Continental
The Future in Motion

Solutions for Clean Air.

2017 Annual Report

2017 Highlights

- Sales up to €44.0 billion
- Net indebtedness drops to €2.0 billion
- Dividend set to increase by €0.25 to €4.50

Key Figures for the Continental Corporation

€ millions	**2017**	2016	Δ in %
Sales	44,009.5	40,549.5	8.5
EBITDA	6,678.9	6,057.4	10.3
in % of sales	15.2	14.9	
EBIT	4,561.5	4,095.8	11.4
in % of sales	10.4	10.1	
Net income attributable to the shareholders of the parent	2,984.6	2,802.5	6.5
Basic earnings per share in €	14.92	14.01	6.5
Adjusted sales[1]	43,401.3	40,545.2	7.0
Adjusted operating result (adjusted EBIT)[2]	4,746.9	4,309.8	10.1
in % of adjusted sales	10.9	10.6	
Free cash flow	1,752.8	1,771.3	-1.0
Net indebtedness	2,047.6	2,797.8	-26.8
Gearing ratio in %	12.6	19.0	
Total equity	16,290.3	14,734.8	10.6
Equity ratio in %	43.5	40.7	
Number of employees as at December 31[3]	235,473	220,137	7.0
Dividend per share in €	4.50[4]	4.25	5.9
Share price at year end[5] in €	225.05	183.70	22.5
Share price at year high[5] in €	228.85	220.10	
Share price at year low[5] in €	180.70	158.20	

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 27, 2018.
5 Price quotations of the Continental share in the XETRA system of Deutsche Börse AG.

Overview of the Corporation and Key Figures

Structure of the corporation

Continental Corporation
Sales: €44.0 billion; Employees: 235,473

Automotive Group
Sales: €26.6 billion; Employees: 134,286

Rubber Group
Sales: €17.5 billion; Employees: 100,749

Chassis & Safety
Sales: €9.8 billion
Employees: 47,788

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

Powertrain
Sales: €7.7 billion
Employees: 40,492

- Engine Systems
- Fuel & Exhaust Management
- Hybrid Electric Vehicle
- Sensors & Actuators
- Transmission

Interior
Sales: €9.3 billion
Employees: 46,006

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

Tires
Sales: €11.3 billion
Employees: 53,811

- 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[1]
Sales: €6.2 billion
Employees: 46,938

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

1 Reorganization of individual business units in January 2018.
2 Renamed in June 2017.

Key figures for the core business areas

	Automotive Group			Rubber Group		
€ millions	**2017**	2016	Δ in %	**2017**	2016	Δ in %
Sales	26,565.4	24,496.4	8.4	17,494.7	16,097.6	8.7
EBITDA	3,296.4	2,615.0	26.1	3,499.6	3,559.6	-1.7
in % of sales	12.4	10.7		20.0	22.1	
EBIT	2,086.8	1,526.6	36.7	2,593.5	2,688.6	-3.5
in % of sales	7.9	6.2		14.8	16.7	
Adjusted sales[1]	26,486.5	24,496.4	8.1	16,965.4	16,093.3	5.4
Adjusted operating result (adjusted EBIT)[2]	2,222.1	1,613.4	37.7	2,643.6	2,815.8	-6.1
in % of adjusted sales	8.4	6.6		15.6	17.5	

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.

With sales of €44.0 billion in 2017, Continental is one of the world's leading automotive suppliers.

In our five divisions – Chassis & Safety, Powertrain, Interior, Tires, and ContiTech – we develop intelligent technologies, products and services for transporting people and their goods.

More than 235,000 people in 61 countries play their part each and every day.

2017 Highlights ›

Key Figures ›

Overview of the Corporation ›

With more and more vehicles on the road, one of the greatest challenges of our times is keeping our air clean. Just how we do this is up to all of us.

Many innovations are already available today. A clever combination of technologies coupled with intelligent mobility concepts can bring about lasting success.

“We all share responsibility for our climate. After all, the decisions we make today will determine how we and our children live in the future.

To protect our climate, we need bright minds in all key technology fields. It is indeed ingenuity that helps us make drive systems cleaner and vehicles lighter in weight. And our intelligent tires and advanced driver assistance systems reduce emissions. To optimize traffic flow and the safe, energy-efficient transportation of people and goods, we connect traffic infrastructures to vehicles, and the vehicles to each other. But without this combination of bright minds and innovative technologies, global CO_2 targets will not be achieved, thus jeopardizing climate protection.”

Dr. Elmar Degenhart Chairman of the Executive Board

Traffic is on the rise and, with it, there is growing concern about clean air around the world. But with more vehicles on the road, how can we reduce emissions in cities as well as in the countryside? Many technological solutions are already available today. Read more about them in our digital magazine.

▸ **Issue 4**

Check out our digital magazine for more about this topic.
Available for free in app stores.

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Chairman's Letter

Dear Shareholders,

In last year's letter, I promised you that our profitable growth would continue. Today, I am pleased to say that the sales figure of over €50 billion we foresee for 2020 is within our grasp.

We achieved sales of €44 billion last year, up more than 8 percent on 2016, which shows we are growing faster than the markets in which we operate. And we are doing so profitably. Furthermore, at 20.6 percent, our return on capital employed has exceeded the 20 percent target. As you can see, Continental is continuing along its successful course – at full steam.

This year, we have set our sights firmly on maintaining our high profitability, even as our sales grow to about €47 billion. We are preparing our organization for upcoming challenges in our industries. To do so, we are becoming more flexible, which is why we are currently undertaking extensive analyses. It remains to be seen whether the findings will bring about changes and, if so, what those changes will be.

Our three Automotive divisions – Chassis & Safety (safety and assistance systems and automated driving), Interior (connectivity, comfort and convenience electronics), and Powertrain (drive technologies) – are already making the most of the opportunities presented by industrial transformation. Incoming orders in these divisions stood at €30 billion in 2015. Since then, orders have risen to almost €40 billion – a double-digit percentage increase. Our customers' ever increasing confidence in our innovative capabilities is what will keep us viable in the future.

Our digital solutions, which include electronics in vehicles as well as sensors, actuators and software programs, are the primary drivers of our growth. These solutions make up more than two-thirds of the value of incoming orders in the Automotive Group. When it comes to vehicle digitalization, we are one of the largest suppliers worldwide.

Customers and end users accept technologies that are reliable and affordable. Take for example advanced driver assistance systems, our fastest-growing product area. In just a few years, we have increased our sales in this field from nearly zero to €1.6 billion solely with the accompanying sensor technology and software.

In addition, we also provide systems for dialogue between people and vehicles, and for connected mobility. To date, we have equipped more than 30 million vehicles worldwide with our connectivity technologies. Thanks to our recent acquisition of Argus Cyber Security, we will be protecting the data of these rolling computers at the highest level in the future.

All of these activities are fueling our growth: In the Automotive Group, we expect to achieve a sales share of roughly 10 percent in 2020. And that's not all.

Another driver of our growth is clean-air technology, which includes hybrid and electric drive systems, more efficient combustion engines, and systems for cleaner emissions. We expect that 110 million vehicles will be manufactured in 2025 worldwide. About one in ten of those vehicles will be all electric and one in four will be a hybrid. And by that time, one in five will feature drive solutions from your Continental.

We are catching the attention of new customers, including city and municipal authorities. After all, they need vehicles and transport concepts that are intelligent and connected in order to prevent traffic jams and eliminate the need to search for parking spaces. The result is better air. When it comes to traffic jams, intelligent route recommendations, updated almost in real time, are a help, keeping everyone from using the same road to get around the congestion.

Automated, electrified and connected. The vehicles of the future may well be all of that, but they will still run on our tires. In this business field, we likewise outperformed the market as a whole in 2017. With our return on sales continuing to be top notch, your Continental is making its way further toward the front of the pack of tire manufacturers.

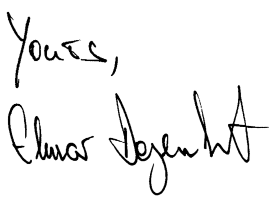
The portion of our total sales with industrial customers and end users is to be increased gradually from 28 percent toward 40 percent. Most of that increase will be coming from our tire-replacement business and from the ContiTech division, where surface materials and innovative systems for transporting materials are major growth drivers.

By investing in us, you are putting your money on top technologies from Continental. You are making roads safer. You are protecting millions of people from accidents each day. You are lowering emissions. You are making driving more relaxed, more comfortable and more convenient.

To top it off, you are banking on profitable growth.

On behalf of our global team, I would like to thank you for your investment.

It is your trust, and that of our customers, that drives us!



Dr. Elmar Degenhart
Chairman of the Executive Board

Members of the Executive Board

Wolfgang Schäfer
born in 1959 in Hagen, Germany;
Finance, Controlling, Compliance, Law, and IT;
appointed until December 2019

José A. Avila
born in 1955 in Bogotá, Colombia;
Powertrain Division;
appointed until December 2019

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

Dr. Elmar Degenhart
born in 1959 in Dossenheim, Germany;
Chairman of the Executive Board,
Corporate Communications,
Corporate Quality and Environment,
Continental Business System,
Automotive Central Functions;
appointed until August 2019

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

Frank Jourdan
born in 1960 in Groß-Gerau, Germany;
Chassis & Safety Division;
appointed until September 2021

Nikolai Setzer
born in 1971 in Groß-Gerau, Germany;
Tire Division,
Corporate Purchasing;
appointed until August 2022

Helmut Matschi
born in 1963 in Viechtach, Germany;
Interior Division;
appointed until August 2022

Continental Shares and Bonds

22.5% increase in the Continental share price.

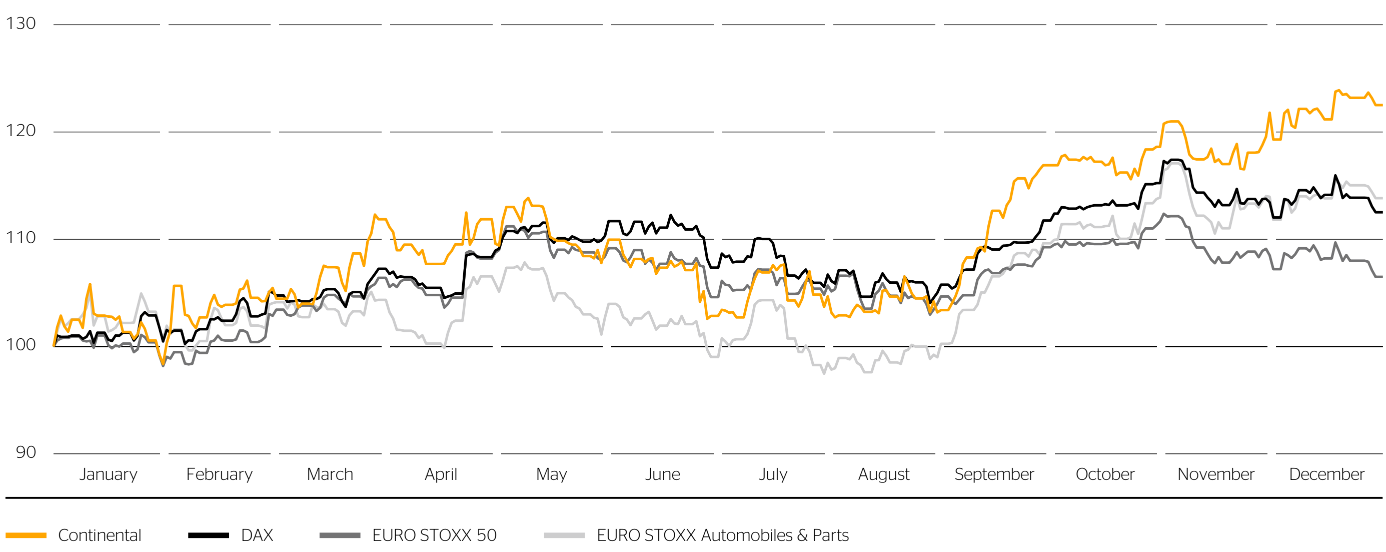
Largely positive trend on stock markets
In the first weeks of 2017, the leading stock markets in Europe, the U.S.A. and Asia initially trended sideways on the whole, due to the lack of clear stimuli. Sentiment on the U.S. stock markets improved from the end of January, with the new U.S. government promising extensive tax cuts, deregulation, and infrastructure measures. Prices also rose on the European stock markets in February. The increase was more modest, however, as it was curbed by concerns about the U.S.A.'s barriers to trade and the outcome of the upcoming Dutch election in March 2017, which was uncertain at the time. In Europe and in the U.S.A., support came from company results that were largely better than expected. Positive economic data from Germany and the eurozone caused European stocks to rise further at the end of March.

In the first weeks of the second quarter, the U.S. Federal Reserve (Fed) surprised investors with indications of a potentially more rapid normalization of its monetary policy. In addition, political tensions between the U.S.A. and North Korea as well as the conflict in Syria created uncertainty, resulting in declining prices on global stock markets. Furthermore, many shareholders were waiting for the outcome of the first round of the French presidential election on April 23, 2017. The result led to an increase in confidence and rising prices on European and many international stock markets. In mid-May, doubts about the feasibility of the fiscal and tax-policy measures announced by the U.S. government led to profit taking on stock markets around the world. However, share prices stabilized again in the following weeks as a result of positive economic data. The DAX also rose again in June, marking a new all-time high at 12,951.54 points on the morning of June 20, 2017. Over the course of the day, however, a considerable decline in the price of crude oil and the start of negotiations for the United Kingdom's exit from the European Union prompted further profit taking. In June, changes in the forecasts of individual automotive and chemical companies also resulted in further price decreases, especially on European stock markets.

The appreciation of the euro that began after the French presidential election in the second quarter continued in the third quarter of 2017. This particularly affected export-oriented shares on the stock exchanges of the eurozone. In contrast, the weaker U.S. dollar together with good corporate and economic data boosted prices on U.S. stock markets. In August, the further rise in tension between the U.S.A. and North Korea as well as fears that the situation would escalate led to declining prices on stock exchanges worldwide. The DAX temporarily fell below 11,900 points, but stabilized above the 12,000 point mark at the end of August. In September, signs that tensions were easing with North Korea triggered a change of mood on the stock markets and caused prices to rise again. On the stock exchanges of the eurozone, this also boosted the performance of the euro, which weakened against the U.S. dollar once again. This was due primarily to the prospect of long coalition negotiations following the federal election in Germany, the political tensions between Catalonia and the Spanish government, and the Fed's announcement that it would again reduce its total assets, which had been bloated by bond purchases, starting from October 2017.

The good sentiment on the stock markets continued initially in the fourth quarter of 2017. In the U.S.A., it became increasingly likely during the course of the quarter that both the House of Representatives and the Senate would approve the U.S. government's tax reform. U.S. stock markets were boosted by the planned cut in corporate taxes this reform would bring about. Furthermore, the U.S. dollar was down against the euro again in November and December. The

Price performance of Continental shares in 2017 versus selected stock indexes indexed to January 1, 2017



Dow Jones broke one record after another, ending the year at 24,719.22 points after the U.S. tax reform was passed just before Christmas. With an increase of nearly 5,000 points, it was up 25.1% in 2017. In Europe, however, the appreciation of the euro from November slowed down the stock markets and resulted in profit taking. The DAX, which had reached a new all-time high of 13,525.56 points at the beginning of November, closed the year at 12,917.64 points – a rise of 12.5% for the year as a whole. The EURO STOXX 50 ended the year at 3,503.96, having grown by 6.5%.

Surge in the automotive sector from September 2017

European automotive and supplier stocks benefited from positive passenger-car registration data in Western Europe in the first quarter of 2017. The concerns of many shareholders about the U.S.A.'s potential barriers to trade, however, had a negative impact on export-oriented European automotive stocks over the rest of the quarter.

In the second quarter, declining sales figures for passenger cars, especially in the U.S.A., and rising inventories in China resulted in growing investor uncertainty about the expected development of passenger-car sales volumes and production. As a result, European automotive stocks performed worse than the market overall during the course of the quarter. In June, reductions in the forecasts for the current year by various suppliers and more cautious estimates of new car sales figures for the current year by a U.S. manufacturer caused further price declines.

In the third quarter, the European automotive sector initially developed in line with the whole market. In September, the prices of European automotive and supplier stocks surged due to the general change in mood on the markets as well as several analysts' positive reassessment of the sector and the reporting on the International Motor Show in Frankfurt, Germany.

In line with the market as a whole, the positive trend persisted until early November before the appreciation of the euro also impacted the shares of listed European automotive and supplier companies. Positive passenger-car registration data for Western and Eastern Europe provided support in October and November, resulting in the sector outperforming the market as a whole. The EURO STOXX Automobiles & Parts rose by 13.8% in 2017 as a whole.

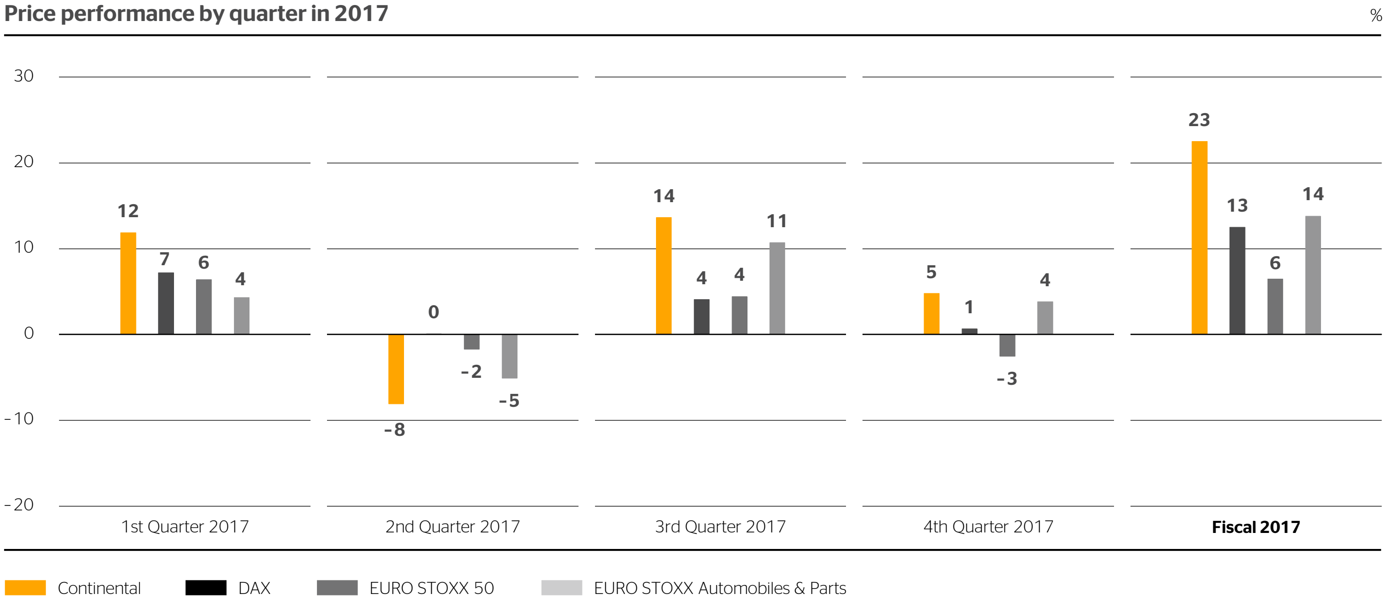
Continental shares outperform markets significantly

In mid-January 2017, Continental shares benefited from the announcement of the preliminary figures for the 2016 fiscal year and the publication of the complete business figures in early March. Several upgrades and price-target increases by various analysts also had a positive effect on the share price in early February and the second half of March. Continental shares exceeded the €200 mark in the last week of March.

In April 2017, Continental shares initially dropped in line with the general market trend. The publication of the figures for the first quarter of 2017, the increase in the sales forecast for the current year, and repeated upgrades and price-target increases by various analysts caused Continental shares to climb again. In the second half of the quarter, the share price initially fell to around the €200 mark, before sinking further at the end of the quarter due to negative news from the automotive sector.

In the third quarter, Continental shares initially ranged between €188 and €200. In September, investors' growing interest in the sector caused the shares to increase to €214.75 at the end of the quarter.

Price performance by quarter in 2017



Performance of Continental shares over various time periods versus selected stock indexes

Investment period for €10,000	Continental[1]	DAX	EURO STOXX 50[1]	EURO STOXX Automobiles & Parts[1]
1 year (Jan. 1, 2017 – Dec. 31, 2017)	€12,504	€11,251	€10,986	€11,735
Yield in % p.a.	25.0	12.5	9.9	17.3
3 years (Jan. 1, 2015 – Dec. 31, 2017)	€13,547	€13,174	€12,331	€13,490
Yield in % p.a.	10.6	9.6	7.2	10.5
5 years (Jan. 1, 2013 – Dec. 31, 2017)	€28,196	€16,969	€15,817	€20,334
Yield in % p.a.	23.0	11.1	9.6	15.2
10 years (Jan. 1, 2008 – Dec. 31, 2017)	€30,024	€16,012	€11,817	€21,776
Yield in % p.a.	11.6	4.8	1.7	8.1

1 Including reinvested dividends.

In line with the market as a whole, the price continued to rise until early November before the general market performance again resulted in falling prices. The publication of the figures for the third quarter of 2017 and the positive outlook for the fourth quarter stabilized Continental shares at around €215 in the middle of November. In the following weeks, the shares benefited not only from the performance of the sector but also again from buy recommendations and price-target increases by several analysts.

At the end of 2017, Continental shares were quoted at €225.05, a 22.5% increase on their price of €183.70 at the end of 2016. In terms of this share-price performance, Continental was at the top end in the annual ranking of the 30 DAX shares in 2017, taking 10th place (PY: 27th place).

Continental shares outperform markets over various time periods

Allowing for an immediate reinvestment of the dividend distribution of €4.25, Continental shares generated a return of 25.0% in 2017, outperforming their benchmark indexes significantly. In 2017, the DAX saw a return of 12.5%, the EURO STOXX 50 9.9%, and the EURO STOXX Automobiles & Parts 17.3% (including reinvested dividends in each case).

Continental shares also performed better when compared over longer periods:

- Investing €10,000 in Continental shares at the beginning of 2015 would have generated a yield of 10.6% per year or an increase in value of 35% to €13,547 over the past three years. Among the benchmark indexes, only EURO STOXX Automobiles & Parts generated a similar yield of 10.5% per year.

- Over the past five years, the same investment would have generated an increase in value of 182% to €28,196 (23.0% p.a.). In this case, a considerably higher yield would have been generated than with an investment in the benchmark indexes.

- A comparison of the performance over the past ten years also shows a substantial increase in value of 200% to €30,024 for a €10,000 investment in Continental shares. With an annual yield of 11.6%, Continental shares outperformed the comparative indexes over this ten-year period as well.

Continental euro bonds at low yield level

As in the previous year, Continental euro bonds persisted at a low yield level during 2017. This was due to continuing low interest rates and the sound capital base of Continental.

In 2017, the price of the 3.0% euro bond maturing on July 16, 2018, declined by 293.4 basis points to 101.769% as a result of the reduction in the remaining maturity.

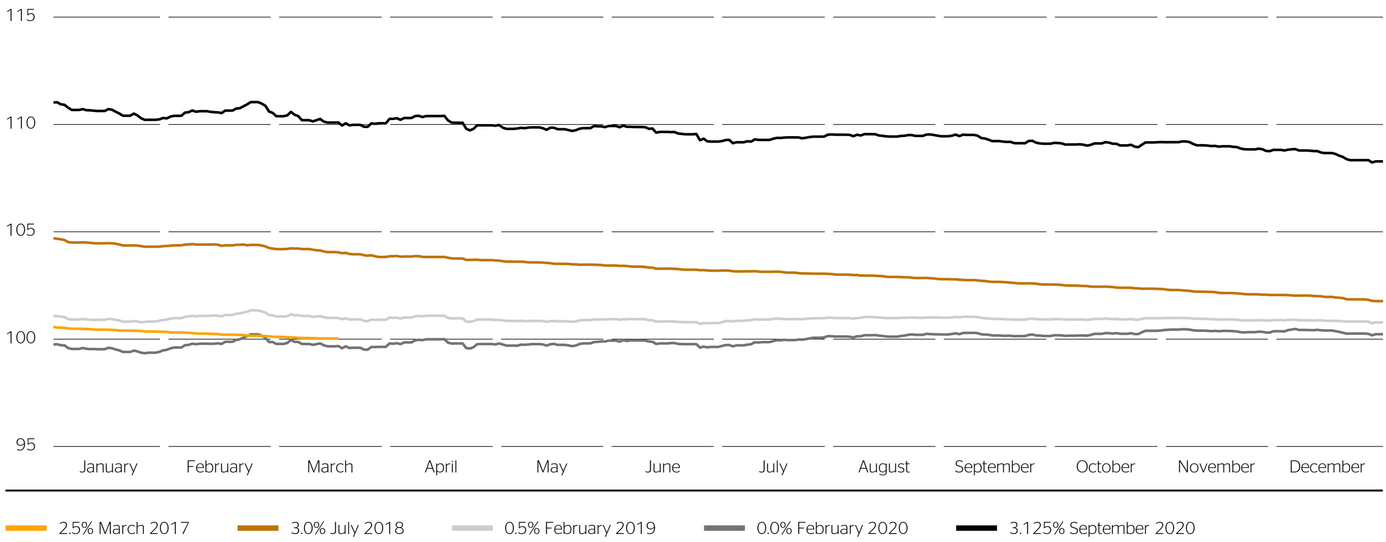
At the end of December 2017, the 0.5% euro bond maturing on February 19, 2019, was quoted at 100.776%, down 30.5 basis points compared to the end of 2016.

The price of the 0.0% euro bond, which was issued in the fourth quarter of 2016 and matures on February 5, 2020, remained at around the 100% mark in 2017. At the end of 2017, it was quoted at 100.227%, up 48.0 basis points compared to the end of 2016.

Outstanding bonds as at December 31, 2017

WKN/ISIN	Coupon	Maturity	Volume in € millions	Issue price	Price as at Dec. 31, 2017	Price as at Dec. 31, 2016
A1X24V / XS0953199634	3.000%	July 16, 2018	750.0	98.950%	**101.769%**	104.703%
A1Z7C3 / DE000A1Z7C39	0.500%	February 19, 2019	500.0	99.739%	**100.776%**	101.081%
A2DARM / XS1529561182	0.000%	February 5, 2020	600.0	99.410%	**100.227%**	99.747%
A1X3B7 / XS0969344083	3.125%	September 9, 2020	750.0	99.228%	**108.272%**	111.024%

Price performance of Continental bonds in 2017



The price of the 3.125% euro bond maturing on September 9, 2020, fell by 275.2 basis points in the reporting period due mainly to the reduction in the remaining maturity. At the end of 2017, the bond was quoting at 108.272%.

2.5% euro bond redeemed on March 20, 2017

During the first quarter of 2017, the price of the 2.5% euro bond of Conti-Gummi Finance B.V., Maastricht, Netherlands, which matured on March 20, 2017, continued to fall toward the 100% mark. The nominal value of €750.0 million was repaid on the maturity date.

Five-year CDS premium ends 2017 at 11-year low

The premiums for insuring against credit risks (credit default swap, CDS) initially remained largely unchanged at a relatively low level in the reporting period. This was due to the comparatively quiet stock-market environment in the first quarter of 2017, the generally positive profit development of many companies, and the continually low interest rates in the eurozone in particular, which was thanks to the European Central Bank's (ECB) unchanged expansionary monetary policy. The growing confidence for the further development of the eurozone after the result of the first round of voting in the French presidential election also led to falling CDS premiums for euro corporate bonds after April 23, 2017.

