9	207.7	234.8	489.7	416.4
Sales	165.8	170.3	529.0	591.6	633.4	3,169.5
Interest income	0.1	0.1	0.4	0.9	0.3	0.4
Interest expense	0.1	0.3	–	–	0.2	0.1
Depreciation and amortization	13.4	10.8	15.7	14.3	28.1	18.5
Earnings from continued operations	18.9	25.7	48.6	57.2	47.0	37.0
Other comprehensive income	–	0.7	–	–	-1.5	-5.9
Income tax expense	-6.5	7.3	7.2	8.9	17.8	11.2
Earnings after tax	14.6	26.4	48.6	57.2	45.8	31.1
Net assets	147.8	144.9	188.1	187.0	137.4	121.0
Share of net assets	73.9	72.4	92.2	91.6	68.7	60.5
Goodwill	–	–	10.6	10.6	20.3	20.3
Exchange-rate changes	–	–	-9.4	-5.0	–	–
Change in other comprehensive income for the prior year	–	–	–	–	0.3	3.0
Share earnings for prior years	4.6	-4.8	0.0	0.0	–	–
Carrying amount	78.4	67.6	93.4	97.3	89.2	83.7

IAV GmbH Ingenieurgesellschaft Auto und Verkehr, Berlin, Germany, is a material associate. Continental Automotive GmbH, Hanover, Germany, holds 20% of the shares and voting rights. The company, together with its subsidiaries, mainly provides development services for the automotive industry and is assigned to the Engine Systems business unit.

OSRAM CONTINENTAL GmbH, Munich, Germany, along with its subsidiaries was founded in fiscal 2018 and is a material associate of Continental in the Interior segment. Continental Automotive GmbH, Hanover, Germany, and OSRAM GmbH, Munich, Germany, each hold a 50% stake in it. The company operates in the field of lights, light control and electronics.

The figures taken from the last two available sets of IFRS-compliant financial statements (2017 and 2018) for IAV GmbH Ingenieurgesellschaft Auto und Verkehr, Berlin, Germany, are as follows. The IFRS-compliant financial information for OSRAM CONTINENTAL GmbH, Munich, Germany, was disclosed for the periods from January 1, 2019, to December 31, 2019, and from July 2, 2018, (the date of the investment) to December 31, 2018. These disclosure periods differ from the associate's fiscal year, which ends as at September 30. Amounts are stated at 100%. Furthermore, the pro rata net assets have been reconciled to the respective carrying amount of the investment, which is accounted for using the equity method.

	IAV GmbH Ingenieurgesellschaft Auto und Verkehr		OSRAM CONTINENTAL GmbH	
€ millions	2018	2017	2019	2018
Dividends received	0.0	0.2	–	–
Current assets	352.1	281.9	74.8	108.5
Non-current assets	241.6	239.4	216.1	211.0
Total assets	593.7	521.3	290.9	319.5
Current liabilities	300.5	226.3	159.4	106.9
Non-current liabilities	61.5	71.9	18.2	3.6
Total liabilities	362.0	298.1	177.6	110.5
Sales	907.4	798.1	285.6	130.6
Earnings from continued operations	8.5	14.7	-106.9	-10.1
Other comprehensive income	-0.1	-2.0	–	-10.5
Earnings after tax	8.4	12.7	-106.9	-20.6
Net assets	231.7	223.2	113.3	209.9
Share of net assets	46.3	44.6	56.7	104.5
Goodwill	12.7	12.7	256.5	256.5
Elimination of non-realized gains from downstream sales	–	–	-186.0	-186.0
Change in other comprehensive income for the prior year	0.0	0.4	–	–
Other adjustments	-0.2	1.0	–	5.5
Impairment[1]	–	–	-157.9	–
Carrying amount	59.0	58.9	0.0	180.5

1 The carrying amount for the associate OSRAM CONTINENTAL GmbH, Munich, Germany, was fully impaired as at September 30, 2019, due to changes in expectations with regard to future business development.

The figures taken from the last two available sets of financial statements (2018 and 2017) for the joint ventures and associates that are not material to the corporation are summarized as follows. Amounts are stated in line with the proportion of ownership interest.

	Associates		Joint ventures	
€ millions	2018	2017	2018	2017
Earnings from continued operations	20.9	14.4	–5.4	–6.4
Earnings after tax	**20.9**	**14.4**	**–5.4**	**–6.4**

18. Other Investments

€ millions	**December 31, 2019**	December 31, 2018
Investments in unconsolidated affiliated companies	14.7	9.5
Other participations	182.9	183.4
Other investments	**197.6**	**192.9**

Other investments are accounted for at fair value. Changes are recognized in other comprehensive income. No amounts were recognized from changes in fair value in the reporting year (PY: -€3.9 million).

With regard to year-on-year changes in the carrying amount, €6.2 million (PY: €149.7 million) resulted from additions, €2.1 million (PY: €4.5 million) from disposals and €0.6 million (PY: €0.6 million) from exchange-rate effects. No amounts were recognized from changes in fair value in the reporting year (PY: -€3.9 million).

Dividends received from other investments amounted to €0.5 million in the reporting year (PY: €0.8 million).

There is currently no intention to sell any of the other investments.

19. Deferred Taxes

Deferred taxes developed as follows:

	Dec. 31, 2019						Dec. 31, 2018
€ millions	**Deferred tax assets**	**Deferred tax liabilities**	**Net**	**Recognized in profit or loss**	**Recognized in equity**	**Recognized in other comprehensive income**	**Net**
Other intangible assets and goodwill	11.9	-381.3	-369.4	124.7	-20.3	1.7	-475.5
Property, plant and equipment	202.6	-505.5	-302.9	-239.5	-1.9	-1.4	-60.1
Inventories	304.4	-108.2	196.2	-20.1	-1.4	1.1	216.6
Other assets	318.4	-301.2	17.2	69.7	–	-1.2	-51.3
Employee benefits less defined benefit assets	1,298.1	-10.3	1,287.8	97.4	–	242.3	948.1
Provisions for other risks and obligations	213.0	-11.9	201.1	69.3	2.5	0.7	128.6
Indebtedness and other financial liabilities	553.2	-104.8	448.4	256.1	–	-0.1	192.4
Other differences	247.2	-296.0	-48.8	-65.6	–	3.6	13.2
Allowable tax credits	50.5	–	50.5	29.1	–	2.1	19.3
Tax losses carried forward and limitation of interest deduction	388.9	–	388.9	165.7	–	5.8	217.4
Deferred taxes (before offsetting)	**3,588.2**	**-1,719.2**	**1,869.0**	**486.8**	**-21.1**	**254.6**	**1,148.7**
Offsetting (IAS 12.74)	-1,413.8	1,413.8	–				–
Net deferred taxes	**2,174.4**	**305.4**	**1,869.0**				**1,148.7**

Deferred taxes are measured in accordance with IAS 12, *Income Taxes*, at the tax rate applicable for the periods in which they are expected to be realized. Since 2008, there has been a limit on the deductible interest that can be carried forward in Germany; the amount deductible under tax law is limited to 30% of taxable income before depreciation, amortization and interest.

The development of deferred taxes in the year under review was influenced in particular by the transformation of the Powertrain division into an independent legal entity, and the change in actuarial gains and losses from pensions and similar obligations. The first-time adoption of IFRS 16, *Leases*, had an impact on deferred taxes on property, plant and equipment, and indebtedness, which offset one other in terms of amounts.

Deferred tax assets were up €710.0 million at €2,174.4 million (PY: €1,464.4 million). This was primarily attributable to a €171.5 million increase in tax losses carried forward and limitation of interest deduction, a €336.3 million rise in deferred taxes on employee benefits and a €338.5 million increase in indebtedness.

Deferred tax liabilities declined by €10.3 million year-on-year to €305.4 million (PY: €315.7 million). The increase in deferred tax assets on property, plant and equipment of €238.9 million stood in contrast to a decrease in deferred tax liabilities on goodwill of €94.2 million and in offsetting of €374.6 million.

As at December 31, 2019, the corporate tax losses, in Germany and abroad, carried forward amounted to €3,701.4 million (PY: €2,647.2 million). The majority of the corporation’s tax losses carried forward relate to foreign subsidiaries and are mostly limited in terms of the time period for which they can be carried forward.

Deferred tax assets were not recognized in relation to the following items because it is currently not deemed sufficiently likely that they will be utilized:

€ millions	December 31, 2019	December 31, 2018
Temporary differences	75.4	56.5
Tax losses carried forward and limitation of interest deduction	447.4	388.1
Allowable tax credits	67.2	49.1
Total unrecognized deferred tax assets	**590.0**	**493.7**

As at December 31, 2019, some corporation companies and tax groups that reported a loss recognized total deferred tax assets of €915.8 million (PY: €48.2 million), which arose from current losses, tax losses carried forward and a surplus of deferred tax assets. Given that future taxable income is expected, it is sufficiently probable that these deferred tax assets can be realized.

The temporary differences from retained earnings of foreign companies amounted to a total of €943.0 million (PY: €639.1 million). Deferred tax liabilities were not taken into account, since remittance to the parent company is not planned in the short or medium term.

The measurement differences from assets or liabilities held for sale are included in the “Other assets” and “Other differences” items.

20. Other Financial Assets

	December 31, 2019		December 31, 2018	
€ millions	Short-term	Long-term	Short-term	Long-term
Amounts receivable from related parties[1]	2.9	0.6	–	1.4
Loans to third parties	–	69.8	–	76.5
Amounts receivable from employees	25.7	–	19.1	–
Other amounts receivable	89.9	44.2	75.3	3.5
Other financial assets	**118.5**	**114.6**	**94.4**	**81.4**

1 From the 2019 fiscal year onward, receivables from related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

The receivables from related parties related primarily to loans to associates.

Loans to third parties mainly related to tenants’ loans for individual properties and loans to customers with various maturities.

Receivables from employees related mainly to preliminary payments for hourly wages and for other advances.

In particular, other financial receivables include investment subsidies for research and development expenses not yet utilized and amounts receivable from suppliers. The carrying amounts of the other financial assets are essentially their fair values.

Please see Note 31 for information on the default risks in relation to other financial assets.

21. Other Assets

	December 31, 2019		December 31, 2018	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Trade accounts receivable from the sale of customer tools	244.6	–	241.5	–
Tax refund claims (incl. VAT and other taxes)	706.3	–	453.3	–
Prepaid expenses	203.3	–	191.9	–
Other	252.5	28.6	237.5	27.6
Other assets	**1,406.7**	**28.6**	**1,124.2**	**27.6**

The tax refund claims primarily resulted from VAT receivables from the purchase of production materials.

The receivables from the sale of customer tooling related to costs that have not yet been invoiced. The year-on-year rise of €3.1 million resulted mainly from an increase in the Automotive Group, which was partially offset by a decrease in the Rubber Group.

In particular, prepaid expenses include rent and maintenance services paid for in advance and license fees.

Among other things, the "Miscellaneous" item includes other deferred or advanced costs.

Impairment totaling €10.6 million (PY: €12.5 million) was recognized for the probable default risk on other assets. Income of €1.9 million (PY: €3.0 million) arose in the reporting period.

22. Inventories

€ millions	**December 31, 2019**	December 31, 2018
Raw materials and supplies	1,474.3	1,528.3
Work in progress	840.1	712.1
Finished goods and merchandise	2,380.0	2,280.7
Inventories	**4,694.4**	**4,521.1**

Write-downs recognized on inventories increased by €45.8 million to €496.3 million (PY: €450.5 million).

23. Trade Accounts Receivable

€ millions	**December 31, 2019**	December 31, 2018
Trade accounts receivable	7,840.1	7,967.7
Allowances for doubtful accounts	-128.5	-109.5
Trade accounts receivable[1]	**7,711.6**	**7,858.2**

1 From the 2019 fiscal year onward, receivables from related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

The carrying amounts of the trade accounts receivable, net of allowances for doubtful accounts, are their fair values. Please see Note 31 for information on the default risks in relation to trade accounts receivable.

The Continental Corporation uses several programs for the sale of receivables. When the risks and rewards of receivables, in particular credit and default risks, have mostly not been transferred, the receivables are still recognized as assets in the statement of financial position.

Under the existing sale-of-receivables programs, the contractual rights to the receipt of payment inflows have been assigned to the corresponding contractual parties. The transferred receivables have short remaining terms. As a rule, therefore, the carrying amounts as at the reporting date in the amount of €702.4 million (PY: €745.5 million) are approximately equivalent to their fair value. The respective liabilities with a carrying amount of €468.6 million (PY: €469.2 million) represent the liquidation proceeds from the sale of the receivables. As in the previous year, this was approximately equivalent to their fair value. The committed financing volume under these sale-of-receivables programs amounts to €665.0 million (PY: €665.0 million).

24. Cash and Cash Equivalents

Cash and cash equivalents include all liquid funds and demand deposits. Cash equivalents are short-term, highly liquid financial investments that can be readily converted into known cash amounts and are subject to an insignificant risk of changes in value. As at the reporting date, cash and cash equivalents amounted to €3,341.8 million (PY: €2,761.4 million). Of that, €3,114.3 million (PY: €2,587.7 million) was unrestricted.

For information on the interest-rate risk and the sensitivity analysis for financial assets and liabilities, please see Note 31.

25. Assets Held for Sale

€ millions	**December 31, 2019**	December 31, 2018
Individual assets held for sale	89.6	–
Assets of a disposal group	–	–
Assets held for sale	**89.6**	**–**

Assets held for sale of €89.6 million (PY: –) include primarily assets from the disposal of joint venture SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany, in the amount of €88.4 million.

26. Equity

Number of shares outstanding	**2019**	2018
As at January 1	**200,005,983**	**200,005,983**
Change in the period	–	–
As at December 31	**200,005,983**	**200,005,983**

The subscribed capital of Continental AG was unchanged year-on-year. At the end of the reporting period it amounted to €512,015,316.48 and was composed of 200,005,983 no-par-value shares with a notional value of €2.56 per share.

Under the German Stock Corporation Act *(Aktiengesetz – AktG)*, the dividends distributable to the shareholders are based solely on Continental AG's retained earnings as at December 31, 2019, of €5,856.0 million (PY: €1,758.5 million), as reported in the annual financial statements prepared in accordance with the German Commercial Code. The Supervisory Board and the Executive Board will propose to the Annual Shareholders' Meeting the distribution of a dividend of €4.00 per share. With 200,005,983 no-par-value shares entitled to dividends, the total distribution will thus amount to €800,023,932.00. The remaining amount is to be carried forward to new account.

27. Employee Benefits

The following table outlines the employee benefits:

	December 31, 2019		December 31, 2018	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	–	4,851.7	–	3,896.0
Provisions for other post-employment benefits	–	215.9	–	194.9
Provisions for similar obligations	3.4	60.0	2.4	49.4
Other employee benefits	–	255.3	–	240.8
Liabilities for workers' compensation	35.8	23.4	40.9	25.9
Liabilities for payroll and personnel-related costs	882.7	–	967.7	–
Termination benefits	46.8	–	50.5	–
Liabilities for social security	179.6	–	183.2	–
Liabilities for vacation	220.4	–	209.5	–
Employee benefits	**1,368.7**	**5,406.3**	**1,454.2**	**4,407.0**
Defined benefit assets (difference between pension obligations and related funds)		**7.8**		**27.8**

Long-term employee benefits

Pension plans

In addition to statutory pension insurance, the majority of employees are also entitled to defined benefit or defined contribution plans after the end of their employment.

Our pension strategy is focusing on switching from defined benefit to defined contribution plans in order to offer both employees and the company a sustainable and readily understandable pension system. Many defined benefit plans have been closed for new employees or future service and replaced by defined contribution plans.

In countries in which defined contribution plans are not possible for legal or economic reasons, defined benefit plans have been optimized or changed to minimize the associated risks of longevity, inflation and salary increases.

Defined benefit plans

Defined benefit plans include pension plans, termination indemnities regardless of the reason for the end of employment and other post-employment benefits. As a result of the significant increase in the number of employees in recent years and the high level of acquisition activity, pension obligations essentially relate to active employees. The defined benefit pension plans cover 167,038 beneficiaries, including 123,646 active employees, 17,168 former employees with vested benefits, and 26,224 retirees and surviving dependents. The pension obligations are concentrated in four countries: Germany, the U.S.A., the U.K. and Canada, which account for more than 90% of total pension obligations.

The weighted average term of the defined benefit pension obligations is around 20 years. This term is based on the present value of the obligations.

Germany

In Germany, Continental provides pension benefits through the cash balance plan, prior commitments and deferred compensation.

The retirement plan regulation applicable to active members is based primarily on the cash balance plan and thus on benefit modules. When the insured event occurs, the retirement plan assets are paid out as a lump-sum benefit, in installments or as a pension, depending on the amount of the retirement plan assets. There are no material minimum guarantees in relation to a particular amount of retirement benefits.

Pension plans transferred to or assumed by Continental in the context of acquisitions (Siemens VDO, Temic, Teves, Phoenix) were included in the cash balance plans. For the main German companies, the cash balance plan is partly covered by funds in contractual trust arrangements (CTAs). In Germany, there are no legal or regulatory minimum funding requirements.

The CTAs are legally independent from the company and manage the plan assets as trustees in accordance with the respective CTAs.