In the first quarter of 2017, the five-year CDS premium for Continental still remained within a small range of 50 to 60 basis points. During the second and third quarter, it fell temporarily below 40 basis points. In the fourth quarter, it declined broadly in line with its reference index, the Markit iTraxx Europe, to 30.224 basis points, marking a new 11-year low. At the end of 2017, it was at 32.563 basis points, 26.518 down on the 59.081 basis points at the end of the previous year. The spread in relation to its reference index amounted to -12.213 basis points at the end of the year (December 31, 2016: -13.234 basis points).

Continental's credit rating unchanged

The three major rating agencies each maintained their credit ratings for Continental AG during 2017.

December 31, 2017	Rating	Outlook
Standard & Poor's[1]	BBB+	stable
Fitch[2]	BBB+	stable
Moody's[3]	Baa1	stable

December 31, 2016	Rating	Outlook
Standard & Poor's[1]	BBB+	stable
Fitch[2]	BBB+	stable
Moody's[3]	Baa1	stable

1 Contracted rating since May 19, 2000.
2 Contracted rating since November 7, 2013.
3 Non-contracted rating since February 1, 2014.

Net income per share reaches another all-time high

In the year under review, the net income attributable to the shareholders of the parent rose by 6.5% to a new high of €2.98 billion after €2.80 billion in the previous year. The reason for this was the Continental Corporation's good operating performance overall.

Earnings per share, i.e. the portion of profits attributable to the shareholders per share, are calculated by dividing the net income attributable to the shareholders of Continental AG by the average number of shares outstanding. This figure rose accordingly by 6.5% to €14.92 (PY: €14.01) – also a new high.

Dividend proposal increased to €4.50 per share
The Executive Board and the Supervisory Board have resolved to propose a 5.9% increase in the dividend distribution to €4.50 per share for the past fiscal year to the Annual Shareholders' Meeting to be held in Hanover on April 27, 2018. This would make it the sixth dividend increase in a row since the dividend payout of €1.50 for fiscal 2011. This proposal corresponds to €900.0 million or a dividend payout ratio of 30.2% of net income attributable to the shareholders of the parent. Based on the dividend proposal and the annual average Continental share price, this results in a dividend yield of 2.2% for 2017.

A dividend of €4.25 per share was paid for fiscal 2016, amounting to a total payout of €850.0 million. The dividend payout ratio was 30.3%, and the dividend yield was 2.3%.

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 2017. 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 its shareholding in Continental AG from 49.9% to 46.0%.

As at the end of 2017, the market capitalization of Continental AG amounted to €45.0 billion (PY: €36.7 billion). Market capitalization on the basis of free float in accordance with Deutsche Börse AG averaged €24.3 billion over the last 20 trading days of 2017 (PY: €19.6 billion). The trading volume in euros, which is also relevant to index selection, amounted to €19.9 billion from January to December 2017 (PY: €20.5 billion).

As at the end of 2017, Continental shares were ranked 17th (PY: 16th) in terms of free-float market capitalization and 20th (PY: 16th) in terms of stock exchange turnover among the 30 DAX shares in Deutsche Börse AG's index ranking.

Increased share of free float in the U.S.A.
As at the end of the year, we once again determined the distribution of free float of Continental shares by way of shareholder identification (SID). We were able to assign 91.5 million of the 108.0 million shares held in the form of shares or alternatively as American depository receipts (ADRs) in the U.S.A. to institutional and private investors. The identification ratio was 84.7% of free float (PY: 84.3%).

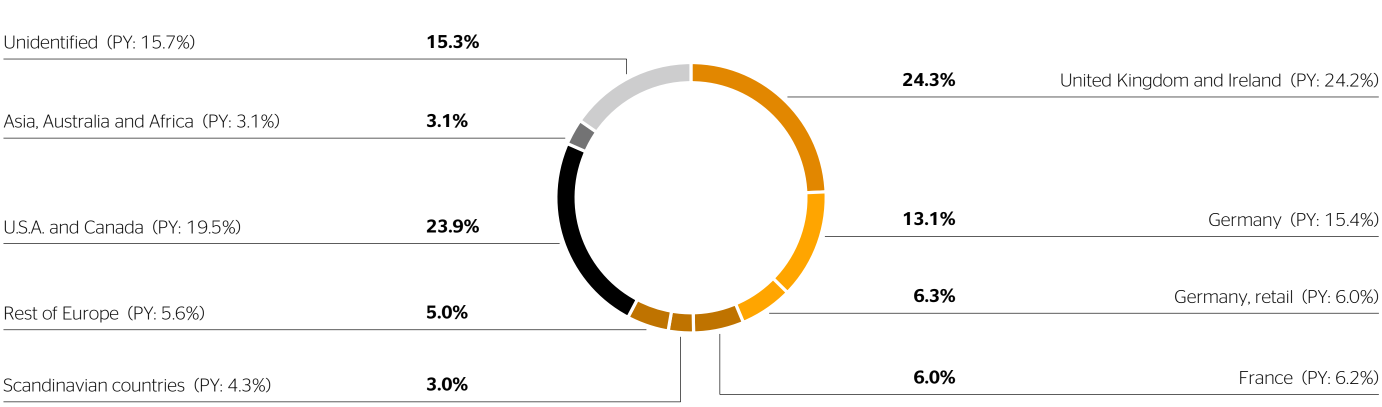
A total of 81.8 million shares were attributable to more than 550 institutional investors in 37 countries. Private shareholders in Germany, other European countries and the U.S.A. held 9.3 million shares as at the end of the year.

According to the SID, the identified level of Continental shares held in Europe declined to 57.7% (PY: 61.7%). The identified level of shares held by institutional investors from the United Kingdom and Ireland at 24.3% (PY: 24.2%) remained nearly unchanged. The identified holdings of German institutional investors dropped to 13.1% in the year under review (PY: 15.4%). At 6.3%, shareholdings of private German shareholders were slightly higher than in the previous year at 6.0%. In the year under review, the level of shares held by French institutional investors remained relatively stable at 6.0%, almost at the same level of the previous year at 6.2%. Scandinavian investors held about 3.0% (PY: 4.3%) of Continental shares at the end of 2017. Shareholdings of 5.0% (PY: 5.6%) were identified in other European countries.

As at the end of December 2017, institutional and private investors in the U.S.A. and Canada held a total of 23.9% (PY: 19.5%) of the free float in the form of shares or ADRs. At the end of the reporting year, identified level of shares held by institutional investors were down in Canada, but in the U.S.A. they were up substantially.

As in the previous year, the identified shareholdings of institutional investors in Asia, Australia and Africa were 3.1% at the end of the 2017.

Geographic distribution of free float in 2017



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 December 31, 2017	200,005,983
Free float as at December 31, 2017	54.0%

Continental's American depositary receipt (ADR) data

Ratio	1 share : 5 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, 2017	8,086,275 (with 1,617,255 Continental shares deposited)

Share capital unchanged

As at the end of 2017, 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-corporation.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. Continental's shares are also traded on other unofficial stock exchanges in Germany and Europe.

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 on December 23, 2013, in a ratio of 1:5, five Continental ADRs are equivalent to one Continental share.

Continental Investor Relations online

For more information about Continental shares, bonds and credit ratings, as well as our Investor Relations app, please visit www.continental-ir.com.

In addition, updates about Continental are also available on Twitter at @Continental_IR.

Key figures of the Continental share[1]

€ (unless otherwise specified)	**2017**	2016
Basic earnings per share	14.92	14.01
Diluted earnings per share	14.92	14.01
Free cash flow per share	8.76	8.86
Dividend per share	4.50[2]	4.25
Dividend payout ratio (%)	30.2[2]	30.3
Dividend yield (%)	2.2[2]	2.3
Total equity (book value) per share as at December 31[3]	79.14	71.35
Yearly average price-earnings ratio (P/E ratio)[4]	13.5	13.2
Share price at year end	225.05	183.70
Annual average share price	201.45	185.26
Share price at year high	228.85	220.10
Share price at year low	180.70	158.20
Average XETRA trading volume per trading day (units)	392,132	436,412
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 27, 2018.
3 Equity attributable to the shareholders of the parent per share.
4 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,

In the following, the Supervisory Board reports on its work and that of its committees in the 2017 fiscal year: We closely supervised, carefully monitored and advised the Executive Board in the management of the company. We comprehensively fulfilled all the tasks incumbent upon us under applicable law, the Articles of Incorporation and our By-Laws. 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 in writing and verbally on all issues of relevance to the company. In particular, these include planning, business strategy, significant business transactions in the company and the corporation, and the related risks and opportunities, as well as compliance issues. The Executive Board continually 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 and its committees. In addition, the Supervisory Board, the Chairman's Committee and the Audit Committee dealt intensively with other key company matters at their meetings and in separate discussions. 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 was in 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 in 2017 as well as the strategy meeting and two telephone conferences. At two meetings, the Supervisory Board conferred part of the time in the absence of the Executive Board; one telephone conference took place entirely without the Executive Board. The Chairman's Committee held two meetings and two telephone conferences in the year under review. The Audit Committee met four times in 2017. The Nomination Committee held a written vote on the proposal of a profile of skills and expertise for the Supervisory Board and in one meeting approved a proposal for naming the independent shareholder representatives (see also Corporate Governance Report, page 20). The Mediation Committee in accordance with Section 27 (3) of the German Co-determination Act *(Mitbestimmungsgesetz – MitbestG)* did not need to meet. There are no other committees. All committees report to the plenary session on a regular basis. The Corporate Governance Report starting on page 18 describes their responsibilities in more detail and names their members.

Most members of the Supervisory Board attended all meetings in person. All members of the Supervisory Board attended more than half of the meetings of the plenary session and the committees, respectively, to which they belonged in the past fiscal year. A detailed account of each Supervisory Board member's meeting attendance will be published in the Investors section of our website on March 21, 2018, with the invitation to the Annual Shareholders' Meeting.

Key topics dealt with by the Supervisory Board and the Chairman's Committee

The Supervisory Board's discussions repeatedly focused on the company's strategic development and orientation. At the strategy meeting in particular, the Executive Board and the Supervisory Board once again discussed at length the strategic objectives and strategic planning of the corporation and the divisions and the HR strategy. In addition, the Executive Board presented the preliminary results of the review of the strategy of the Powertrain division in a separate telephone conference in April 2017.

Other key topics of the strategy meeting were developments in Industry 4.0 and cybersecurity, which will be of vital importance both for automated driving and for the increasing interconnectivity of vehicles. Continental has expanded its expertise considerably in this respect by acquiring Argus Cyber Security Ltd, Tel Aviv, Israel, one of the world's leading companies in this field. After in-depth discussion by the plenary session, the Supervisory Board approved this transaction at its meeting in September 2017 and further Chairman's Committee proceedings. The acquisition of an indirect stake in HERE International, B.V., Amsterdam, Netherlands, announced in January 2018 in conjunction with the conclusion of a cooperation agreement is an important step toward generating additional profitable growth in the field of mobility services and automated driving. This project was also approved by the Supervisory Board at its September meeting.

As always, in addition to the situation on the raw materials and sales markets, the share-price performance was a regular subject of the discussions in the Executive Board's reporting on the current business development. Moreover, the Supervisory Board discussed further management actions by the Executive Board that require the approval of the Supervisory Board or its Chairman's Committee in accordance with the company's Articles of Incorporation and the Supervisory Board By-Laws. After careful examination, approval was granted for investment projects of the Chassis & Safety and Tire divisions. Other issues that the Supervisory Board dealt with in the past fiscal year included the protection of the company's IT systems against external attacks, risk management in the supply chain and cooperation with universities. In its meeting on December 13, 2017, the Supervisory Board discussed the annual planning for 2018 and long-term planning. It also approved the planning and the investment plans for fiscal 2018.

The Supervisory Board regularly reviews the Executive Board's remuneration. The Supervisory Board brought in an independent external consultant to carry out such a review again in 2016. Based on this, in January 2017 the Supervisory Board essentially decided to increase

parts of the variable remuneration but to leave the remuneration system as it is. The details are described in the Remuneration Report starting on page 24. The Annual Shareholders' Meeting on April 28, 2017, approved the Executive Board remuneration system again.

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. The Audit Committee likewise ensures that it is regularly informed of the progress of major acquisition and investment projects. In 2017, these included the acquisition of A–Z Formen in the Tire division and of Elektrobit Automotive and Zonar Systems in the Interior division, which were concluded in 2015 and 2016 respectively.

Before the half-year and quarterly financial reports were published, the Audit Committee discussed and reviewed them with the Executive Board, paying particular attention to the results for the relevant reporting period as well as the outlook for the year as a whole. The interim financial statements as at June 30, 2017, were reviewed by KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover (KPMG), on behalf of the Audit Committee. The Audit Committee also issued the mandate for the audit of the 2017 annual and consolidated financial statements, as well as the Dependent Company Report, to KPMG, pursuant to the resolution adopted by the Annual Shareholders' Meeting. The committee also coordinated key audit matters with the auditor.

The Audit Committee acknowledged that the German Financial Reporting Enforcement Panel (FREP) had concluded its audit of the 2016 financial statements without finding any errors. The Audit Committee also again approved a blanket amount for assigning the auditor non-audit services in accordance with the EU audit regulation. Moreover, the Audit Committee dealt with issues including the process for selecting a new auditor, because a change is required by 2021 at the latest.

A new task for the Audit Committee is the preparation of the review of the company's non-financial reporting by the Supervisory Board, which is required for the first time for the 2017 fiscal year. The responsibility of potentially commissioning an external auditor to audit the content of this reporting was likewise delegated to the Audit Committee. The Audit Committee dealt with questions arising in connection with this in several meetings. In consultation with the Audit Committee, the Executive Board decided not to supplement the management report with a non-financial declaration but instead to compile a separate non-financial corporate report. The Audit Committee resolved to commission KPMG to review the content of the non-financial corporate report with the aim of an evaluation with limited assurance and issued the mandate for the audit.

The Audit Committee is closely involved in compliance and risk management. The work of the Compliance department and the Corporate Audit department, as well as reporting on significant events are regular topics at each Audit Committee meeting. These 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 were 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 head of the Compliance department reports directly to the plenary session of the Supervisory Board once a year about the work of the Compliance department and significant compliance cases.

In addition, the Executive Board reported 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.

Corporate Governance
In several meetings, the Supervisory Board dealt with the amendments to the German Corporate Governance Code that took effect at the end of April 2017. It will follow the new recommendations insofar as they concern the Supervisory Board. The Supervisory Board also accepted the code's suggestion of entering into a direct dialogue with investors on topics specific to the Supervisory Board. As chairman of the Supervisory Board, I therefore conducted a telephone conference with investor representatives in November 2017, in which we discussed topics such as the remuneration of the Executive Board and Supervisory Board, the composition of the Supervisory Board and the Supervisory Board's involvement in the company's strategy. At its meeting in December 2017, the Supervisory Board agreed 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.

In the year under review, two members of the Supervisory Board withdrew from an informational presentation held by the Executive Board during a meeting in order to avoid any potential conflict of interest. There were no other conflicts of interest from members of the Supervisory Board. 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 18.

Annual and consolidated financial statements; non-financial corporate report
KPMG audited the annual financial statements as at December 31, 2017, prepared by the Executive Board in accordance with the provisions of the German Commercial Code *(Handelsgesetzbuch – HGB)*, the 2017 consolidated financial statements, and the summarized 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 2017 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 audit reports with the Executive Board and the auditor on February 28, 2018. Furthermore, the plenary session of the Supervisory Board discussed these at length at its meeting to approve the annual financial statements on March 13, 2018. The discussions also concerned the separate non-financial report of the Continental Corporation and of 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 company management report, 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 non-financial corporate report. This means that, based on the implemented audit procedures and the resulting audit report, no matters came to light that would cause KPMG to presume the summarized separate non-financial corporate report has not been prepared, in material respects, in accordance with sections 315b and 315c in conjunction with 289c to 289e of *HGB*. The Supervisory Board also found no reasons arguing against the legality and expediency of the separate non-financial corporate report. This was based on the Supervisory Board's own review, the Audit Committee's recommendation and report on its preliminary examination, and KPMG's opinion and review of the report.

The Supervisory Board together with the Executive Board will propose a dividend distribution of €4.50 per share for the past fiscal year at the Annual Shareholders' Meeting on April 27, 2018.

Personnel changes in the Supervisory Board and Executive Board

In 2017, there were no personnel changes in the Supervisory Board. As of February 28, 2018, Hartmut Meine, who up to that point had been the vice chairman of the Supervisory Board, stepped down to begin his retirement. The Supervisory Board would like to thank Hartmut Meine for his many years of service and for his constructive contribution to the work of the Supervisory Board. The Hanover Local Court *(Amtsgericht)* named Christiane Benner as his successor on February 8, 2018. She is vice president of IG Metall.

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 19, and on pages 207 and 208.

Dr. Ralf Cramer departed from the Executive Board when his mandate expired on August 11, 2017. The Supervisory Board would like to thank him for his many years of hard work and commitment in various roles within the company, including most recently the very successful development of activities in China. At its meeting in September, the Supervisory Board extended the appointment of Hans-Jürgen Duensing as a member of the Executive Board by another five years until the end of April 2023. At this meeting, the Supervisory Board also dealt thoroughly with succession planning for the Executive Board. With the exception of a presentation by Dr. Ariane Reinhart, these discussions were held in the absence of the Executive Board.

The Supervisory Board would like to thank the Executive Board, all the employees and the employee representatives for their excellent work, which enabled the company to develop well overall in the past year.

Hanover, March 13, 2018

For the Supervisory Board,

Yours
W. Reitzle

Prof. Dr.-Ing. Wolfgang Reitzle
Chairman

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

Good, 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, and the basis of the company's success. Below, the Supervisory Board and Executive Board report on corporate governance at Continental. This Corporate Governance Declaration pursuant to Section 289f of the German Commercial Code *(Handelsgesetzbuch – HGB)* is simultaneously the Corporate Governance Report as recommended by Section 3.10 of the German Corporate Governance Code. It is supplemented by the remuneration report of Continental AG, which 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 2017, the Executive Board and the Supervisory Board issued the following annual declaration in accordance with Section 161 *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 2016, 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 para. 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 2017

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

Dr. Elmar Degenhart
Chairman of the Executive Board"

The declaration was made permanently available to shareholders in the Company/Corporate Governance section of Continental's website. Earlier declarations in accordance with Section 161 *AktG* can also be found there.

Continental AG also complies with all suggestions of the Code with the following exception:

› Section 3.7 para. 3 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

Corporate governance at Continental is 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.

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

› The BASICS – Continental AG's corporate guidelines. The BASICS have reflected the vision, values 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 23 or the Sustainability/Downloads section of Continental's website.

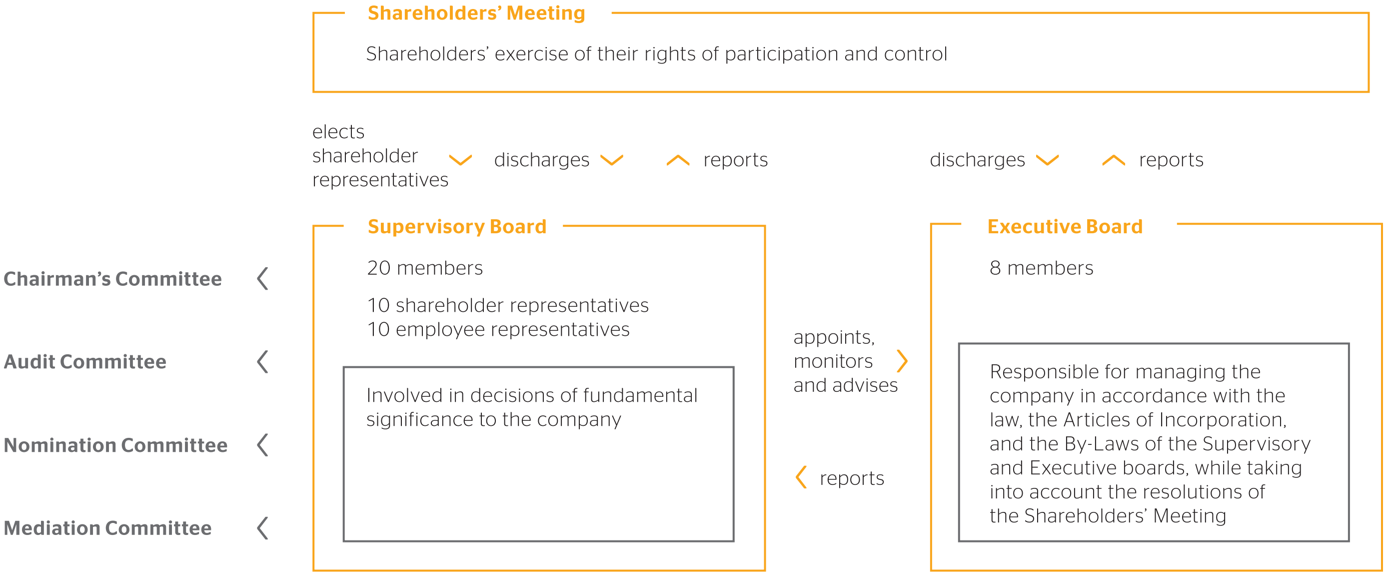
Corporate bodies

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 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 the resolutions of the Shareholders' Meeting. All members of the Executive Board share responsibility for the management of the company jointly. Regardless of this prin-

Corporate bodies of the company



ciple of joint responsibility, each Executive Board member is individually responsible for the areas entrusted to him or her. 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 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.

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 Articles of Incorporation and the Supervisory Board By-Laws require the consent of the Supervisory Board for significant actions taken by management.

The Supervisory Board and its practices

The Supervisory Board appoints the members of the Executive Board and supervises and advises the 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 company has set up an introductory program that provides newly elected members of the Supervisory Board with a thorough overview of product and technologies as well as finances, controlling and corporate governance at Continental. The current term of office of the Supervisory Board members lasts until the end of the 2019 Annual Shareholders' Meeting.

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, 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.

The Supervisory Board reviews the efficiency of its activities every two to three years. 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.

Profile of skills and expertise for the Supervisory Board
In accordance with Section 5.4.1 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 below. It is not expected that all Supervisory Board members possess all the skills and expertise specified hereinafter. Instead, each area of expertise must be covered by at least one Supervisory Board member. The profile of skills and expertise 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 an important part 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 specified above should at a minimum remain constant. At least seven members currently have international skills and expertise.

- 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
  - Prof. Dr. Klaus Mangold
  - Sabine Neuß
  - Prof. Dr. Rolf Nonnenmacher
  - Prof. KR Ing. Siegfried Wolf

- In its nominations for election to the Supervisory Board, as a rule, the Supervisory Board 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 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 22, in accordance with Section 289f (2) No. 4 to 6 *HGB*.

The Supervisory Board will continue to provide regular updates on the status of the implementation of the targets in the Corporate Governance Report.

The Supervisory Board's proposals to the Annual Shareholders' Meeting will consider the fulfillment of the requirements of the profile of skills and expertise for the board as a whole as well as the aforementioned 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) of the *MitbestG* (Mediation Committee).

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; his vice chairman, Hartmut Meine (until February 28, 2018); 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. 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 subject to the condition that, in individual cases, each of its members may 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 monitors the accounting process and the effectiveness of the internal control system, the risk management system, the internal audit system and compliance; performs a preliminary examination of Continental AG's annual financial statements and the consolidated financial statements; and makes its recommendation to the plenary session of the Supervisory Board, which then passes resolutions pursuant to Section 171 of the German Stock Corporation Act *(Aktiengesetz – 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 and negotiates the fee. It also gives its recommendation for the Supervisory Board's proposal to the Annual Shareholders' Meeting for the election of the auditor. Since 2017, the committee has also been 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 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 Peter Hausmann, 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 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 of the *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 his/her removal 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 starting on page 207. Current resumes, which are updated annually, are available in the Company/Corporate Governance section of Continental's website.

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, election of the shareholder representatives in the Supervisory Board, the discharging of Supervisory Board and Executive Board members, 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 also published on the company's website in German and English. Moreover, the whole 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. 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.

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 (EU). 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 28, 2017, elected KPMG AG Wirtschaftsprüfungsgesellschaft,

Hanover (KPMG) to audit the consolidated financial statements for fiscal 2017 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. Dirk Papenberg has been the auditor responsible at KPMG since the financial statements for fiscal 2012.

Internal control system and risk management

Careful 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 trigger 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 company's website. For the scheduled dates for 2018 and 2019, 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 Co-determination Act consists of at least 30% women and at least 30% men. These minimum quotas are mandatory from January 1, 2016. However, existing appointments may continue to be held until their regular end in accordance with Section 25 (2) Sentence 3 of the German Introductory Act to the Stock Corporation Act *(Einführungsgesetz zum Aktiengesetz – EGAktG)*. If a seat becomes vacant before the next scheduled elections, the percentage of women must be increased in accordance with the legal requirements. Women made up 25% of the Supervisory Board of Continental AG as at December 31, 2017.

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. Women made up 12.5% of the Executive Board of Continental AG as at December 31, 2017, 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, 2017, the ratio of women was 23% at the first management level and 36% at the second management level. As a global company, Continental continues to attach high priority to the goal of steadily increasing the number 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. Continental AG's activities to promote diversity are currently focused 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 2017, 45% of the corporation's managers came from other countries.

Continental AG is also working on increasing the proportion of female managers. By 2020, the ratio is to be increased to at least 16%.

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 basic 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, the 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 example, 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 a regular corporation-wide risk reporting in addition to external sources such as the 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. The risk analysis is not a one-off procedure, but rather a process requiring constant review and updates.

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. 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, supplier due diligence can be performed with regard to compliance issues.
- 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 AG has set up a Compliance & Anti-Corruption Hotline to give the 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.

In 2011, Continental AG had the concept of its CMS for the areas of anti-corruption, competition/antitrust law, fraud and other property offenses audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (EY) in accordance with Audit Standard 980 of the Institut der Wirtschaftsprüfer e. V. (IDW). EY issued an unqualified review opinion. In 2012, EY audited the implementation of the CMS in accordance with IDW Audit Standard 980 and came to the same conclusion in early 2013. In spring 2016, the audit of the effectiveness of the CMS by EY in accordance with IDW Audit Standard 980 was successfully completed.

Material compliance-related matters and risks are described in more detail in the Report on Risks and Opportunities starting on page 99, and in the Notes to the Consolidated Financial Statements (Note 32).

Remuneration Report

This Remuneration Report is a part of the Management Report.

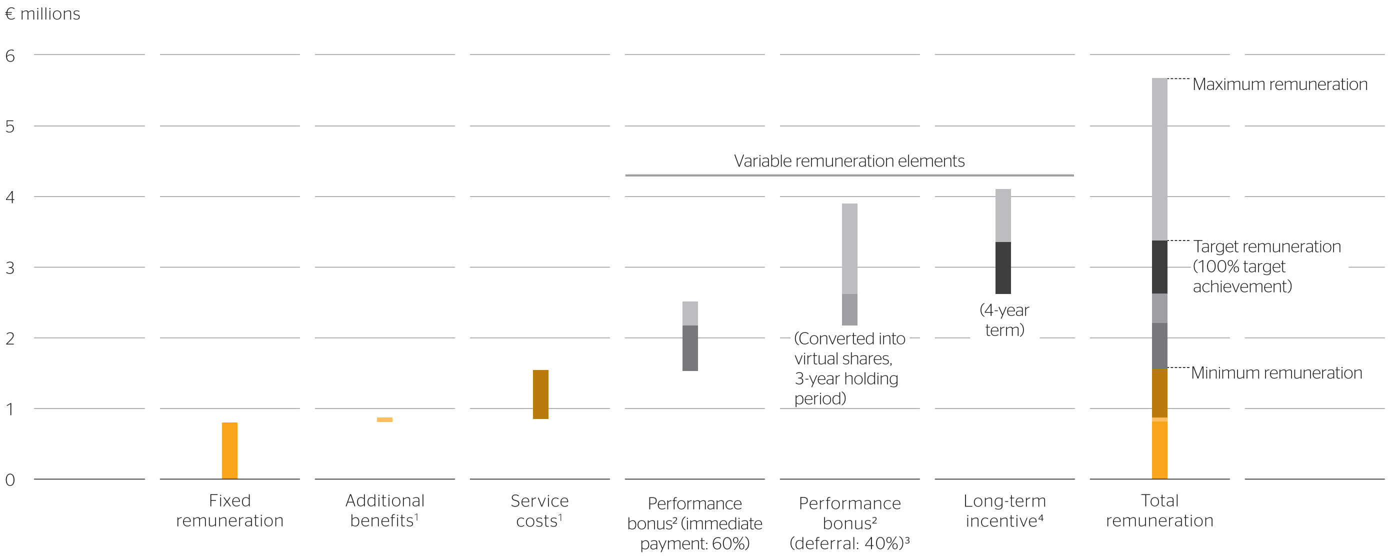
Basic elements of the Executive Board remuneration system
In accordance with the German Stock Corporation Act *(Aktiengesetz – AktG)*, the plenary session of the Supervisory Board is responsible for determining the remuneration for the Executive Board. In September 2013, the Supervisory Board redefined the structure and key elements of the Executive Board remuneration system. The Annual Shareholders' Meeting on April 25, 2014, approved this system of remuneration for the Executive Board members in accordance with Section 120 (4) *AktG*.

The Supervisory Board reviews the Executive Board's remuneration regularly. In 2016, it once again commissioned an independent consultant to review the system, structure and amount of remuneration for the Executive Board. The conclusion was that the remuneration system and structure, as described in detail hereinafter, satisfy the legal requirements and comply with the recommendations of the German Corporate Governance Code. The consultant assessed the amount of remuneration as appropriate overall. In order to raise the direct remuneration, i.e. the fixed and variable remuneration, to the middle of a remuneration range for comparable companies, the consultant, however, proposed that individual elements be increased. 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 2017 to all Executive Board members in office in this fiscal year. 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.

2017 remuneration of an Executive Board member responsible for a division (example)



1 Average for 2017.
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 as determined in 2013 remained unchanged. The fixed remuneration, with 100% target achievement, 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 46). The variable remuneration elements, with 100% target achievement, make up around two-third 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 would not be 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 did not set an additional target for 2017. 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% upward or downward. 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). Under the agreements applicable until December 31, 2013, the immediate payment amounted to 40% of the performance bonus while the deferral amounted to 60%. Since 2014, the immediate payment has amounted 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. However, the amount of a deferral relating to a fiscal year up to and including 2013 that is paid after the holding period may not fall below 50% of the value at the time of conversion or exceed three times the same value. In addition, the Supervisory Board may retroactively revise the amount paid out for such deferrals by up to 20% upward or downward to balance out extraordinary developments. For deferrals acquired in 2014 or subsequent years, there is no guarantee that at least 50% of the initial value of the deferral will be paid out at the end of the holding period, and it is no longer possible for the Supervisory Board to change the amount to be paid out retroactively. Furthermore, 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 2017 in the event of 100% target achievement is shown – divided into immediate payment and deferral – in the "remuneration granted" column in the below remuneration tables for the Executive Board members for 2017.

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 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.

In 2013, in anticipation of the plan to be implemented from 2014, the Supervisory Board already granted an LTI to the Executive Board members in office, with the exception of Frank Jourdan. Its conditions correspond to those that applied to the 2013 LTI plan for the senior executives. In addition to a CVC target, this plan did not have a share-based target but did have a target relating to free cash flow in the last year of the term. The 2013 LTI plan is described in detail in the Notes to the Consolidated Financial Statements in the section on employee benefits (Note 24). Frank Jourdan and Hans-Jürgen Duensing remain entitled to LTI that were granted to them as senior executives between 2010 and 2013 or 2011 and 2014 respectively.

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 for fiscal 2017 in the event of 100% target achievement is shown in the "remuneration granted" column in the remuneration tables below for the Executive Board members for 2017.

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*. For longer periods working abroad, benefits are granted in line with the foreign assignment guidelines for senior executives. 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. Overall, the level of the benefits has fallen to around 80% of the previous commitments due to the conversion. 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 for the event of a takeover bid or a change of control at the company. Heinz-Gerhard Wente, who retired on April 30, 2015, received compensation for non-competition in an amount of €96 thousand in 2017 – taking into account his pension entitlements – for a post-contractual non-compete covenant, which was still in place in that year. Dr. Ralf Cramer, who stepped down from the Executive Board on August 11, 2017, received compensation for non-competition in an amount of €457 thousand.

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 para. 3 of the German Corporate Governance Code.

	Remuneration granted				Inflows		
€ thousands	2016	**2017**	2017 (min.)	2017 (max.)	2016	**2017**	
						Payment in 2017	Payment in 2018
Dr. E. Degenhart (Board chairman; Board member since August 12, 2009)							
Fixed remuneration	1,350	1,450	1,450	1,450	1,350	1,450	–
Additional benefits	102	13	13	13	102	13	–
Total	**1,452**	**1,463**	**1,463**	**1,463**	**1,452**	**1,463**	–
Performance bonus (immediate payment)	1,110	1,500	0	2,250	1,245	–	2,098
Multiannual variable remuneration	1,940	2,550	0	5,600	2,230	2,702	1,684
Performance bonus (deferral) [3 years]	740	1,000	0	2,500	2,230	1,264	–
Long-term incentive [4 years] until 2013	–	–	–	–	–	1,438	–
Long-term incentive [4 years] from 2014	1,200	1,550	0	3,100	–	–	1,684
Total	**4,502**	**5,513**	**1,463**	**9,313**	**4,927**	**4,165**	3,782
Service costs	900	1,123	1,123	1,123	900	1,123	–
Total remuneration	**5,402**	**6,636**	**2,586**	**10,436**	**5,827**	**5,288**	3,782
J. A. Avila (Board member for Powertrain; Board member since January 1, 2010)							
Fixed remuneration	800	800	800	800	800	800	–
Additional benefits	49	19	19	19	49	19	–
Total	**849**	**819**	**819**	**819**	**849**	**819**	–
Performance bonus (immediate payment)	660	700	0	1,050	641	–	1,050
Multiannual variable remuneration	990	1,250	0	2,734	990	1,643	772
Performance bonus (deferral) [3 years]	440	467	0	1,168	990	990	–
Long-term incentive [4 years] until 2013	–	–	–	–	–	653	–
Long-term incentive [4 years] from 2014	550	783	0	1,566	–	–	772
Total	**2,499**	**2,769**	**819**	**4,603**	**2,480**	**2,462**	1,822
Service costs	365	607	607	607	365	607	–
Total remuneration	**2,864**	**3,376**	**1,426**	**5,210**	**2,845**	**3,069**	1,822
Dr. R. Cramer (Board member for Continental China; Board member from Aug. 12, 2009 to Aug. 11, 2017)							
Fixed remuneration	800	493	493	493	800	493	–
Additional benefits	475	254	254	254	475	254	–
Total	**1,275**	**747**	**747**	**747**	**1,275**	**747**	–
Performance bonus (immediate payment)	660	428	0	642	740	–	599
Multiannual variable remuneration	990	405	0	952	844	1,252	697
Performance bonus (deferral) [3 years]	440	285	0	713	844	599	–
Long-term incentive [4 years] until 2013	–	–	–	–	–	653	–
Long-term incentive [4 years] from 2014	550	120	0	239	–	–	697
Total	**2,925**	**1,580**	**747**	**2,341**	**2,859**	**1,999**	1,296
Service costs	611	787	787	787	611	787	–
Total remuneration	**3,536**	**2,367**	**1,534**	**3,128**	**3,470**	**2,786**	1,296

	Remuneration granted				Inflows		
€ thousands	2016	**2017**	2017 (min.)	2017 (max.)	2016	**2017**	
						Payment in 2017	Payment in 2018
H.-J. Duensing (Board member for ContiTech; Board member since May 1, 2015)							
Fixed remuneration	800	800	800	800	800	800	–
Additional benefits	54	21	21	21	54	21	–
Total	**854**	**821**	**821**	**821**	**854**	**821**	–
Performance bonus (immediate payment)	660	700	0	1,050	965	–	828
Multiannual variable remuneration	990	1,250	0	2,734	140	105	141
Performance bonus (deferral) [3 years]	440	467	0	1,168	–	–	–
Long-term incentive [4 years] until 2013	–	–	–	–	140	105	–
Long-term incentive [4 years] from 2014	550	783	0	1,566	–	–	141
Total	**2,504**	**2,771**	**821**	**4,605**	**1,959**	**926**	969
Service costs	516	645	645	645	516	645	–
Total remuneration	**3,020**	**3,416**	**1,466**	**5,250**	**2,475**	**1,571**	969
F. Jourdan (Board member for Chassis & Safety; Board member since September 25, 2013)							
Fixed remuneration	800	800	800	800	800	800	–
Additional benefits	60	28	28	28	60	28	–
Total	**860**	**828**	**828**	**828**	**860**	**828**	–
Performance bonus (immediate payment)	660	700	0	1,050	303	–	1,050
Multiannual variable remuneration	990	1,250	0	2,734	175	219	772
Performance bonus (deferral) [3 years]	440	467	0	1,168	–	88	–
Long-term incentive [4 years] until 2013	–	–	–	–	175	131	–
Long-term incentive [4 years] from 2014	550	783	0	1,566	–	–	772
Total	**2,510**	**2,778**	**828**	**4,612**	**1,338**	**1,047**	1,822
Service costs	305	663	663	663	305	663	–
Total remuneration	**2,815**	**3,441**	**1,491**	**5,275**	**1,643**	**1,710**	1,822
H. Matschi (Board member for Interior; Board member since August 12, 2009)							
Fixed remuneration	800	800	800	800	800	800	–
Additional benefits	47	8	8	8	47	8	–
Total	**847**	**808**	**808**	**808**	**847**	**808**	–
Performance bonus (immediate payment)	660	700	0	1,050	282	–	905
Multiannual variable remuneration	990	1,250	0	2,734	844	1,643	772
Performance bonus (deferral) [3 years]	440	467	0	1,168	844	990	–
Long-term incentive [4 years] until 2013	–	–	–	–	–	653	–
Long-term incentive [4 years] from 2014	550	783	0	1,566	–	–	772
Total	**2,497**	**2,758**	**808**	**4,592**	**1,973**	**2,451**	1,677
Service costs	277	731	731	731	277	731	–
Total remuneration	**2,774**	**3,489**	**1,539**	**5,323**	**2,250**	**3,182**	1,677

€ thousands	Remuneration granted				Inflows		
	2016	**2017**	2017 (min.)	2017 (max.)	2016	**2017**	
						Payment in 2017	Payment in 2018
Dr. A. Reinhart (Board member for Human Relations; Board member since October 1, 2014)							
Fixed remuneration	800	800	800	800	800	800	–
Additional benefits	37	6	6	6	37	6	–
Total	**837**	**806**	**806**	**806**	**837**	**806**	–
Performance bonus (immediate payment)	660	700	0	1,050	740	–	979
Multiannual variable remuneration	990	1,250	0	2,734	–	–	–
Performance bonus (deferral) [3 years]	440	467	0	1,168	–	–	–
Long-term incentive [4 years] until 2013	–	–	–	–	–	–	–
Long-term incentive [4 years] from 2014	550	783	0	1,566	–	–	–
Total	**2,487**	**2,756**	**806**	**4,590**	**1,577**	**806**	979
Service costs	473	861	861	861	473	861	–
Total remuneration	**2,960**	**3,617**	**1,667**	**5,451**	**2,050**	**1,667**	979
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	44	9	9	9	44	9	–
Total	**1,144**	**1,109**	**1,109**	**1,109**	**1,144**	**1,109**	–
Performance bonus (immediate payment)	660	700	0	1,050	740	–	979
Multiannual variable remuneration	1,090	1,360	0	2,954	1,715	1,756	912
Performance bonus (deferral) [3 years]	440	467	0	1,168	1,715	972	–
Long-term incentive [4 years] until 2013	–	–	–	–	–	784	–
Long-term incentive [4 years] from 2014	650	893	0	1,786	–	–	912
Total	**2,894**	**3,169**	**1,109**	**5,113**	**3,599**	**2,865**	1,891
Service costs	526	783	783	783	526	783	–
Total remuneration	**3,420**	**3,952**	**1,892**	**5,896**	**4,125**	**3,648**	1,891
N. Setzer (Board member for Tires; Board member since August 12, 2009)							
Fixed remuneration	800	800	800	800	800	800	–
Additional benefits	81	18	18	18	81	18	–
Total	**881**	**818**	**818**	**818**	**881**	**818**	–
Performance bonus (immediate payment)	660	700	0	1,050	885	–	632
Multiannual variable remuneration	990	1,250	0	2,734	1,585	1,522	772
Performance bonus (deferral) [3 years]	440	467	0	1,168	1,585	869	–
Long-term incentive [4 years] until 2013	–	–	–	–	–	653	–
Long-term incentive [4 years] from 2014	550	783	0	1,566	–	–	772
Total	**2,531**	**2,768**	**818**	**4,602**	**3,351**	**2,340**	1,404
Service costs	735	966	966	966	735	966	–
Total remuneration	**3,266**	**3,734**	**1,784**	**5,568**	**4,086**	**3,306**	1,404

€ thousands	Remuneration granted				Inflows		
	2016	**2017**	2017 (min.)	2017 (max.)	2016	**2017**	
						Payment in 2017	Payment in 2018
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	–	–	–	–	1,438	1,125	256
Performance bonus (deferral) [3 years]	–	–	–	–	1,438	822	–
Long-term incentive [4 years] until 2013	–	–	–	–	–	303	–
Long-term incentive [4 years] from 2014	–	–	–	–	–	–	256
Total	**–**	**–**	**–**	**–**	**1,438**	**1,125**	256
Service costs	–	–	–	–	–	–	–
Total remuneration	**–**	**–**	**–**	**–**	**1,438**	**1,125**	256

Heinz-Gerhard Wente, who retired on April 30, 2015, was paid commitments of €303 thousand from the 2013 long-term incentive plan in 2017.

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 the LTI.

The immediate payment, the deferral (taking into account the reference tables as recommended in Section 4.2.5, para. 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. Disclosures on the two long-term components – the deferral and the 2013/17 LTI tranche – relate to actual payments in the year under review. Inflows from multiannual variable remuneration that was scheduled to end in the period under review, but would not be paid until the following year, apply to the LTI tranche for 2014/17 in the reporting year. In line with the recommendations of Section 4.2.5 para. 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 2017, 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 2017

€ thousands	Remuneration components: Fixed[1]	Variable, short-term	Variable, long-term[2]	**Total**	Share-based payment[3]
Dr. E. Degenhart	1,463	2,098	4,387	**7,948**	4,979
J. A. Avila	819	1,050	2,136	**4,005**	2,433
Dr. R. Cramer (until August 11, 2017)	747	599	1,172	**2,518**	735
H.-J. Duensing	821	828	1,440	**3,089**	1,951
F. Jourdan	828	1,050	1,614	**3,492**	2,441
H. Matschi	808	905	2,039	**3,752**	2,392
Dr. A. Reinhart	806	979	1,436	**3,221**	2,158
W. Schäfer	1,109	979	2,330	**4,418**	2,707
N. Setzer	818	632	1,857	**3,307**	2,262
Total	**8,219**	**9,120**	**18,411**	**35,750**	**22,058**

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, the granting of the 2017 long-term incentive plan, and the payment of the 2013 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 2017 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 2014 to 2017 long-term incentive plans.

Remuneration of the Executive Board in 2016

€ thousands	Remuneration components: Fixed[1]	Variable, short-term	Variable, long-term[2]	**Total**	Share-based payment[3]
Dr. E. Degenhart	1,452	1,245	2,030	**4,727**	550
J. A. Avila	849	641	977	**2,467**	288
Dr. R. Cramer	1,275	740	1,044	**3,059**	367
H.-J. Duensing	854	965	1,192	**3,011**	953
F. Jourdan	860	303	752	**1,915**	294
H. Matschi	847	282	738	**1,867**	-13
Dr. A. Reinhart	837	740	1,044	**2,621**	795
W. Schäfer	1,144	740	1,144	**3,028**	200
N. Setzer	881	885	1,140	**2,906**	298
Total	**8,999**	**6,541**	**10,061**	**25,601**	**3,732**

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 2016 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 2016 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 2014 to 2016 long-term incentive plans.

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, 2015	Payment	Commitments	Number of shares as at Dec. 31, 2016	Payment	Commitments	**Number of shares as at Dec. 31, 2017**
Dr. E. Degenhart	21,813	-11,169	5,836	16,480	-6,123	4,252	14,609
J. A. Avila	10,204	-4,801	3,471	8,874	-4,794	2,188	6,268
Dr. R. Cramer (until August 11, 2017)	9,818	-4,226	3,471	9,063	-2,904	2,528	8,687
H.-J. Duensing (since May 1, 2015)	–	–	465	465	–	3,293	3,758
F. Jourdan	3,328	–	3,471	6,799	-427	1,036	7,408
H. Matschi	11,820	-4,231	3,471	11,060	-4,794	963	7,229
Dr. A. Reinhart	677	–	3,471	4,148	–	2,528	6,676
W. Schäfer	15,990	-8,592	3,471	10,869	-4,710	2,528	8,687
N. Setzer	14,788	-7,937	3,316	10,167	-4,208	3,023	8,982
E. Strathmann (until April 25, 2014)	11,971	-7,732	–	4,239	-4,239	–	–
H.-G. Wente (until April 30, 2015)	12,858	-6,875	228	6,211	-3,981	–	2,230
Total	**113,267**	**-55,563**	**30,671**	**88,375**	**-36,180**	**22,339**	**74,534**

€ thousands	Fair value as at Dec. 31, 2015	Fair value of distribution	Change in fair value	Fair value of commitments	Fair value as at Dec. 31, 2016	Fair value of distribution	Change in fair value	Fair value of commitments	**Fair value as at Dec. 31, 2017**
Dr. E. Degenhart	5,032	-2,230	-751	1,100	3,151	-1,264	545	976	3,408
J. A. Avila	2,356	-958	-354	655	1,699	-990	245	502	1,456
Dr. R. Cramer (until August 11, 2017)	2,262	-844	-342	655	1,731	-599	314	581	2,027
H.-J. Duensing (since May 1, 2015)	–	–	–	88	88	–	21	756	865
F. Jourdan	760	–	-123	655	1,292	-88	292	237	1,733
H. Matschi	2,723	-845	-416	655	2,117	-990	344	221	1,692
Dr. A. Reinhart	155	–	-25	655	785	–	186	581	1,552
W. Schäfer	3,690	-1,715	-548	655	2,082	-972	338	581	2,029
N. Setzer	3,412	-1,585	-507	625	1,945	-869	322	694	2,092
E. Strathmann (until April 25, 2014)	2,767	-1,544	-403	–	820	-875	55	–	–
H.-G. Wente (until April 30, 2015)	2,966	-1,373	-440	43	1,196	-822	152	–	526
Total	**26,123**	**-11,094**	**-3,909**	**5,786**	**16,906**	**-7,469**	**2,814**	**5,129**	**17,380**

Heinz-Gerhard Wente, who retired on April 30, 2015, was paid commitments of €0.8 million (equivalent to 3,981 units) in 2017. As at December 31, 2017, there were commitments with a fair value of €0.5 million (equivalent to 2,230 units). Elke Strathmann, whose appointment as member of the Executive Board and employment contract ended as at April 25, 2014, was paid €0.9 million (equivalent to 4,239 units). There were no more commitments as at December 31, 2017.

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, 2017:

- Constant zero rates as at the measurement date of December 31, 2017:
  2014 tranche: -0.82% as at the due date and as at the expected payment date;
  2015 tranche: -0.72% as at the due date and as at the expected payment date;
  2016 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 2018 and 2019; the paid dividend of Continental AG amounted to €4.25 per share in 2017, and Continental AG distributed a dividend of €3.75 per share in 2016.
- 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 2014 tranche is 13.39%, for the 2015 tranche 17.57%, and for the 2016 tranche 24.21%.

Share-based payment – long-term incentive (LTI plans starting with 2015)
The LTI plans starting with 2015 developed as follows:

€ thousands	Fair value as at Dec. 31, 2015	Commitment LTI Plan 2016	Change in fair value	Fair value as at Dec. 31, 2016	Commitment LTI Plan 2017	Change in fair value	**Fair value as at Dec. 31, 2017**[1]
Dr. E. Degenhart	3,098	1,200	-720	3,578	1,550	1,339	6,467
J. A. Avila	1,420	550	-330	1,640	783	630	3,053
Dr. R. Cramer (until August 11, 2017)[2]	1,420	550	-330	1,640	120	-184	1,576
H.-J. Duensing (since May 1, 2015)	826	550	-238	1,138	783	482	2,403
F. Jourdan	1,420	550	-330	1,640	783	630	3,053
H. Matschi	1,420	550	-330	1,640	783	630	3,053
Dr. A. Reinhart	695	550	-219	1,026	783	449	2,258
W. Schäfer	1,678	650	-390	1,938	893	737	3,568
N. Setzer	1,420	550	-330	1,640	783	630	3,053
H.-G. Wente (until April 30, 2015)	299	–	-48	251	–	74	325
Total	**13,696**	**5,700**	**-3,265**	**16,131**	**7,261**	**5,417**	**28,809**

1 As at the end of the reporting period, the 2017 tranche was vested at 25%, the 2016 tranche at 50%, the 2015 tranche at 75%. The 2014 tranche was vested at 100%.
2 With the departure of Dr. R. Cramer from the company as at August 11, 2017, a portion of the commitments of the 2014, 2015 and 2016 LTI plans expired. The commitment in 2014 of €550 thousand decreased to €497 thousand, resulting in a fair value of €717 thousand as at December 31, 2017, down by €77 thousand. The commitment in 2015 of €550 thousand decreased to €359 thousand, resulting in a fair value of €490 thousand as at December 31, 2017, down by €260 thousand. The commitment in 2016 of €550 thousand decreased to €222 thousand, resulting in a fair value of €222 thousand as at December 31, 2017, down by €327 thousand. As part of the 2017 LTI plan, a partial commitment of €120 thousand remains for Dr. R. Cramer, with a fair value of €147 thousand as at the measurement date.

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 parameters for the TSR were used as at the measurement date of December 31, 2017:

- Constant zero rates as at the measurement date of December 31, 2017:
  2014 LTI plan: -0.86% as at the due date and -0.79% as at the expected payment date;
  2015 LTI plan: -0.74% as at the due date and -0.69% as at the expected payment date;
  2016 LTI plan: -0.65% as at the due date and -0.57% as at the expected payment date;
  2017 LTI plan: -0.51% as at the due date; and -0.41% 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 2018 to 2020; the paid dividend of Continental AG amounted to €4.25 per share in 2017.
- 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 2014 LTI plan is 9.69%, for the 2015 LTI plan 16.30%, for the 2016 LTI plan 23.40% and for the 2017 LTI plan 25.91%.

Expenses for retirement benefits
The defined benefit obligations for all pension commitments for the active members of the Executive Board in 2017 are presented below:

	Defined benefit obligations	
€ thousands	**Dec. 31, 2017**	Dec. 31, 2016
Dr. E. Degenhart	11,718	10,535
J. A. Avila	8,076	7,145
Dr. R. Cramer (until August 11, 2017)	4,024	3,661
H.-J. Duensing	1,778	1,094
F. Jourdan	2,990	2,297
H. Matschi	5,495	4,913
Dr. A. Reinhart	2,884	2,041
W. Schäfer	9,634	8,925
N. Setzer	4,836	4,165
Total	**51,435**	**44,776**

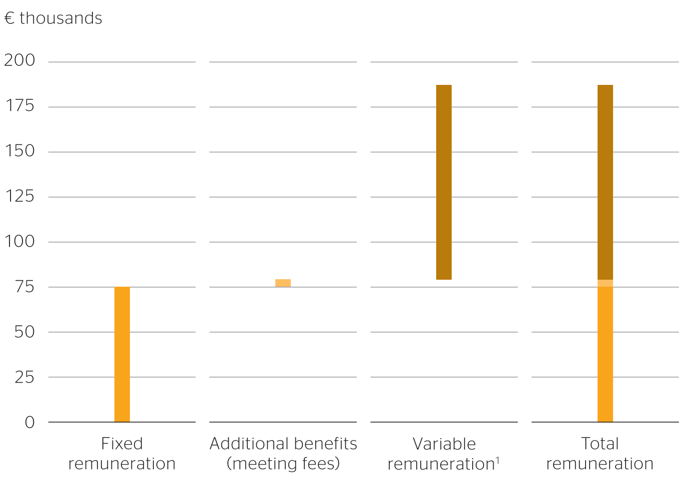
We refer to Note 37 of the Notes to the Consolidated Financial Statements for details of pension obligations for former members of the Executive Board.

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 – as the Supervisory Board is directly involved in decisions of fundamental and long-term importance to the corporation – a variable component. By way of connection with earnings per share (as reported in the consolidated financial statements for the respective fiscal year), the variable component is aligned with the sustainable development of the company. The chairman and vice chairman 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.

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

2017 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 2017 as provided for under these arrangements is shown in the following table.

Remuneration of the Supervisory Board

	Remuneration components			
	2017		2016	
€ thousands	**Fixed[1]**	**Variable**	Fixed[1]	Variable
Prof. Dr.-Ing. Wolfgang Reitzle	237	329	232	301
Hartmut Meine[2]	123	164	119	151
Dr. Gunter Dunkel	82	110	81	101
Hans Fischl (until Dec. 31, 2016)[2]	–	–	81	101
Prof. Dr.-Ing. Peter Gutzmer	82	110	79	101
Peter Hausmann[2]	121	164	121	151
Michael Iglhaut[2]	123	164	92	113
Prof. Dr. Klaus Mangold	82	110	80	101
Sabine Neuß	82	110	81	101
Prof. Dr. Rolf Nonnenmacher	197	275	198	251
Dirk Nordmann[2]	123	164	122	151
Klaus Rosenfeld	123	164	121	151
Georg F. W. Schaeffler	126	164	124	151
Maria-Elisabeth Schaeffler-Thumann	80	110	79	101
Jörg Schönfelder[2]	123	164	120	151
Stefan Scholz[2]	82	110	81	101
Gudrun Valten (since Jan. 1, 2017)[2]	82	110	–	–
Kirsten Vörkel[2]	82	110	81	101
Elke Volkmann[2]	82	110	78	101
Erwin Wörle[2]	82	110	111	136
Prof. KR Ing. Siegfried Wolf	80	110	80	101
Total	**2,194**	**2,962**	**2,161**	**2,717**

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. 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.

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

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.

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

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

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

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

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

IASB. International Accounting Standards Board. Independent standardization committee.

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

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

IFRS IC. International Financial Reporting Standards Interpretations Committee.