Some prior commitments were granted through two legally independent pension contribution funds. Pensionskasse für Angestellte der Continental Aktiengesellschaft VVaG and Pensionskasse von 1925 der Phoenix AG VVaG have been closed since March 1, 1984 and July 1, 1983, respectively. The pension contribution funds are smaller associations within the meaning of Section 53 of the German Insurance Supervision Act *(Versicherungsaufsichtsgesetz – VAG)* and are subject to the supervision of the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht). The investment regulations are in accordance with the legal requirements and risk structure of the obligations. The pension contribution funds have tariffs with an interest rate of 2.6%. Under the German Company Pensions Law *(Betriebsrentengesetz – BetrAVG)*, Continental is ultimately liable for the implementation path of the pension contribution fund. In accordance with IAS 19, *Employee Benefits*, the pension obligations covered by the pension contribution fund are therefore defined benefit pension plans. The pension contribution funds met their minimum net funding requirement as at December 31, 2019. However, given that only the plan members are entitled to the assets and amounts generated, the benefit obligations are recognized in the same amount as the existing assets at fair value.

Continental also supports private contribution through deferred compensation schemes.

Deferred compensation is essentially offered through a fully funded multi-employer plan (Höchster Pensionskasse VVaG) for contributions up to 4% of the assessment ceiling in social security. The pension contribution fund ensures guaranteed minimum interest for which Continental is ultimately liable under the German Company Pensions Law. The company is not liable for guarantees to employees of other companies. As Höchster Pensionskasse VVaG is a combined defined benefit plan for several companies and Continental has no right to the information required for accounting for this defined benefit plan, this plan is recognized as a defined contribution plan.

Entitled employees can use the cash balance plan for deferred compensation contributions above the 4% assessment ceiling. This share is funded by insurance annuity contracts.

U.S.A.

Owing to its acquisition history, Continental has various defined benefit plans in the U.S.A., which were closed to new entrants and frozen to accretion of further benefits in a period from April 1, 2005, to December 31, 2011. In 2017, acquisitions also included an open defined benefit plan for unionized employees.

The closed defined benefit plans are commitments on the basis of the average final salary for employees of the Automotive and Tire segments and cash balance commitments for former Siemens VDO employees. The defined benefit plans for unionized and non-unionized employees are based on a pension multiplier per year of service.

Closed defined benefit plans were replaced by defined contribution plans. Defined contribution plans apply to the majority of active employees in the U.S.A.

The plan assets of the defined benefit plans are managed in a master trust. Investment supervision was delegated to the Pension Committee, a body appointed within the corporation. The legal and regulatory framework for the plans is based on the U.S. Employee Retirement Income Security Act (ERISA). The valuation of the financing level is required on the basis of this law. The interest rate used for this calculation is the average rate over a period of 25 years and therefore currently higher than the interest rate used to discount obligations under IAS 19. The statutory valuation therefore gives rise to a lower obligation than that in line with IAS 19. There is a regulatory requirement to ensure minimum funding of 80% in the defined benefit plans to prevent benefit curtailments.

In 2018, an extraordinary allocation to the U.S. pension plans of U.S. $245.5 million was made and the investment strategy was modified. The share of equities was reduced, while the share of fixed-income securities was increased.

United Kingdom

Continental maintains four defined benefit plans as a result of its history of acquisitions in the United Kingdom. All plans are commitments on the basis of the average or final salary. The four plans were closed to new employees in the period between April 1, 2002, and November 30, 2004. Continental offers defined contribution plans for all employees who have joined the company since that time.

As at April 5, 2016, the Continental Group Pension and Life Assurance Scheme was frozen to accretion of further benefits. It was replaced by a defined contribution plan as at April 6, 2016.

As at July 31, 2017, the Mannesmann UK Pension Scheme was frozen to accretion of further benefits. It was replaced by a defined contribution plan as at August 1, 2017.

Our pension strategy in the U.K. focuses on reducing risks and includes the option of partially or completely funding by purchasing annuities.

The funding conditions are defined by the U.K. Pensions Regulator and the corresponding laws and regulations. The defined benefit plans are managed by trust companies. The boards of trustees of these companies have an obligation solely to the good of the beneficiaries on the basis of the trust agreement and the law.

The necessary funding is determined every three years through technical valuations in line with local provisions. The obligations are measured using a discount rate based on government bonds and other conservatively selected actuarial assumptions. Compared to IAS 19, which derives the discount rate from senior corporate bonds, this usually results in a higher obligation. Three of the four defined benefit plans had a funding deficit on the basis of the most recent technical valuation. The trustees and the company have agreed on a recovery plan that provides for additional temporary annual payments. The valuation process must be completed within 15 months of the valuation date. The technical valuations were completed in 2016 for two plans and in 2017 for the other two plans.

The most recent technical valuations of the four defined benefit pension plans took place with their valuation dates between March 2016 and April 2018 and led to the following result:

- Continental Teves UK Employee Benefit Scheme (assessment as at December 31, 2017): As part of the assessment, an agreement on a minimum annual endowment of GBP 1.4 million over a period of five years was resolved. This amount is payable until the next review is performed in the technical assessment.

- Continental Group Pension and Life Assurance Scheme (assessment as at April 5, 2018): An agreement was concluded with an insurer in 2019 for a complete buy-out through the acquisition of annuities. The corporation anticipates this buy-out will be finalized in 2020 once the necessary data clarifications and preparatory work are completed.

- Mannesmann UK Pension Scheme (assessment as at March 31, 2016): As part of the assessment, an agreement was resolved on a minimum monthly endowment of GBP 75,000 for the period from October 1, 2017, to September 30, 2019, and on a minimum monthly endowment of GBP 100,000 for the period from October 1, 2019, to May 31, 2025.

- Phoenix Dunlop Oil & Marine Pension Scheme (assessment as at December 31, 2018): As part of the assessment, an agreement was resolved on a minimum annual endowment of GBP 2.2 million and an annual adjustment of 3.5% over a period of four years. Thereafter, there will be an annual payment of GBP 1.4 million and an annual adjustment of 3.5% over a period of another three years.

Canada

Continental maintains various defined benefit plans as a result of its history of acquisitions. The pension plans are based mainly on a pension multiplier per year of service.

Fluctuations in the amount of the pension obligation resulting from exchange-rate effects are subject to the same risks as overall business development. These fluctuations relate mainly to the currencies of the U.S.A., Canada and the U.K. and have no material impact on Continental. For information on the effects of interest-rate risks and longevity risk on the pension obligations, please refer to the sensitivities described later on in this section.

The pension obligations for Germany, the U.S.A., Canada, the U.K. and other countries, as well as the amounts for the Continental Corporation as a whole, are shown in the following tables.

The reconciliation of the changes in the defined benefit obligations from the beginning to the end of the year is as follows:

	2019						2018					
€ millions	**Germany**	**U.S.A.**	**Canada**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	Canada	U.K.	Other	Total
Defined benefit obligations as at January 1	**4,781.8**	**1,031.4**	**106.4**	**355.7**	**320.0**	**6,595.3**	**4,518.5**	**1,067.0**	**110.7**	**386.4**	**297.1**	**6,379.7**
Exchange-rate differences	–	21.3	7.3	20.8	2.6	**52.0**	–	46.8	-3.9	-4.3	1.3	39.9
Current service cost	221.8	4.1	1.6	2.2	26.9	**256.6**	198.8	5.2	1.6	2.1	22.9	230.6
Service cost from plan amendments	–	–	–	–	0.8	**0.8**	–	–	–	3.0	3.1	6.1
Curtailments/settlements	–	–	–	–	-0.7	**-0.7**	–	–	–	–	-0.3	-0.3
Interest on defined benefit obligations	87.5	44.2	3.9	10.0	11.0	**156.6**	83.1	39.0	3.6	9.3	9.5	144.5
Actuarial gains/losses from changes in demographic assumptions	–	-8.5	–	-4.7	-0.6	**-13.8**	39.2	-3.5	0.6	-2.4	0.9	34.8
Actuarial gains/losses from changes in financial assumptions	759.5	125.7	10.0	47.3	41.5	**984.0**	0.0	-74.8	-3.0	-23.8	2.0	-99.6
Actuarial gains/losses from experience adjustments	32.0	-4.1	1.6	-1.7	-1.1	**26.7**	42.7	11.7	1.3	1.1	5.6	62.4
Net changes in the scope of consolidation	1.6	–	–	–	21.1	**22.7**	–	–	–	–	–	0.0
Employee contributions	–	–	0.3	0.2	-0.6	**-0.1**	–	–	0.3	0.2	-0.3	0.2
Other changes	–	–	–	–	-0.2	**-0.2**	–	–	–	-0.4	-1.2	-1.6
Benefit payments	-102.5	-62.5	-6.3	-14.5	-19.0	**-204.8**	-100.5	-60.0	-4.8	-15.5	-20.6	-201.4
Defined benefit obligations as at December 31	**5,781.7**	**1,151.6**	**124.8**	**415.3**	**401.7**	**7,875.1**	**4,781.8**	**1,031.4**	**106.4**	**355.7**	**320.0**	**6,595.3**

The reconciliation of the changes in the fund assets from the beginning to the end of the year is as follows:

	2019						2018					
€ millions	**Germany**	**U.S.A.**	**Canada**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	Canada	U.K.	Other	Total
Fair value of fund assets as at January 1	**1,195.2**	**925.7**	**88.4**	**369.0**	**150.2**	**2,728.5**	**1,189.0**	**746.6**	**90.7**	**378.5**	**144.3**	**2,549.1**
Exchange-rate differences	–	19.0	6.0	20.5	1.1	**46.6**	–	39.2	-3.3	-4.5	0.6	32.0
Interest income from pension funds	29.6	39.9	3.3	10.5	5.9	**89.2**	15.9	30.7	3.0	9.4	5.0	64.0
Actuarial gains/losses from fund assets	45.8	145.2	10.9	5.3	1.8	**209.0**	-32.5	-52.2	0.6	-17.4	-3.0	-104.5
Employer contributions	42.1	11.8	2.4	7.5	15.3	**79.1**	46.5	222.7	2.3	18.8	18.8	309.1
Employee contributions	–	–	0.3	0.2	0.2	**0.7**	–	0.0	0.3	0.2	0.2	0.7
Net changes in the scope of consolidation	–	–	–	–	–	**–**	–	–	–	–	–	0.0
Other changes	–	-1.6	-0.3	–	-0.6	**-2.5**	–	-1.3	-0.4	-0.5	-0.1	-2.3
Benefit payments	-24.2	-62.5	-6.3	-14.5	-10.2	**-117.7**	-23.7	-60.0	-4.8	-15.5	-15.6	-119.6
Fair value of fund assets as at December 31	**1,288.5**	**1,077.5**	**104.7**	**398.5**	**163.7**	**3,032.9**	**1,195.2**	**925.7**	**88.4**	**369.0**	**150.2**	**2,728.5**

The carrying amount of pension provisions increased by €975.7 million as compared to the previous year, primarily because of actuarial losses in all countries. The positive balance from pension valuation decreased by €20.0 million year-on-year. This was due chiefly to the increase in defined benefit obligations in the U.K. as a result of actuarial losses.

€7,707.8 million (PY: €6,488.8 million) of the defined benefit obligations as at December 31, 2019, related to plans that are fully or partially funded, and €167.3 million (PY: €106.5 million) related to plans that are unfunded.

The €1,279.8 million increase in the defined benefit obligations as compared to December 31, 2018, resulted in particular from actuarial losses from changes in financial assumptions, exchange-rate effects and net changes in the scope of consolidation.

The fund assets in Germany include the CTA assets amounting to €941.4 million (PY: €838.1 million), pension contribution fund assets of €234.7 million (PY: €242.7 million), insurance annuity contracts amounting to €112.0 million (PY: €114.0 million) and further plan assets of €0.4 million (PY: €0.4 million).

In the year under review, fund assets increased by €304.4 million to €3,032.9 million, primarily because of actuarial gains in the reporting year. Owing to the change in U.S. tax laws in the previous year, it was possible for the corporation to fund most of the plan assets for pensions in the U.S.A. while benefiting from tax breaks. On July 11, 2018, €209.2 million was transferred to the corresponding plan assets.

Actuarial gains and losses on fund assets in Germany resulted from actuarial gains of €45.9 million (PY: losses of €32.5 million) from the CTA.

In the Continental Corporation, there are pension contribution funds for previously defined contributions in Germany that have been closed to new entrants since July 1, 1983, and March 1, 1984, respectively. As at December 31, 2019, the minimum net funding requirement was exceeded; Continental AG has no requirement to make additional contributions. The pension fund assets had a fair value of €234.7 million as at December 31, 2019 (PY: €242.7 million). The pension contribution funds have tariffs with an interest rate of 2.6%. Under this law, the pension obligations constitute a defined benefit pension plan, which is why this plan must be reported in line with the development of pension provisions. However, given that only the plan members are entitled to the assets and income generated, the benefit obligations are recognized in the same amount as the existing assets at fair value.

The following table shows the reconciliation of the funded status to the amounts contained in the statement of financial position:

	December 31, 2019						December 31, 2018					
€ millions	**Germany**	**U.S.A.**	**Canada**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	Canada	U.K.	Other	Total
Funded status[1]	**-4,493.2**	**-74.1**	**-20.1**	**-16.8**	**-238.0**	**-4,842.2**	**-3,586.6**	**-105.7**	**-18.0**	**13.3**	**-169.8**	**-3,866.8**
Asset ceiling	–	–	-0.9	–	-0.8	**-1.7**	–	–	-0.4	–	-1.0	-1.4
Carrying amount	**-4,493.2**	**-74.1**	**-21.0**	**-16.8**	**-238.8**	**-4,843.9**	**-3,586.6**	**-105.7**	**-18.4**	**13.3**	**-170.8**	**-3,868.2**

1 Difference between fund assets and defined benefit obligations.

The carrying amount comprises the following items of the statement of financial position:

	December 31, 2019						December 31, 2018					
€ millions	**Germany**	**U.S.A.**	**Canada**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	Canada	U.K.	Other	Total
Defined benefit assets	–	3.9	1.5	–	2.4	**7.8**	–	–	1.4	23.9	2.5	27.8
Pension provisions	-4,493.2	-78.0	-22.5	-16.8	-241.2	**-4,851.7**	-3,586.6	-105.7	-19.8	-10.6	-173.3	-3,896.0
Carrying amount	**-4,493.2**	**-74.1**	**-21.0**	**-16.8**	**-238.8**	**-4,843.9**	**-3,586.6**	**-105.7**	**-18.4**	**13.3**	**-170.8**	**-3,868.2**

The assumptions used to measure the pension obligations – in particular, the discount factors for determining the interest on expected pension obligations and the expected return on fund assets, as well as the long-term salary growth rates and the long-term pension trend – are specified for each country.

In the principal pension plans, the following weighted-average valuation factors as at December 31 of the year have been used:

	2019					2018				
%	**Germany[1]**	**U.S.A.**	**Canada**	**U.K.**	**Other**	Germany[1]	U.S.A.	Canada	U.K.	Other
Discount rate	1.21	3.30	3.00	2.00	2.43	1.90	4.35	3.60	2.80	3.41
Long-term salary growth rate	3.00	0.00	2.86	3.56	3.32	3.00	0.00	2.86	3.79	3.30

1 Not including the pension contribution funds.

Another parameter for measuring the pension obligation is the long-term pension trend. The following weighted average long-term pension trend was used as at December 31, 2019, for the key countries: Germany 1.75% (PY: 1.75%), Canada 1.6% (PY: 1.6%) and the United Kingdom 3.2% (PY: 3.8%). For the U.S.A., the long-term pension trend does not constitute a significant measurement parameter.

Net pension cost can be summarized as follows:

	2019						2018					
€ millions	**Germany**	**U.S.A.**	**Canada**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	Canada	U.K.	Other	Total
Current service cost	221.8	4.1	1.6	2.2	26.9	**256.6**	198.8	5.2	1.6	2.1	22.9	230.6
Service cost from plan amendments	–	–	–	–	0.8	**0.8**	–	–	–	3.0	3.1	6.1
Curtailments/settlements	–	–	–	–	-0.7	**-0.7**	–	–	–	–	-0.3	-0.3
Interest on defined benefit obligations	87.5	44.2	3.9	10.0	11.0	**156.6**	83.1	39.0	3.6	9.3	9.5	144.5
Expected return on the pension funds	-29.6	-39.9	-3.3	-10.5	-5.9	**-89.2**	-15.9	-30.7	-3.0	-9.4	-5.0	-64.0
Effect of change of asset ceiling	–	–	–	–	0.1	**0.1**	–	–	–	–	0.1	0.1
Other pension income and expenses	–	1.7	0.3	–	–	**2.0**		1.2	0.3	–	-0.3	1.2
Net pension cost	**279.7**	**10.1**	**2.5**	**1.7**	**32.2**	**326.2**	**266.0**	**14.7**	**2.5**	**5.0**	**30.0**	**318.2**

These were no special effects in the development of net pension cost in the reporting year.

The table below shows the reconciliation of changes in actuarial gains and losses at the start and end of the reporting year:

	2019						2018					
€ millions	**Germany**	**U.S.A.**	**Canada**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	Canada	U.K.	Other	Total
Actuarial gains/losses as at Jan. 1	**-1,974.2**	**-291.4**	**-11.3**	**-91.3**	**-74.7**	**-2,442.9**	**-1,859.8**	**-305.8**	**-12.6**	**-99.0**	**-63.4**	**-2,340.6**
Actuarial gains/losses from defined benefit obligations	-791.5	-113.2	-11.6	-40.9	-39.8	**-997.0**	-81.9	66.6	1.1	25.1	-8.5	2.4
Actuarial gains/losses from fund assets	45.8	145.2	10.9	5.3	1.8	**209.0**	-32.5	-52.2	0.6	-17.4	-3.0	-104.5
Actuarial gains/losses from asset ceiling	–	–	-0.4	–	0.2	**-0.2**	–	0.0	-0.4	–	0.2	-0.2
Actuarial gains/losses as at Dec. 31	**-2,719.9**	**-259.4**	**-12.4**	**-126.9**	**-112.5**	**-3,231.1**	**-1,974.2**	**-291.4**	**-11.3**	**-91.3**	**-74.7**	**-2,442.9**

Actuarial gains and losses arise from increases or decreases in the present value of the defined benefit obligation due to changes in the actuarial assumptions made. On the one hand, the decrease in the discount factor in all countries in the 2019 reporting period as compared to 2018 resulted in actuarial losses in all countries. The actuarial gains accrued in the 2018 reporting period were due primarily to changes in financial assumptions, which were attributable to an increase in the discount factors compared to 2017 in the U.S.A., Canada and the U.K. These gains were offset by changes in demographic assumptions in Germany, which led to actuarial losses.