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

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

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

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

PPA. Purchase price allocation. The process of breaking down the purchase price and assigning the values to the identified assets, liabilities and contingent liabilities following a business combination. Subsequent adjustments to the opening balance sheet – resulting from differences between the preliminary and final fair values at the date of initial consolidation – are also recognized as PPA.

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

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. It does not include receivables from and liabilities to related parties or sale of trade accounts receivable.

Corporate Profile
Structure of the Corporation

The structure of our corporation is geared toward sustainable value creation.

Market- and customer-oriented corporate structure
Founded as Continental-Caoutchouc- und Gutta-Percha Compagnie in 1871, Continental-Aktiengesellschaft (AG), headquartered in Hanover, Germany, is now the parent company of the Continental Corporation. The Continental Corporation comprises 527 companies, including non-controlled companies, in addition to the parent company Continental AG. The Continental team is made up of 235,473 employees at a total of 554 locations in 61 countries. Here, the postal addresses of companies under our control are defined as locations.

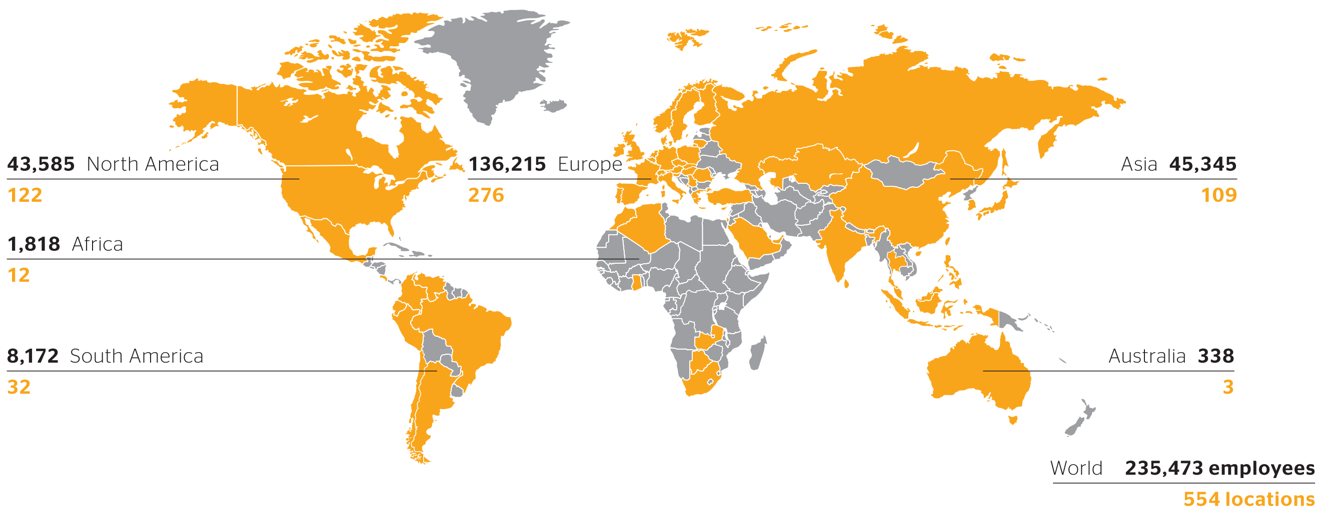
The Executive Board of Continental AG has overall responsibility for management. The divisions each have their own Executive Board member who represents them. With the exception of Corporate Purchasing, the central functions are represented by the chairman of the Executive Board, the chief financial officer and the Executive Board member responsible for Human Relations. They take on the functions required on a cross-divisional basis to manage the corporation. These include, in particular, finance, controlling, compliance, law, IT, sustainability, quality and environment.

The effective and efficient cooperation of divisions, business units and central functions is governed by our “Balance of Cooperation.” It defines the framework of our activities across organizational, hierarchical and geographic boundaries and promotes our corporate culture on the basis of our corporate values: Trust, For One Another, Freedom To Act and Passion To Win.

Our customers come primarily from the automotive industry (original equipment) – with a 72% share of our consolidated sales – as well as from various key industrial sectors (e.g. railway engineering, machine and equipment engineering, and mining) and the end-user market. We deliver high-quality, innovative and established products, systems and services around the world. Focusing on the market and on customers is a key success factor. Our global corporate structure is based upon a balance of decentralized structures and central functions. In this context, central management areas and operating activities are closely aligned. This means that we can respond quickly and flexibly to market conditions and our customers’ requirements, while ensuring that the Continental Corporation sustainably creates value.

The corporation is divided into the Automotive Group and the Rubber Group, which in the year under review comprised five divisions with 29 business units. A division or business unit is classified according to products, product groups and services or according to regions. Differences result primarily from technological product requirements, innovation and product cycles, the raw materials base, and production technology. Other factors include economic cycles, competitive structure and the resulting growth opportunities. The divisions and business units have overall responsibility for their business, including their results.

554 locations in 61 countries



Structure of the corporation

Continental Corporation Sales: €44.0 billion; Employees: 235,473				
Automotive Group Sales: €26.6 billion; Employees: 134,286			Rubber Group Sales: €17.5 billion; Employees: 100,749	
Chassis & Safety Sales: €9.8 billion Employees: 47,788	**Powertrain** Sales: €7.7 billion Employees: 40,492	**Interior** Sales: €9.3 billion Employees: 46,006	**Tires** Sales: €11.3 billion Employees: 53,811	**ContiTech** Sales: €6.2 billion Employees: 46,938

Automotive Group:
The **Chassis & Safety division** develops, produces and markets intelligent systems to improve driving safety and vehicle dynamics. The direction for the division is clear: The future of mobility leads to automated driving. Integral active and passive safety technologies and products that support vehicle dynamics provide greater safety, comfort and convenience. The Chassis & Safety division is divided into four business units:

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

The **Powertrain division** combines innovative and efficient system solutions for the powertrains of today and tomorrow. In line with the central theme of clean power, the products make driving more environmentally compatible and cost-efficient, while also enhancing comfort, convenience and driving enjoyment. The division is divided into five business units:

› Engine Systems
› Fuel & Exhaust Management
› Hybrid Electric Vehicle
› Sensors & Actuators
› Transmission

The **Interior division** specializes in information management. It develops and produces information, communication and network solutions for cars and commercial vehicles. This enables and optimizes the control of the complex flow of information between the driver, passengers and the vehicle as well as mobile devices, other vehicles and the outside world. To achieve this, the division is involved in cross-sector collaborations with leading companies. It is divided into five business units:

› Body & Security
› Commercial Vehicles & Aftermarket
› Infotainment & Connectivity
› Instrumentation & Driver HMI
› Intelligent Transportation Systems

Rubber Group:
The **Tire division** is known for maximizing safety through short braking distances and excellent grip as well as reducing fuel consumption by minimizing rolling resistance. Tires are the vehicle's only link with the road. They have to transmit all forces onto four areas of the road surface that are roughly the size of a postcard. In critical situations, it is the technology level of the tires that determines whether a vehicle is able to stop in time or stay in the correct lane during cornering maneuvers. 29% of sales in the Tire division relates to business with vehicle manufacturers, and 71% relates to the replacement business. The division is divided into six business units:

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

The **ContiTech division** develops, manufactures and markets functional parts, intelligent components and systems made of rubber, plastic, metal and fabric for machine and plant engineering, mining, agriculture, the automotive industry, and for other important sectors. 51% of sales in the ContiTech division relates to business with vehicle manufacturers, and 49% relates to business with other industries and in the replacement market. ContiTech has been reorganized with the goal of making its business processes faster and more interconnected. Since the beginning of 2018, ContiTech has comprised seven business units, instead of the previous nine:

› Air Spring Systems
› Benecke-Hornschuch Surface Group
› Conveyor Belt Group
› Industrial Fluid Solutions
› Mobile Fluid Systems
› Power Transmission Group
› Vibration Control

Interconnected value creation

Research and development (R&D) takes place at 78 locations, 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 the R&D projects of the Automotive Group and the ContiTech division, both of which have a decentralized organizational structure. The product requirements governing tire business 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 Tire division. Continental invests about 7% 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 semifinished products. The purchasing volume in the reporting year was €29.6 billion in total, €20.2 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 semifinished products include electronics and electromechanical components, which together make up more than 40% of the corporation's purchasing volume of production materials. Furthermore, mechanical components account for about 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 material. For more information, see the Development of Raw Materials Markets section in the Economic Report.

In line with our strategy, production and sales in the divisions of 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. Sales activities in the Tire division are performed worldwide via our dealer network with specialty tire outlets and franchises as well as through tire trading in general.

Globally interconnected value creation

R&D	Purchasing	Production	Sales & Distribution
Innovative €3.1 billion in expenditure	**Diverse** €29.6 billion in volumes	**Global** 233 locations	**Local** €44.0 billion in sales

Corporate Strategy

Our strategy comprises seven dimensions that complement each other.

We are continually improving our management and work processes. For example, in the reporting year, we began establishing the planning and management system Hoshin Kanri (Japanese for policy management) for the entire company. This is about aligning the activities and efforts of all employees worldwide with our shared vision and our mutual goals.

In this way, we are organizing the interconnection and the interplay of our various target levels: the strategic goals of the organization as a whole with their associated initiatives and dimensions and the goals of individual organizational units. Our vision gives us the long-term orientation for this planning process. In the short term, we are accelerating our development with the aid of three crucial growth forces in relation to customers, processes and employees.

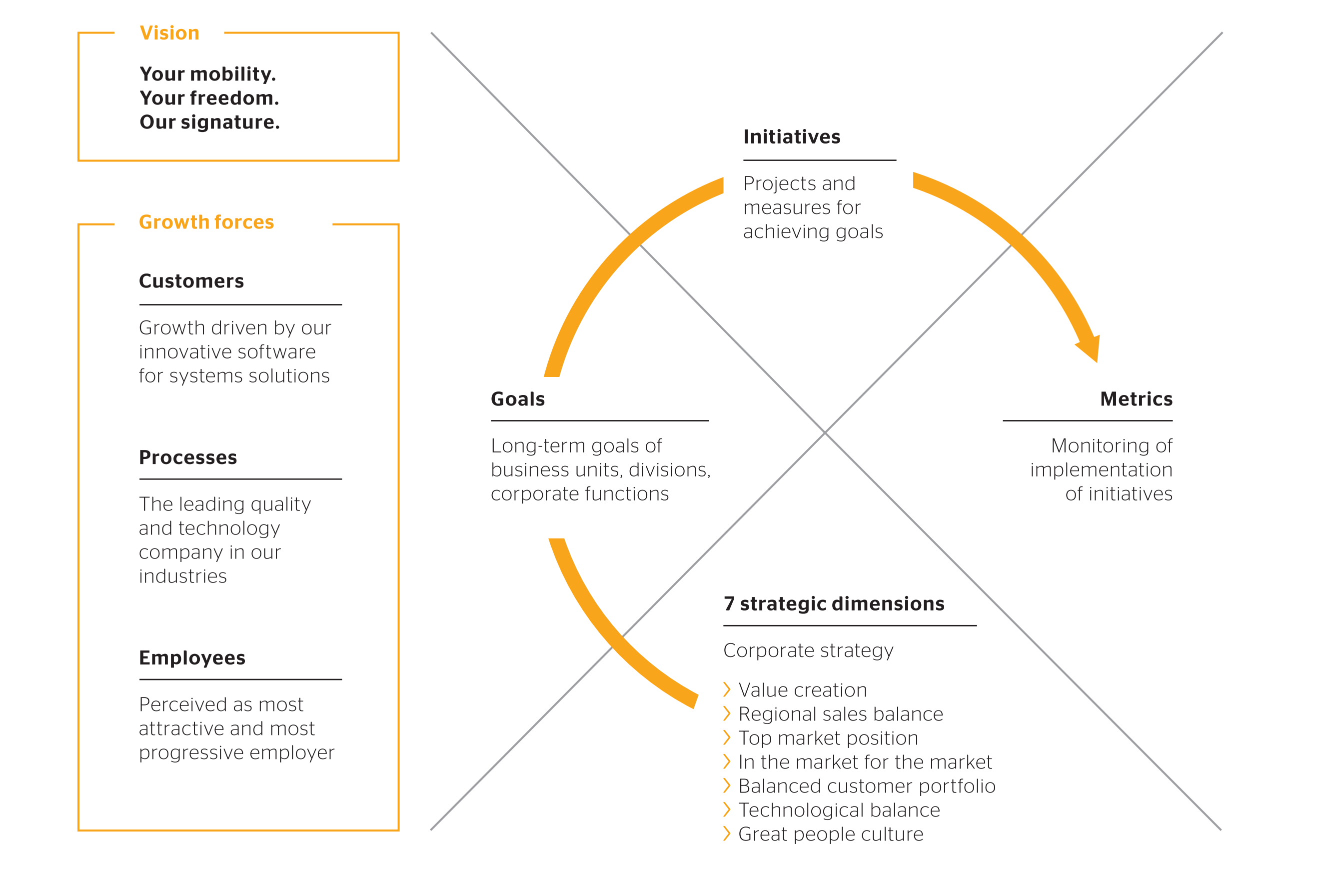
The Hoshin Kanri planning system means that all managers and employees in the entire company – companies and business units as well as divisions and corporate functions – are involved in a systematic, interconnected strategy process. We are thus aligning the activities for achieving the goals of individual units with our vision and the seven strategic dimensions. At the same time, we are identifying potential contradictions of our vision and our seven strategic dimensions as well as commonalities and opportunities. We are deriving measures from this so as to align the content of our work more closely with our strategic dimensions.

Seven strategic dimensions for enhancing the value of the corporation on a sustainable basis
Our seven strategic dimensions complement one another. They are geared toward sustainably creating value for all stakeholders and ensuring the future viability of the company.

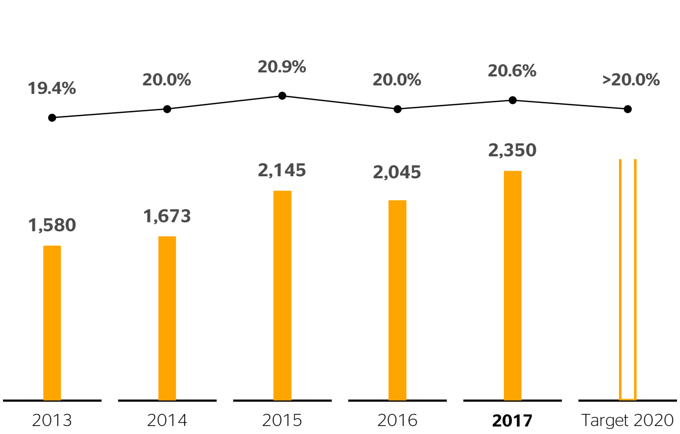
1. Value creation – enhancing the value of the corporation on a long-term basis

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 target is at least 20% ROCE. We reached this target again in 2017. After 20.0% in 2016, we achieved 20.6% in the reporting year.

Hoshin Kanri matrix



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



2. Regional sales balance – globally balanced distribution of sales

We want to achieve 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 accomplish this, we are taking advantage of the opportunities available to us on the growing markets in Asia and North America, while 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 25% or more.

In 2017, we achieved a 22% share of sales in Asia. The share of our sales in the North and South American markets was 28% in total.

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

We want to be among the world's three leading suppliers in terms of customer focus, quality, and market share in the long term. This will enable us to plan our future based on a leading position and thereby play a major role in advancing technological development in individual sectors.

In terms of sales in their respective markets, the Automotive Group's divisions and the ContiTech division are among the leading providers with the majority of products. In the tire business, we are number four in the world over all, while we are also in top positions in individual segments and markets in this area.

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

Our global business model is based on a high degree of localization, with numerous product applications developed and produced locally. This is the best way to meet the respective market conditions and the requirements of our customers. The aim is for at least eight out of ten application developments to be carried out locally, and for the percentage of local production to be just as high. Our development and production teams worldwide enable us to 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 61 countries in which we are represented. We again expanded our production in various divisions in 2017, for example by increasing tire production capacity in Portugal and beginning the expansion of tire production as well as opening a new plant for coated fabrics in China. The construction of a tire plant began in Thailand. We opened a research and development center in Silicon Valley in the U.S.A.

We are still working on being able to count one of the Asian manufacturers among our five largest automotive customers as well. We aim to achieve this with a high degree of localization. In the meantime, two Asian manufacturers are now among our ten largest customers.

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

Our dependency on the automotive economy is to be reduced by way of a balanced customer portfolio. To this end, we want to increase business in industries outside of the automotive original-equipment sector 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 mainly on our Tire and ContiTech divisions. Our activities in the field of software-based services for the end-user market will also make an increasing impact. Examples include advanced traffic management, intelligent payment systems, maintenance management and new technologies that go beyond the vehicle.

Despite our efforts, the share of sales with end users and industrial customers remained broadly stable at 28%. The reasons for this in the reporting year included the above-average growth in our Automotive divisions, which was seven percentage points higher than global vehicle production.

6. Technological balance – combination of established and pioneering technologies

Our product portfolio should consist of a mix of profitable as well as viable established and pioneering technologies. We set and follow new trends and standards in high-growth markets and market segments. On our established core markets, we ensure that our position as one of the leading automotive suppliers and industrial partners keeps on developing. This allows us to be represented and competitive in all phases of the respective product life cycles.

Alongside technologies for optimizing the combustion engine, we are developing new technologies that allow all-electric driving for limited periods or continuously.

We are expanding our portfolio with software-based and mobility services that complement existing products and benefit our customers.

In order to strengthen the innovation and agility so essential in times of digital transformation, we set up a special program for cooperating with startups last year. The potential of employees and external startups is thus to be utilized worldwide. It is a special and comprehensive program with a separate company that links the startup world to Continental – co-pace GmbH. The startup program comprises three elements: In the “incubator,” our employees are given the opportunity to develop new business concepts in a startup environment. In the “cooperation program,” external startups are brought together with Continental to develop and trial applications on a prototype basis. The third element is “corporate venture capital,” where investments are made in selected startups.

7. Great people culture – a culture of inspiration

We aim to foster an inspiring management culture, in which our employees can enjoy demonstrating their full commitment and achieving top performance. We promote a culture of trust and personal responsibility in all divisions and functions, one in which we openly deal with and tolerate our mistakes and turn them into lessons learned. 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 surveys. These give 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. In previous years, we invited all employees around the world to take part every two to three years. Since 2017, the survey has been carried out annually with a representative sample of the workforce. This enables us to identify potential improvements faster and implement changes more quickly.

In the reporting year, we asked around a quarter of employees for their opinion on 50 questions. 74% of these employees took part in the survey. The results included the following: employee loyalty to the company is very positive; 84% of respondents are proud to work at Continental; 86% support our corporate values: Trust, For One Another, Freedom To Act and Passion To Win. At the same time, 63% stated that these values are practiced on an everyday basis – a decline of six percentage points compared to the 2015 survey. However, it should be noted that in our survey a neutral answer is classified as a negative opinion. Leadership was evaluated positively. 84% of the employees surveyed agreed that their superiors treated them with respect. Two-thirds of the respondents feel encouraged to give their best and to question traditional working methods.

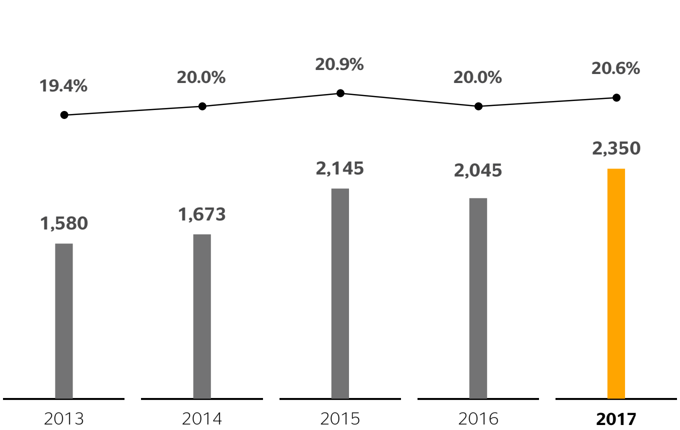
Corporate Management

A core component of our strategy is the ongoing enhancement of the company's value.

Value management

Key financial performance indicators for Continental relate to the development of sales, capital employed and 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. Consolidated EBIT amounted to €4.6 billion in 2017.

- 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 2017, average operating assets amounted to €22.2 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 20.6% in 2017, once again significantly exceeding the cost of capital.

- 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 a multi-year 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 the long term, enterprise value by our definition will increase only if the CVC shows positive growth from year to year.

ROCE by division (in %)	**2017**	2016
Chassis & Safety	19.9	13.1
Powertrain	13.2	12.5
Interior	14.9	12.6
Tires	35.0	40.8
ContiTech	13.9	13.5
Continental Corporation	**20.6**	**20.0**

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 will be around 7% of sales in the coming years. The reasons for this are the continuing increase in incoming orders in the Automotive Group and the successful implementation of Vision 2025 in our Tire division, which will mean the expansion of tire production capacity, particularly in North America and Asia.

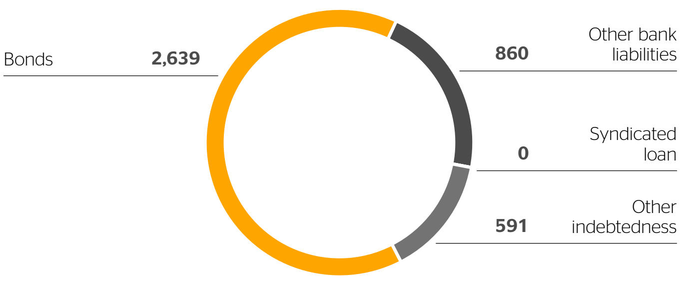
Our goal is to finance ongoing investment requirements from the operating cash flow. Other investment projects, for example acquisitions, should be financed from a balanced mix of equity and debt depending on the ratio of net indebtedness to equity (gearing ratio) and the liquidity situation to achieve constant improvement in the respective capital market environment. In general, our goal is to continue to keep the gearing ratio below 20% in the coming years and ensure that it does 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 year under review, the equity ratio was 43.5% and the gearing ratio 12.6%.

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 2017, this mix consisted of bonds (65%), syndicated loan (0%), other bank liabilities (21%) and other indebtedness (14%) based on the gross indebtedness of €4,090.0 million. The committed volume of the syndicated loan, which consists of the revolving tranche, remained unchanged at €3.0 billion. The tranche will run until April 2021. The financing mix will not change significantly.

The corporation strives to have at its disposal unrestricted liquidity of about €1.5 billion as at the end of the reporting period. 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 €1,726.7 million as at December 31, 2017. There were also committed and unutilized credit lines of €3,686.8 million.

Gross indebtedness amounted to €4,090.0 million as at December 31, 2017. Key financing instruments are the syndicated loan with a revolving credit line of €3.0 billion that has been granted until April 2021 and bonds issued on the capital market.

Composition of gross indebtedness (€4,090 million)

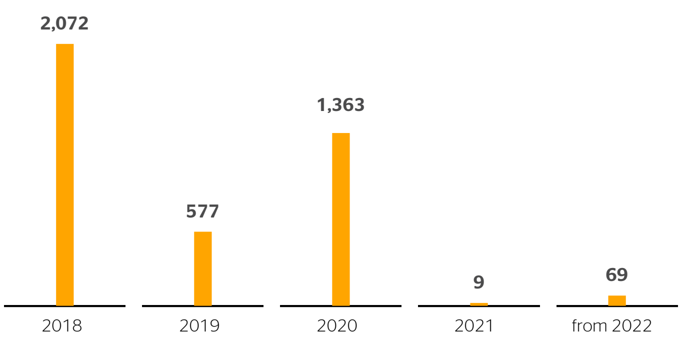


The revolving credit line had not been utilized as at December 31, 2017. Around 63% of gross indebtedness is financed on the capital market in the form of bonds maturing between July 2018 and September 2020. The interest coupons vary between 0.0% and 3.125%. The repayment amounts are €750.0 million in 2018 and €500.0 million in 2019. In 2020, the amounts are €600.0 million and €750.0 million. In addition to the forms of financing already mentioned, there were also bilateral credit lines with various banks in the amount of €1,556.5 million as at December 31, 2017. In addition to finance leases, Continental's other corporate financing instruments currently include sale-of-receivables programs and commercial paper programs.

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 bonds amounting to €750.0 million and €500.0 million due in July 2018 and February 2019 is on the agenda for 2018 and 2019.

Maturities of gross indebtedness (€4,090 million)



Continental's credit rating unchanged
In the reporting period, Continental was rated by the three rating agencies, Standard & Poor's, Fitch and Moody's, each of which maintained their credit ratings for Continental AG during 2017.

Continental's credit rating

	December 31, 2017	December 31, 2016
Standard & Poor's[1]		
Long term	BBB+	BBB+
Short term	A-2	A-2
Outlook	stable	stable
Fitch[2]		
Long term	BBB+	BBB+
Short term	F2	F2
Outlook	stable	stable
Moody's[3]		
Long term	Baa1	Baa1
Short term	no rating	no rating
Outlook	stable	stable

1 Contracted rating since May 19, 2000.
2 Contracted rating since November 7, 2013.
3 Non-contracted rating since February 1, 2014.

Research and Development

Our core topics are automated driving, electric mobility, connectivity, digitalization and urbanization.

Continental stands for mobility, which we are creating and shaping with our ideas and solutions for our customers in various industries. Activities in the area of research and development (R&D) therefore have a high level of strategic relevance. At the same time, we keep our social responsibility in mind, which is why all future issues and research activities are also considered and defined in terms of being safe, clean and intelligent.

When developing our products, systems, solutions and services, we systematically implement a corporation-wide technology strategy based on our core topics: automated driving, electric mobility, connectivity, digitalization and increasing urbanization.

The management body responsible for adapting and evolving the long-term technology strategy is the Executive Board. At the Executive Board technology review meetings – which are held regularly several times each fiscal year – the Executive Board follows, manages and monitors Continental's technology portfolio.

Below the Executive Board, the corporate technology officer (CTO) is responsible for coordinating R&D activities, and is the central point of contact for strategic questions on future technology, innovation and business opportunities. The CTO further strengthens our technology leadership by ensuring, among other things, the ongoing planning of the medium- to long-term activities of the technology strategy, technology scouting, technology reviews, and the constant expansion of our research network.

R&D center in Silicon Valley opened

Our global technology network was expanded in April 2017 with the opening of a research center in San José, Silicon Valley, California, U.S.A., where up to 300 experts from various operational and strategic areas of Continental are to work on the mobility of the future. The focus is on projects related to automated driving, electric mobility, connectivity and mobility services.

Software-based solutions play a significant role in these areas, along with the processing of large amounts of data and using artificial intelligence. At the same time, the center provides a direct interface with our customers and with startups in California, U.S.A. The 6,000-square-meter research center comprises cutting-edge laboratories, workshops and offices.

Continental has been represented in Silicon Valley for many years. The Intelligent Transportation Systems (ITS) business unit has been based there since 2014. All areas of Continental cooperate in an interdisciplinary and collaborative manner in San José.

Further expansion of international research network

We continued expanding our international research network internally and externally in the year under review, in order to benefit from continually sharing knowledge. For example, we agreed a strategic cooperation with Baidu, one of China's largest internet companies, for the further development of intelligent mobility. Continental and Baidu will expand their technology exchange by each taking advantage of their respective benefits in automotive electronics and internet technologies, as well as forming a strong technological alliance. Through the use of complementary resources and technological expertise, both partners aim to develop technologies, products, and business models to provide comprehensive and reliable solutions for automated driving, connected cars and intelligent mobility services.

	2017		2016	
Research and development expenses (net)	€ millions	% of sales	€ millions	% of sales
Chassis & Safety	913.8	9.4	773.4	8.6
Powertrain	699.0	9.1	701.5	9.6
Interior	1,062.7	11.4	956.0	11.5
Tires	289.8	2.6	260.9	2.4
ContiTech	138.4	2.2	119.7	2.2
Continental Corporation	**3,103.7**	**7.1**	**2,811.5**	**6.9**
Capitalization of research and development expenses	**92.1**		**105.9**	
in % of research and development expenses	2.9		3.6	
Depreciation on research and development expenses	**74.5**		**54.3**	

Under the agreement, Continental and Baidu will join together to focus on areas such as sensor technology and software for advanced driver assistance systems and automated driving. In addition, they will work on applications for Baidu's Apollo platform (platform for the development of automated vehicles) – including artificial intelligence and data security – as well as road tests, data acquisition, and analysis for automated driving. Since 2017, Continental has been represented on the Apollo platform's board of directors by the Chassis & Safety division. We supply hardware and software components to create a platform that will enable safe autonomous driving for everybody.

Artificial intelligence

Artificial intelligence (AI) was one of the other core topics in R&D in the year under review. This is the term for a technological revolution that will change the world in countless ways. AI has already reached an important milestone thanks to more data, better algorithms and faster, more affordable computers. In the future, AI is expected to be used as universally as software is today. We are examining and testing the areas in which we can apply AI methods – in the company and for our customers. AI will have a further influence in the automotive industry. We want to make personal mobility easier by creating new AI-compatible products and services, from automated driving systems to digital mobility assistants, from multi-transport travel planning to predictive maintenance. We use efficient and effective algorithms for this purpose. Continental is working closely with top universities and research institutes around the world. At the same time, we are strengthening our in-house expertise to integrate these algorithms into our products, services and processes.

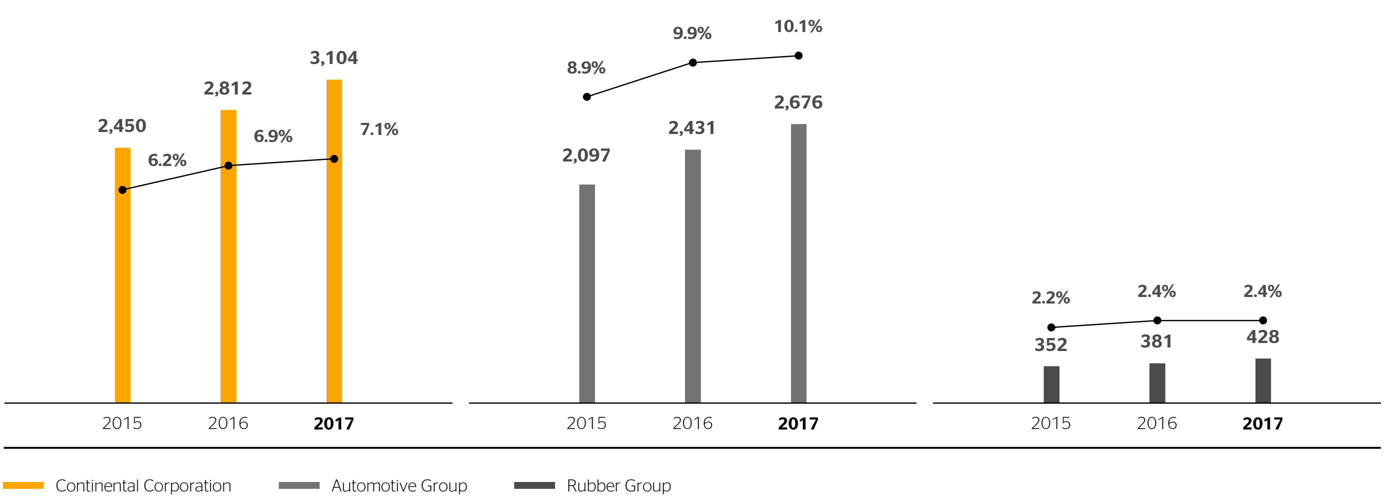
BEE – for personal mobility in urban traffic

We are using the CUbE ("Continental Urban mobility Experience") test vehicle to investigate and test driverless passenger transportation in Frankfurt. This kind of vehicle, also known as a driverless taxi, will play a crucial role as an addition to public transport in the future.

We developed a visionary and trendsetting concept for personal mobility in 2017, which was presented at the International Motor Show (IAA) in Frankfurt. It is called BEE ("Balanced Economy and Ecology mobility concept") and is part of a comprehensive personal mobility solution in urban spaces. BEE is an electric vehicle designed for stress-free, convenient and comfortable rides in cities. The vehicle is intended for people of all ages and can adapt itself to the passengers' needs. You can call BEE to your location via an app. Continental's mobility concept envisages just a few minutes between the online order and its arrival. BEE can also be used to efficiently transport small volumes of goods. It is also conceivable that many BEEs will one day form a swarm of autonomous vehicles of various sizes and models.

The development of BEE was influenced by the experience and inventiveness of our employees worldwide. They are familiar with the challenges and requirements of future urban environments and know how they want to be mobile in the future. Our employees contributed ideas as to what unconventional and original solutions to upcoming transport and mobility needs might look like.

R&D expenses (net) € millions **R&D ratio** %



Sustainability

Sustainable management and social responsibility are at the heart of our values.

We consider sustainable management to be a strategic task for corporate development. Our Roadmap 2020 defines the precise objectives for our four dimensions (corporate governance and corporate culture, employees and society, environment, and products).

In evaluating our performance, we use financial and non-financial indicators and criteria. It is essential that sustainability goals and measures create value. After all, only then will they be accepted within the company and seen as credible by those outside.

Our BASICS are the foundation of Continental's success. These corporate guidelines outline our vision, mission and our values, which in turn define our corporate activities and the way we interact with one another and with all other stakeholders. They also underscore our careful use of resources, our social responsibility and our culture of working for one another. The BASICS are our compass in this time of digital transformation because our working world is changing profoundly. We believe this transformation presents considerable opportunities for our company, for climate protection and for road safety.

The interplay between our BASICS, our corporate governance guidelines, and our comprehensive code of conduct, to which all employees of the corporation are bound, gives rise to a responsible approach to corporate governance and oversight that is aimed at generating lasting added value.

Responsible corporate management also requires dealing with risks in a responsible manner. Continental has a corporation-wide internal control and risk management system that is used to analyze and manage the risks to the company.

As a signatory of the United Nations Global Compact, we support its 10 principles in the areas of human rights, labor, the environment and anti-corruption.

We outline the progress we are making on the sustainability front in our report prepared in line with the Global Reporting Initiative (GRI) standard as well as online in our sustainability section at www.continental-sustainability.com.

In addition, we report for the Continental Corporation and Continental AG in a separate non-financial statement pursuant to sections 315b and 315c in conjunction with sections 289c to 289e of the German Commercial Code (*Handelsgesetzbuch – HGB*). This statement is published online in the Sustainability/Downloads section of our website.

In the year under review, the Executive Board launched a project to further ingrain sustainability in our organization and improve our existing processes. With the participation of all pertinent departments and involving the managers of the various divisions, specific recommendations and measures were defined, which are then to be implemented successively. These include the implementation of a new strategy for our commitment to society.

Employees and collaboration
Respecting people, valuing their achievements and fostering their abilities are the foundations of our HR work. Continental is a diverse company whose employees come, for instance, from various ethnic, cultural, and religious backgrounds. We value and foster the diverse ideas and experiences of our employees. They are the key to our success. By supporting them in the course of their professional development and fostering their talents, we are creating added value not only for our employees, but also for the company, our customers and other stakeholders.

In addition to training and development opportunities – not to mention fair wages and salaries – we also offer our employees attractive social benefits. The health of our employees and job security are top priorities as well.

Environmental and climate protection
Environmental protection is an integral part of our company policy. For us, economics and environmental awareness are not contradictions, but are the foundation for sustainable value creation at Continental.

Our environmental management system is based on global megatrends, which also form the basis of the corporation's overall strategy. This system incorporates all levels of the value chain and the entire life cycles of Continental products. As a result, our environmental responsibilities extend from research and development, the purchasing of raw materials and components, logistics and production, to the use and recycling of our products. Our service processes are geared toward continuously improving the use of resources in relation to business volume.

Social obligations and responsibility
Compliance with all the legal requirements that apply to Continental AG and its subsidiaries and adherence to internal regulations by all employees form part of our obligations and shape our corporate culture.

Through profitability, we lay the foundations for safeguarding jobs in many regions of the world. We also aim to create value for the people who live and work near our locations. Our voluntary activities focus on three areas in which we wish to position ourselves based on our business model, our challenges, and how we view ourselves as a company; and where we aim to promote forward-looking development: social welfare and road safety, education and science, as well as sports.

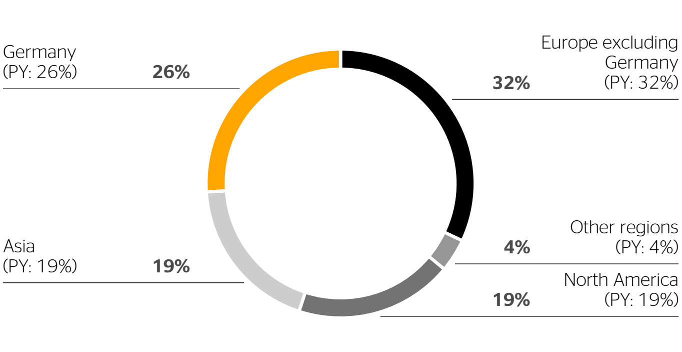
Employees

Our people, our culture, our future – employees and corporate culture guarantee the success of our company.

Personnel work is an important part of our company's value creation and plays a key and pioneering role in our growth strategy. Our employees and the way we work together are key to our future success. They drive our technological progress and growth and lay the foundations today for the success of our company tomorrow.

We value our employees whose skills, abilities and achievements are our company's most valuable asset. Our goal is to make optimal use of their skills and develop them in the best-possible way. Our Human Relations (HR) team actively supports our employees in their professions and careers and encourages them to develop their talents. We thereby create tangible value: for our employees, our company, our customers and all other stakeholders.

Employees by region



Our HR policy is holistic and based on working with and for one another. In our collaboration, we attach great importance to relationships with one another and to ensuring that the shared corporate values – Trust, Passion To Win, Freedom To Act and For One Another – are put into practice. These values are the basis of our corporate culture and shape the way we interact with each other and with our customers and partners. Continuous development of our corporate culture is therefore a vital part of ensuring our future viability and creating value.

Our HR policy is founded on two strategic pillars within which we implement different HR projects and initiatives. Based on these two pillars, we systematically develop our HR work further and make it fit for the future.

- With "Industrialize Best Fit," we are developing HR management in the context of our "best fit" concept in order to meet our considerable need for employees with the right skills and abilities – now and in the future.
- "Enable Transformation" supports digital transformation at Continental so that we can make the most of the opportunities of digitalization throughout the corporation.

"Industrialize Best Fit" – meeting staffing needs with precision
In the year under review, we received nearly 400,000 applications for salaried positions worldwide – with about 73,500 in Germany alone – which demonstrates that Continental is a highly attractive employer for people all around the globe. At the same time, this large number presents the personnel systems and processes with particular challenges, since it is important to know our requirements and find the right applicant for the right position as efficiently as possible.

We are working on a number of closely related projects in the context of improving our HR data and systems, HR planning and recruitment, and employee development. In the medium term, what we are looking for at Continental is not somebody for a job, but rather the right position at the company for a particular candidate. What counts is the person who is the best fit for a vacant position. This means the person with exactly the right skills, abilities and values for the job and for Continental. The better the fit between employees and their jobs at Continental, the more satisfied and motivated the employees will be, which are key factors for productivity and quality. This best fit is becoming increasingly important in light of the growing need for suitable employees.

Strategic HR planning
In view of future growth and increasingly short innovation cycles, we need to act now to identify and secure future personnel requirements. This is why the HR teams around the world are involved in the product development process at an early stage, in close collaboration with the business units.

We rely on strategic HR planning that further increases the level of detail in our plans while also creating a uniform and reliable cross-divisional HR strategy. In this context, we simulate firstly the expected development of our current workforce based on factors such as retirements and staff turnover and, secondly, the personnel requirements that we need in order to successfully achieve our business goals. By comparing these two factors, we can identify the quantitative and qualitative requirements at an early stage so that we can build up the required expertise in good time. The results help us, for example, to identify how the challenges of digital transformation will affect the requirements for individual employees, so that corresponding training measures can be initiated on a preparatory basis in the next step.

After establishing a binding framework for requirements planning with uniform processes and principles in a pilot project in 2016, we implemented strategic HR planning throughout the corporation in the reporting year. For example, 98.5% of all employees in our global HR system were covered by the strategic HR planning.

Structure of the workforce	Dec. 31, 2017	Dec. 31, 2016
Total number of employees	235,473	220,137
thereof permanent staff	219,687	206,162
outside Germany	162,833	152,136
in Germany	56,854	54,026
Trainees[1]	2,155	2,067
Female employees in %	27.2	27.0
Average years of service to the company[1]	14.3	14.6
Average age of employees in years[1]	43.2	43.3

1 In Germany.

Big-data analyses in HR

In the year under review, we expanded our approach to strategic HR planning to additional locations with big-data-assisted skill analyses – i.e. determining skills and expertise through the evaluation of data. This global, strategic skills management approach now covers 35% of all IT employees as well as software and electrical engineers. Around 1,000 highly specialized skills from the most varied of software fields and their distribution among the employees have been identified in the process. This has made it possible to determine targeted, forward-looking HR measures, including measures for qualification, recruitment and intensifying cooperation with universities. In addition, we have taken the first steps toward establishing internal big-data skills within the HR environment in order to turn the existing data to our advantage more efficiently.

Diagnostic procedure to find the right employee

To further improve the best fit between applicants and vacant positions and thus enhance the quality of our recruitment processes, we have developed and intensified various diagnostic projects in 2017.

One of them is being carried out at our location in San Luis Potosí, Mexico. The locations in Makó, Hungary, and Chongqing, China, were new additions. Here, extensive online and on-site tests and work samples were used to select employees for our factories. The unique feature of this process is that candidates for wage-earning roles do not apply for specific positions, but rather are given recommendations as to which positions represent the best fits for them. The overriding objective of these pilot projects is to establish a global, standardized selection process for wage-earning employees.

For salaried positions, we have introduced scientifically validated and standardized online processes, which we want to use to gain an impression of the applicant's skills at an early stage of the application. The international rollout of the Continental online assessments for salaried positions is close at hand.

In addition, we have begun to update the potential diagnostics landscape for the various management levels at the corporation.

Training record in the reporting year

In fall 2017, 702 trainees in Germany began their training, dual studies or an entry qualification at Continental – the largest ever training cohort in our history. We have more than tripled the number of traineeships we offer over the last 20 years.

In 2017, it was not only the numbers that increased but also the quality. At 10.3%, the ratio of outstanding performance (final grade of "very good") in our training placements is higher than the German average measured by the Chamber of Industry and Commerce (6.6%).

Training program for automotive software technicians

As part of our best-fit initiative, we also continue to give practically minded individuals and career changers the opportunity to develop "from career changers to career climbers" – especially if they have specific skills in software and technology. For example, in 2017, Continental expanded its training and education program for software experts to include an additional module. The advanced qualification for automotive software technicians offers our employees a three-year course ending in an officially recognized qualification. In the selection process, we do not mainly rely on formal educational qualifications but trust in skills and abilities. A good software developer or technician does not necessarily need a degree. We want to use our education and training program to counter the general shortage of skilled IT staff early on. Our tailor-made education formats make us less dependent on the job market and therefore more competitive.

"Enable Transformation" – accompanying digital transformation

Digital transformation is presenting major challenges for Continental, too. After all, the digitalization of the working world is changing established and familiar structures. Product cycles are becoming shorter, which means companies need to be able to flexibly adapt to new customer requirements and rapidly develop new business models.

At the same time, digitalization offers our company many opportunities – both in terms of tapping new markets and also with regard to training our employees. For this reason, the Human Relations team is actively helping shape digital transformation. Competitive advantages emerge if the company and its workforce adapt to the new conditions more quickly and flexibly than others. That is why we must be more agile, innovative and interconnected in the way we think and act. In this context, we are promoting four key areas:

- Diversity management – essential requirement for creative ideas and alternative solution strategies.
- Flexible working conditions – enable our employees to maintain a healthy work-life balance.
- Inspiring leadership culture – increases the enjoyment derived from commitment and spurs people on to perform well.
- Lifelong learning and intensive exchange of knowledge between our employees – give rise to the best solutions for our customers.

In 2017, we focused on enhancing our diversity management, flexible working conditions and our leadership culture.

Equal opportunities and increasing diversity

Equal opportunities and diversity – we attach particular importance to these issues in our selection procedures and talent development. After all, it is our employees' diverse perspectives, characteristics, experience and cultures that help make our company innovative. Our activities are currently focused on internationality and a balanced gender ratio. Today, 45% of our management team does not come from Germany. The percentage of women at management level worldwide has also increased again – from 12.2% in 2016 to 13.4% in 2017. We aim to staff 16% of all management positions with women by 2020. For more information about our targets for the percentage of women in management positions, please see the Corporate Governance Declaration in the Corporate Governance Report on page 22.

Diversity breeds innovation

In 2017, we held additional events to promote diversity besides the more than 25 Diversity Days around the world.

In the reporting year, the second Women@Work event was held with 75 participants, mostly from Europe and South Africa. The aim of this event was to support young women with their career development, strengthen their impact and increase their presence within the corporation. Similar national events in Korea and India with the same aim reached another 240 participants.

"Experiencing diversity as a catalyst and requirement for innovation" – this was the theme of the second and third Diversity Summits in Berlin, Germany, and Hangzhou, China. Both events brought an international group of attendees together to experience the benefits of diversity and to generate creative ideas for the further development of the Continental culture. The group of "transformation champions" continues to meet up online once a month to push forward the changes planned together.

Promotion of entrepreneurial spirit with comprehensive startup program

A startup program was launched in 2017, the first part of which was "incubator," which gave our employees the opportunity to implement their own business ideas in a startup environment as new entrepreneurs. The aim is to foster talented entrepreneurs, increase agility, accelerate cultural transformation into the new working world, and develop pioneering concepts that will drive Continental's long-term success.

More than 32,000 employees from 10 pilot locations in seven countries took part in a company-wide competition. 420 concepts were submitted. The three winning teams were given the chance to develop their concepts further in a startup environment away from their normal jobs for three months.

Flexible working conditions come into force

After we defined the global framework for flexible working conditions at the end of 2016, 2017 was characterized by the global implementation of the measures. In 18 countries, our employees can now configure their ways of working more individually, and we are on the homestretch in three more countries. Employees throughout the entire corporation from all hierarchical levels are now making the most of opportunities for mobile working, part-time and flextime working, and sabbaticals.

We are currently working on various options for our employees in the production units. The challenge is to square the demand for flexible models with the requirements of a highly efficient production environment, for example, through autonomous methods for shift planning, time-out models ("mini-sabbaticals") or attractive part-time models.

Mastering digital transformation through a good leadership culture

Digitalization and globalization are radically changing and accelerating the working world. More is also being demanded of management than ever before. Managers are having to organize the old and the new in equal measure. In order to master this challenge while further elevating the quality of all processes and products, we focused on our leadership culture in 2017, launching a wide-ranging internal dialogue both with employees as well as with managers.

The result is the modernization of our management philosophy. Continental is tackling the changes with an approach that unites two fields of modern management while at the same time fostering quality. The first element, “values-based leadership,” prioritizes managers’ role model function, their actions according to clear values and the use of new methods of working. The second element, “transformational leadership,” promotes the role of the manager as an active and inspiring driver of the transformation of the market, corporation and employees.

Geared toward this management approach, we are supporting management quality at Continental with a combination of ongoing measures. To increase the globally consistent quality of the leadership architecture development programs offered, a quality management system was prepared and introduced in 2017 and is expected to result in DIN ISO certification in 2018.

Environment

About 25 years ago, Continental introduced a corporate-wide environmental management system and extended the corporate strategy to include ecological targets and measures. In the early years, the focus lay on conserving finite resources together with reducing harmful emissions and the company's environmental footprint. Today, the scope of our environmental management system goes far beyond these objectives. Sustainable management at all stages of the value chain and throughout the entire life cycles of our products is now an integral part of our philosophy. We are gradually fulfilling this responsibility more widely in the supply chain in order to further anchor our strategic alignment as a sustainable company.

The environmental strategy for 2020 makes up the framework of our environmental management policy and outlines a number of clear objectives, indicators and measures. We are working on updating our environmental strategy for the time up to 2030, aligning ourselves with the United Nations' 17 sustainable development goals (SDG).

Environmental strategy pays off ecologically and economically

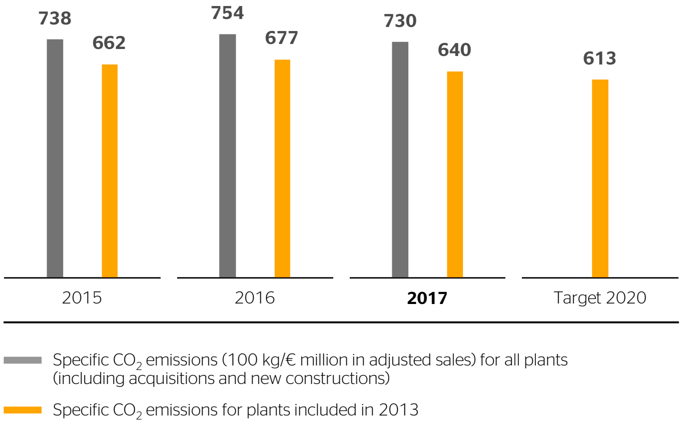
By committing ourselves to extensive sustainability goals, we are not only acting responsibly toward the environment and society – we are also thinking and acting in a forward-looking manner and in the interests of creating value for our company. We see the challenges that lie ahead – such as climate change, globalization and urbanization – as opportunities. These opportunities not only require our innovative prowess and the development of innovative technologies and more efficient products, they also boost our competitiveness.

In the reporting year, Continental generated around 40% of consolidated sales through products that are exceptionally energy efficient and/or reduce CO_2 emissions. Our environmental strategy and the achievement of our environmental targets pay off ecologically and economically.

Clear targets for improvement

We have set ourselves clear targets. By 2020, we want to reduce our CO_2 emissions, energy and water consumption, and waste generation by 20% – in relation to adjusted sales, using 2013 as a basis. We also intend to improve our waste recycling and reuse rate by two percentage points a year. We are on track to achieve our targets. With regard to energy consumption, CO_2 emissions and water consumption, we already achieved a reduction of roughly 13% to 15% three years before the end of the timeframe at the locations where we launched the environmental strategy programs in 2013. However, it is also apparent that the consolidated key figures for the environment have not developed in the desired direction due to the many acquisitions in recent years. The number of sites that must be included in reporting has increased from 191 in 2013 to 245 in 2017. Further measures must be implemented at our new locations so that we can contribute to the achievement of the environmental targets there, too. In waste generation and recycling, it also appears that the achievement of the targets will require further initiatives besides the programs to reduce waste and increase the recycling rate already begun.

CO_2 emissions



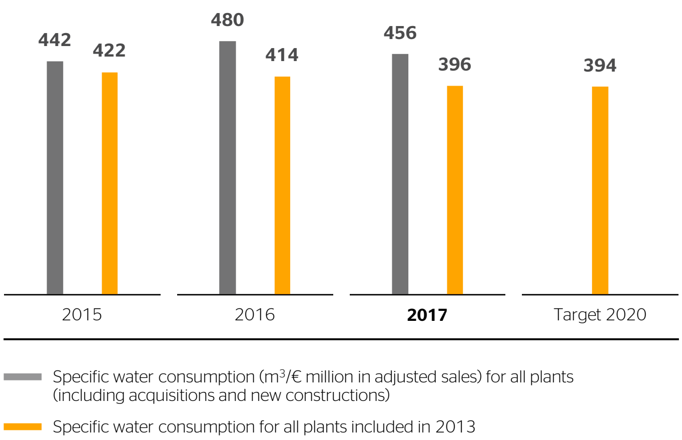
Certification to environmental standard ISO 14001 is to be compulsory for our strategic suppliers as well. Under these circumstances, we have defined an extensive catalog of individual measures that all serve the same goal of continuously improving our environmental performance.

As in previous years, all environmental performance figures were audited as part of an independent limited assurance audit by auditing firm KPMG AG Wirtschaftsprüfungsgesellschaft.

Sharper focus on the protection of drinking water

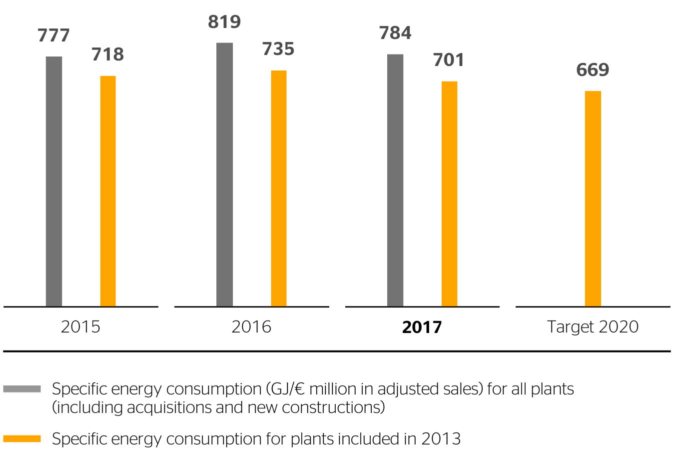
Around 41% of the world's population is currently living in regions that experience (in some cases extreme) water shortages, while

Water consumption



800 million people have no access to clean drinking water. In many countries, untreated wastewater is still finding its way into the water cycle. These and other problems will continue to intensify as a result of climate change, and at the latest then, there will be an economic impact – even for local companies. To prepare ourselves to tackle future risks, while at the same time making a contribution to sustainable development, we have placed the issue of water higher on our environmental strategy agenda. In the reporting year, we launched a program that includes a detailed water risk analysis as well as the evaluation of our own locations together with the assessment of the supply chain and its effects on water consumption. Measures derived from this are planned for 2018.

Energy consumption



Successful project for sustainability in the supply chain
Sustainable and resource-efficient management is a key component of our environmental strategy. This also applies to our supply chain. A project begun in 2015 to improve the environmental performance of our suppliers in the Mexican states of Jalisco and Guanajuato was successfully completed in the reporting year. The aim of the initiative was to train and help the suppliers to establish and enhance their own environmental and energy management systems. The suppliers that received training as part of the project have achieved excellent success together with the Continental locations in Mexico and made a positive contribution to environmental protection. In total, approximately:

- 775 tons of CO_2 emissions
- 923 megawatt hours of energy
- 210 tons of waste
- 4,600 cubic meters of water

were saved in the two-year project. Due to the successful implementation of the measures and the good networking between the suppliers, we have decided to continue this project and to open it up to additional suppliers.