If the other assumptions remained constant, the changes in individual key actuarial assumptions that could reasonably have been possible at the reporting date would have impacted the defined benefit obligation by the following amounts. Although the analysis does not take account of the complete allocation of the cash flows expected under the plan, it provides an approximation of the sensitivity of the assumptions shown.

If the other assumptions are maintained, a 0.5-percentage-point increase or decrease in the discount rate used to discount pension obligations would have had the following impact on the pension obligations as at the end of the reporting period:

	December 31, 2019					December 31, 2018				
€ millions	**Germany[1]**	**U.S.A.**	**Canada**	**U.K.**	**Other**	Germany[1]	U.S.A.	Canada	U.K.	Other
0.5% increase										
Effects on service and interest cost	-20.7	-2.4	-0.1	0.8	-0.4	-17.0	-1.8	-0.1	0.7	-0.5
Effects on benefit obligations	-566.4	-63.1	-8.7	-35.5	-21.6	-435.7	-53.3	-7.1	-31.1	-16.8
0.5% decrease										
Effects on service and interest cost	24.1	2.2	0.0	-0.9	0.4	19.7	1.5	0.1	-0.7	0.5
Effects on benefit obligations	665.9	69.6	9.8	39.8	23.8	508.4	58.5	8.0	32.9	18.5

1 Not including the pension contribution funds.

A 0.5-percentage-point increase or decrease in the long-term salary growth rate would have had the following impact on the pension obligations as at the end of the reporting period:

	December 31, 2019				December 31, 2018			
€ millions	**Germany**	**U.S.A.[1]**	**Canada**	**U.K.**	Germany	U.S.A.[1]	Canada	U.K.
0.5% increase								
Effects on benefit obligations	5.5	–	1.0	2.2	5.8	–	0.8	2.3
0.5% decrease								
Effects on benefit obligations	-8.4	–	-0.9	-2.0	-5.5	–	-0.7	-2.2

1 Any change in the long-term salary growth rate would have no effect on the value of the benefit obligations.

A 0.5-percentage-point increase or decrease in the long-term pension trend would have had the following impact on the pension obligations as at the end of the reporting period:

	December 31, 2019				December 31, 2018			
€ millions	**Germany**	**U.S.A.[1]**	**Canada**	**U.K.**	Germany	U.S.A.[1]	Canada	U.K.
0.5% increase								
Effects on benefit obligations	199.9	–	4.2	24.6	166.9	–	3.8	22.4
0.5% decrease								
Effects on benefit obligations	-180.9	–	-3.8	-23.7	-151.5	–	-3.4	-21.0

1 Any change in the long-term pension trend would have no effect on the value of the benefit obligations.

Changes in the discount rate and the salary and pension trends do not have a linear effect on the defined benefit obligations (DBO) owing to the financial models used (particularly due to the compounding of interest rates). For this reason, the net periodic pension cost derived from the pension obligations does not change by the same amount as a result of an increase or decrease in the actuarial assumptions.

In addition to the aforementioned sensitivities, the impact of a one-year-longer life expectancy on the value of benefit obligations was computed for the key countries. A one-year increase in life expectancy would lead to a €284.6 million (PY: €215.4 million) increase in the value of the benefit obligations, and that figure would be broken down as follows: Germany €231.3 million (PY: €173.3 million), U.S.A. €34.5 million (PY: €27.2 million), U.K. €15.6 million (PY: €12.3 million) and Canada €3.2 million (PY: €2.6 million). In Germany, increased payments in the form of pensions rather than capital were assumed in the actuarial valuation, which has the effect of increasing the benefit obligations. For the calculation of pension obligations for domestic plans, life expectancy is based on the 2018 G mortality tables by Prof. Klaus Heubeck. For foreign pension plans, comparable criteria are used for the respective country.

Pension funds

The structure of the corporation's plan assets is reviewed by the investment committees on an ongoing basis taking into account the forecast pension obligations. In doing so, the investment committees regularly review the investment decisions taken, the underlying expected returns of the individual asset classes reflecting empirical values and the selection of the external fund managers.

The portfolio structures of the pension funds at the measurement date for the fiscal years 2019 and 2018 are as follows:

%	2019					2018				
Asset class	**Germany[1]**	**U.S.A.**	**Canada**	**U.K.**	**Other**	Germany[1]	U.S.A.	Canada	U.K.	Other
Equity instruments	5	21	48	7	13	2	20	51	7	9
Debt securities	52	78	51	29	74	54	79	48	44	76
Real estate	13	–	–	1	2	15	–	–	1	1
Absolute return[2]	17	–	–	16	–	18	1	1	23	2
Cash, cash equivalents and other	13	1	1	5	11	11	–	–	3	12
Annuities[3]	–	–	–	42	–	–	–	–	22	–
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

1 The portfolio structure of the fund assets in Germany excludes the pension contribution funds whose assets are invested mainly in fixed-income securities and shares.
2 This refers to investment products that aim to achieve a positive return regardless of market fluctuations.
3 Annuities are insurance contracts that guarantee pension payments.

The following table shows the cash contributions made by the company to the pension funds for 2019 and 2018 as well as the expected contributions for 2020:

€ millions	2020 (expected)	**2019**	2018
Germany	41.4	42.1	46.5
U.S.A.	6.8	11.8	222.7
Canada	2.8	2.4	2.3
U.K.	5.7	7.3	18.8
Other	21.6	15.3	18.8
Total	**78.3**	**78.9**	**309.1**

The following overview contains the pension benefit payments made in the reporting year and the previous year, as well as the undiscounted, expected pension benefit payments for the next 10 years:

€ millions	Germany	U.S.A.	CAN	U.K.	Other	Total
Benefits paid						
2018	100.5	60.0	4.8	15.5	15.6	**196.4**
2019	102.5	62.5	6.3	14.5	19.0	**204.8**
Benefit payments as expected						
2020	131.0	65.7	5.6	10.6	18.0	**230.9**
2021	127.0	66.9	5.6	11.1	18.2	**228.8**
2022	134.9	67.4	5.7	11.5	19.5	**239.0**
2023	138.1	67.7	6.3	12.1	22.0	**246.2**
2024	148.2	68.0	6.2	12.8	24.4	**259.6**
Total of years 2025 to 2029	859.4	338.3	35.0	76.6	158.9	**1,468.2**

The pension payments from 2018 onward relate to lump-sum amounts in connection with fixed service cost benefit plans, as well as annual pension benefits. Furthermore, the earliest eligible date for retirement has been assumed when determining future pension payments. The actual retirement date could occur later. Therefore, the actual payments in future years for present plan members could be lower than the amounts assumed.

For the current and four preceding reporting periods, the amounts of the defined benefit obligations, fund assets, funded status, as well as the experience adjustments to plan liabilities and to plan assets are as follows:

€ millions	**2019**	2018	2017	2016	2015
Defined benefit obligations	7,875.1	6,595.3	6,379.7	6,528.7	5,807.4
Fund assets	3,032.7	2,728.5	2,549.1	2,684.4	2,571.9
Funded status	-4,843.9	-3,866.8	-3,830.6	-3,844.3	-3,235.5
Experience adjustments to plan liabilities	997.0	-2.4	-39.1	596.3	51.9
Experience adjustments to plan assets	209.0	-104.5	77.2	65.4	-21.6

Other post-employment benefits

Certain subsidiaries – primarily in the U.S.A. and Canada – grant eligible employees healthcare and life insurance on retirement if they have fulfilled certain conditions relating to age and years of service. The amount and entitlement can be altered. Certain retirement benefits, in particular for pensions and healthcare costs, are provided in the U.S.A. for hourly paid workers at unionized tire plants under the terms of collective pay agreements. No separate fund assets have been set up for these obligations.

The weighted average term of the defined benefit pension obligation is 10 years. This term is based on the present value of the obligation.

The reconciliation of the changes in the defined benefit obligations and the financing status from the beginning to the end of the year is as follows:

€ millions	**2019**	2018
Defined benefit obligations as at January 1	**194.9**	**209.3**
Exchange-rate differences	5.5	5.7
Current service cost	1.3	1.3
Service cost from plan amendments	-0.3	0.1
Curtailments/settlements	-0.1	0.4
Interest on healthcare and life insurance benefit obligations	8.1	7.5
Actuarial gains/losses from changes in demographic assumptions	-0.5	-2.7
Actuarial gains/losses from changes in financial assumptions	15.5	-10.6
Actuarial gains/losses from experience adjustments	-1.8	-2.3
Net changes in the scope of consolidation	7.5	–
Benefit payments	-14.2	-13.8
Defined benefit obligations/net amount recognized as at December 31	**215.9**	**194.9**

The assumptions used for the discount rate and cost increases to calculate the healthcare and life insurance benefits vary according to conditions in the U.S.A. and Canada. The following weighted average valuation factors as at December 31 of the year have been used:

%	**2019**	2018
Discount rate	3.31	4.24
Rate of increase in healthcare and life insurance benefits in the following year	4.04	4.94
Long-term rate of increase in healthcare and life insurance benefits	3.29	3.78

The net cost of healthcare and life insurance benefit obligations can be broken down as follows:

€ millions	**2019**	2018
Current service cost	1.3	1.3
Service cost from plan amendments	-0.3	0.1
Curtailments/settlements	-0.1	0.4
Interest on healthcare and life insurance benefit obligations	8.1	7.5
Net loss/income	**9.0**	**9.3**

If the other assumptions remained constant, the changes in individual key actuarial assumptions that could reasonably have been possible at the reporting date would have impacted the defined benefit obligation by the following amounts. Although the analysis does not take account of the complete allocation of the cash flows expected under the plan, it provides an approximation of the sensitivity of the assumptions shown.

The following table shows the effects of a 0.5% increase or decrease in the cost trend for healthcare and life insurance obligations:

€ millions	2019	2018
0.5% increase		
Effects on service and interest cost	0.1	0.1
Effects on benefit obligations	2.1	2.2
0.5% decrease		
Effects on service and interest cost	-0.1	-0.1
Effects on benefit obligations	-1.9	-2.0

A 0.5-percentage-point increase or decrease in the discount rate specified above for calculating the net cost of healthcare and life insurance benefit obligations would have had the following effect on net cost:

€ millions	2019	2018
0.5% increase		
Effects on service and interest cost	0.5	0.5
Effects on benefit obligations	-10.7	-8.8
0.5% decrease		
Effects on service and interest cost	-0.5	-0.5
Effects on benefit obligations	11.9	9.7

The following table shows the payments made for other post-employment benefits in the reporting year and the previous year, as well as the undiscounted, expected benefit payments for the next 10 years:

€ millions	
Benefits paid	
2018	13.8
2019	14.2
Benefit payments as expected	
2020	15.1
2021	15.2
2022	15.3
2023	15.3
2024	15.3
Total of years 2025 to 2029	70.1

The amounts for the defined benefit obligations, funded status and experience adjustments to plan liabilities for the current and four preceding reporting periods are as follows:

€ millions	2019	2018	2017	2016	2015
Defined benefit obligations	215.9	194.9	209.3	232.6	229.9
Funded status	-215.9	-194.9	-209.3	-232.6	-229.9
Experience adjustments to plan liabilities	13.2	-15.6	6.3	-2.1	-22.2

Provisions for obligations similar to pensions

Some companies of the corporation have made commitments to employees for a fixed percentage of the employees' compensation. These entitlements are paid out when the employment relationship is terminated. In the year under review, expenses from these obligations amounted to €4.9 million (PY: €3.7 million).

Defined contribution pension plans

The Continental Corporation offers its employees pension plans in the form of defined contribution plans, particularly in the U.S.A., the U.K., Japan and China. Not including social security contributions, expenses from defined contribution pension plans amounted to €88.3 million (PY: €80.1 million) in the fiscal year.

Other employee benefits

Other employee benefits include provisions for partial early retirement programs and anniversary and other long-service benefits. The provisions for partial early retirement are calculated using a discount rate of 0.0% (PY: 1.05%). Provisions for anniversary and other long-service benefits were calculated using a discount rate of 1.2% (PY: 1.9%). In accordance with the option under IAS 19, *Employee Benefits*, the interest component is reported in the financial result.

Long-term incentive plans (LTI plans)

Liabilities for payroll and personnel-related costs also include long-term incentive (LTI) plans as well as the amounts of variable remuneration converted into virtual shares of Continental AG for members of the Executive Board (performance bonus, deferral).

The LTI plans for the years starting from 2014 and the deferral are classified as cash-settled share-based payments; hence they are recognized at fair value in accordance with IFRS 2, *Share-based Payment*.

The net amount from expenses and income from LTI plans and the TIP bonus led to income from the reversal of provisions of €8.2 million in the reporting year (PY: €21.9 million).

- 2014 to 2019 LTI plan: Since 2014, senior executives of the Continental Corporation and members of the Executive Board have been granted a new bonus, the basic structure of which has been altered. This bonus is intended to allow for participation in the long-term, sustainable increase in the corporation's value and profitability. The LTI bonus still depends on job grade and degree of target achievement and is issued in annual tranches.

- The term of the 2014/17 tranche, which was resolved on March 12, 2014, by the Supervisory Board for the members of the Executive Board and on June 23, 2014, by the Executive Board for senior executives, begins retroactively as at January 1, 2014, and is four years. After the expiry of the 2014/17 LTI tranche in December 2017, the bonus was paid out in July 2018.

- The term of the 2015/18 tranche, which was resolved on March 18, 2015, by the Supervisory Board for the members of the Executive Board and on June 4, 2015, by the Executive Board for senior executives, begins retroactively as at January 1, 2015, and is four years. After the expiry of the 2015/18 LTI tranche in December 2018, the bonus was paid out in July 2019.

- The term of the 2016/19 tranche, which was resolved on March 18, 2016, by the Supervisory Board for the members of the Executive Board and on April 21, 2016, by the Executive Board for senior executives, begins retroactively as at January 1, 2016, and is four years.

- The term of the 2017/20 tranche, which was resolved on January 27, 2017, by the Supervisory Board for the members of the Executive Board and on June 2, 2017, by the Executive Board for senior executives, begins retroactively as at January 1, 2017, and is four years.

- The term of the 2018/21 tranche, which was resolved on March 13, 2018, by the Supervisory Board for the members of the Executive Board and on May 28, 2018, by the Executive Board for senior executives, begins retroactively as at January 1, 2018, and is four years.

- The term of the 2019/22 tranche, which was resolved on March 14, 2019, by the Supervisory Board for the members of the Executive Board and on May 24, 2019, by the Executive Board for senior executives, begins retroactively as at January 1, 2019, and is four years.

For each beneficiary of an LTI tranche, the Supervisory Board (for the members of the Executive Board) or the Executive Board (for senior executives) of Continental AG specifies the amount of a target bonus in euros to be paid out upon 100% target achievement. The actual LTI bonus paid out on expiry of the LTI tranche depends on the degree of target achievement. The LTI bonus can range between 0% (no payment) and 200% (maximum payment).

The degree of achievement of two target criteria is decisive for the payment and amount of the LTI bonus. The first target criterion is the equally weighted average of the Continental Value Contribution (CVC) of the Continental Corporation over a period of four fiscal years, starting from the fiscal year in which the LTI tranche is issued. The equally weighted average is calculated by adding together 25% of the CVC of the four fiscal years of the term of the LTI tranche. The second target criterion is the total shareholder return (TSR) on Continental shares as at the end of the term in relation to the beginning of the LTI tranche. The share price used in calculating the TSR is the arithmetic mean of closing prices in Xetra trading on the Frankfurt Stock Exchange (or a successor system) on the trading days in the three months from October to December before the issue and expiry of the LTI tranche. In addition, all dividends paid during the term of the LTI tranche are taken into account for the TSR.

The scale for determining the degree of target achievement is defined by the Supervisory Board or the Executive Board when the respective LTI tranche is issued. These key data are identical for the members of the Executive Board and senior executives. The degree of target achievement for the first target criterion can lie between 0% and 200%. Target achievement is calculated on a straight-line basis between 0% and the maximum amount. There is no cap for the second target criterion. The ultimate degree of target achievement used to calculate the LTI bonus to be paid out is determined by multiplying the two target criteria. The LTI bonus to be paid out is determined by multiplying the degree of target achievement by the target bonus. The total maximum achievable LTI bonus is 200% of the target bonus.

A Monte Carlo simulation is used in the measurement of the TSR target criterion. This means that log-normal distributed processes are simulated for the price of Continental shares. The Monte Carlo simulation takes into account the average value accumulation of share prices in the respective reference period, the TSR dividends and the restriction for the distribution amount.

- 2019 Transformation Incentive Plan (TIP): In 2019, the Continental Corporation offered its senior executives the possibility of participating in the long-term, sustainable increase in the corporation's value by paying a TIP bonus in addition to the fixed salary and the annual variable remuneration. The term of the TIP, which the Executive Board adopted for senior executives on September 2, 2019, extends from October 1, 2019, to December 31, 2021.