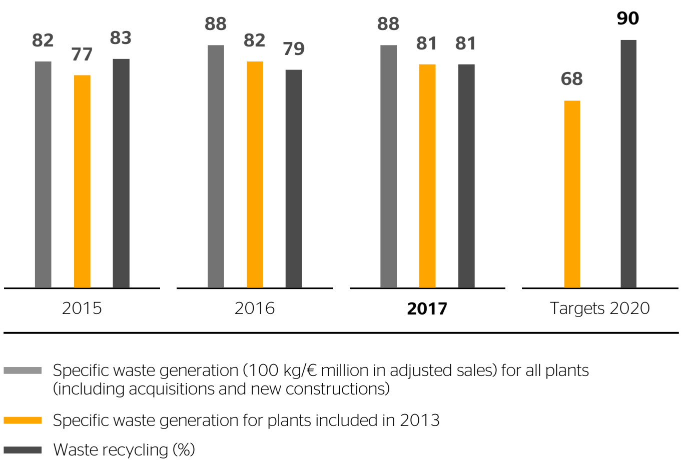
Further information is available from the website set up for the project: www.sustainabilitynetwork.net.

Reduction of plastic waste
Plastic waste is becoming an increasingly serious global environmental problem. To raise awareness of this issue among all employees and decision makers, the Executive Board has initiated a project to significantly reduce plastic waste at Continental. There are three strands to this initiative:

- Banning plastic tableware and cutlery from our cafeterias worldwide.
- Improving waste management and rates of plastic-waste recycling.
- Reducing packaging waste and significantly increasing the amount of reusable packaging in the logistics and purchasing process.

These measures are being tested and analyzed at 10 selected pilot locations. All best-practice measures will then be incrementally rolled out worldwide.

Waste generation and recycling



Social Responsibility

Operating globally also entails taking on social responsibility on a global level. By being committed to social responsibility, we are making a positive contribution to society while also creating value for our company. Our activities focus on social welfare, road safety, education, science and sports. The following are a few examples.

We take on social responsibility mostly on a decentralized basis. Charitable projects, activities and donations are often initiated and organized by dedicated employees and supported by the company.

In particular emergency situations, Continental provides central support with national projects and challenges, or offers assistance in dealing with international humanitarian emergencies. In doing so, the corporation as a whole fulfills its social responsibility.

Support in international disasters
In September 2017, we supported the disaster relief in Texas, U.S.A., after the historic flooding caused by Hurricane Harvey. The donation, which went to the American Red Cross, consisted of an amount donated directly by Continental and an amount matching donations from employees. In addition to the company's financial assistance, the employees at local sites became actively involved in the relief effort in Houston and other areas of southern Texas.

In October 2017, we supported the disaster relief in the areas of Mexico affected by the earthquake. In addition, we called on our employees in North America to donate money to the earthquake victims and we doubled the donated amount. In order to help the earthquake victims directly, our team in Mexico collected donations of food, household items and other necessities.

Local involvement
Continental supports charitable initiatives with financial donations both large and small, with donations of goods, and with active involvement. In this context, our employees show their strong social commitment as good neighbors locally.

Continental's employees in Stöcken, Hanover, donated all the proceeds from their summer festival to an organization that takes care of children with burn injuries and their families. The initiative offers advice to affected families after burning and scalding accidents involving babies and children. Its main activities include advice and providing contacts during the hospital stay, assistance during rehabilitation and afterwards, and preventive measures.

In Thailand, many young people drive and are therefore exposed to the hazards of the road. Road safety is a particular concern for Continental. For four years, Continental employees have therefore been providing safety training for young drivers in cooperation with the Rayong highway police. Selected employees and members of the Thai highway police put on workshops to give students detailed information on what to look out for on the road. For example, how to protect themselves and others from hazards, what distinguishes a safe vehicle and the importance of wearing a helmet on mopeds and motorcycles.

Creating opportunities for refugees
Integrating people of different origins and cultural backgrounds is an important part of our corporate culture. For over a year, we have been working with the German Federal Employment Agency on a new, specially developed program that makes it easier for refugees to enter the job market. In this program, Continental offers refugees a work placement of up to 12 months.

This allows the participants – while receiving the standard remuneration for the first year of an apprenticeship – to obtain the qualification needed for an apprenticeship. Once completed, they have the chance to begin a company apprenticeship at Continental.

Supporting young jobseekers and inspiring love for Europe
Under the umbrella of the "Experiencing Europe" initiative, Continental has launched a program especially for young people. Together with the German Federal Employment Agency, we offer jobseekers aged between 18 and 25 short internships at company locations throughout the rest of Europe. The program is open to young adults with no professional experience or qualifications. The project is an initiative throughout all of Germany.

The aim is to help young people access the rest of Europe and thus strengthen the spirit of European community. We also see the project as an opportunity to discover potential employees and talented young people.

The pilot project for the initiative was launched at Continental in June 2017. Under the name "We l.o.v.e. Europe," the first participants started foreign internships at Continental locations in Belgium, France, Hungary, Italy, Portugal, Romania and the United Kingdom. In the meantime, further companies have joined the "Experiencing Europe" initiative to give even more young adults the opportunity to gather professional experience in Europe.

Economic Report
General Conditions

Macroeconomic Development

In Germany, the solid economic growth of recent years accelerated in 2017. According to initial calculations by the German Federal Statistical Office, gross domestic product (GDP) increased by 2.2% year-on-year when adjusted for prices in the year under review, after 1.7% in 2015 and 1.9% in 2016. This clearly surpassed the forecast of 1.5% formulated by the International Monetary Fund (IMF) in January 2017. The significant growth was due in particular to higher private investment, but also consumer and public spending.

In addition to Germany, the other countries of the eurozone also saw a continuing economic upturn in 2017 for the most part thanks to higher capital expenditure by companies and increased consumer and public spending. According to the latest figures from the statistical agency Eurostat, the eurozone economy achieved GDP growth of 2.5% in the year under review and likewise surpassed the IMF forecast of 1.6% from January 2017. Economic development was boosted further by the monetary policy of the European Central Bank (ECB), which continued to adhere to its expansionary measures in 2017.

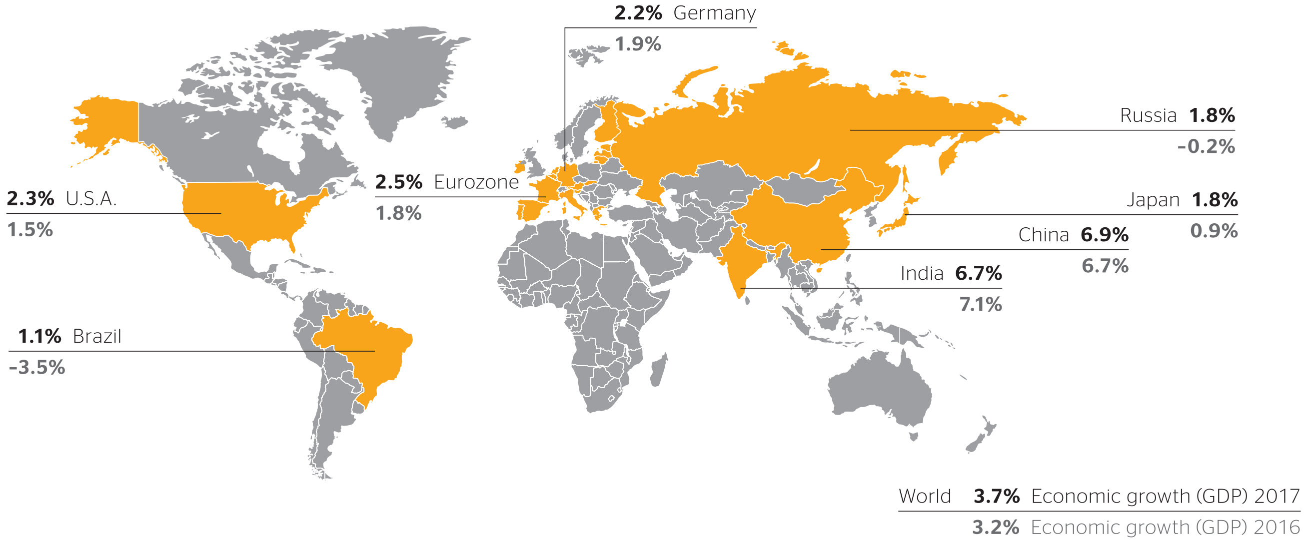
The U.S. economy picked up momentum from quarter to quarter during 2017 and is expected to have achieved GDP growth of 2.3%, meeting the IMF's forecast from January 2017 precisely. This was due primarily to an increase in consumer spending and private investment. In March, June and December 2017, the U.S. Federal Reserve (Fed) increased its key interest rate by 25 basis points each time. With a most recent target of between 1.25% and 1.5%, its key interest rate nevertheless remained low.

The Japanese economy recovered in the year under review, thanks especially to the sharp increase in the foreign trade surplus due to the weakening of the Japanese yen against the euro and other currencies. Private investment and consumer spending also increased, while government spending virtually stagnated. Based on the IMF's current expectations, the Japanese economy may have grown 1.8% year-on-year in 2017, partly due to the continuing expansionary monetary policy of its central bank. The growth was therefore much stronger than the 0.8% forecast by the IMF at the start of the year.

According to the IMF's WEO Update (World Economic Outlook, WEO) from January 2018, emerging and developing economies achieved growth totaling 4.7% in 2017 (PY: 4.4%). In January 2017, the IMF had initially forecast 4.5%. China and India were the main growth drivers once again. With a reported increase in GDP of 6.9%, the Chinese economy performed better than the IMF's forecast of 6.5% at the start of 2017. By contrast, the IMF reports that India's GDP grew by 6.7%, falling short of its forecast of 7.2% because the radical reform of the VAT system had a dampening effect on the economy. Russia and Brazil also performed better in the reporting year than expected in January 2017, benefiting from the recovery of the raw-materials sector.

The IMF's January 2018 WEO Update indicates that the global economy grew by 3.7% after 3.2% in the previous year. The IMF's January 2017 forecast of 3.4% growth was surpassed as a result of the stronger economic performance in the eurozone as well as in Japan and China.

Year-on-year economic growth (GDP) in 2017



Sources: IMF – World Economic Outlook Update January 2018, Eurostat, statistical offices of the respective countries, Bloomberg.

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 72% of sales in fiscal 2017 (PY: 73%). 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 49% of sales in the year under review (PY: 50%), followed by North America with 25% (PY: 26%) and Asia with 22% (PY: 21%).

Development of new passenger-car registrations
Demand for passenger cars in Europe (EU-28 and EFTA) continued to rise in 2017. On the basis of preliminary data from the German Association of the Automotive Industry (Verband der Automobilindustrie, VDA), new passenger-car registrations increased by 3% year-on-year to 15.6 million units. In addition to the ongoing economic upturn and low interest rates, this was attributable to relatively high demand for replacements, particularly in Southern and Eastern European countries. Among the major markets, Italy and Spain again posted the highest growth rates, both with 8%. Demand for passenger cars rose by 5% in France and by 3% in Germany. In contrast, the United Kingdom saw a 6% decline in demand.

In the U.S.A., the number of new car registrations fell by 2% to 17.1 million units in 2017, but remained at a high level. The reduction was due to a 12% decline in demand for passenger cars. In contrast, demand for light commercial vehicles, especially pickup trucks, rose by 4% year-on-year due to low fuel prices and favorable lending rates.

In Japan, the improved economic situation and increased consumer confidence resulted in higher demand for passenger cars in 2017. New car registrations rose by 6% to 4.4 million units.

After demand in China was curbed in the first half of 2017 by the increase in sales tax from 5% to 7.5% on passenger cars with a cubic capacity of less than 1.6 liters, sales volumes picked up again in the third quarter. However, the previous year's record of 7.5 million units was not quite reached in the fourth quarter. According to the VDA, new passenger-car registrations in China rose by 2% to 24.2 million units in total in 2017. In the other BRIC countries, demand grew faster as a result of the improving economic situation. Sales volumes increased by 12% in Russia and by 9% in both India and Brazil.

The growth in sales volumes in Europe, Asia and South America more than offset the decline in demand in the U.S.A. in the year under review. According to preliminary data, new passenger-car registrations worldwide increased by over 2% to 93.3 million units in 2017.

Development of production of passenger cars and light commercial vehicles
Preliminary data indicates that production of passenger cars and light commercial vehicles weighing less than 6 metric tons in Europe increased by 3% in 2017. Production rose significantly in Russia, Turkey and France in particular, while production in Germany, Spain and the United Kingdom fell slightly short of the respective high figures of the previous year. The lower number of working days had a significant influence in Germany, while falling demand was the central cause in the United Kingdom.

In North America, the production of passenger cars and light commercial vehicles decreased by 4% on the basis of preliminary figures. The production of passenger cars declined considerably due to the lower demand. In contrast, the production of pickup trucks in particular increased as a result of demand. The production of passenger cars and light commercial vehicles fell by more than 8% in both the U.S.A. and Canada. This decline was only partly offset by a sharp rise in production in Mexico.

In Asia, production of passenger cars and light commercial vehicles increased in most countries in 2017. Japan, India and Iran saw high volume growth as a result of demand. Production also still increased

New registrations/sales of passenger cars

millions of units	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	2017 Total	Δ Prior Year
Europe (EU-28 and EFTA)	4.3	4.2	3.6	3.6	**15.6**	3%
U.S.A.	4.0	4.4	4.4	4.3	**17.1**	-2%
Japan	1.3	1.0	1.1	1.0	**4.4**	6%
Brazil	0.5	0.5	0.6	0.6	**2.2**	9%
Russia	0.3	0.4	0.4	0.5	**1.6**	12%
India	0.8	0.7	0.9	0.8	**3.2**	9%
China	5.8	5.2	5.8	7.4	**24.2**	2%
Worldwide	**23.0**	**22.8**	**22.7**	**24.8**	**93.3**	**2%**

Sources: VDA (countries/regions) and Renault (worldwide).

Production of passenger cars and light commercial vehicles

millions of units	2017	2016	2015	2014	2013
Europe[1]	22.1	21.4	20.8	19.9	19.2
North America	17.1	17.8	17.5	17.0	16.2
South America	3.3	2.7	3.1	3.8	4.5
Asia[2]	51.5	50.0	46.4	45.8	44.0
Other markets	1.1	1.1	1.0	0.9	0.8
Worldwide	**95.1**	**93.1**	**88.8**	**87.4**	**84.7**

Source: IHS Inc., preliminary figures and own estimates.
1 Western, Central and Eastern Europe, including Russia and Turkey.
2 Asia including Kazakhstan, Uzbekistan, Middle East and Oceania with Australia.

sharply in China in the first quarter, but the momentum slowed palpably over the rest of the year. Nevertheless, the growth of around 570,000 units was the largest volume growth of all Asian countries. Due to the high comparative basis of 27.1 million units, however, this equated to an increase of only 2%. South Korea, Australia and Malaysia posted declining production data. Preliminary data shows that production in Asia as a whole grew by 3% year-on-year in 2017.

In South America, the recovery of demand led to an increase in production of passenger cars and light commercial vehicles. According to preliminary data, production volume grew by around 550,000 units in the year under review compared to the weak prior-year figure.

On the basis of preliminary data, global production of passenger cars and light commercial vehicles grew by 2% to 95.1 million units in 2017.

Development of production of medium and heavy commercial vehicles

In Europe, the improved economic situation in 2017 caused a rise in the transportation of goods by road and an increase in demand for trucks. Truck production was consequently stepped up in almost all countries, with Russia, Germany and Turkey posting the largest volume growth in the production of medium and heavy commercial vehicles. Overall, preliminary data shows that the production of commercial vehicles weighing more than 6 metric tons in Europe increased 9% year-on-year in 2017.

After the slump in the previous year, commercial-vehicle production in North America stabilized during the first half of 2017. The increasing economic momentum over the course of the year resulted in growing demand for trucks and a revival of truck production in the second half of the year. According to preliminary data, production increased by 8% in 2017 as a whole.

The production of medium and heavy commercial vehicles increased sharply in Asia, especially China, and reached record volumes. By contrast, production in Japan was again down on the previous year's level. India also just failed to reach the production volume of the previous year. Preliminary data shows that commercial-vehicle production in Asia grew by around 13% overall in 2017.

In South America, the economic recovery led to rising demand for trucks and an increase of around 20% in the production of medium and heavy commercial vehicles over the course of the year, according to preliminary data. Despite the significant volume growth, production in 2017 was still far below the production level of the pre-crisis years 2013 and 2014.

As a result of the production increase in all regions, preliminary data indicate that global production of medium and heavy commercial vehicles rose by 12% in the year under review.

Production of medium and heavy commercial vehicles

thousands of units	2017	2016	2015	2014	2013
Europe[1]	660	606	609	568	634
North America	513	475	581	550	470
South America	102	85	106	184	246
Asia[2]	2,140	1,894	1,636	1,843	1,845
Other markets	0	0	0	0	0
Worldwide	**3,415**	**3,059**	**2,931**	**3,146**	**3,196**

Source: IHS Inc., preliminary figures and own estimates.
1 Western, Central and Eastern Europe, including Russia and Turkey.
2 Asia including Kazakhstan, Uzbekistan, Middle East and Oceania with Australia.

Sales of replacement tires for passenger cars and light commercial vehicles

millions of units	2017	2016	2015	2014	2013
Europe	351	340	328	324	313
North America	285	285	278	277	264
South America	73	66	65	64	63
Asia	453	431	409	397	376
Other markets	47	45	43	41	39
Worldwide	**1,208**	**1,168**	**1,123**	**1,103**	**1,056**

Source: LMC International Ltd., preliminary figures and own estimates.

Development of replacement-tire markets for passenger cars and light commercial vehicles

In Europe – Continental's most important market for replacement tires for passenger cars and light commercial vehicles weighing less than 6 metric tons – sales volumes of replacement tires for passenger cars and light commercial vehicles rose by 3% year-on-year in 2017 according to preliminary data. During the year, price increases announced for the second quarter of 2017 by many manufacturers, due to the rise in the costs of raw materials, caused purchases to be brought forward to the first quarter of 2017. This accordingly led to lower volumes in the second and third quarters, before sales volumes recovered again in the fourth quarter.

Sales volumes of replacement tires for passenger cars and light commercial vehicles also increased in North America in the first quarter of 2017 due to purchases brought forward. As a result, there was only very modest demand in the following quarters. According to preliminary figures, tire sales volumes in North America in 2017 as a whole stagnated at the high level of the previous year.

Asia posted a further increase in demand for replacement tires for passenger cars and light commercial vehicles in 2017. In China, Japan and India, the growing economy also resulted in higher sales volumes of replacement tires. Preliminary data shows that sales volumes in Asia as a whole grew by 5% in the year under review.

In South America, preliminary figures show that stabilization of the economy in 2017 led to an increase in demand for replacement tires for passenger cars and light commercial vehicles of about 11%.

Based on preliminary data, global sales volumes of replacement tires for passenger cars and light commercial vehicles grew by 3% in 2017.

Development of replacement-tire markets for medium and heavy commercial vehicles

According to preliminary data, demand for replacement tires for medium and heavy commercial vehicles in Europe increased by 4% in 2017. Russia, other countries of Eastern Europe, and France saw particularly high volume growth. The price increases announced by various manufacturers also resulted in purchases being brought forward in the first quarter and thus in skewed demand volumes during the course of the 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, increased by 4% year-on-year. Here, too, the price increases announced by various manufacturers caused sharp fluctuations in demand during the course of the year.

In Asia, sales volumes of replacement tires for medium and heavy commercial vehicles grew by 3% in 2017 according to preliminary figures. Demand mainly followed the economic development of the individual countries. China, Japan and India posted the highest nominal growth.

In South America, the economic upturn again resulted in increasing demand for replacement tires for commercial vehicles in the year under review. According to preliminary figures, the sales volumes in the year as whole increased by 14% year-on-year.

There was a 4% increase in global demand for replacement tires for medium and heavy commercial vehicles in 2017.

Sales of replacement tires for medium and heavy commercial vehicles

millions of units	2017	2016	2015	2014	2013
Europe	25.3	24.4	22.9	23.4	22.7
North America	24.5	23.6	22.8	22.0	20.0
South America	15.7	13.7	13.5	14.0	13.7
Asia	89.2	86.6	83.5	85.3	83.9
Other markets	7.8	7.5	7.2	6.9	6.3
Worldwide	**162.5**	**155.8**	**149.8**	**151.7**	**146.6**

Source: LMC International Ltd., preliminary figures and own estimates.

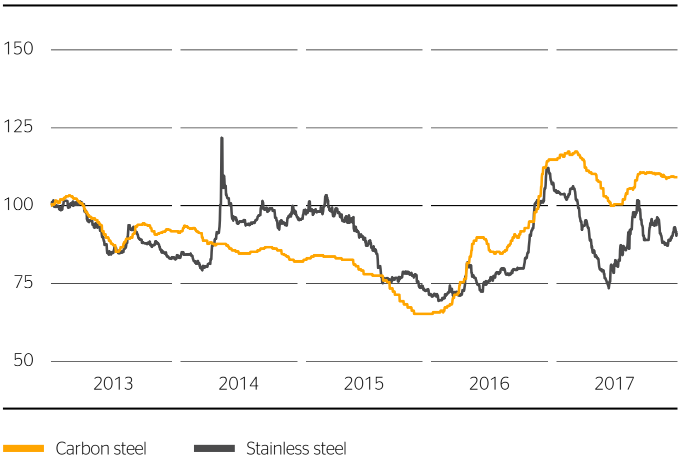
Development of Raw Materials Markets

Various 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 need these components, in turn, in order to manufacture our products and systems for the automotive industry. Consequently, developments in the prices of raw materials usually influence Continental's production costs indirectly, in most cases, via changes in costs at our suppliers. Depending on the contractual arrangement, these cost changes are either passed on to us after a certain amount of time or redefined in upcoming contract negotiations.

In the reporting year, global economic growth resulted in increasing demand for raw materials. After the sharp rise in the prices of many raw materials in the fourth quarter of 2016, prices initially consolidated year-on-year before mostly increasing palpably again in the second half of 2017, especially among metals.

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. Average prices for carbon steel increased in Europe by around 30% compared to the previous year's average. This was due firstly to the growing demand for steel and secondly to the development of global market prices for the primary products iron ore and coking coal. Although these abated again after the sharp rise at the beginning of the year and in the fourth quarter of the previous year, they stabilized at a much higher level than their respective averages in the previous year.

Steel indexed to January 1, 2013

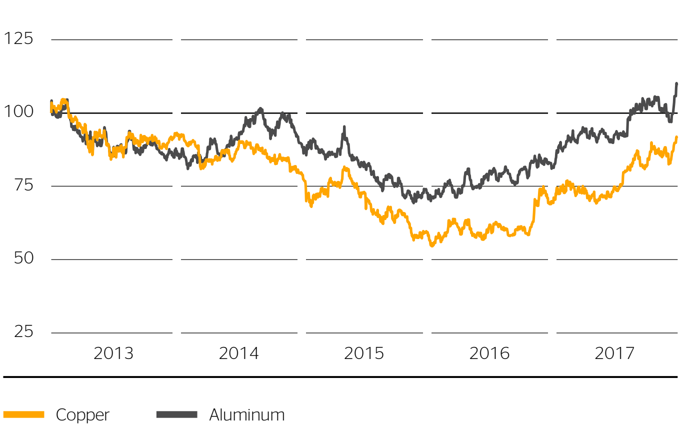


Sources:
Carbon steel: Hot-rolled coil Germany (Ruhr) from Platts (€ per metric ton).
Stainless steel: 2 mm stainless steel 3042B cold-rolled Shanghai market price from Shanghai Steel Home E-Commerce Co., Ltd (€ per metric ton).

The base price for stainless steel in Europe was relatively stable in 2017 with an increase of around 2%. In contrast, the average alloy surcharges for the year rose by more than 30% year-on-year in 2017. Chrome in particular became over 40% more expensive as an annual average, while the average price increase for nickel was relatively limited at 6%. Overall, average prices for stainless steel in Europe increased by around 15% year-on-year in 2017.

Aluminum is used by Continental primarily for die-cast parts and stamped and bent components, while copper is used in particular for electric motors and mechatronic components. The price of aluminum rose sharply in 2017, with the annual average increasing by 23% on a U.S. dollar basis and 20% on a euro basis year-on-year. The price of copper also rose palpably in the second half of 2017, with the annual average increasing by 27% on a U.S. dollar basis and 24% on a euro basis.

Copper and aluminum indexed to January 1, 2013



Source: Rolling three-month contracts from the London Metal Exchange (U.S. $ per metric ton).

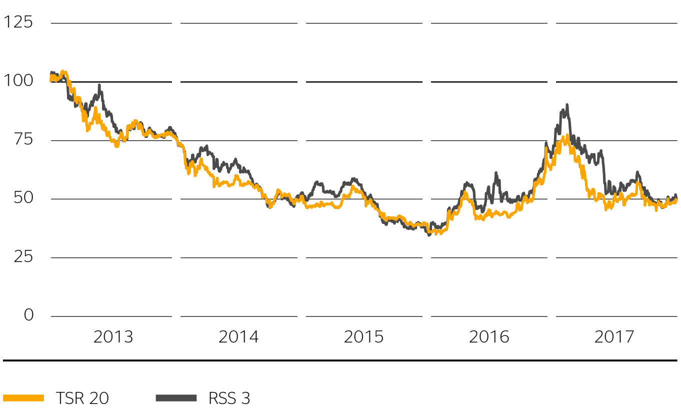
We and our suppliers use precious metals such as gold, silver, platinum and palladium to coat a wide range of components. Prices for gold, silver and platinum in 2017 remained at the average level of the previous year on a U.S. dollar basis, while they got slightly cheaper on a euro basis due to the appreciation of the euro over the course of the year. In contrast, the continued rise in demand for palladium, which is used primarily for catalytic converters, caused a rapid price increase. The average price per troy ounce for the year increased by 42% year-on year on a U.S. dollar basis, by 38% on a euro basis.

Both we and our suppliers require various plastic granulates, known as resins, as technical thermoplastics primarily for manufacturing housing components. The recovery in prices for plastic granulates begun in the second half of the previous year continued very dynamically in the year under review. This was due to growing demand and the increase in the price of oil throughout the year, coupled with scarce supply. Average prices increased by over 30% year-on-year both on a U.S. dollar basis and on a euro basis.

Continental uses various types of natural rubber and synthetic rubber for the production of tires and industrial rubber products in the Rubber Group. 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, especially that of rubber, has a significant influence on the earnings of the Rubber Group, particularly the Tire division.

After prices for natural rubber at the end of January 2017 had more than doubled since the seven-year low at the start of the previous year due to the weather-related supply shortage, they dropped significantly again, starting in mid-February 2017. This trend persisted until the end of the first half of the year. In the second half of the year, natural rubber prices stabilized at the average level of the previous year due to the further increase in demand. Overall, the average price of the natural rubber TSR 20 for the year increased by 20% on a U.S. dollar basis and 18% on a euro basis. The average price of ribbed smoked sheets (RSS) for the year increased by 22% on a U.S. dollar basis and 20% on a euro basis.

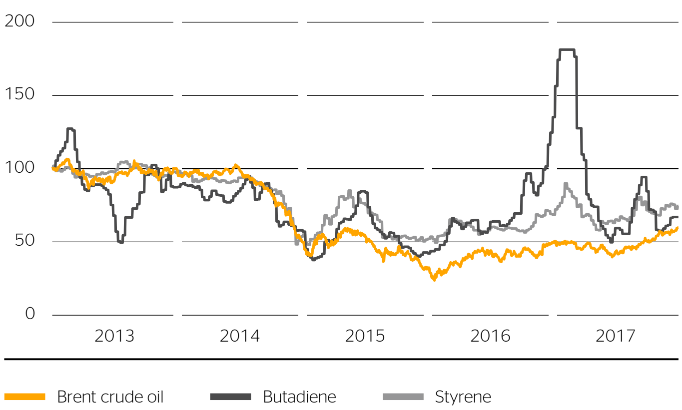
Natural rubber indexed to January 1, 2013



Source: Rolling one-month contracts from the Singapore Exchange (U.S. $ cents per kg).

Price of crude oil – the most important basic building block for synthetic-rubber input materials such as butadiene and styrene and also for carbon black and various other chemicals – fell back below the U.S. $50 mark in the first half of 2017 from U.S. $55 per barrel at the start of the year. Although several major oil-exporting countries cut their production, as announced at the end of 2016, and extended their production cuts to the start of 2018, other producers stepped up their production in the first half of 2017. In addition, the U.S.A.'s withdrawal from the Paris climate agreement at the beginning of June caused the price of crude oil to fall below the U.S. $50 mark. In the second half of June, the price dropped to around U.S. $44 per barrel as a result of the excess supply, before stabilizing slightly again. Several hurricanes impaired U.S. crude oil production in the second half of the year, whereupon prices increased again worldwide. In addition to the subsequent reduction in U.S. inventories, the announcement of an extension of the production cuts of several major oil-exporting countries beyond March 2018 triggered a price increase to over U.S. $60 at the end of the year. This was also supported by the rising demand following the very good performance of the global economy. The average price of crude oil for the year increased by over 20% year-on-year both on a U.S. dollar basis and on a euro basis.

Crude oil, butadiene and styrene indexed to January 1, 2013



Sources:
Crude oil: Europe Brent Forties Oseberg Ekofisk price from Bloomberg (U.S. $ per barrel).
Butadiene, styrene: South Korea export price (FOB) from PolymerUpdate.com (U.S. $ per metric ton).

The average price of butadiene, the main input material for synthetic rubber, for the year increased by over 30% year-on-year both on a U.S. dollar basis and on a euro basis in 2017. The scarcity-related soaring price increase that began in the fourth quarter of the previous year peaked in February 2017. Subsequently, the increase in supply and falling prices for natural rubber and crude oil divided the price of butadiene by three by the end of the first half of the year. In the second half of the year, it then stabilized again above the average price level of the previous year.

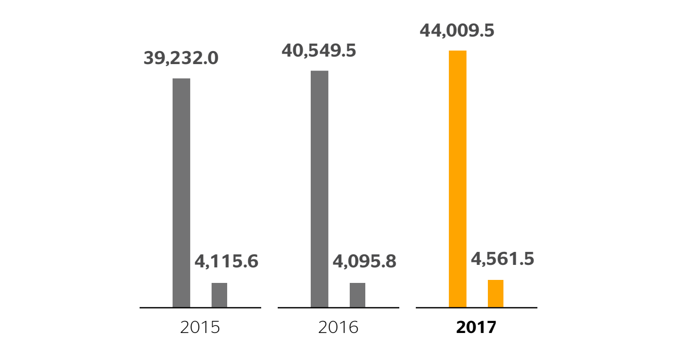
Other input materials for synthetic rubber mostly developed similarly to butadiene in 2017, but with lower volatility. For example, the average price of styrene for the year increased by 18% on a U.S. dollar basis and 16% on a euro basis.

Overall, the described price increases for the various raw materials led to considerable costs for Continental in 2017, which were passed on to customers via price adjustments only in part and with a delay. The Rubber Group was particularly affected by this in the year under review.

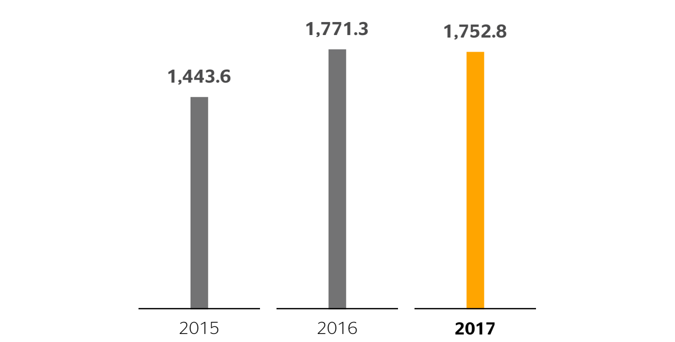
Earnings, Financial and Net Assets Position

- Sales up 8.5% at €44.0 billion
- Basic earnings per share at €14.92
- Free cash flow before acquisitions at €2.3 billion

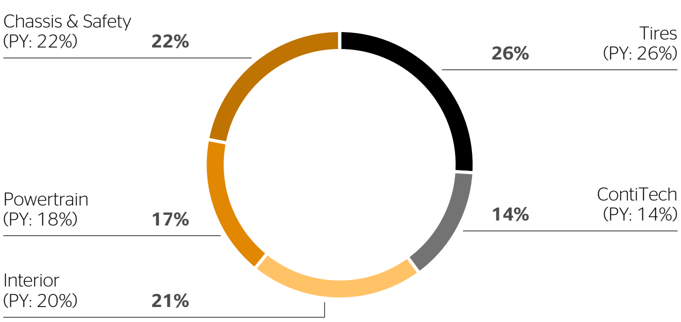
Sales; EBIT € millions



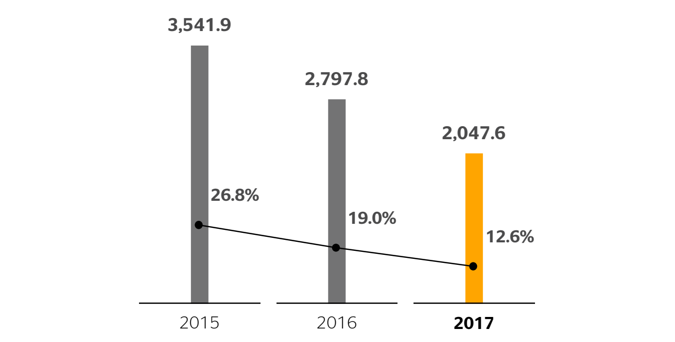
Free cash flow € millions



Sales by division %



Net indebtedness € millions **Gearing ratio** %



Earnings Position

- › Sales up 8.5%
- › Sales up 8.1% before changes in the scope of consolidation and exchange-rate effects
- › Adjusted EBIT up 10.1%

Continental Corporation in € millions	2017	2016	Δ in %
Sales	44,009.5	40,549.5	8.5
EBITDA	6,678.9	6,057.4	10.3
in % of sales	15.2	14.9	
EBIT	4,561.5	4,095.8	11.4
in % of sales	10.4	10.1	
Net income attributable to the shareholders of the parent	2,984.6	2,802.5	6.5
Basic earnings per share in €	14.92	14.01	6.5
Research and development expenses (net)	3,103.7	2,811.5	10.4
in % of sales	7.1	6.9	
Depreciation and amortization[1]	2,117.4	1,961.6	7.9
thereof impairment[2]	40.2	58.6	
Operating assets as at December 31	22,213.6	21,068.7	5.4
Operating assets (average)	22,172.4	20,453.1	8.4
ROCE	20.6	20.0	
Capital expenditure[3]	2,854.4	2,593.0	10.1
in % of sales	6.5	6.4	
Number of employees as at December 31[4]	235,473	220,137	7.0
Adjusted sales[5]	43,401.3	40,545.2	7.0
Adjusted operating result (adjusted EBIT)[6]	4,746.9	4,309.8	10.1
in % of adjusted sales	10.9	10.6	

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.

Sales up 8.5%
Sales up 8.1% before changes in the scope of consolidation and exchange-rate effects
Consolidated sales climbed by €3,460.0 million or 8.5% year-on-year in 2017 to €44,009.5 million (PY: €40,549.5 million). Before changes in the scope of consolidation and exchange-rate effects, sales rose by 8.1%. The repeated sales increase resulted primarily from the business performance in the Automotive Group, where sales growth was significantly greater than the increase in the production of passenger cars, station wagons and light commercial vehicles. Consolidated sales grew fastest in Asia, especially in China.

Changes in the scope of consolidation contributed to the increase in sales, but were partially offset by negative exchange-rate effects.

Adjusted EBIT up 10.1%
The corporation's adjusted EBIT increased by €437.1 million or 10.1% year-on-year in 2017 to €4,746.9 million (PY: €4,309.8 million), equivalent to 10.9% (PY: 10.6%) of adjusted sales.

The corporation's adjusted EBIT for the fourth quarter of 2017 increased by €44.7 million or 3.5% compared with the same quarter of the previous year to €1,329.2 million (PY: €1,284.5 million), equivalent to 11.9% (PY: 12.2%) of adjusted sales.

The regional distribution of sales changed as follows in 2017 as compared to the previous year:

Sales by region in %	**2017**	2016
Germany	20	21
Europe excluding Germany	29	29
North America	25	26
Asia	22	21
Other countries	4	3

EBIT up 11.4%
EBIT was up by €465.7 million year-on-year in 2017 to €4,561.5 million (PY: €4,095.8 million), an increase of 11.4%. The return on sales rose to 10.4% (PY: 10.1%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €170.7 million (PY: €143.6 million) in the year under review.

ROCE amounted to 20.6% (PY: 20.0%).

Special effects in 2017
Overall, impairment and a reversal of impairment losses on property, plant and equipment resulted in expense of €22.2 million (Chassis & Safety €0.5 million; Powertrain €18.8 million; Tires €0.5 million; ContiTech €2.4 million).

In addition, restructuring expenses and the reversal of restructuring provisions no longer required resulted in a total positive special effect of €16.4 million (Chassis & Safety €0.1 million; Powertrain €0.7 million; Interior €5.4 million; Tires €10.0 million; ContiTech €0.2 million). This included €5.0 million from reversal of impairment losses on property, plant and equipment (Powertrain €0.2 million; Interior €4.8 million).

In the Interior division, goodwill totaling €23.0 million that arose in connection with the expansion of our mobility-services activities was impaired, outside the scope of the annual impairment test.

In addition, the acquisition of the remaining shares in a joint venture resulted in income of €1.9 million in the Interior division from the adjustment of the market value of the previously held shares.

In the Tire division, the disposal of equity interests held as financial assets resulted in income totaling €14.0 million.

Moreover, a first-time consolidation resulted in a gain of €0.5 million in the Tire division.

In the ContiTech division, disposals of companies and assets resulted in an expense totaling €1.6 million.

Total consolidated expense from special effects in 2017 amounted to €14.0 million.

Special effects in 2016
In the context of the plant closure in Melbourne, Australia, restructuring expenses totaling €23.3 million were incurred in the Automotive Group (Chassis & Safety €0.2 million; Powertrain €1.0 million; Interior €22.1 million), of which €9.4 million was attributable to impairment on property, plant and equipment.

The planned closure of the location in Gravataí, Brazil, resulted in restructuring expenses totaling €4.4 million in the Interior division. This included impairment on property, plant and equipment in the amount of €3.1 million.

The disposal of equity interests held as financial assets resulted in total income of €5.0 million (Powertrain €1.1 million; Tires €3.9 million).

Due to the market situation in 2016, impairment totaling €33.1 million on intangible assets was recognized for the Conveyor Belt Group and Industrial Fluid Solutions business units in the ContiTech division.

A subsequent purchase price adjustment in connection with the acquisition of Veyance Technologies resulted in income totaling €27.0 million in the ContiTech division.

Other purchase price adjustments resulted in total expense of €1.0 million (Interior €0.1 million; ContiTech €0.9 million).

The sale of the steel cord business in Brazil, coupled with the fulfillment of conditions imposed by antitrust authorities, resulted in expense totaling €15.9 million in the ContiTech division. This figure comprises a loss on disposal of €9.3 million, market value adjustments totaling €6.0 million, and sales tax receivables that can no longer be utilized in the amount of €0.6 million.

In the ContiTech division, the temporary cessation of conveyor belt production in Volos, Greece, resulted in restructuring expenses of €11.2 million, of which €3.4 million was attributable to impairment on property, plant and equipment.

Restructuring expenses of €3.1 million were incurred in Chile in the ContiTech division. This included impairment on property, plant and equipment in the amount of €0.9 million.

Further restructuring expenses and the reversal of restructuring provisions no longer required resulted in expense of €1.2 million (Powertrain €1.1 million; Interior income of €0.1 million; ContiTech

€0.2 million). This included reversal of impairment losses on property, plant and equipment for the ContiTech division in the amount of €0.4 million.

Other impairment and reversal of impairment losses on property, plant and equipment resulted in expense totaling €9.1 million (Chassis & Safety €1.3 million; Powertrain €7.6 million; Tires €0.2 million; ContiTech €0.0 million).

Total consolidated expense from special effects in 2016 amounted to €70.3 million.

Procurement

The purchasing volume rose by around 13% year-on-year to €29.6 billion in 2017, of which approximately €20.2 billion was attributable to production materials. The prices of key input materials and many raw materials for the Rubber Group peaked in the first half of 2017. In the following months, the raw materials prices then dropped considerably. Due to the very sharp increase in the price level at the start of the year, raw materials were more expensive on average during the year than in the previous year. By contrast, prices for the Automotive Group's productions materials were lower than in the previous year.

Reconciliation of EBIT to net income

€ millions	**2017**	2016	Δ in %
Chassis & Safety	897.7	580.8	54.6
Powertrain	439.9	378.0	16.4
Interior	749.2	567.8	31.9
Tires	2,151.3	2,289.4	-6.0
ContiTech	442.2	399.2	10.8
Other/consolidation	–118.8	–119.4	-0.5
EBIT	**4,561.5**	**4,095.8**	**11.4**
Financial result	–285.7	–117.0	144.2
Earnings before tax	**4,275.8**	**3,978.8**	**7.5**
Income tax expense	–1,227.5	–1,096.8	11.9
Net income	**3,048.3**	**2,882.0**	**5.8**
Non-controlling interests	-63.7	–79.5	-19.9
Net income attributable to the shareholders of the parent	**2,984.6**	**2,802.5**	**6.5**
Basic earnings per share in €	14.92	14.01	6.5

Reconciliation of sales to adjusted sales and of EBITDA to adjusted operating result (adjusted EBIT) 2017

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Sales	**9,767.8**	**7,660.9**	**9,305.2**	**11,325.8**	**6,246.4**	**-296.6**	**44,009.5**
Changes in the scope of consolidation[1]	–	-8.0	-70.9	-131.1	-398.2	–	-608.2
Adjusted sales	**9,767.8**	**7,652.9**	**9,234.3**	**11,194.7**	**5,848.2**	**-296.6**	**43,401.3**
EBITDA	**1,301.6**	**854.8**	**1,140.0**	**2,748.7**	**750.9**	**-117.1**	**6,678.9**
Depreciation and amortization[2]	-403.9	-414.9	-390.8	-597.4	-308.7	-1.7	-2,117.4
EBIT	**897.7**	**439.9**	**749.2**	**2,151.3**	**442.2**	**-118.8**	**4,561.5**
Amortization of intangible assets from purchase price allocation (PPA)	0.0	11.9	46.1	19.5	93.2	–	170.7
Changes in the scope of consolidation[1]	–	3.6	39.5	-18.6	-23.8	–	0.7
Special effects							
Impairment[3]	0.5	18.8	23.0	0.5	2.4	–	45.2
Restructuring[4]	-0.1	-0.7	-5.4	-10.0	-0.2	–	-16.4
Gains and losses from disposals of companies and business operations	–	–	–	-14.0	1.6	–	-12.4
Other	–	–	-1.9	-0.5	–	–	-2.4
Adjusted operating result (adjusted EBIT)	**898.1**	**473.5**	**850.5**	**2,128.2**	**515.4**	**-118.8**	**4,746.9**

Reconciliation of sales to adjusted sales and of EBITDA to adjusted operating result (adjusted EBIT) 2016

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Sales	**8,977.6**	**7,319.5**	**8,324.7**	**10,717.4**	**5,462.5**	**-252.2**	**40,549.5**
Changes in the scope of consolidation[1]	–	–	–	-0.8	-3.5	–	-4.3
Adjusted sales	**8,977.6**	**7,319.5**	**8,324.7**	**10,716.6**	**5,459.0**	**-252.2**	**40,545.2**
EBITDA	**954.6**	**756.2**	**904.2**	**2,828.7**	**730.9**	**-117.2**	**6,057.4**
Depreciation and amortization[2]	-373.8	-378.2	-336.4	-539.3	-331.7	-2.2	-1,961.6
EBIT	**580.8**	**378.0**	**567.8**	**2,289.4**	**399.2**	**-119.4**	**4,095.8**
Amortization of intangible assets from purchase price allocation (PPA)	0.3	11.5	38.4	10.7	82.7	–	143.6
Changes in the scope of consolidation[1]	–	–	–	0.2	-0.1	–	0.1
Special effects							
Impairment[3]	1.3	7.6	0.0	0.2	33.1	–	42.2
Restructuring[5]	0.2	2.1	26.4	–	14.5	–	43.2
Gains and losses from disposals of companies and business operations	–	-1.1	0.1	-3.9	10.2	–	5.3
Other	–	–	–	–	-20.4	–	-20.4
Adjusted operating result (adjusted EBIT)	**582.6**	**398.1**	**632.7**	**2,296.6**	**519.2**	**-119.4**	**4,309.8**

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 reversal of impairment losses totaling €5.0 million (Powertrain €0.2 million; Interior €4.8 million).
5 This includes impairment and reversal of impairment losses totaling €16.4 million (Chassis & Safety €0.2 million; Powertrain €0.7 million; Interior €11.6 million; ContiTech €3.9 million).

Research and Development
Research and development expenses (net) rose by €292.2 million or 10.4% year-on-year to €3,103.7 million (PY: €2,811.5 million), corresponding to 7.1% (PY: 6.9%) of sales.

In the Chassis & Safety, Powertrain and Interior divisions, 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. €92.1 million (PY: €105.9 million) of the development costs incurred in the three divisions in 2017 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 2.9% (PY: 3.6%) for the corporation.

Depreciation and amortization
Depreciation and amortization increased by €155.8 million to €2,117.4 million (PY: €1,961.6 million), equivalent to 4.8% of sales as in the previous year. This included impairment totaling €40.2 million (PY: €58.6 million).

Financial result
The negative financial result increased by €168.7 million year-on-year to €285.7 million (PY: €117.0 million) in 2017. This is primarily attributable to the sum of the effects from changes in the fair value of derivative instruments and from currency translation.

Interest income in 2017 decreased by €7.0 million year-on-year to €94.4 million (PY: €101.4 million). Of this, expected income from long-term employee benefits and from pension funds amounted to €67.8 million (PY: €75.9 million). This does not include the interest income from the plan assets of the pension contribution funds.

Interest expense totaled €281.5 million in 2017 and was thus €27.3 million lower than the previous year's figure of €308.8 million. At €130.0 million, interest expense resulting from bank borrowings, capital market transactions, and other financing instruments was €10.6 million lower than the prior-year figure of €140.6 million. The major portion related to expense of €70.7 million (PY: €86.1 million) from the bonds issued by Continental AG, Conti-Gummi Finance B.V., Maastricht, Netherlands, and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A. The year-on-year decline in this expense is attributable to the repayment of the €750.0 million euro bond from Conti-Gummi Finance B.V., Maastricht, Netherlands, on March 20, 2017. The 3.5-year bond bore interest at a rate of 2.5% p.a. The interest expense from long-term employee benefits totaled €151.5 million (PY: €168.2 million) in 2017. This does not include the interest expense from the defined benefit obligations of the pension contribution funds.

The effects from currency translation resulted in a negative contribution to earnings of €138.8 million (PY: positive contribution to earnings of €157.1 million) in 2017. This was countered by effects from changes in the fair value of derivative instruments, and other valuation effects, which resulted in earnings of €40.2 million (PY: expense of €66.7 million) in 2017. The available-for-sale financial assets accounted for income of €1.8 million (PY: €0.3 million) of this. Taking into account the sum of the effects from currency translation and changes in the fair value of derivative instruments, earnings were negatively impacted by €100.4 million (PY: income of €90.1 million) in 2017. This resulted primarily from the development of the Mexican peso in relation to the U.S. dollar, which resulted in a positive contribution to earnings in the previous year, and of the Brazilian real in relation to the euro.

Income tax expense
Income tax expense for fiscal 2017 amounted to €1,227.5 million (PY: €1,096.8 million). The tax rate was 28.7% after 27.6% 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 €91.0 million (PY: €78.6 million), of which €40.2 million (PY: €11.7 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
The net income attributable to the shareholders of the parent increased by €182.1 million in 2017 to €2,984.6 million (PY: €2,802.5 million). This corresponds to earnings per share of €14.92 (PY: €14.01).

Employees

The number of employees in the Continental Corporation rose by 15,336 from 220,137 in 2016 to 235,473. The number of employees in the Automotive Group rose by 9,533, as a result in particular of increased production volumes and the continuous expansion of research and development. In the Rubber Group, the increase in the number of employees by 5,783 was chiefly attributable to the expansion of production capacity and sales channels and to the acquisition of the Hornschuch Group in the ContiTech division.

Employees by region in %	**2017**	2016
Germany	26	26
Europe excluding Germany	32	32
North America	19	19
Asia	19	19
Other countries	4	4

Financial Position

- Free cash flow before acquisitions at €2.3 billion
- Cash flow arising from investing activities at €3.5 billion
- Net indebtedness at €2.0 billion

Reconciliation of cash flow
EBIT increased by €465.7 million to €4,561.5 million after €4,095.8 million in 2016.

Interest payments resulting in particular from bonds decreased by €4.6 million to €131.5 million (PY: €136.1 million).

Income tax payments increased by €74.8 million to €1,122.1 million (PY: €1,047.3 million).

The cash-effective increase in working capital led to a cash outflow of €483.8 million (PY: €210.1 million). This resulted from the €484.3 million increase in inventories (PY: €326.5 million). The increase in operating receivables in the amount of €737.1 million (PY: €631.7 million) was offset by the increase in operating liabilities in the amount of €737.6 million (PY: €748.1 million).

Cash flow from operating activities rose by €282.4 million year-on-year to €5,220.5 million (PY: €4,938.1 million) in 2017, corresponding to 11.9% (PY: 12.2%) of sales.

Cash flow arising from investing activities amounted to an outflow of €3,467.7 million (PY: €3,166.8 million). Capital expenditure on property, plant and equipment, and software was up €257.2 million from €2,592.5 million to €2,849.7 million before finance leases and 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 €575.9 million (PY: €511.6 million) in 2017. This cash outflow is chiefly attributable to the acquisitions of the Hornschuch Group and Argus Cyber Security Ltd, Tel Aviv, Israel.

Free cash flow for fiscal 2017 amounted to €1,752.8 million (PY: €1,771.3 million). This corresponds to a decrease of €18.5 million compared with the previous year.

Capital expenditure (additions)
Capital expenditure for property, plant and equipment, and software amounted to €2,854.4 million in 2017. Overall, there was an increase of €261.4 million compared with the previous year's level of €2,593.0 million, to which the Chassis & Safety, Powertrain and Interior divisions contributed. Capital expenditure amounted to 6.5% (PY: 6.4%) of sales.

Financing and indebtedness
As at the end of 2017, gross indebtedness amounted to €4,090.0 million (PY: €4,952.3 million), down €862.3 million on the previous year's level.

Based on quarter-end values, 59.6% (PY: 62.6%) of gross indebtedness after hedging measures had fixed interest rates on average over the year.

The carrying amount of the bonds fell by €744.1 million from €3,383.5 million in the previous year to €2,639.4 million as at the end of fiscal 2017. This decline is attributable to the repayment of the €750.0 million euro bond from Conti-Gummi Finance B.V., Maastricht, Netherlands. The 3.5-year bond bore interest at a rate of 2.5% p.a. and was redeemed at a rate of 100.00% at its maturity on March 20, 2017.

Bank loans and overdrafts amounted to €859.7 million (PY: €931.9 million) as at December 31, 2017, and were therefore down €72.2 million on the previous year's level.

The syndicated loan comprises a revolving tranche of €3,000.0 million. This credit line is available to Continental until April 2021 and had not been utilized at the end of 2017 or in the previous year.

Other indebtedness decreased by €46.0 million to €590.9 million (PY: €636.9 million) as at the end of 2017. This decrease was primarily due to lower negative fair values of derivative instruments. At the end of 2017, the utilization of sale-of-receivables programs amounted to €513.7 million, up slightly from the previous year's €487.1 million. As in the previous year, five sale-of-receivables programs with a total financing volume of €894.5 million (PY: €1,069.3 million) were used within the Continental Corporation as at the end of 2017.

Cash and cash equivalents, derivative instruments and interest-bearing investments were down by €112.1 million at €2,042.4 million (PY: €2,154.5 million).

Net indebtedness decreased by a considerable €750.2 million as compared to the end of 2016 to €2,047.6 million (PY: €2,797.8 million). The gearing ratio also improved significantly year-on-year to 12.6% (PY: 19.0%).

As at December 31, 2017, Continental had liquidity reserves totaling €5,568.3 million (PY: €5,995.4 million), consisting of cash and cash equivalents of €1,881.5 million (PY: €2,107.0 million) and committed, unutilized credit lines totaling €3,686.8 million (PY: €3,888.4 million).

The restrictions that may impact the availability of capital are also understood as comprising 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, 2017, unrestricted cash and cash equivalents totaled €1,726.7 million (PY: €1,673.9 million).

Reconciliation of net indebtedness

€ millions	Dec. 31, 2017	Dec. 31, 2016
Long-term indebtedness	2,017.8	2,803.7
Short-term indebtedness	2,072.2	2,148.6
Long-term derivative instruments and interest-bearing investments	–113.3	–19.7
Short-term derivative instruments and interest-bearing investments	–47.6	–27.8
Cash and cash equivalents	–1,881.5	–2,107.0
Net indebtedness	**2,047.6**	**2,797.8**

Reconciliation of change in net indebtedness

€ millions	2017	2016
Net indebtedness at the beginning of the reporting period	**2,797.8**	**3,541.9**
Cash flow arising from operating activities	5,220.5	4,938.1
Cash flow arising from investing activities	–3,467.7	–3,166.8
Cash flow before financing activities (free cash flow)	**1,752.8**	**1,771.3**
Dividends paid	–850.0	–750.0
Dividends paid to and cash changes from equity transactions with non-controlling interests	–46.5	–55.6
Non-cash changes	16.5	–39.9
Other	–151.6	–112.4
Exchange-rate effects	29.0	–69.3
Change in net indebtedness	**750.2**	**744.1**
Net indebtedness at the end of the reporting period	**2,047.6**	**2,797.8**

Net Assets Position

- Equity at €16.3 billion
- Equity ratio at 43.5%
- Gearing ratio at 12.6%

Total assets
At €37,440.5 million (PY: €36,174.9 million), total assets as at December 31, 2017, were €1,265.6 million higher than on the same date in the previous year. Goodwill, at €7,010.1 million, was up by €152.8 million compared to the previous year's figure of €6,857.3 million. Other intangible assets climbed by €93.2 million to €1,607.3 million (PY: €1,514.1 million). Property, plant and equipment increased by €664.0 million to €11,202.1 million (PY: €10,538.1 million). Deferred tax assets were down €318.9 million at €1,517.2 million (PY: €1,836.1 million). Inventories rose by €375.0 million to €4,128.2 million (PY: €3,753.2 million) and trade accounts receivable increased by €276.6 million to €7,669.3 million (PY: €7,392.7 million), both as a result of the growth in business activities. Short-term other assets decreased by €34.7 million to €954.3 million (PY: €989.0 million). At €1,881.5 million, cash and cash equivalents were down €225.5 million from €2,107.0 million on the same date in the previous year.