- The Executive Board of Continental AG specifies the amount of the target bonus (TIP bonus) in euros for each beneficiary of a TIP bonus (senior executives). The TIP bonus is calculated based on a certain number of virtual shares of Continental AG (base portfolio), which can increase through two bonus packages, multiplied by the payment share price. The payment share price is the arithmetic mean of Continental AG's closing share prices in Xetra trading on the Frankfurt Stock Exchange (or a successor system) on the trading days in the last month prior to the Annual Shareholders' Meeting that follows the end of the term. The TIP bonus, which can total at most 200% of the initial share price, is paid to the respective beneficiary as a gross lump sum at the end of the second complete calendar month following the Annual Shareholders' Meeting that follows the end of the term. Since the base portfolio can be increased through two bonus packages, the degree of achievement of two target criteria is decisive for the amount of the TIP bonus. The target criterion of the first bonus package is the results of the OUR BASICS Live corporate survey in 2021. If at least 70% (equally weighted average) of all participants respond positively to the Sustainable Engagement Index, the beneficiary receives additional virtual shares equivalent to 50% of the base portfolio. The target criterion of the second bonus package is met if, at the end of the term, the total shareholder return (TSR) on Continental shares equals or exceeds the performance of the STOXX Europe 600 Automobiles & Parts Index. In this case, the beneficiary receives additional virtual shares equivalent to 50% of the base portfolio. The TSR on Continental shares corresponds to the sum of the share price performance as at the end of the term and all dividends distributed during the term relative to the share price at the beginning of the term. The share price used in calculating the TSR is the arithmetic mean of the closing prices in Xetra trading on the Frankfurt Stock Exchange (or a successor system) on the trading days (i) in the first month of the term ("initial share price") and (ii) in the last month of the term ("final share price").

A Monte Carlo simulation is used in the measurement of stock options. This means that log-normal distributed processes are simulated for the price of Continental shares and the price of the STOXX Europe 600 Automobiles & Parts Gross Return Index. The Monte Carlo simulation takes into account the average value accumulation of the Continental share prices for the final share price and the payment share price, the TSR dividends, the performance compared with the benchmark index and the restriction for the distribution amount.

The following TSR parameters were used as at the measurement date of December 31, 2019:

- Constant zero rates as at the measurement date of December 31, 2019:
  2016 LTI plan: -0.70% as at the expected payment date;
  2017 LTI plan: -0.68% as at the due date and -0.65% as at the expected payment date;
  2018 LTI plan: -0.63% as at the due date and -0.60% as at the expected payment date;
  2019 LTI plan: -0.58% as at the due date and -0.55% as at the expected payment date.
  2019/2021 TIP bonus: -0.63% as at the due date, -0.61% as at the end of the payment share price period and -0.61% as at the payment date.

- Interest rate based on the yield curve for government bonds.

- Dividend payments as the arithmetic mean based on publicly available estimates for the years 2020 and 2021; the dividend of Continental AG amounted to €4.75 per share in 2019.

- Historic volatilities on the basis of daily Xetra closing rates for Continental shares based on the respective remaining term for LTI tranches. The volatility for the 2017 LTI plan is 29.00%, for the 2018 LTI plan 29.60% and for the 2019 LTI plan 25.99%.

- The fair values of the tranches developed as follows:
  2016 LTI plan: €0.0 million (PY: €8.5 million), the vesting level is 100%;
  2017 LTI plan: €0.0 million (PY: €6.7 million), the vesting level is 75%;
  2018 LTI plan: €0.0 million (PY: €2.1 million), the vesting level is 50%;
  2019 LTI plan: €0.0 million, the vesting level is 25%.
  2019 TIP bonus: €21.8 million, the vesting level is 11.11%.

The lower LTI-related liabilities for payroll and personnel-related costs resulted during the reporting period in income of €0.2 million for the 2015 LTI plan (PY: €8.0 million), €6.5 million for the 2016 LTI plan (PY: €7.4 million), €3.4 million (PY: €5.9 million) for the 2017 LTI plan and €0.5 million (PY: expenses of €0.5 million) for the 2018 LTI plan. In total, no expenses or income for the 2019 LTI plan were recorded in the reporting year. Expenses of €2.4 million were incurred for the TIP bonus in 2019.

- **Performance bonus (deferral):** A Monte Carlo simulation is used in the measurement of stock options. This means that log-normal distributed processes are simulated for the price of Continental shares. The measurement model also takes into account the average value accumulation of share prices in the respective reference period and the floor and cap for the distribution amount.

- Expenses of €0.2 million from virtual shares (PY: income of €7.7 million from the reversal of provisions from virtual shares) were recognized in the respective function costs.

The following parameters were used as at the measurement date of December 31, 2019:

- Constant zero rates as at the measurement date of December 31, 2019:
  2016 tranche: -0.71% as at the due date and as at the expected payment date;
  2017 tranche: -0.66% as at the due date and as at the expected payment date;
  2018 tranche: -0.61% as at the due date and as at the expected payment date.

- Interest rate based on the yield curve for government bonds.

- Dividend payments as the arithmetic mean based on publicly available estimates for 2020 and 2021; the dividend of Continental AG amounted to €4.75 per share in 2019, and Continental AG distributed a dividend of €4.50 per share in 2018.

- Historic volatilities on the basis of daily Xetra closing rates for Continental shares based on the respective remaining term for virtual shares. The volatility for the 2016 tranche is 24.75%, for the 2017 tranche 30.05% and for the 2018 tranche 27.96%.

As at December 31, 2019, commitments with a fair value of €7.1 million (PY: €8.5 million) are attributable to Executive Board members active at the end of the reporting period; this is equivalent to 55,631 virtual shares (PY: 63,266 virtual shares).

Short-term employee benefits

Liabilities for payroll and personnel-related costs

The Continental value sharing bonus is a program that allows Continental employees to share in net income. The amount of profits shared is calculated on the basis of key internal figures. A provision of €83.2 million (PY: €153.1 million) was recognized in liabilities for staff costs for the period under review.

28. Provisions for Other Risks and Obligations

	December 31, 2019		December 31, 2018	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Restructuring provisions	96.5	502.6	23.8	8.6
Litigation and environmental risks	116.3	103.2	104.4	117.6
Warranties	741.4	–	619.8	–
Other provisions	307.4	60.3	318.1	37.5
Provisions for other risks and obligations	**1,261.6**	**666.1**	**1,066.1**	**163.7**

The provisions for other risks developed as follows:

€ millions	Restructuring provisions	Litigation and environmental risks	Warranties	Other provisions
As at January 1, 2019	**32.4**	**222.0**	**619.8**	**355.6**
Additions	588.6	80.6	599.1	214.4
Utilizations	-21.4	-61.1	-301.1	-89.2
Net changes in the scope of consolidation	—	5.7	2.1	9.2
Reversals	-0.4	-34.0	-182.2	-124.9
Interest	0.0	3.1	—	0.1
Exchange-rate changes	-0.1	3.2	3.7	2.5
As at December 31, 2019	**599.1**	**219.5**	**741.4**	**367.7**

The restructuring measures resulted in additions to the restructuring provisions in all segments. These were the result of the Transformation 2019–2029 structural program and included corresponding costs. These relate primarily to the Powertrain and Interior segments.

The utilization of restructuring provisions relates to the implementation of restructuring measures adopted in previous years and incorporated for the first time in 2019.

As in the previous year, the additions to the provisions for litigation and environmental risks relate in particular to product liability risks from the tire activities in the U.S.A. Please see Note 35.

The utilizations relate mainly to the aforementioned product liability risks from tire activities.

The changes in provisions for warranties include utilization of €301.1 million (PY: €329.5 million) and reversals of €182.2 million (PY: €132.9 million), which are offset by additions of €599.1 million (PY: €554.2 million), especially for specific individual cases within the Automotive Group.

The other provisions also include provisions for risks from operations, such as those in connection with compensation from customer and supplier claims that are not warranties. They also include provisions for dismantling and tire-recycling obligations, and provisions for possible interest payments and penalties on income tax liabilities.

29. Income Tax Liabilities

Income tax liabilities developed as follows:

€ millions	2019	2018
As at January 1	**750.7**	**889.7**
Additions	694.0	653.5
Utilizations and advance payments for the current fiscal year	-477.8	-664.8
Reversals	-34.5	-19.3
Additions from the first-time consolidation of subsidiaries	3.2	-110.8
Exchange-rate changes	3.0	2.4
As at December 31	**938.6**	**750.7**

When reconciling the income tax liabilities with the income taxes paid in the statement of cash flows, the cash changes in income tax receivables must be included in addition to the utilizations and current advance payments shown here.

30. Indebtedness and Additional Notes to the Statement of Cash Flows

	December 31, 2019			December 31, 2018		
€ millions	**Total**	**Short-term**	**Long-term**	Total	Short-term	Long-term
Bonds	**2,793.8**	1,348.7	1,445.1	1,895.2	499.9	1,395.3
Bank loans and overdrafts[1]	**1,470.4**	960.3	510.1	1,239.0	1,223.7	15.3
Derivative instruments	**13.3**	13.3	–	8.2	8.1	0.1
Lease liabilities/finance lease liabilities	**1,715.0**	318.3	1,396.7	12.3	2.4	9.9
Liabilities from sale-of-receivables programs	**468.6**	468.6	–	469.2	469.2	–
Other indebtedness[2]	**1,157.9**	1,134.6	23.3	983.0	954.6	28.4
Indebtedness	**7,619.0**	**4,243.8**	**3,375.2**	**4,606.9**	**3,157.9**	**1,449.0**

1 Thereof €12.4 million (PY: €13.5 million) secured by land charges, mortgages and similar securities.
2 Other indebtedness in 2019 included a carrying amount of €938.4 million (PY: €814.5 million) from commercial paper issuances.

Continental's key bond issues

€ millions Issuer/type	**Amount of issue Dec. 31, 2019**	**Carrying amount Dec. 31, 2019**	**Stock market value Dec. 31, 2019**	Amount of issue Dec. 31, 2018	Carrying amount Dec. 31, 2018	Stock market value Dec. 31, 2018	Coupon p.a.	Issue/maturity and fixed interest until	Issue price
CRoA[1] euro bond	–	–	–	500.0	499.9	500.4	0.500%	2015/02.2019	99.739%
CAG[2] euro bond	600.0	599.8	600.2	600.0	598.1	600.2	0.000%	2016/02.2020	99.410%
CAG[2] euro bond	750.0	748.9	767.3	750.0	747.2	787.4	3.125%	2013/09.2020	99.228%
CAG[2] euro bond	500.0	497.8	496.5	–	–	–	0.000%	2019/09.2023	99.804%
CAG[2] euro bond	600.0	597.3	598.7	–	–	–	0.375%	2019/06.2025	99.802%
Total	**2,450.0**	**2,443.8**	**2,462.7**	**1,850.0**	**1,845.2**	**1,888.0**			

1 CRoA, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.
2 CAG, Continental Aktiengesellschaft, Hanover.

The carrying amount of the bonds increased by €898.6 million from €1,895.2 million in the previous year to €2,793.8 million as at the end of fiscal 2019. This build-up is attributable to several euro bond issues totaling €1,400.0 million by Continental AG in the second half of 2019 under Continental's Debt Issuance Programme (DIP). Continental utilized the favorable market and interest rate environment to successfully issue two listed euro bonds in September 2019 and make two private placements with investors in Germany and abroad in October 2019. The issue price of the €500.0-million bond issued on September 12, 2019, amounted to 99.804%. This bond has a term of four years and an interest rate of 0.000% p.a. The issue price of the €600.0-million bond issued on September 27, 2019, amounted to 99.802%. This bond has a term of five years and nine months and an interest rate of 0.375% p.a. One of the two private placements has a nominal volume of €100.0 million, a term of five years and a fixed interest rate of 0.231% p.a. The second private placement, which has an 18-month term, has a nominal volume of €200.0 million and a variable interest rate. The only bond that matured in 2019, the €500.0-million euro bond from Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., was redeemed on February 19, 2019, at a rate of 100.000%. This bond bore interest at a rate of 0.5% p.a. and had a term of three years and three months.

The corporation concluded cross-currency interest-rate swaps to hedge against the currency risks arising from the bond's denomination in euros, and to exchange the euro-based fixed interest rate of 0.5% p.a. for a U.S.-dollar-based fixed interest rate averaging 2.365% p.a. (please see Note 31 for further information on the accounting for the cross-currency interest-rate swaps in the previous year).

The carrying amount of the bonds also includes a private placement issued by Continental AG at 100.000% at the end of August 2013 with a volume of €50.0 million, an interest rate of 3.9% p.a. and a term of 12 years.

Credit lines and available financing from banks

Bank loans and overdrafts amounted to €1,470.4 million (PY: €1,239.0 million) as at December 31, 2019, and were therefore up €231.4 million on the previous year's level. On December 31, 2019, there were credit lines and available financing from banks in the amount of €6,210.2 million (PY: €4,799.5 million). A nominal amount of €4,702.2 million of this had not been utilized as at the end of the reporting period (PY: €3,504.1 million). €4,000.0 million (PY: €3,000.0 million) of this relates to the revolving tranche of the syndicated loan. The revolving loan had not been utilized as at December 31, 2019. In the previous year, it had been utilized by

Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in the amount of €157.2 million. In the year under review, the Continental Corporation utilized its commercial paper programs, its sale-of-receivables programs and its various bank lines to meet short-term credit requirements.

The previous syndicated loan, which was due in April 2021, was renewed ahead of schedule in December 2019. In doing so, the previous volume of the revolving tranche was increased from €3,000.0 million to €4,000.0 million. This credit line is now available to Continental until December 2024. In addition to improved conditions, sustainability components are included in the calculation of interest for the renegotiated credit line for the first time. These components are linked to the sustainability strategy adopted by the Executive Board of Continental AG and updated in 2019. If the corporation achieves the performance improvements in sustainability as set out in detail in the loan agreement, this will reduce the interest rate; non-achievement will result in interest rate increases. Contractually agreeing sustainability metrics in a loan agreement is a novelty not only for Continental but also for the automotive industry. In addition, the obligation to meet agreed financial covenants as at the end of the respective quarter was omitted. As in the previous year, the agreed financial covenants under the previous syndicated loan were complied with as at the end of the respective quarter in 2019. This tranche can be utilized both in euros and in other currencies on the basis of variable interest rates. Depending on the currency, interest is accrued at either the Euribor rate or the corresponding Libor rate plus a margin in each case.

Besides the syndicated loan, the major portion of the credit lines and available financing from banks related, as in the previous year, to predominantly floating-rate short-term borrowings.

Please see Note 31 for the maturity structure of indebtedness.

Finance lease liabilities

The future payment obligations resulting from finance leases are shown in the table below[1]:

Dec. 31, 2018/€ millions	2019	2020	2021	2022	2023	from 2024	**Total**
Minimum lease payments	2.7	2.6	2.6	2.4	1.6	1.3	**13.2**
Interest component	0.3	0.2	0.2	0.1	0.0	0.1	**0.9**
Finance lease liabilities	**2.4**	**2.4**	**2.4**	**2.3**	**1.6**	**1.2**	**12.3**

1 In the previous year, the corporation broke down the minimum lease payments into principal and interest payments in accordance with IAS 17, Leases. IFRS 16, Leases, however, does not include any explicit provisions regarding this disclosure. Please see Note 15 for the disclosures in accordance with IFRS 16.

The fair value of the lease liabilities was €12.3 million in the previous year. The effective interest rate of the main leases was between 2.0% and 5.4%.

Additional notes to the statement of cash flows

The following table showing the (net) change in short-term and long-term indebtedness provides additional information on the consolidated statement of cash flows:

€ millions	Dec. 31, 2019	Cash	Non-cash					Dec. 31, 2018
			Exchange-rate changes	Reclassi-fications	Changes in fair value	Changes in the scope of consolidation	Other	
Change in derivative instruments and interest-bearing investments	205.5	10.3	-1.1	53.5	8.9	–	-50.3	184.2
Change in short-term indebtedness	-4,243.8	1,039.2	-43.0	-1,657.1	-13.4	-10.5	-401.1	-3,157.9
Change in long-term indebtedness	-3,375.2	-1,907.5	-20.1	1,657.1	–	-12.8	-1,642.9	-1,449.0

€ millions	Dec. 31, 2018	Cash	Non-cash					Dec. 31, 2017
			Exchange-rate changes	Reclassi-fications	Changes in fair value	Changes in the scope of consolidation	Other	
Change in derivative instruments and interest-bearing investments	184.2	33.4	-0.2	–	-10.0	0.1	0.0	160.9
Change in short-term indebtedness	-3,157.9	-487.1	-3.6	-582.3	-8.3	-2.2	-2.2	-2,072.2
Change in long-term indebtedness	-1,449.0	-13.9	1.1	585.9	-0.1	–	-4.2	-2,017.8

31. Financial Instruments

The tables below show the carrying amounts and fair values of financial assets and liabilities, whereby non-current and current items are presented together. In addition, the relevant measurement categories are shown according to IFRS 9, *Financial Instruments*, and the levels of the fair value hierarchy relevant for calculating fair value according to IFRS 13, *Fair Value Measurement*.

€ millions	Measurement category in acc. with IFRS 9	**Carrying amount as at Dec. 31, 2019**	**Fair value as at Dec. 31, 2019**	thereof Level 1	thereof Level 2	thereof Level 3
Other investments	FVOCIwoR	197.6	197.6	–	–	197.6
Derivative instruments and interest-bearing investments						
Derivative instruments not accounted for as effective hedging instruments[1]	FVPL	7.5	7.5	–	7.5	–
Debt instruments	FVPL	39.8	39.8	29.1	10.7	–
Debt instruments	at cost	158.2	158.2	–	–	–
Trade accounts receivable						
Trade accounts receivable[2]	at cost	7,571.2	7,571.2	–	–	–
Bank drafts	FVOCIwR	134.2	134.2	–	134.2	–
Trade accounts receivable	FVPL	6.2	6.2	–	6.2	–
Other financial assets						
Other financial assets	FVPL	36.5	36.5	–	36.5	–
Other financial assets[2]	at cost	196.6	196.6	–	–	–
Cash and cash equivalents						
Cash and cash equivalents	at cost	2,748.6	2,748.6	–	–	–
Cash and cash equivalents	FVPL	593.2	593.2	400.6	192.6	–
Financial assets		**11,689.6**	**11,689.6**	**429.7**	**387.7**	**197.6**
Indebtedness without lease liabities[3]						
Derivative instruments not accounted for as effective hedging instruments[1]	FVPL	13.3	13.3	–	13.3	–
Other indebtedness	at cost	5,890.7	5,926.8	2,462.7	908.3	–
Trade accounts payable[4]	at cost	7,111.0	7,111.0	–	–	–
Other financial liabilities[4]	at cost	1,078.0	1,078.0	–	0.4	–
Financial liabilities without lease liabilities[3]		**14,093.0**	**14,129.1**	**2,462.7**	**922.0**	**–**
Aggregated according to categories as defined in IFRS 9:						
Financial assets (FVOCIwR)		134.2				
Financial assets (FVOCIwoR)		197.6				
Financial assets (FVPL)		683.2				
Financial assets (at cost)		10,674.6				
Financial liabilities (FVPL)		13.3				
Financial liabilities (at cost)		14,079.7				

1 Including positive fair values of €0.0 million and negative fair values of €0.1 million for short-term embedded derivatives.
2 From the 2019 fiscal year onward, receivables from related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.
3 Due to the first-time adoption of IFRS 16, Leases, disclosure of the fair value of lease liabilities in accordance with IFRS 7, Financial Instruments: Disclosures, is no longer required.
4 From the 2019 fiscal year onward, liabilities to related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

€ millions	Measurement category in acc. with IFRS 9	**Carrying amount as at Dec. 31, 2018**	**Fair value as at Dec. 31, 2018**	thereof Level 1	thereof Level 2	thereof Level 3
Other investments	FVOCIwoR	192.9	192.9	–	–	192.9
Derivative instruments and interest-bearing investments						
Derivative instruments accounted for as effective hedging instruments	n. a.	28.2	28.2	–	28.2	–
Derivative instruments not accounted for as effective hedging instruments[1]	FVPL	15.1	15.1	–	15.1	–
Debt instruments	FVPL	29.4	29.4	19.6	9.8	–
Debt instruments	at cost	111.5	111.5	–	–	–
Trade accounts receivable						
Trade accounts receivable[2]	at cost	7,742.4	7,742.4	–	–	–
Bank drafts	FVOCIwR	114.9	114.9	–	114.9	–
Trade accounts receivable	FVPL	0.9	0.9	–	0.9	–
Other financial assets						
Other financial assets	FVPL	0.9	0.9	–	0.9	–
Other financial assets[2]	at cost	174.9	174.9	–	–	–
Cash and cash equivalents						
Cash and cash equivalents	at cost	2,201.0	2,201.0	–	–	–
Cash and cash equivalents	FVPL	560.4	560.4	458.8	101.6	–
Financial assets		**11,172.5**	**11,172.5**	**478.4**	**271.4**	**192.9**
Indebtedness						
Derivative instruments not accounted for as effective hedging instruments[1]	FVPL	8.2	8.2	–	8.2	–
Finance lease liabilities	n. a.	12.3	12.3	–	12.3	–
Other indebtedness	at cost	4,586.4	4,638.5	1,888.0	283.0	–
Trade accounts payable[3]	at cost	7,525.6	7,525.6	–	–	–
Other financial liabilities						
Liabilities to related parties from finance leases	n. a.	6.9	6.5	–	6.5	–
Miscellaneous financial liabilities[3]	at cost	1,074.1	1,074.1	–	1.6	–
Financial liabilities		**13,213.5**	**13,265.2**	**1,888.0**	**311.6**	**–**
Aggregated according to categories as defined in IFRS 9:						
Financial assets (FVOCIwR)		114.9				
Financial assets (FVOCIwoR)		192.9				
Financial assets (FVPL)		606.7				
Financial assets (at cost)		10,229.8				
Financial liabilities (FVPL)		8.2				
Financial liabilities (at cost)		13,186.1				

1 Including positive fair values of €0.0 million and negative fair values of €0.1 million for long-term embedded derivatives.
2 From the 2019 fiscal year onward, receivables from related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.
3 From the 2019 fiscal year onward, liabilities to related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

Abbreviations

- at cost: measured at amortized cost
- FVOCIwR: fair value through other comprehensive income with reclassification
- FVOCIwoR: fair value through other comprehensive income without reclassification
- FVPL: fair value through profit and loss
- n. a.: not applicable, not assigned to any measurement category

Levels of the fair value hierarchy according to IFRS 13, *Fair Value Measurement*:

- Level 1: quoted prices on the active market for identical instruments
- Level 2: quoted prices on the active market for a similar instrument or a measurement method for which all major input factors are based on observable market data
- Level 3: measurement method for which the major input factors are not based on observable market data

Other investments are measured at FVOCIwoR (*fair value through other comprehensive income without reclassification*) and classified accordingly, as these investments are held over a long term for strategic purposes.

For other investments for which there are no quoted prices on the active market for identical instruments (level 1) or for a similar instrument, or for which there is no applicable measurement method in which all major input factors are based on observable market data (level 2), the fair value must be calculated using a measurement method for which the major input factors are not based on observable market data (level 3). If external valuation reports or information from other financing rounds is available, these are used. If such information is not available, the measurement is performed according to the measurement method that is deemed appropriate and realizable in each case: for example, according to the discounted cash flow method or by valuation according to multiples using ratios based on purchase prices for comparable transactions. Measurement at amortized cost is only considered the best estimate of the fair value of financial assets if the most recent information available for fair value measurement is insufficient. Other investments are centrally monitored with regard to any changes to the key non-observable input factors and continuously checked for changes in value. As at the reporting date, there were no indications of any significant change in the value of the financial investments. For this reason, there is no need to present the changes in carrying amounts separately, or for a sensitivity analysis.

Derivative instruments that meet the requirements of hedge accounting as well as finance lease liabilities in the previous year are not allocated to any IFRS 9 measurement category, since they are excluded from the individual measurement categories.

The accounting policies applied are described in the notes to the consolidated financial statements under General Information and Accounting Principles (Note 2).

Trade accounts receivable and payable, other receivables with a financing character, other financial assets and liabilities, and cash and cash equivalents generally have short remaining maturities. As a result, the carrying amounts as at the end of the reporting period are, as a rule, approximately their fair values and are not shown in the fair value hierarchy in the table. The fair values of other indebtedness, other financial liabilities and finance lease liabilities in the previous year were determined by discounting all future cash flows at the applicable interest rates for the corresponding residual maturities, taking into account a company-specific credit spread, provided their carrying amounts as at the reporting date are not approximately equivalent to their fair values.

The corporation recognizes possible reclassifications between the different levels of the fair value hierarchy as at the end of the reporting period in which a change occurred. In 2019, as in the previous year, there were no transfers between the different levels of the fair value hierarchy.

The following income and expenses from financial instruments were recognized in the consolidated statement of income:

	Net gains and losses from interest		Other net gains and losses		Total net gains and losses	
€ millions	**2019**	2018	**2019**	2018	**2019**	2018
Financial assets (at cost)	31.1	28.0	-97.2	26.1	-66.1	54.1
Financial assets and liabilities (FVPL)	8.7	8.6	-31.6	14.2	-22.9	22.8
Financial assets (FVOCI)	-1.7	-1.9	0.6	0.8	-1.1	-1.1
Financial liabilities (at cost)	-96.9	-108.7	-54.1	-62.7	-151.0	-171.4

Interest income and expense from financial instruments is reported in the financial result (Note 11).

Dividend income from financial assets measured at fair value with changes in value under other comprehensive income is explained under Income from Investments (Note 10).

Collateral

As at December 31, 2019, a total of €745.8 million (PY: €762.5 million) of financial assets had been pledged as collateral. In the year under review, as in the previous year, collateral mainly consisted of trade accounts receivable; the remainder related to pledged cash or other financial assets.

Risk management of financial instruments

Due to its international business activities and the resulting financing requirements, the Continental Corporation is exposed to default risks, risks from changes in exchanges rates and variable interest rates, and liquidity risk. The management of these risks is described in the following sections.

In addition, hedging instruments are used in the corporation. Their use is covered by corporate-wide policies, adherence to which is regularly reviewed by internal auditors. Internal settlement risks are minimized through the clear segregation of functional areas.

Further information about the risks presented below and about risk management can be found in the report on risks and opportunities in the corporate management report.

1. Default risk

Default risks from trade accounts receivable, contract assets or other financial assets include the risk that receivables will be collected late or not at all if a customer or another contractual party does not fulfill its contractual obligations. The total of the positive carrying amounts is equivalent to the maximum default risk of the Continental Corporation from financial assets. Default risk is influenced mainly by characteristics of the customers and the sector and is therefore analyzed and monitored by central and local credit managers. The responsibilities of the credit management function also include pooled receivables risk management. Contractual partners' creditworthiness and payment history are analyzed on a regular basis.

Default risk for non-derivative financial receivables is also limited by ensuring that agreements are entered into with partners with proven creditworthiness only or that collateral is provided or, in individual cases, trade credit insurance is agreed. As in the previous year, the corporation held no collateral as at December 31, 2019. There are therefore no trade accounts receivable or contract assets for which an impairment loss was not recognized due to collateral held.

However, default risk cannot be excluded with absolute certainty, and any remaining risk is addressed by recognizing expected credit losses for identified individual risks and on the basis of experience, taking account of any relevant future components. Financial assets that are neither past due nor impaired accordingly have a prime credit rating. Default risks are calculated on the basis of corporation-wide standards. The methods for calculating valuation allowances are described in the notes to the consolidated financial statements under General Information and Accounting Principles (Note 2).

Trade accounts receivable and contract assets

If the creditworthiness of receivables is impaired, corresponding expenses are recognized in an allowance account.

Lifetime expected credit losses are largely calculated using estimates and assessments based on the creditworthiness of the respective customer, current economic developments and the analysis of historical losses on receivables. The creditworthiness of a customer is assessed on the basis of its payment history and its ability to make payments. It is regularly reviewed whether there is a need to take account of any risks in connection with different customer groups, sectors or countries. No such allocation of default risk was required in 2019.

Continental calculates the default rates for lifetime expected credit losses based on a three-year average, taking account of the historical defaults allocated to the different periods past due, and generally also taking account of a forward-looking component. Trade accounts receivable and contract assets whose creditworthiness is already impaired are not taken into account when calculating lifetime expected credit losses. There were no significant effects on expected credit losses from the modification of cash flows.

The table below shows the gross carrying amounts as at December 31, 2019, for trade accounts receivable and contract assets whose creditworthiness was not impaired[1]:

€ millions	December 31, 2019	December 31, 2018
not overdue	7,006.7	7,102.3
0–29 days	398.4	451.5
30–59 days	146.0	128.8
60–89 days	57.5	38.2
90–119 days	33.9	36.7
120 days or more	116.7	114.1
As at December 31	**7,759.2**	**7,871.6**

1 The difference of €170.1 million (December 31, 2018: €163.6 million) from the tables in Notes 6 and 23 results from trade accounts receivable and contract assets whose creditworthiness was impaired.
From the 2019 fiscal year onward, receivables from related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

In the year under review, lifetime expected credit losses and valuation allowances for trade accounts receivable and contract assets whose creditworthiness was impaired developed as follows[1]:

€ millions	2019	2018
As at January 1	**109.5**	**114.4**
Additions	75.3	40.5
Utilizations	–21.2	–13.3
Reversals	–37.2	–29.7
Amounts disposed of through disposal of subsidiaries	0.0	–0.1
Exchange-rate changes	2.1	–2.3
As at December 31	**128.5**	**109.5**

1 From the 2019 fiscal year onward, receivables from related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

As at December 31, 2019, valuation allowances for trade accounts receivable whose creditworthiness was impaired amounted to €113.5 million (PY: €96.3 million).

Of the impaired receivables written down in the reporting period, €0.7 million (PY: €0.8 million) is still subject to enforcement measures.

Other financial assets

Valuation allowances equivalent to the gross carrying amount totaling €2.0 million (PY: 2.0 million) were recognized for other financial assets whose creditworthiness was impaired. Other 12-month and lifetime expected credit losses on other financial assets are not of significance.

Of the impaired other financial assets written down in the reporting period, €1.0 million (PY: 1.0 million) is still subject to enforcement measures.

Cash and cash equivalents, derivative instruments and interest-bearing investments

In order to minimize the default risk for cash and cash equivalents, derivative instruments and interest-bearing investments, Continental generally uses banks that it has classified as core banks on the basis of defined criteria. These banks have at least one investment-grade credit rating from one of the global rating agencies. The default risk can therefore be considered very low. The creditworthiness of the core banks – and of other banks and business partners with which investments are made, loans are granted or derivative instruments are traded in derogation from the core bank principle for operational or regulatory reasons – is continuously monitored by tracking not only their credit ratings but also particularly the premiums for insuring against credit risks (credit default swap, CDS). In addition, Continental sets investment limits for each bank and trading limits for derivative instruments. The amount of these limits is based on the creditworthiness of the respective bank. Compliance with these limits is continuously monitored. Valuation allowances for loans to associates with impaired creditworthiness of €50.3 million (PY: –) were recognized in the reporting year. These valuation allowances equal the gross carrying amounts as at the end of the reporting year. In addition, a provision of €57.4 million (PY: –) was recognized for loan commitments to these companies. This provision equals the outstanding nominal amount of the loan commitments as at the end of the reporting year. As in the previous year, the expected credit losses from cash and cash equivalents and other interest-bearing investments measured at amortized cost are not significant.

2. Currency management

The international nature of the corporation's business activities results in deliveries and payments in various currencies. Currency-exchange fluctuations involve the risk of losses because assets denominated in currencies with a falling exchange rate lose value, while liabilities denominated in currencies with a rising exchange rate become more expensive. For hedging, it is allowed to use only derivative instruments that have been defined in corporate-wide policies and can be reported and measured in the risk management system. It is generally not permitted to use financial instruments that do not meet these criteria.

Operational foreign-currency risk

In operational currency management, actual and expected foreign-currency cash flows are combined as operational foreign-exchange exposures in the form of net cash flows for each transaction currency on a rolling 12-month basis. These cash flows arise mainly from receipts and payments from external and intra-corporate transactions by the corporation's subsidiaries worldwide. A natural hedge approach for reducing currency risks has been pursued for several years, meaning that the difference between receipts and payments in any currency is kept as low as possible. Exchange-rate developments are also monitored, analyzed and forecast. Based on the operational foreign-exchange exposure and constantly updated exchange-rate forecasts, the interest-rate and currency committee, which convenes weekly, agrees on the hedging measures to be implemented in individual cases by concluding derivative instruments, particularly currency forwards, currency swaps and currency options with a term of up to 12 months. Their amount must not exceed 30% of the 12-month exposure per currency without Executive Board permission. In addition, further risk limits for open derivative positions are set, which considerably reduce the risks from hedging activities. Hedge accounting was not used in the reporting year or in the previous year for hedges concluded in this way. As in the previous year, there were no derivative instruments for hedging against operational foreign-currency risks as at December 31, 2019.

As at December 31, 2019, the net exposure from financial instruments that are denominated in a currency other than the functional currency of the respective subsidiary and are not allocated to net indebtedness existed in the major currencies of the euro in the amount of -€533.1 million (PY: -€211.6 million) and the U.S. dollar in the amount of -€291.2 million (PY: -€525.4 million).

Financial foreign-currency risks

In addition to operational foreign-currency risk, currency risks also result from the corporation's external and internal net indebtedness that is denominated in a currency other than the functional currency of the respective subsidiary. The quantity of these instruments is regularly summarized in the form of a financial foreign-currency exposure for each transaction currency. As at December 31, 2019, the net exposure in the major currencies amounted to -€121.2 million (PY: -€1,297.8 million) for the euro and €687.5 million (PY: €423.7 million) for the U.S. dollar. These currency risks are generally hedged against through the use of derivative instruments, particularly currency forwards, currency swaps and cross-currency interest-rate swaps. The corporation's net foreign investments are, as a rule, not hedged against exchange-rate fluctuations. In the case of highly effective, longer-term and significant hedges, Continental usually applies hedge accounting. The hedged transactions are not divided into their risk components.

Hedging against financial foreign-currency risks without using hedge accounting

As at December 31, 2019, there are derivative instruments for hedging against financial foreign-currency risks from intra-corporate receivables and liabilities. Hedge accounting is not used for these instruments. As at December 31, 2019, they are reported in the statement of financial position under the item "Short-term derivative instruments and interest-bearing investments" in the amount of €7.5 million (PY: €15.1 million) and under the item "Short-term financial liabilities" in the amount of €13.3 million (PY: €8.1 million) and are assigned to the measurement category FVPL. Their nominal volume comes to €1,275.6 million as at December 31, 2019 (PY: €940.4 million).

Hedging against financial foreign-currency risks (net investment hedge)

Until August 2017, the Continental Corporation hedged its net investments in foreign operations. Based on the decision that currency effects from net investments in a foreign operation and from designated hedges that are accumulated in the currency translation reserve in equity are to be reclassified to the income statement only if the foreign operation is sold or liquidated, €20.2 million (PY: €20.2 million) from the hedged transactions remains in the currency translation reserve in equity.

Hedging against financial foreign-currency risks (cash flow hedge)

In 2015, the Continental Corporation fully designated cross-currency interest-rate swaps as hedging instruments for cash flow hedge accounting pursuant to IAS 39 and, from January 1, 2018, pursuant to IFRS 9. The cash flow hedges were used to secure the €500-million bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., on November 19, 2015. In doing so, first the currency risks of Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., were hedged against by the denomination in euros and, second, the euro-based fixed interest rate was exchanged for a U.S.-dollar-based fixed interest rate. These cash flow hedges expired together with the maturity of the bond on February 19, 2019.

In this context, the fulfillment of hedge effectiveness conditions as required under IFRS 9 was continually demonstrated prospectively in qualitative terms based on matching key parameters of the hedged transaction and the hedge (critical terms match). The hedging ratio was 1:1. Ineffectiveness was calculated by comparing the present value development of the hedged transactions and the fair value development of the hedging instruments. As in the previous year, the cash flow hedges did not result in an ineffectiveness to be recognized in profit or loss in the year under review. The fair value of the hedges totaled €28.2 million in the previous year and was reported in the statement of financial position under the item "Short-term derivative instruments and interest-bearing investments." For further information and parameters on the cash flow hedges, please refer to Note 30 in the notes to the consolidated financial statements of the 2018 Annual Report.

For information on the accounting principles for cash flow hedges, please refer to General Information and Accounting Principles (Note 2).

The table below shows the change in the cash flow hedge reserve, which is reported in equity under the "Difference arising from financial instruments" item:

€ millions	2019	2018
As at January 1	**0.7**	**2.4**
Fair value changes of cross-currency interest-rate swaps	–8.5	–24.9
Reclassification adjustments to profit and loss because the hedged item has affected profit or loss[1]	7.6	22.6
Deferred taxes	0.2	0.5
Exchange-rate changes	0.0	0.1
As at December 31	**–**	**0.7**

1 Shown under the cash flow hedges item in the statement of comprehensive income.

Translation-related foreign-currency risks

A large number of the subsidiaries are located outside the euro currency zone. As Continental AG's reporting currency in the consolidated financial statements is the euro, the financial statements of these companies are translated into euros. With regard to managing the risks of translation-related currency effects, it is assumed that investments in foreign companies are entered into for the long term and that earnings are reinvested. Translation-related effects that arise when the value of net asset items translated into euros changes as a result of exchange-rate fluctuations are recognized directly in equity in the consolidated financial statements and are generally not hedged.

Sensitivity analysis

IFRS 7, *Financial Instruments: Disclosures*, requires a presentation of the effects of hypothetical changes in exchange rates on income and equity using a sensitivity analysis. The changes in the exchange rates are related to all financial instruments outstanding as at the end of the reporting period, including the effects of hedges. Forecast transactions and translation-related foreign-currency risks are not included in the sensitivity analysis. To determine the transaction-related net foreign-currency risk, financial instruments with transaction currencies that differ from the functional currencies are identified and a 10% appreciation or depreciation of the respective functional currency of the subsidiaries in relation to the identified different transaction currencies is assumed. The following table shows, before income tax expense, the overall effect as measured using this approach, as well as the individual effects resulting from the euro and the U.S. dollar, as major transaction currencies, on the difference from currency translation and from financial instruments in equity and on net income.

	2019		2018	
€ millions	**Total equity**	**Net income**	Total equity	Net income
Local currency +10%				
Total	**–**	**73.5**	**-0.3**	**113.3**
thereof EUR	–	49.0	-0.3	89.6
thereof USD	–	-32.8	–	7.5
Local currency -10%				
Total	**–**	**-73.5**	**0.3**	**-113.3**
thereof EUR	–	-49.0	0.3	-89.6
thereof USD	–	32.8	–	-7.5

3. Interest-rate management

Variable interest agreements result in a risk of rising interest rates for interest-bearing financial liabilities and falling interest rates for interest-bearing financial investments. These interest-rate risks are valuated and assessed as part of our interest-rate management activities, partly on the basis of continuous monitoring of current and anticipated long-term and short-term interest-rate developments, and are managed by means of derivative interest-rate hedging instruments as needed. The corporation's interest-bearing net indebtedness is the subject of these activities. Interest-rate hedges serve exclusively to manage identified interest-rate risks. Once a year, a range is determined for the targeted share of fixed-interest indebtedness in relation to total gross indebtedness. As in the previous year, there were no derivative financial instruments for hedging against interest-rate risks as at December 31, 2019.

The corporation is not exposed to a risk of fluctuation in the fair value of long-term financial liabilities due to market changes in fixed interest rates, as the lenders do not have the right to demand early repayment in the event of changing rates and these liabilities are recognized at amortized cost.

Interest-rate risk

The profile of interest-bearing financial instruments allocated to net indebtedness, taking into account the effect of the Continental Corporation's derivative instruments, is as follows:

€ millions	2019	2018
Fixed-interest instruments		
Financial assets	87.4	18.4
Financial liabilities	5,266.0	2,820.9
Floating-rate instruments		
Financial assets	3,452.4	2,883.9
Financial liabilities	2,339.7	1,777.8

In accordance with IFRS 7, effects of financial instruments on income and equity resulting from interest-rate changes must be presented using a sensitivity analysis.

Fair value sensitivity analysis

The main effects resulted from the changes in the U.S. dollar and euro interest rates. There were no changes in the financial result in 2019 or in the previous year. The effects on equity are presented below; tax effects were not taken into account in the analysis:

- An increase in U.S. dollar interest rates of 100 basis points in 2019 would not have affected equity (PY: increase of €0.7 million).
- A decrease in U.S. dollar interest rates of 100 basis points would not have affected equity (PY: reduction of €0.7 million).
- An increase in euro interest rates of 100 basis points in 2019 would not have affected equity (PY: reduction of €0.7 million).
- A decrease in euro interest rates of 100 basis points would not have affected equity (PY: increase of €0.7 million).

Cash flow sensitivity analysis

The following table shows the effects an increase or a decrease in interest rates of 100 basis points would have had on the financial result. The effects would essentially result from floating-rate financial instruments. In the scenario in which there is a decrease in the pertinent interest rates, the effects were calculated for individual groups of financial instruments taking account of their contractual arrangement (particularly the interest-rate floors agreed) and based on assumptions with regard to changes in the applicable interest rates for these financial instruments depending on changes in market interest rates. With regard to these assumptions, we consider it realistic, as in the previous year, that only contractually agreed interest-rate floors would limit a decrease in the relevant interest rates. As in the previous year, this analysis is based on the assumption that all other variables, and in particular exchange rates, remain unchanged.

	Interest-rate increase +100 basis points		Interest-rate decline -100 basis points	
€ millions	**2019**	2018	**2019**	2018
Total	**11.5**	**11.2**	**-14.3**	**-11.7**
thereof EUR	-1.6	0.5	-1.3	-1.0
thereof CNY	9.4	5.7	-9.4	-5.7
thereof KRW	1.0	0.5	-1.0	-0.5
thereof INR	0.9	0.9	-0.9	-0.9
thereof BRL	0.9	0.5	-0.9	-0.5
thereof USD	-0.8	1.3	0.8	-1.3
thereof CAD	-1.7	-0.8	1.7	0.8

4. Liquidity risks

Cost-effective, adequate financing is necessary for the subsidiaries' operating business. A liquidity forecast is therefore prepared by central cash management on a regular basis.

Various marketable financial instruments are used to meet the financial requirements. These comprise overnight money, term borrowing, the issue of commercial paper, sale-of-receivables programs, the syndicated loan with a committed nominal amount of €4.0 billion (PY: €3.0 billion) and other bilateral loans. Furthermore, approximately 37% (PY: 41%) of gross indebtedness is financed on the capital market in the form of long-term bonds. Capital expenditure by subsidiaries is primarily financed through equity and loans from banks or subsidiaries. There are also cash-pooling arrangements with subsidiaries to the extent they are possible and justifiable in the relevant legal and tax situation. If events lead to unexpected financing requirements, the Continental Corporation can draw upon existing liquidity and fixed credit lines from banks. For detailed information on the existing utilized and unutilized loan commitments, please refer to Note 30.

The financial liabilities without lease liabilities of €14,093.0 million (PY: €13,213.5 million including finance lease liabilities) result in the following undiscounted cash outflows over the next five years and thereafter (lease liabilities are no longer presented in the table for 2019; for more information in this regard, please refer to the analysis in Note 15):

Dec. 31, 2019/€ millions	2020	2021	2022	2023	2024	thereafter	**Total**
Other indebtedness incl. interest payments	3,937.5	219.9	277.3	510.4	345.7	661.9	**5,952.7**
Derivative instruments[1]	18.3	–	–	–	–	–	**18.3**
Trade accounts payable[2]	7,111.0	–	–	–	–	–	**7,111.0**
Other financial liabilities[2]	1,046.3	32.4	–	–	–	–	**1,078.7**

1 Not including embedded derivatives, as they do not give rise to cash outflows.
2 From the 2019 fiscal year onward, liabilities to related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

Dec. 31, 2018/€ millions	2019	2020	2021	2022	2023	thereafter	Total
Other indebtedness incl. interest payments	3,171.0	1,396.7	6.6	6.9	5.0	64.8	**4,651.0**
Derivative instruments[1]	9.3	–	–	–	–	–	**9.3**
Finance lease liabilities	2.7	2.6	2.6	2.4	1.6	1.3	**13.2**
Trade accounts payable[2]	7,525.6	–	–	–	–	–	**7,525.6**
Other financial liabilities[2]	1,043.0	33.0	0.3	0.3	0.3	5.3	**1,082.2**

1 Not including embedded derivatives, as they do not give rise to cash outflows.
2 From the 2019 fiscal year onward, liabilities to related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

In the analysis, foreign-currency amounts were translated into euros using the current closing rate as at the end of the reporting period. For floating-rate non-derivative financial instruments, the future interest payment flows were forecast using the most recently contractually fixed interest rates. Forward interest rates were used to determine floating-rate payments for derivative instruments. The analysis only includes cash outflows from financial liabilities. The net payments are reported for derivative instruments that are liabilities as at the end of the reporting period. Cash inflows from financial assets were not included.

The cash outflows in the maturity analysis are not expected to occur at significantly different reference dates or in significantly different amounts.

Global netting agreements and similar agreements

Continental AG concludes business in the form of derivative instruments on the basis of the German Master Agreement on Financial Derivatives Transactions (Deutscher Rahmenvertrag für Finanztermingeschäfte). Fundamentally, there is the option to combine the amounts owed by each counterparty under such agreements on the same day in respect of all outstanding transactions in the same currency into a single net amount to be paid by one party to another.

The German Master Agreement on Financial Derivatives Transactions does not meet the criteria for offsetting in the statement of financial position. This is due to the fact that Continental AG has no legal right to the netting of the amounts recognized at the current time. According to the regulations of the German Master Agreement, the right to netting can be enforced only when future events occur, such as the insolvency of or default by a contractual party. In such cases, all outstanding transactions under the agreement are ended, the fair value is calculated as at this time, and just a single net amount is paid to settle all transactions.

At some Brazilian and South Korean subsidiaries, there are local framework agreements on the basis of which these companies have concluded derivative instruments. These agreements also do not meet the criteria for offsetting in the statement of financial position.

The following table shows the carrying amounts of the reported stand-alone derivative instruments, their offsetting in the statement of financial position, and any potential arising from the specified agreements subject to the occurrence of certain future events:

	December 31, 2019			December 31, 2018		
€ millions	**Carrying amounts[1]**	**Respective financial instruments not netted**	**Net amount**	Carrying amounts[1]	Respective financial instruments not netted	Net amount
Financial assets	7.5	2.3	5.2	43.3	0.7	42.6
Financial liabilities	13.2	2.3	10.9	8.1	0.7	7.4

1 There were no amounts to be offset in accordance with IAS 32.42, Financial Instruments: Presentation, as at the reporting date and as at the same date in the previous year.

32. Other Financial Liabilities

	December 31, 2019		December 31, 2018	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Liabilities to related parties[1]	–	0.5	–	7.0
Interest payable	13.8	–	13.7	–
Liabilities for selling expenses	1,027.4	–	963.9	–
Purchase prices payable on company acquisitions	0.1	24.5	8.1	24.5
Miscellaneous financial liabilities	5.0	6.7	56.9	6.9
Other financial liabilities	**1,046.3**	**31.7**	**1,042.6**	**38.4**

1 From the 2019 fiscal year onward, liabilities to related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

Interest payable is due mainly to deferred interest for the bonds issued.

Liabilities for selling expenses relate in particular to obligations from bonus agreements with customers and deferred price reductions granted.

The purchase price obligations from company acquisitions mainly comprise the acquisitions implemented in previous years in Germany and Czechia.

The decrease in short-term miscellaneous financial liabilities results primarily from the exercise of the put option on the acquisition of non-controlling interests in Zonar Systems, Inc., Seattle, Washington, U.S.A. Please see Note 5.

33. Trade Accounts Payable

Trade accounts payable amounted to €7,111.0 million (PY: €7,525.6 million) as at the end of the fiscal year. The liabilities are measured at amortized cost. The full amount is due within one year. The liabilities do not include any amounts from the percentage-of-completion method. For information on liquidity risk, currency risk and the sensitivity analysis for trade accounts payable, please see Note 31.

34. Other Liabilities

	December 31, 2019		December 31, 2018	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Liabilities for VAT and other taxes[1]	320.9	–	254.6	–
Deferred income	25.3	8.3	9.1	8.4
Miscellaneous liabilities[1]	320.0	11.7	302.9	5.0
Other liabilities	**666.2**	**20.0**	**566.6**	**13.4**

1 From the 2019 fiscal year onward, liabilities for interest and penalties on income taxes are no longer included under liabilities for VAT and other taxes but in other liabilities. The figures from the comparative period have been adjusted accordingly.

Other Disclosures

35. Litigation and Compensation Claims

Continental AG and its subsidiaries are involved in lawsuits, regulatory investigations and proceedings worldwide. Such lawsuits, investigations and proceedings could also be initiated or claims asserted in other ways in the future.

Product liability

In particular, Continental is constantly subject to product liability and other claims in which the company is accused of the alleged infringement of its duty of care, violations against warranty obligations or defects of material or workmanship. Claims from alleged breaches of contract resulting from product recalls or government proceedings are also asserted. Among other cases, claimants in the U.S.A. file lawsuits for property damage, personal injury and death caused by alleged defects in our products. Claims for material and non-material damages, and in some cases punitive damages, are being asserted. The outcome of individual proceedings, which are generally decided by a jury in a court of first instance, cannot be predicted with certainty. No assurance can be given that Continental will not incur substantial expenses as a result of the final judgments or settlements in some of these cases, or that these amounts will not exceed any provisions set up for these claims. Some subsidiaries in the U.S.A. are exposed to relatively limited claims for damages from purported health injuries allegedly caused by products containing asbestos. The total costs for dealing with all such claims and proceedings have amounted to less than €50 million per year since 2006.

Proceedings relating to ContiTech AG

The actions of rescission and nullification by shareholders of ContiTech AG, Hanover, Germany, against resolutions adopted by the Annual Shareholders' Meeting of the company on August 22, 2007, regarding the approval of the conclusion of a management and profit and loss transfer agreement between this company as the controlled company and ContiTech-Universe Verwaltungs-GmbH, Hanover, Germany, as the controlling company and regarding the squeeze-out of minority shareholders were concluded in 2009 by a dismissal, which is final. In 2012, partial settlement agreements were entered in the records of the Hanover Regional Court *(Landgericht)* in the judicial review proceedings regarding the appropriateness of the settlement and compensation payment under the management and profit and loss transfer agreement and the settlement for the squeeze-out. Under these settlements, a payment of €3.50 plus interest per share on top of the exit compensation under the management and profit and loss transfer agreement and on account of the squeeze-out was agreed upon, as was a – merely declaratory – higher compensatory payment under the management and profit and loss transfer agreement. The compensation consequently increased to €28.33 per share. In October 2012, the Hanover Regional Court awarded additional payments of the same amount.

Upon appeals by some petitioners, the Celle Higher Regional Court *(Oberlandesgericht)* revoked the rulings on July 17, 2013, and remanded the matter to the Regional Court for a new hearing and ruling. On September 19, 2018, the Hanover Regional Court adjusted the compensation under the management and profit and loss transfer agreement and on account of the squeeze-out to €26.70 per share and also adjusted the compensatory payment under the management and profit and loss transfer agreement on a merely declaratory basis. On March 22, 2019, the Celle Higher Regional Court dismissed as inadmissible and rejected the appeals filed by some petitioners against these decisions by the Hanover Regional Court. These rulings by the higher regional court are final. The proceedings have therefore come to an end.

Regulatory proceedings

In May 2005, the Brazilian competition authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Indústria Automotiva Ltda., Guarulhos, Brazil (CBIA), following a complaint of anticompetitive behavior in the area of commercialization of tachographs. On August 18, 2010, the Brazilian antitrust authorities determined an "invitation to cartel" and imposed a fine of BRL 12 million (around €2.7 million) on CBIA, which was then reduced to BRL 10.8 million (around €2.4 million). CBIA denies the accusation that it has infringed Brazilian antitrust law. The court of first instance appealed to by CBIA upheld the decision. However, on CBIA's further appeal, the next higher court annulled this decision and remanded the matter. In case an infringement of Brazilian antitrust law is found, third parties may, in addition, claim damages from CBIA.

On October 2, 2006, South African antitrust authorities received a complaint from a third party accusing several South African tire manufacturers of alleged antitrust behavior, including Continental Tyre South Africa (Pty.) Ltd., Port Elizabeth (CTSA), a subsidiary of Continental. On August 31, 2010, the South African antitrust authorities came to the conclusion that CTSA had violated South African antitrust law and referred the matter to the responsible antitrust court for a decision. CTSA denies the allegation of infringements of South African antitrust law. However, the tribunal could impose a fine of up to 10% of CTSA's sales. In addition, third parties may also claim damages from CTSA in case of an infringement of South African competition law.

In October 2012, Continental Automotive Systems US, Inc., Auburn Hills, Michigan, U.S.A., and two of Continental's South Korean subsidiaries became aware of investigations by the U.S. Department of Justice (DOJ) and the Korean Fair Trade Commission (KFTC) in connection with the suspected involvement in violations of U.S. and South Korean antitrust law in instrument cluster business. CAE successfully appealed against the fine of KRW 45,992 million (around

€36 million) that the KFTC had originally imposed on Continental Automotive Electronics LLC, Bugang-myeon, South Korea (CAE), in this case on December 23, 2013. On May 21, 2018, the KFTC subsequently adjusted the fine to KRW 32,101 million (around €25 million). This decision is final. On November 24, 2014, CAE and Continental Automotive Korea Ltd., Seongnam-si, South Korea, entered into an agreement with the DOJ that was confirmed by the competent U.S. court on April 1, 2015. Under this agreement, the two companies admitted to charges of violating U.S. antitrust law and agreed to pay a fine of U.S. $4.0 million (around €3.6 million). In the proceedings relating to class action lawsuits filed in the U.S.A. for alleged damages resulting from the antitrust violations, settlements totaling U.S. $5.0 million (around €4.5 million) were concluded in 2018. The risk of investigations into this matter by other antitrust authorities and claims for damages by further alleged victims remains unaffected by the fines imposed.

In September 2014, the European Commission conducted a search at a subsidiary of Continental. On February 21, 2018, the Commission imposed a fine of €44.0 million on Continental AG; Continental Teves AG & Co. oHG, Frankfurt am Main, Germany; and Continental Automotive GmbH, Hanover, Germany; for the unlawful exchange of information. This involved specific brake components. Continental has set aside provisions that cover this fine. Continental cannot rule out the possibility that customers will claim for damages with reference to the commission's decision. At this point in time, it is not possible to say whether such claims will be submitted and, if they are, how much the damages will be – irrespective of whether or not the claims are justified. As a result, it cannot be ruled out that the resulting expenses will exceed the provisions that have been set aside for this purpose. In accordance with IAS 37.92, *Provisions, Contingent Liabilities and Contingent Assets*, no further disclosures will be made with regard to the proceedings and the related measures so as not to adversely affect the company's interests.

36. Contingent Liabilities and Other Financial Obligations

€ millions	**December 31, 2019**	December 31, 2018
Liabilities on guarantees	20.3	16.9
Liabilities on warranties	24.7	52.9
Risks from taxation and customs	14.6	50.7
Other financial obligations	17.7	17.3
Other contingent liabilities	10.0	15.1
Contingent liabilities and other financial obligations	**87.3**	**152.9**

As in previous years, contingent liabilities related to guarantees for the liabilities of affiliated companies and third parties not included in consolidation and to contractual warranties. To the best of our knowledge, the underlying obligations will be fulfilled in all cases. Utilization is not anticipated.

The other financial obligations relate in part to the acquisition of companies now owned by the corporation.

The Continental Corporation could be subject to obligations relating to environmental issues under governmental laws and regulations, or as a result of various claims and proceedings that are pending or that might be made or initiated against it. Estimates of future expenses in this area are naturally subject to many uncertainties, such as the enactment of new laws and regulations, the development and application of new technologies and the identification of contaminated land or buildings for which the Continental Corporation is legally liable.

Open purchase commitments for property, plant and equipment amounted to €781.9 million (PY: €743.6 million).

37. Earnings per Share

Basic earnings per share fell in 2019 to -€6.13 (PY: €14.49), the same amount as diluted earnings per share. In both the period under review and the previous year, there were no dilutive effects such as interest savings on convertible bonds or warrant-linked bonds (after taxes). There were also no dilutive effects from stock option plans or the assumed exercise of convertible bonds.

€ millions/millions of shares	**2019**	2018
Net income attributable to the shareholders of the parent	-1,225.0	2,897.3
Weighted average number of shares issued	200.0	200.0
Basic earnings per share in €	**-6.13**	**14.49**

38. Events after the End of the Reporting Period

With effect from January 30, 2020, Continental sold its 50% shareholding in SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany, to Faurecia Automotive GmbH, Stadthagen, Germany, for a provisional purchase price of €225.0 million. The transaction resulted in a provisional gain from disposal of €136.6 million.

39. Auditor's Fees

For fiscal 2019, a global fee of €13.4 million (PY: €11.8 million) was agreed for the audit of the consolidated financial statements and the separate financial statements of the subsidiaries. In the fiscal year, additional fees of €4.8 million were incurred for other attestation services in connection with the transformation of the Powertrain division into an independent legal entity.

The following fees for the auditor elected by the Annual Shareholders' Meeting relate only to services directly connected with Continental AG and its German subsidiaries:

€ millions	**2019**	2018
Audit of financial statements	5.9	4.6
Other assurance services	5.4	0.6
Tax advisory services	0.2	0.0
Other services provided to the parent company or its subsidiaries	0.0	0.2
Total	**11.5**	**5.4**

The values to be disclosed according to Section 314 (1) No. 9 *HGB* are determined pursuant to IDW RS HFA 36 in the new version dated September 8, 2016. KPMG AG Wirtschaftsprüfungsgesellschaft and its registered branches are deemed the auditor.

40. Transactions with Related Parties

Remuneration of the Executive Board and the Supervisory Board
The remuneration of the corporation's key management personnel that must be disclosed in accordance with IAS 24, *Related Party Disclosures*, comprises the remuneration of the active members of the Executive Board and the Supervisory Board.

The remuneration of the active members of the Executive Board in the respective years was as follows:

€ thousands	2019	2018
Short-term benefits	8,757	10,950
Service cost relating to post-employment benefits	6,227	5,694
Termination benefits	977	1,947
Share-based payment	-5,700	-23,971
Total	**10,261**	**-5,380**

The basic elements of the Executive Board remuneration system and the amounts granted to the Executive Board and the Supervisory Board in the year under review are explained in the remuneration report, which supplements the corporate governance report and is part of the combined management report with the Continental Corporation.

The total remuneration granted to the Executive Board of Continental AG in 2019 amounted to €16.9 million (PY: €20.5 million). That total remuneration also includes, in addition to short-term benefits of €8.8 million (PY: €11.0 million), a newly granted long-term incentive plan totaling €7.1 million (PY: €7.1 million) and the long-term component of variable remuneration totaling €1.0 million (PY: €2.4 million), which is converted into virtual shares of the company. In 2019, this resulted in the long-term component for 2018 being converted into 16,749 virtual shares.

Moreover, former members of the Executive Board and their surviving dependents received payments totaling €7.5 million (PY: €8.3 million). Provisions for pension obligations for former members of the Executive Board and their surviving dependents amounted to €147.5 million (PY: €131.6 million).

Remuneration paid to the members of Continental AG's Supervisory Board, including meeting fees, totaled €3.7 million in the past fiscal year (PY: €5.3 million).

As in 2018, no advances or loans were granted to members of Continental AG's Executive Board or Supervisory Board in 2019.

The table below shows the transactions with related parties other than subsidiaries:

	Income		Expenses		Accounts receivable		Accounts payable	
€ millions	2019	2018	2019	2018	2019	2018	2019	2018
Non-consolidated companies								
Ordinary business activities	16.9	24.2	5.9	6.1	6.0	11.7	3.2	3.5
Others	0.5	0.2	0.0	–	5.8	–	0.6	–
Equity-accounted investees								
Ordinary business activities	351.2	420.1	93.8	225.1	116.0	193.9	154.6	210.3
Financing	2.6	9.0	108.5	–	51.6	33.9	171.4	119.6
Others	0.0	–	0.0	–	0.1	–	0.0	–
Schaeffler Group								
Ordinary business activities	94.3	89.5	104.9	118.0	23.0	20.5	22.5	18.8
Others	0.0	–	0.0	–	0.0	–	0.0	–
Other related parties								
Ordinary business activities	–	2.2	0.0	0.1	–	1.6	–	7.0
Total	**465.5**	**545.2**	**313.1**	**349.3**	**202.5**	**261.6**	**352.3**	**359.2**

Transactions with related parties other than subsidiaries were conducted on an arm's-length basis. Ordinary business activities comprise the purchase or sale of goods and other assets as well as rendered or received services. Expenses from financing activities are primarily the result of allowances for doubtful accounts on loans to equity-accounted investees as well as the creation of a provision for loan commitments to these companies totaling €108.2 million (PY: –).

Notices in Accordance with the German Securities Trading Act *(Wertpapierhandelsgesetz – WpHG)*

From the start of the fiscal year to the time of the preparation of the financial statements, we received the following notifications in accordance with Section 40 (1) *WpHG* on holdings in Continental AG. In the event of the same party reaching, exceeding or falling below the threshold stated in this provision on multiple occasions, only the most recent notification is shown. Notifications from earlier fiscal years about the existence of voting rights shares of at least 3% are still disclosed as at the end of the reporting period. The provisions for notifications from fiscal years prior to 2018 relate to the version of the *WpHG* valid until January 2, 2018.

BlackRock, Inc., Wilmington, Delaware, United States, notified us that its share of voting rights in Continental AG on December 31, 2019, amounted to 3.05%.

- 2.95% of these voting rights (5,896,808 voting rights) are attributed to the company in accordance with Section 34 *WpHG*.
- 0.09% of these voting rights (187,188 voting rights) are attributed to the company as instruments in accordance with Section 38 (1) No. 1 *WpHG* (Lent Securities).
- 0.01% of these voting rights (23,532 voting rights) are attributed to the company as instruments in accordance with Section 38 (1) No. 2 *WpHG* (Contract for Difference).

Harris Associates L.P., Wilmington, Delaware, U.S.A. notified us that the Harris Associates Investment Trust's share of voting rights in Continental AG on May 17, 2019, amounted to 5.02%.

- 5.02% of these voting rights (10,050,154 voting rights) are attributed to the company in accordance with Section 34 *WpHG*.

By way of a letter dated January 4, 2016, we received notification that:

- the share of voting rights in Continental AG held by Schaeffler Familienholding Eins GmbH, Herzogenaurach, Germany, fell below the threshold of 3% of voting rights on December 31, 2015, due to restructuring within the corporation and amounted to 0.00% at this time.
- the share of voting rights in Continental AG held by Schaeffler Familienholding Zwei GmbH, Herzogenaurach, Germany, fell below the threshold of 3% of voting rights on December 31, 2015, due to restructuring within the corporation and amounted to 0.00% at this time.
- the share of voting rights in Continental AG held by IHO Verwaltungs GmbH (still operating as Schaeffler Verwaltung Zwei GmbH as at December 31, 2015), Herzogenaurach, Germany, on December 31, 2015, amounted to 35.99%.
- the share of voting rights in Continental AG held by IHO Beteiligungs GmbH (still operating as Schaeffler Verwaltungs GmbH as at December 31, 2015), Herzogenaurach, Germany, on December 31, 2015, amounted to 10.01%. Another 35.99% of the voting rights in Continental AG are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- 46.00% of the voting rights in Continental AG are attributed to IHO Holding GmbH & Co. KG (still operating as Schaeffler Holding GmbH & Co. KG as at December 31, 2015), Herzogenaurach, Germany, on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- 46.00% of the voting rights in Continental AG are attributed to IHO Management GmbH (still operating as Schaeffler Management GmbH as at December 31, 2015), Herzogenaurach, Germany, on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- 46.00% of the voting rights in Continental AG are attributed to INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- 46.00% of the voting rights in Continental AG are attributed to Schaeffler Holding LP, Dallas, Texas, U.S.A., on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- 46.00% of the voting rights in Continental AG are attributed to Mrs. Maria-Elisabeth Schaeffler-Thumann on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- 46.00% of the voting rights in Continental AG are attributed to Mr. Georg F. W. Schaeffler on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

As a result of the withdrawal of Schaeffler Familienholding Drei GmbH & Co. KG, Herzogenaurach, Germany, from Schaeffler Beteiligungsholding GmbH & Co. KG, Herzogenaurach, Germany, on December 31, 2015, the investment held by Schaeffler Beteiligungsholding GmbH & Co. KG, Herzogenaurach, Germany, in Continental

AG accrued to IHO Verwaltungs GmbH (still operating as Schaeffler Verwaltung Zwei GmbH as at December 31, 2015), Herzogenaurach, Germany. The investment held by Schaeffler Familienholding Drei GmbH & Co. KG, Herzogenaurach, Germany, as well as the investment by its co-owner; by Schaeffler Familienholding Eins GmbH, Herzogenaurach, Germany; and by Schaeffler Familienholding Zwei GmbH, Herzogenaurach, Germany, in Continental AG accordingly ceased to exist. As a result of a subsequent further accrual and termination without liquidation of Schaeffler Familien-holding Drei GmbH & Co. KG, Herzogenaurach, Germany, this company's notification obligation in accordance with *WpHG* ceased to apply on January 1, 2016.

In 2019 and until March 2, 2020, inclusively, the members of the Executive Board held shares representing a total interest of less than 1% of the share capital of the company. Shares representing 46.0% of the voting share capital of the company were attributable to the members of the Supervisory Board Mrs. Maria-Elisabeth Schaeffler-Thumann and Mr. Georg F. W. Schaeffler. In 2019 and until March 2, 2020, inclusively, the other members of the Supervisory Board held shares representing a total interest of less than 1% of the share capital of the company.

41. List of Shareholdings of the Corporation

Further information on equity investments can be found in the list of the corporation's shareholdings in accordance with Section 313 of the German Commercial Code *(Handelsgesetzbuch – HGB)*, which is published as part of the consolidated financial statements in the German Federal Gazette *(Bundesanzeiger)*. The consolidated financial statements with the list of the corporation's shareholdings are also made available for inspection by the shareholders in the business premises at the company's headquarters from the date on which the Annual Shareholders' Meeting is convened, and from that point in time are available together with the additional documents and information in accordance with Section 124a of the German Stock Corporation Act *(Aktiengesetz – AktG)* online at www.continental-ir.com.

Statutory exemption provisions applying to German companies

The following German companies and partnerships utilized the exemption provisions of Section 264 (3) *HGB* and Section 264b *HGB*:

Company	Registered office
ADC Automotive Distance Control Systems GmbH	Lindau
A-Z Formen- und Maschinenbau GmbH	Runding-Langwitz
balance GmbH, Handel und Beratungsservice im Gesundheitswesen	Hanover
Benecke-Kaliko AG	Hanover
CAS München GmbH	Hanover
CAS-One Holdinggesellschaft mbH	Hanover
Conseo GmbH	Hamburg
Conti Temic microelectronic GmbH	Nuremberg
Conti Versicherungsdienst Versicherungsvermittlungsges. mbH	Hanover
Continental Advanced Antenna GmbH	Hildesheim
Continental Aftermarket GmbH	Eschborn
Continental Automotive GmbH	Hanover
Continental Automotive Grundstücksges. mbH	Frankfurt am Main
Continental Caoutchouc-Export-GmbH	Hanover
Continental Engineering Services & Products GmbH	Ingolstadt
Continental Engineering Services GmbH	Frankfurt am Main
Continental Finance GmbH	Hanover
Continental Reifen Deutschland GmbH	Hanover
Continental Safety Engineering International GmbH	Alzenau
Continental Teves AG & Co. oHG	Frankfurt am Main
Continental Trading GmbH	Schwalbach am Taunus
ContiTech AG	Hanover
ContiTech Antriebssysteme GmbH	Hanover
ContiTech Elastomer-Beschichtungen GmbH	Hanover
ContiTech Kühner Beteiligungsgesellschaft mbH	Hanover
ContiTech Kühner GmbH & Cie. KG	Oppenweiler
ContiTech Luftfedersysteme GmbH	Hanover
ContiTech MGW GmbH	Hannoversch Münden
ContiTech Schlauch GmbH	Hanover
ContiTech Techno-Chemie GmbH	Karben
ContiTech Transportbandsysteme GmbH	Hanover
ContiTech Verwaltungs-GmbH	Hanover
ContiTech Vibration Control GmbH	Hanover
ContiTech-Universe Verwaltungs-GmbH	Hanover
co-pace GmbH	Hanover
Eddelbüttel + Schneider GmbH	Hamburg
Elektrobit Automotive GmbH	Erlangen

Company	Registered office
Formpolster GmbH	Hanover
Göppinger Kaliko GmbH	Eislingen
Hornschuch GmbH	Weißbach
Hornschuch Group GmbH	Weißbach
Hornschuch Stolzenau GmbH	Weißbach
Hornschuch-Markt GmbH	Weißbach
inotec Innovative Technologie GmbH	Kohren-Sahlis
kek-Kaschierungen GmbH	Herbolzheim
Konrad Hornschuch AG	Weißbach
MISA-Beteiligungs GmbH	Hanover
MISA GmbH & Co. KG	Hanover
OTA Grundstücks- und Beteiligungsverwaltung GmbH	Frankfurt am Main
Phoenix Beteiligungsgesellschaft mbH	Hamburg
Phoenix Compounding Technology GmbH	Hamburg
Phoenix Conveyor Belt Systems GmbH	Hamburg
Phoenix Fluid Handling Industry GmbH	Hamburg
Phoenix Service GmbH & Co. KG	Hamburg
Phoenix Vermögensverwaltungsgesellschaft mbH	Hamburg
Präzisionstechnik Geithain GmbH	Geithain
REG Reifen-Entsorgungsgesellschaft mbH	Hanover
Senior Experts Services GmbH	Hanover
STEINEBRONN BETEILIGUNGS-GMBH	Oppenweiler
TON Tyres Over Night Trading GmbH	Schondra-Schildeck
UMG Beteiligungsgesellschaft mbH	Hanover
Union-Mittelland-Gummi-GmbH & Co. Grundbesitz KG	Hanover
Vergölst GmbH	Bad Nauheim
Vitesco Technologies 1. Beteiligungsgesellschaft mbH & Co. KG	Frankfurt am Main
Vitesco Technologies 2. Beteiligungsgesellschaft mbH & Co. KG	Hanover

42. German Corporate Governance Code/Declaration in Accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz – AktG)*

The declaration required in accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz – AktG)* was issued by the Executive Board and the Supervisory Board in December 2019, and is available to our shareholders online at www.continental-corporation.com in the Company section under Corporate Governance.

43. Report on Subsequent Events

As at March 2, 2020, there were no events or developments that could have materially affected the measurement and presentation of individual asset and liability items as at December 31, 2019.

Further Information

Responsibility Statement by the Company’s Legal Representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the earnings, financial and net assets position of the corporation, and the management report of the corporation includes a fair review of the development and performance of the business and the position of the corporation, together with a description of the principal opportunities and risks associated with the expected development of the corporation.

Hanover, March 2, 2020

Continental AG
The Executive Board

Members of the Executive Board and Their Directorships

List of the positions held by the Executive Board members on statutory supervisory boards and on comparable controlling bodies of companies in Germany and abroad in accordance with Section 285 No. 10 of the German Commercial Code *(Handelsgesetzbuch – HGB)*:

Dr. Elmar Degenhart
Chairman
Corporate Communications
Corporate Quality and Environment
Continental Business System
Automotive Central Functions (until March 31, 2019)
- ContiTech AG, Hanover* (Chairman)
- Vitesco Technologies GmbH, Hanover* (since June 5, 2019)

Hans-Jürgen Duensing
ContiTech Division
- Benecke-Kaliko AG, Hanover* (Chairman)
- ContiTech Antriebssysteme GmbH, Hanover* (Vice Chairman)
- ContiTech Elastomer-Beschichtungen GmbH, Hanover* (Vice Chairman)
- ContiTech Luftfedersysteme GmbH, Hanover* (Vice Chairman)
- ContiTech MGW GmbH, Hann. Münden* (Vice Chairman)
- ContiTech Schlauch GmbH, Hanover* (Vice Chairman)
- ContiTech Techno-Chemie GmbH, Karben* (Vice Chairman)
- ContiTech Transportbandsysteme GmbH, Hanover* (Vice Chairman)
- ContiTech Vibration Control GmbH, Hanover* (Vice Chairman)
- Phoenix Compounding Technology GmbH, Hamburg* (Vice Chairman)
- ContiTech North America, Inc., Wilmington, Delaware, U.S.A.* (until August 23, 2019)
- EPD Holdings, Inc., Wilmington, Delaware, U.S.A.*
- ContiTech USA, Inc., Fairlawn, Ohio, U.S.A.*

Frank Jourdan
Chassis & Safety Division
- Continental Automotive Corporation, Yokohama, Japan*
- Continental Automotive Mexicana, S. de R.L. de C.V., Morelos, Mexico*
- Conti Automotive Servicios, S.A. de C.V., Silao Guanajuato, Mexico*
- Continental Automotive Bajio, S.A. de C.V., Silao Guanajuato, Mexico*
- Temic Servicios, S.A. de C.V., Villa de Alaya, Mexico*
- Continental Automotive Maquila Mexico S. de R.L. de C.V., Silao, Mexico*
- ContiTech Fluid Mexicana Servicios, S.A. de C.V., Tlalnepantla, Mexico*
- ContiTech Fluid Monterrey Servicios, S.A. de C.V., Tlajomulco de Zuñiga, Mexico*

Christian Kötz
Tire Division (since March 31, 2019)
Corporate Purchasing (since March 31, 2019)
- Continental Reifen Deutschland GmbH, Hanover* (Chairman, since June 14, 2019)
- Continental Tire Holding US LLC, Wilmington, Delaware, U.S.A.* (since April 1, 2019)
- Continental Tire the Americas, LLC, Columbus, Ohio, U.S.A.* (since April 1, 2019)

Helmut Matschi
Interior Division
- Continental Automotive GmbH, Hanover* (Chairman)
- Argus Cyber Security Ltd, Tel Aviv, Israel* (Chairman)

Dr. Ariane Reinhart
Human Relations and Sustainability
Director of Labor Relations
- Vonovia SE, Düsseldorf
- Vitesco Technologies GmbH, Hanover* (since August 29, 2019)

Wolfgang Schäfer
Finance, Controlling, Compliance, Law and IT
- Continental Reifen Deutschland GmbH, Hanover*
- Continental Automotive, Inc., Wilmington, Delaware, U.S.A.*
- Continental Automotive Systems, Inc., Wilmington, Delaware, U.S.A.* (until July 18, 2019)
- Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.*
- Vitesco Technologies GmbH, Hanover* (Chairman, since June 26, 2019)

Nikolai Setzer
Tire Division (until March 31, 2019)
Corporate Purchasing (until March 31, 2019)
Spokesman of the Automotive Board (since March 31, 2019)
Automotive Central Functions (since March 31, 2019)
- Continental Reifen Deutschland GmbH, Hanover* (Chairman, until June 14, 2019)
- Continental Tire Holding US LLC, Wilmington, Delaware, U.S.A.* (until April 1, 2019)
- Continental Tire the Americas, LLC, Columbus, Ohio, U.S.A.* (until April 1, 2019)

* *Companies pursuant to Section 100 (2) of the German Stock Corporation Act (Aktiengesetz – AktG).*

Members of the Supervisory Board and Their Directorships

Memberships of other statutory supervisory boards and of comparable controlling bodies of companies in Germany and abroad in accordance with Section 285 No. 10 of the German Commercial Code *(Handelsgesetzbuch – HGB)*:

Prof. Dr.-Ing. Wolfgang Reitzle, Chairman
Chairman of the Supervisory Board of Linde AG (until April 8, 2019)
❯ Ivoclar Vivadent AG, Schaan, Liechtenstein
❯ Axel Springer SE, Berlin
❯ Medical Park AG, Amerang (Chairman, until September 1, 2019)
❯ Willy Bogner GmbH & Co. KGaA, Munich (Chairman, until September 1, 2019)
❯ Linde plc, Dublin, Ireland (Chairman)

Christiane Benner*, Vice Chairperson
Second Chairperson, IG Metall
❯ BMW AG, Munich

Hasan Allak* (since April 26, 2019)
Chairman of the Corporate Works Council of Continental AG and Chairman of the Works Council of Continental Reifen Deutschland GmbH, Stöcken, Hanover
❯ Continental Reifen Deutschland GmbH, Hanover

Dr. Gunter Dunkel
Chairman European Private Debt, Muzinich & Co, London, United Kingdom
❯ DEVnet AG, Munich (since November 29, 2019)

Francesco Grioli*
Member of the Central Board of Executive Directors, IG Bergbau, Chemie, Energie (Mining, Chemical and Energy Industries Union)
❯ Gerresheimer AG, Düsseldorf (Vice Chairman)

Prof. Dr.-Ing. Peter Gutzmer (until April 26, 2019)
Deputy Chief Executive Officer and Member of the Executive Board, Chief Technology Officer of Schaeffler AG, Herzogenaurach (until October 1, 2019)

Michael Iglhaut*
Chairman of the Works Council for the Frankfurt Location

Satish Khatu (since April 26, 2019)
Management Advisor

Isabel Corinna Knauf (since April 26, 2019)
Member of the Group Management Committee at the Knauf Group
❯ Schmolz+Bickenbach AG, Lucerne, Switzerland
❯ Skillet Fork Farms LLP, Wayne City, Illinois, U.S.A. (Chairperson)
❯ Compagnie Marocaine de Plâtre et d'Enduit S.A., Safi, Morocco
❯ Knauf S.r.l., Milan, Italy**
❯ Knauf Gipsopiia ABEE, Athens, Greece** (Chairperson)
❯ Knauf Cyprus Ltd., Limassol, Cyprus** (Chairperson)
❯ Knauf İnşaat Ve Yapı Elemanları San. Ve Tic. A.Ş., Ankara, Turkey** (Chairperson)
❯ PFT Siva Sistemleri San. Ve Tic. A.Ş., Ankara, Turkey** (Chairperson)
❯ Knauf Plâtres Tunisiens S.A., Fouchena, Tunisia** (Chairperson)
❯ Knauf Iran PJSC, Tehran, Iran** (Chairperson, until January 31, 2020)
❯ Knauf Iran PJSC, Tehran, Iran** (until January 31, 2020)

Prof. Dr. Klaus Mangold (until April 26, 2019)
Chairman of the Supervisory Board of Knorr-Bremse AG
❯ TUI AG, Hanover (until May 23, 2019)
❯ Alstom S.A., Paris, France (until July 10, 2019)
❯ Baiterek JSC, Astana, Kazakhstan

Sabine Neuß
Member of the Board of Management of Jungheinrich AG (since January 1, 2020)
❯ Atlas Copco AB, Nacka, Sweden

Prof. Dr. Rolf Nonnenmacher
Certified Accountant, self-employed, Berg
❯ ProSiebenSat.1 Media SE, Unterföhring
❯ Covestro AG, Leverkusen
❯ Covestro Deutschland AG, Leverkusen

Dirk Nordmann*
Chairman of the Works Council for the Vahrenwald Plant, ContiTech Antriebssysteme GmbH, Hanover
❯ ContiTech Luftfedersysteme GmbH, Hanover

Lorenz Pfau* (since April 26, 2019)
Chairman of the Central Works Council of Continental Automotive GmbH

Klaus Rosenfeld
Chief Executive Officer of Schaeffler AG, Herzogenaurach
❯ Schaeffler India Limited, Vadodara, India**
❯ Siemens Gamesa Renewable Energy S.A., Zamudio, Spain

Georg F. W. Schaeffler
Co-owner of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach
› Schaeffler AG, Herzogenaurach** (Chairman)
› ATESTEO Management GmbH, Herzogenaurach** (Chairman)

Maria-Elisabeth Schaeffler-Thumann
Co-owner of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach
› Schaeffler AG, Herzogenaurach** (Vice Chairperson)

Jörg Schönfelder*
Chairman of the Works Council for the Korbach Plant and Chairman of the European Works Council
› Continental Reifen Deutschland GmbH, Hanover

Stefan Scholz*
Head of Finance & Treasury
› Phoenix Pensionskasse von 1925, Hamburg
› Pensionskasse für Angestellte der Continental Aktiengesellschaft VVaG, Hanover

Gudrun Valten* (until April 26, 2019)
Member of the Works Council of Continental Automotive GmbH, Regensburg

Kirsten Vörkel*
Chairperson of the Works Council of Vitesco Technologies GmbH, Dortmund
Member of the Central Works Council of Vitesco Technologies GmbH, Hanover
Member of the Corporate Works Council of Continental AG, Hanover

Elke Volkmann*
Second Authorized Representative of IG Metall Nordhessen, Administrative Office for North Hesse, Kassel
› Krauss-Maffei Wegmann Verwaltungs GmbH, Munich

Erwin Wörle* (until April 26, 2019)
Engineer in the Development Department, Quality Management of Conti Temic microelectronic GmbH, Ingolstadt
› Conti Temic microelectronic GmbH, Nuremberg (Vice Chairman, until May 7, 2019)

Prof. TU Graz e.h. KR Ing. Siegfried Wolf
Entrepreneur
› Porsche Automobil Holding SE (since June 26, 2019)
› Banque Eric Sturdza SA, Geneva, Switzerland
› SBERBANK Europe AG, Vienna, Austria (Chairman)
› Schaeffler AG, Herzogenaurach
› MIBA AG Mitterbauer Beteiligungs AG, Laakirchen, Austria
› GAZ Group, Nizhny Novgorod, Russia (Chairman, until February 28, 2019)

Members of the Supervisory Board Committees:

1. Chairman's Committee
› Prof. Dr.-Ing. Wolfgang Reitzle (Chairman)
› Christiane Benner
› Georg F. W. Schaeffler
› Jörg Schönfelder

2. Audit Committee
› Prof. Dr. Rolf Nonnenmacher (Chairman)
› Francesco Grioli
› Michael Iglhaut
› Dirk Nordmann
› Klaus Rosenfeld
› Georg F. W. Schaeffler

3. Nomination Committee
› Prof. Dr.-Ing. Wolfgang Reitzle (Chairman)
› Prof. Dr. Rolf Nonnenmacher
› Georg F. W. Schaeffler
› Maria-Elisabeth Schaeffler-Thumann

4. Mediation Committee required under Section 27 (3) of the German Co-determination Act *(Mitbestimmungsgesetz)*
› Prof. Dr.-Ing. Wolfgang Reitzle (Chairman)
› Christiane Benner
› Georg F. W. Schaeffler
› Jörg Schönfelder

** Employee representative.*
***Companies pursuant to Section 100 (2) of the German Stock Corporation Act (Aktiengesetz – AktG).*

Ten-Year Review – Corporation

		2019[1]	2018[2]	2017	2016	2015	2014	2013	2012[3]	2011	2010
Statement of financial position											
Non-current assets	€ millions	24,724.5	23,658.7	22,038.4	21,321.0	19,666.6	16,923.3	15,569.5	15,685.7	15,075.5	14,887.9
Current assets	€ millions	17,843.7	16,786.7	15,402.1	14,853.9	13,169.1	13,317.8	11,251.3	11,764.4	10,962.9	9,502.6
Total assets	€ millions	42,568.2	40,445.4	37,440.5	36,174.9	32,835.7	30,241.1	26,820.8	27,450.1	26,038.4	24,390.5
Shareholders' equity (excl. non-controlling interests)	€ millions	15,395.3	17,850.4	15,828.4	14,270.0	12,786.3	10,672.1	9,011.2	7,779.0	7,146.1	5,859.6
Non-controlling interests	€ millions	480.4	482.9	461.9	464.8	427.6	352.5	311.0	377.4	397.2	343.3
Total equity (incl. non-controlling interests)	€ millions	15,875.7	18,333.3	16,290.3	14,734.8	13,213.9	11,024.6	9,322.2	8,156.4	7,543.3	6,202.9
Equity ratio[4]	%	37.3	45.3	43.5	40.7	40.2	36.5	34.8	29.7	29.0	25.4
Capital expenditure[5]	€ millions	3,308.6	3,124.4	2,854.4	2,593.0	2,178.8	2,045.4	1,981.1	2,019.4	1,711.3	1,296.4
Net indebtedness	€ millions	4,071.7	1,661.3	2,047.6	2,797.8	3,541.9	2,823.5	4,289.3	5,319.9	6,772.1	7,317.0
Gearing ratio	%	25.6	9.1	12.6	19.0	26.8	25.6	46.0	65.2	89.8	118.0
Income statement											
Sales	€ millions	44,478.4	44,404.4	44,009.5	40,549.5	39,232.0	34,505.7	33,331.0	32,736.2	30,504.9	26,046.9
Share of foreign sales	%	81.2	80.1	79.7	79.3	78.6	76.6	76.2	75.4	73.7	72.8
Cost of sales[6]	%	76.2	75.0	74.2	73.4	74.1	74.9	76.6	78.3	79.0	77.8
Research and development expenses (net)[6]	%	7.6	7.2	7.1	6.9	6.2	6.2	5.6	5.3	5.3	5.6
Selling and logistics expenses[6]	%	6.1	5.6	5.5	5.6	5.6	5.3	5.0	4.8	4.7	5.0
Administrative expenses[6]	%	2.5	2.6	2.6	2.5	2.4	2.2	2.1	2.0	2.1	2.5
EBITDA	€ millions	4,977.2	6,235.7	6,678.9	6,057.4	6,001.4	5,133.8	5,095.0	4,967.4	4,228.0	3,587.6
EBITDA[6]	%	11.2	14.0	15.2	14.9	15.3	14.9	15.3	15.2	13.9	13.8
Personnel expenses	€ millions	11,750.0	11,125.3	10,687.3	9,695.7	9,164.6	7,757.2	7,124.5	6,813.7	6,354.3	5,891.7
Depreciation and amortization[7]	€ millions	5,245.5	2,208.0	2,117.4	1,961.6	1,885.8	1,789.0	1,831.3	1,781.2	1,631.1	1,652.4
Net income attributable to the shareholders of the parent	€ millions	-1,225.0	2,897.3	2,984.6	2,802.5	2,727.4	2,375.3	1,923.1	1,905.2	1,242.2	576.0
Dividend and earnings per share											
Dividend for the fiscal year	€ millions	800.0[8]	950.0	900.0	850.0	750.0	650.0	500.0	450.0	300.0	–
Number of shares as at December 31	millions	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
Net income (per share) attributable to the shareholders of the parent	€	-6.13	14.49	14.92	14.01	13.64	11.88	9.62	9.53	6.21	2.88
Employees											
Annual average	thousands	244.1	242.8	230.7	216.0	204.7	186.0	175.4	169.0	159.7	142.7

1 IFRS 16, Leases, has been applied since 2019.
2 IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, have been applied since 2018.
3 IAS 19 (revised 2011), Employee Benefits, has been applied since 2012.
4 Including non-controlling interests.
5 Capital expenditure on property, plant and equipment, and software.
6 As a percentage of sales.
7 Excluding impairment on financial investments.
8 Subject to the approval of the Annual Shareholders' Meeting on April 30, 2020.

Financial Calendar

2020	
Annual Financial Press Conference	March 5
Analyst and Investor Conference Call	March 5
Annual Shareholders' Meeting (including key figures for the first quarter of 2020)	April 30
Financial Report as at March 31, 2020	May 7
Half-Year Financial Report as at June 30, 2020	August 5
Financial Report as at September 30, 2020	November 11

2021	
Annual Financial Press Conference	March
Analyst and Investor Conference Call	March
Annual Shareholders' Meeting (including key figures for the first quarter of 2021)	April 29
Financial Report as at March 31, 2021	May
Half-Year Financial Report as at June 30, 2021	August
Financial Report as at September 31, 2021	November

Publication Details

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