Non-current assets
Non-current assets rose by €717.4 million to €22,038.4 million (PY: €21,321.0 million) year-on-year. In relation to the individual items of the statement of financial position, this is due primarily to the €152.8 million increase in goodwill to €7,010.1 million (PY: €6,857.3 million), the €93.2 million increase in other intangible assets to €1,607.3 million (PY: €1,514.1 million), the €664.0 million increase in property, plant and equipment to €11,202.1 million (PY: €10,538.1 million) and the €318.9 million decrease in deferred tax assets to €1,517.2 million (PY: €1,836.1 million).

Current assets
At €15,402.1 million, current assets were €548.2 million higher than the previous year's figure of €14,853.9 million. In the year under review, inventories rose by €375.0 million to €4,128.2 million (PY: €3,753.2 million) and trade accounts receivable increased by €276.6 million to €7,669.3 million (PY: €7,392.7 million). Cash and cash equivalents declined by €225.5 million to €1,881.5 million (PY: €2,107.0 million).

Equity
Equity was €1,555.5 million higher than in the previous year at €16,290.3 million (PY: €14,734.8 million). This was due primarily to the increase in retained earnings of €2,134.6 million. The gearing ratio improved from 19.0% to 12.6%. The equity ratio rose from 40.7% to 43.5% in the period under review.

Non-current liabilities
At €6,961.5 million, non-current liabilities were down €924.4 million from €7,885.9 million in the previous year. This was mainly attributable to the €785.9 million reduction in long-term indebtedness to €2,017.8 million (PY: €2,803.7 million). This in turn resulted from the reclassification of a Continental AG euro bond with a nominal volume of €750.0 million as short-term indebtedness on the basis of its maturity.

Current liabilities
At €14,188.7 million, current liabilities were up €634.5 million from €13,554.2 million in the previous year. Short-term employee benefits increased by €176.5 million to €1,490.6 million (PY: €1,314.1 million), trade accounts payable by €550.5 million to €6,798.5 million (PY: €6,248.0 million) and income tax liabilities by €106.1 million to €889.7 million (PY: €783.6 million). In contrast, short-term provisions for other risks and obligations decreased by €203.4 million to €943.0 million (PY: €1,146.4 million).

Operating assets
Operating assets increased by €1,144.9 million year-on-year to €22,213.6 million (PY: €21,068.7 million) as at December 31, 2017.

Total working capital was up €234.9 million at €5,206.0 million (PY: €4,971.1 million). This development was due to the €410.4 million increase in operating receivables to €7,876.3 million (PY: €7,465.9 million) and the €375.0 million rise in inventories to €4,128.2 million (PY: €3,753.2 million). This was countered by the €550.5 million increase in operating liabilities to €6,798.5 million (PY: €6,248.0 million).

Non-current operating assets were up €955.1 million year-on-year at €20,387.2 million (PY: €19,432.1 million). Goodwill increased by €152.8 million to €7,010.1 million (PY: €6,857.3 million). This change primarily resulted from additions of €299.2 million, which were countered by exchange-rate effects of €123.4 million and allowances of €23.0 million. Property, plant and equipment increased by €664.0 million to €11,202.1 million (PY: €10,538.1 million) due to investing activities. Other intangible assets climbed by €93.2 million to €1,607.3 million (PY: €1,514.1 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €170.7 million (PY: €143.6 million) reduced the value of intangible assets.

In the Interior division, the acquisition of Argus Cyber Security Ltd, Tel Aviv, Israel, at €353.4 million and two share deals totaling €32.4 million resulted in an increase in operating assets.

Consolidated statement of financial position

Assets in € millions	Dec. 31, 2017	Dec. 31, 2016
Goodwill	7,010.1	6,857.3
Other intangible assets	1,607.3	1,514.1
Property, plant and equipment	11,202.1	10,538.1
Investments in equity-accounted investees	414.8	384.8
Long-term miscellaneous assets	1,804.1	2,026.7
Non-current assets	**22,038.4**	**21,321.0**
Inventories	4,128.2	3,753.2
Trade accounts receivable	7,669.3	7,392.7
Short-term miscellaneous assets	1,723.1	1,601.0
Cash and cash equivalents	1,881.5	2,107.0
Current assets	**15,402.1**	**14,853.9**
Total assets	**37,440.5**	**36,174.9**

Equity and liabilities in € millions	Dec. 31, 2017	Dec. 31, 2016
Total equity	**16,290.3**	**14,734.8**
Non-current liabilities	**6,961.5**	**7,885.9**
Trade accounts payable	6,798.5	6,248.0
Short-term other provisions and liabilities	7,390.2	7,306.2
Current liabilities	**14,188.7**	**13,554.2**
Total equity and liabilities	**37,440.5**	**36,174.9**
Net indebtedness	**2,047.6**	**2,797.8**
Gearing ratio in %	**12.6**	**19.0**

In connection with several asset deals and a purchase price adjustment, operating assets in the Tire division rose by €5.7 million overall.

The acquisition of the Hornschuch Group at €463.0 million and a share deal at €14.9 million contributed to an increase in the ContiTech division's operating assets.

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

While exchange-rate effects increased the corporation's total operating assets by €221.5 million in the previous year, they reduced them by €900.7 million in the year under review.

Average operating assets rose by €1,719.3 million to €22,172.4 million as compared to the previous year (€20,453.1 million).

Reconciliation to operating assets in 2017

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Total assets	**7,330.8**	**5,413.4**	**7,619.0**	**8,421.1**	**4,348.0**	**4,308.2**	**37,440.5**
Cash and cash equivalents	–	–	–	–	–	1,881.5	1,881.5
Short- and long-term derivative instruments, interest-bearing investments	–	–	–	–	–	160.9	160.9
Other financial assets	10.0	39.4	18.7	23.3	6.6	2.9	100.9
Less financial assets	**10.0**	**39.4**	**18.7**	**23.3**	**6.6**	**2,045.3**	**2,143.3**
Less other non-operating assets	**-30.1**	**-56.1**	**-69.1**	**-34.3**	**-1.4**	**535.5**	**344.5**
Deferred tax assets	–	–	–	–	–	1,517.2	1,517.2
Income tax receivables	–	–	–	–	–	178.2	178.2
Less income tax assets	**–**	**–**	**–**	**–**	**–**	**1,695.4**	**1,695.4**
Segment assets	**7,350.9**	**5,430.1**	**7,669.4**	**8,432.1**	**4,342.8**	**32.0**	**33,257.3**
Total liabilities and provisions	**4,003.1**	**2,835.8**	**3,083.3**	**3,315.4**	**1,797.7**	**6,114.9**	**21,150.2**
Short- and long-term indebtedness	–	–	–	–	–	4,090.0	4,090.0
Interest payable and other financial liabilities	–	–	–	–	–	81.8	81.8
Less financial liabilities	**–**	**–**	**–**	**–**	**–**	**4,171.8**	**4,171.8**
Deferred tax liabilities	–	–	–	–	–	348.5	348.5
Income tax payables	–	–	–	–	–	889.7	889.7
Less income tax liabilities	**–**	**–**	**–**	**–**	**–**	**1,238.2**	**1,238.2**
Less other non-operating liabilities	**1,197.8**	**806.5**	**654.7**	**879.0**	**532.8**	**625.7**	**4,696.5**
Segment liabilities	**2,805.3**	**2,029.3**	**2,428.6**	**2,436.4**	**1,264.9**	**79.2**	**11,043.7**
Operating assets	**4,545.6**	**3,400.8**	**5,240.8**	**5,995.7**	**3,077.9**	**-47.2**	**22,213.6**

Reconciliation to operating assets in 2016

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Total assets	**7,118.5**	**5,163.0**	**7,030.2**	**8,095.8**	**3,986.8**	**4,780.6**	**36,174.9**
Cash and cash equivalents	–	–	–	–	–	2,107.0	2,107.0
Short- and long-term derivative instruments, interest-bearing investments	–	–	–	–	–	47.5	47.5
Other financial assets	10.6	42.5	14.7	20.4	7.2	18.0	113.4
Less financial assets	**10.6**	**42.5**	**14.7**	**20.4**	**7.2**	**2,172.5**	**2,267.9**
Less other non-operating assets	**–**	**0.4**	**-44.2**	**-11.1**	**5.9**	**616.3**	**567.3**
Deferred tax assets	–	–	–	–	–	1,836.1	1,836.1
Income tax receivables	–	–	–	–	–	124.7	124.7
Less income tax assets	**–**	**–**	**–**	**–**	**–**	**1,960.8**	**1,960.8**
Segment assets	**7,107.9**	**5,120.1**	**7,059.7**	**8,086.5**	**3,973.7**	**31.0**	**31,378.9**
Total liabilities and provisions	**3,877.4**	**2,766.6**	**2,990.4**	**3,295.3**	**1,644.7**	**6,865.7**	**21,440.1**
Short- and long-term indebtedness	–	–	–	–	–	4,952.3	4,952.3
Interest payable and other financial liabilities	–	–	–	–	–	101.9	101.9
Less financial liabilities	**–**	**–**	**–**	**–**	**–**	**5,054.2**	**5,054.2**
Deferred tax liabilities	–	–	–	–	–	371.5	371.5
Income tax payables	–	–	–	–	–	783.6	783.6
Less income tax liabilities	**–**	**–**	**–**	**–**	**–**	**1,155.1**	**1,155.1**
Less other non-operating liabilities	**1,279.0**	**871.7**	**689.6**	**980.7**	**539.5**	**560.1**	**4,920.6**
Segment liabilities	**2,598.4**	**1,894.9**	**2,300.8**	**2,314.6**	**1,105.2**	**96.3**	**10,310.2**
Operating assets	**4,509.5**	**3,225.2**	**4,758.9**	**5,771.9**	**2,868.5**	**-65.3**	**21,068.7**

Automotive Group

Automotive Group in € millions	2017	2016	Δ in %
Sales	26,565.4	24,496.4	8.4
EBITDA	3,296.4	2,615.0	26.1
in % of sales	12.4	10.7	
EBIT	2,086.8	1,526.6	36.7
in % of sales	7.9	6.2	
Research and development expenses (net)	2,675.5	2,430.9	10.1
in % of sales	10.1	9.9	
Depreciation and amortization[1]	1,209.6	1,088.4	11.1
thereof impairment[2]	37.3	21.4	
Operating assets as at December 31	13,187.2	12,493.6	5.6
Operating assets (average)	12,874.1	11,978.3	7.5
ROCE	16.2	12.7	
Capital expenditure[3]	1,789.5	1,497.0	19.5
in % of sales	6.7	6.1	
Number of employees as at December 31[4]	134,286	124,753	7.6
Adjusted sales[5]	26,486.5	24,496.4	8.1
Adjusted operating result (adjusted EBIT)[6]	2,222.1	1,613.4	37.7
in % of adjusted sales	8.4	6.6	

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 Automotive Group comprises three divisions:

› The **Chassis & Safety** division (22% of consolidated sales) develops, produces and markets intelligent systems to improve driving safety and vehicle dynamics.

› The **Powertrain** division (17% of consolidated sales) combines innovative and efficient system solutions for the powertrains of today and tomorrow.

› The **Interior** division (21% of consolidated sales) specializes in information management. It develops and produces information, communication and network solutions for cars and commercial vehicles.

The 14 business units in total generated 60% of consolidated sales in the year under review.

Key raw materials for the Automotive Group are steel, aluminum, precious metals, copper and plastics. One point of focus when it comes to purchasing materials and semifinished products is electronics and electromechanical components, which together make up more than 40% of the corporation's purchasing volume for production material.

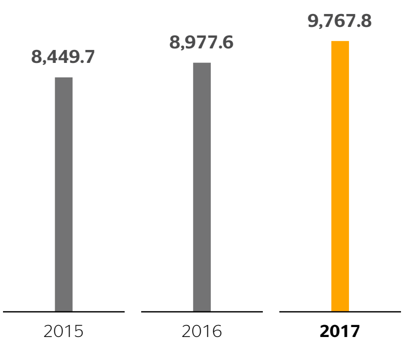
Development of the Chassis & Safety Division

- Sales up 8.8%
- Sales up 10.4% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT up 54.2%

Sales volumes
In the Vehicle Dynamics business unit, the number of electronic brake systems sold in 2017 increased by 9% year-on-year. In the Hydraulic Brake Systems business unit, sales figures for brake boosters were up 6% compared to the previous year. Sales of brake calipers with integrated electric parking brakes increased by 33% year-on-year, more than compensating for the decline in sales figures for conventional brake calipers, which decreased by 3% year-on-year. In the Passive Safety & Sensorics business unit, the sales volume of air-bag control units rose by 21% year-on-year. Unit sales of advanced driver assistance systems were up 41%.

Sales up 8.8%
Sales up 10.4% before changes in the scope of consolidation and exchange-rate effects
Sales in the Chassis & Safety division rose by 8.8% year-on-year to €9,767.8 million (PY: €8,977.6 million) in 2017. Before changes in the scope of consolidation and exchange-rate effects, sales rose by 10.4%.

Sales € millions



Adjusted EBIT up 54.2%
The Chassis & Safety division's adjusted EBIT increased by €315.5 million or 54.2% year-on-year in 2017 to €898.1 million (PY: €582.6 million), equivalent to 9.2% (PY: 6.5%) of adjusted sales. It should be noted that several isolated events had a negative impact on the result in the third quarter of the previous year.

EBIT up 54.6%
In comparison to the previous year, the Chassis & Safety division posted an increase in EBIT of €316.9 million, or 54.6%, to €897.7 million (PY: €580.8 million) in 2017. The return on sales climbed to 9.2% (PY: 6.5%). It should be noted that several isolated events had a negative impact on the result in the third quarter of the previous year.

The amortization of intangible assets from purchase price allocation (PPA) had no notable effect on EBIT (PY: reduction of €0.3 million).

ROCE amounted to 19.9% (PY: 13.1%).

Special effects in 2017
An impairment loss and a reversal of impairment loss on property, plant and equipment resulted in total expense of €0.5 million in the Chassis & Safety division.

In addition, the reversal of a restructuring provision resulted in income of €0.1 million.

Special effects in 2017 had a negative impact totaling €0.4 million in the Chassis & Safety division.

Special effects in 2016
Impairment and reversal of impairment losses on property, plant and equipment resulted in expense totaling €1.3 million.

In the context of the plant closure in Melbourne, Australia, restructuring expenses of €0.2 million were incurred in the Chassis & Safety division. These expenses were attributable to impairment on property, plant and equipment.

Special effects in 2016 had a negative impact totaling €1.5 million in the Chassis & Safety division.

Procurement
The procurement market for Chassis & Safety saw stable development in 2017, but occasional bottlenecks arose at upstream raw material suppliers. There were considerable supply problems with regard to semiconductors from a Japanese supplier whose production activities were affected by earthquakes in 2016. The upward trend in prices for industrial metals begun in the previous year continued in 2017. The import duties charged on flat steels in Europe and the U.S.A. caused a significant rise in their prices.

Research and development
Research and development expenses (net) rose by €140.4 million or 18.2% year-on-year to €913.8 million (PY: €773.4 million), corresponding to 9.4% (PY: 8.6%) of sales.

Depreciation and amortization
Depreciation and amortization rose by €30.1 million compared to fiscal 2016 to €403.9 million (PY: €373.8 million) and amounted to 4.1% (PY: 4.2%) of sales. This included impairment totaling €0.5 million in 2017 (PY: €1.5 million).

Chassis & Safety in € millions	**2017**	2016	Δ in %
Sales	9,767.8	8,977.6	8.8
EBITDA	1,301.6	954.6	36.4
in % of sales	13.3	10.6	
EBIT	897.7	580.8	54.6
in % of sales	9.2	6.5	
Research and development expenses (net)	913.8	773.4	18.2
in % of sales	9.4	8.6	
Depreciation and amortization[1]	403.9	373.8	8.1
thereof impairment[2]	0.5	1.5	
Operating assets as at December 31	4,545.6	4,509.5	0.8
Operating assets (average)	4,519.6	4,448.7	1.6
ROCE	19.9	13.1	
Capital expenditure[3]	682.5	523.7	30.3
in % of sales	7.0	5.8	
Number of employees as at December 31[4]	47,788	43,907	8.8
Adjusted sales[5]	9,767.8	8,977.6	8.8
Adjusted operating result (adjusted EBIT)[6]	898.1	582.6	54.2
in % of adjusted sales	9.2	6.5	

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.

Operating assets
Operating assets in the Chassis & Safety division rose by €36.1 million year-on-year to €4,545.6 million (PY: €4,509.5 million) as at December 31, 2017.

Working capital was down €132.7 million at €606.5 million (PY: €739.2 million). This change was due primarily to the €168.0 million increase in operating liabilities to €1,608.4 million (PY: €1,440.4 million), which was countered by a €20.1 million rise in inventories to €505.8 million (PY: €485.7 million) and the €15.2 million increase in operating receivables to €1,709.1 million (PY: €1,693.9 million).

Non-current operating assets were up €155.6 million year-on-year at €4,911.5 million (PY: €4,755.9 million). Goodwill decreased by €26.7 million to €2,630.7 million (PY: €2,657.4 million) as a result of exchange-rate effects. Property, plant and equipment increased by €203.8 million to €2,079.8 million (PY: €1,876.0 million) due to investing activities. Other intangible assets declined by €20.8 million to €82.2 million (PY: €103.0 million). There was no notable amortization of intangible assets from purchase price allocation (PPA) in the year under review (PY: €0.3 million).

The reversal of a purchase price liability resulted in a €3.3 million increase in operating assets in the Chassis & Safety division. Other changes in the scope of consolidation did not result in any additions or disposals of operating assets.

While exchange-rate effects increased the Chassis & Safety division's total operating assets by €8.6 million in the previous year, they reduced them by €122.2 million in the year under review.

Average operating assets in the Chassis & Safety division climbed by €70.9 million to €4,519.6 million as compared to fiscal 2016 (€4,448.7 million).

Capital expenditure (additions)
Additions to the Chassis & Safety division rose by €158.8 million year-on-year to €682.5 million (PY: €523.7 million). Capital expenditure amounted to 7.0% (PY: 5.8%) of sales.

In addition to increasing production capacity in Europe, production facilities were also expanded in North America and Asia. 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 rose by 3,881 to 47,788 (PY: 43,907). In all business units, the increase in staff numbers was due to an adjustment in line with greater sales volumes. In addition, the continuous expansion of research and development activities, particularly in the Advanced Driver Assistance Systems and Vehicle Dynamics business units, also led to a rise in the number of employees. Capacity was increased in all business units, particularly in best-cost countries.

Development of the Powertrain Division

- Sales up 4.7%
- Sales up 5.6% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT up 18.9%

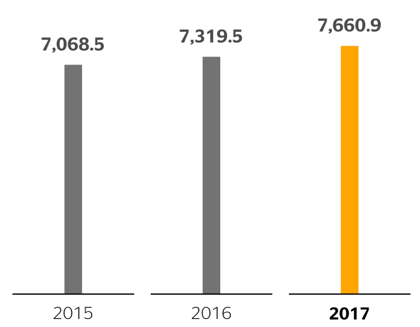
Sales volumes

In the Engine Systems business unit, sales volumes of engine control units, injectors, pumps and turbochargers increased in fiscal 2017. The Sensors & Actuators business unit is continuing to record growth. Emissions legislation has resulted in rising sales of exhaust-gas sensors in particular. In the Hybrid Electric Vehicle business unit, sales volumes for power electronics, on-board power supply and battery systems were up year-on-year. Owing to program changeovers, sales figures of the Transmission business unit were down year-on-year in fiscal 2017. Sales volumes in the Fuel & Exhaust Management business unit increased in comparison to the previous year.

Sales up 4.7%
Sales up 5.6% before changes in the scope of consolidation and exchange-rate effects

Sales in the Powertrain division rose by 4.7% year-on-year to €7,660.9 million (PY: €7,319.5 million) in 2017. Before changes in the scope of consolidation and exchange-rate effects, sales rose by 5.6%.

Sales € millions



Adjusted EBIT up 18.9%

The Powertrain division's adjusted EBIT rose by €75.4 million or 18.9% year-on-year in 2017 to €473.5 million (PY: €398.1 million), equivalent to 6.2% (PY: 5.4%) of adjusted sales.

EBIT up 16.4%

In comparison to the previous year, the Powertrain division posted an increase in EBIT of €61.9 million, or 16.4%, to €439.9 million (PY: €378.0 million) in 2017. The return on sales rose to 5.7% (PY: 5.2%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €11.9 million (PY: €11.5 million).

ROCE amounted to 13.2% (PY: 12.5%).

Special effects in 2017

Impairment on property, plant and equipment resulted in expense totaling €18.8 million in the Powertrain division.

In addition, the reversal of restructuring provisions no longer required resulted in income totaling €0.7 million, which included €0.2 million from a reversal of impairment losses on property, plant and equipment.

Special effects in 2017 had a negative impact totaling €18.1 million in the Powertrain division.

Special effects in 2016

Impairment and reversal of impairment losses on property, plant and equipment resulted in expense totaling €7.6 million.

In the context of the plant closure in Melbourne, Australia, restructuring expenses totaling €1.0 million were incurred in the Powertrain division, of which €0.7 million was attributable to impairment on property, plant and equipment.

Additional restructuring expenses and the reversal of restructuring provisions no longer required resulted in expense of €1.1 million overall.

The disposal of an equity interest held as a financial asset resulted in income of €1.1 million.

Special effects in 2016 had a negative impact totaling €8.6 million in the Powertrain division.

Procurement

Powertrain's procurement market was largely stable in 2017. There were occasional problems in the supply of electronic components, but these were solved without affecting customers. Like flat steels, long steels also saw increasing capacity utilization of steel plants with prolonged delivery times. Average prices for precious and industrial metals traded in U.S. dollars were higher than the previous year's level. The procurement cooperation with the Schaeffler Group was again successfully continued.

Research and Development

Research and development expenses (net) fell by €2.5 million or 0.4% year-on-year to €699.0 million (PY: €701.5 million), corresponding to 9.1% (PY: 9.6%) of sales.

Powertrain in € millions	**2017**	2016	Δ in %
Sales	7,660.9	7,319.5	4.7
EBITDA	854.8	756.2	13.0
in % of sales	11.2	10.3	
EBIT	439.9	378.0	16.4
in % of sales	5.7	5.2	
Research and development expenses (net)	699.0	701.5	-0.4
in % of sales	9.1	9.6	
Depreciation and amortization[1]	414.9	378.2	9.7
thereof impairment[2]	18.6	8.3	
Operating assets as at December 31	3,400.8	3,225.2	5.4
Operating assets (average)	3,325.6	3,015.8	10.3
ROCE	13.2	12.5	
Capital expenditure[3]	653.7	544.4	20.1
in % of sales	8.5	7.4	
Number of employees as at December 31[4]	40,492	37,502	8.0
Adjusted sales[5]	7,652.9	7,319.5	4.6
Adjusted operating result (adjusted EBIT)[6]	473.5	398.1	18.9
in % of adjusted sales	6.2	5.4	

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.

Depreciation and amortization
Depreciation and amortization rose by €36.7 million compared to fiscal 2016 to €414.9 million (PY: €378.2 million) and amounted to 5.4% (PY: 5.2%) of sales. This included impairment totaling €18.6 million in 2017 (PY: €8.3 million).

Operating assets
Operating assets in the Powertrain division increased by €175.6 million year-on-year to €3,400.8 million (PY: €3,225.2 million) as at December 31, 2017.

Working capital increased by €40.0 million to €372.6 million (PY: €332.6 million). Inventories increased by €26.9 million to €470.4 million (PY: €443.5 million). Operating receivables rose by €61.2 million to €1,355.3 million (PY: €1,294.1 million) as at the reporting date. Total operating liabilities were up €48.1 million at €1,453.1 million (PY: €1,405.0 million).

Non-current operating assets were up €205.5 million year-on-year at €3,454.6 million (PY: €3,249.1 million). Goodwill decreased by €18.5 million to €986.3 million (PY: €1,004.8 million) as a result of exchange-rate effects. At €2,188.8 million, property, plant and equipment was €195.8 million above the previous year's level of €1,993.0 million. Other intangible assets climbed by €22.6 million to €178.0 million (PY: €155.4 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €11.9 million (PY: €11.5 million) reduced the value of intangible assets.

While exchange-rate effects increased the Powertrain division's total operating assets by €10.0 million in the previous year, they reduced them by €97.6 million in the year under review.

Average operating assets in the Powertrain division climbed by €309.8 million to €3,325.6 million as compared to fiscal 2016 (€3,015.8 million).

Capital expenditure (additions)
Additions to the Powertrain division increased by €109.3 million year-on-year to €653.7 million (PY: €544.4 million). Capital expenditure amounted to 8.5% (PY: 7.4%) of sales.

In the Powertrain division, production capacity was increased at German locations and in China, the U.S.A., Czechia and Romania. Important additions related to the Engine Systems and Sensors & Actuators business units. In the Engine Systems business unit, manufacturing capacity for engine injection systems was expanded.

Employees
The number of employees in the Powertrain division rose by 2,990 compared with the previous year to 40,492 (PY: 37,502). The increase in the workforce resulted from the adjustment in line with higher sales volumes and the continual expansion in research and development.

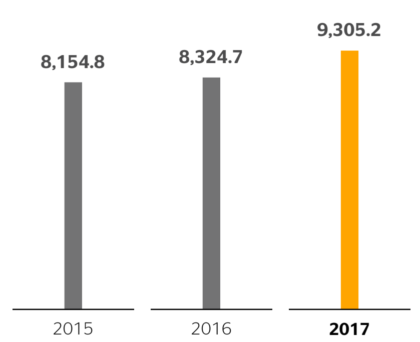
Development of the Interior Division

- Sales up 11.8%
- Sales up 11.6% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT up 34.4%

Sales volumes
Sales volumes in the Body & Security business unit were significantly above the previous year's level in fiscal 2017. There were increases in Asia and Europe in particular. In the Infotainment & Connectivity business unit, sales figures slightly exceeded the previous year's figure. This was chiefly due to higher demand and new products that went into production in the connectivity and multimedia areas. Sales volumes in the Commercial Vehicles & Aftermarket business unit were above the previous year's level overall. This is essentially attributable to the stronger market for commercial vehicles in Western Europe and North America and to rising demand in the replacement parts and aftermarket business, especially for brakes and diesel pumps in Europe. In the Instrumentation & Driver HMI business unit, sales volumes in 2017 were higher than in the previous year. This increase is generally attributable to the sales development in the European market and particularly to the increased demand for display solutions and head-up displays.

Sales up 11.8%
Sales up 11.6% before changes in the scope of consolidation and exchange-rate effects
In 2017, sales in the Interior division rose by 11.8% year-on-year to €9,305.2 million (PY: €8,324.7 million). Before changes in the scope of consolidation and exchange-rate effects, sales rose by 11.6%.

Sales € millions



Adjusted EBIT up 34.4%
The Interior division's adjusted EBIT increased by €217.8 million or 34.4% year-on-year in 2017 to €850.5 million (PY: €632.7 million), equivalent to 9.2% (PY: 7.6%) of adjusted sales. It should be noted that several isolated events had a negative impact on the result in the third quarter of previous year.

EBIT up 31.9%
In comparison to the previous year, the Interior division posted an increase in EBIT of €181.4 million, or 31.9%, to €749.2 million (PY: €567.8 million) in 2017. The return on sales rose to 8.1% (PY: 6.8%). It should be noted that several isolated events had a negative impact on the result in the third quarter of the previous year.

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €46.1 million (PY: €38.4 million).

ROCE amounted to 14.9% (PY: 12.6%).

Special effects in 2017
In the Interior division, goodwill totaling €23.0 million that arose in connection with the expansion of our mobility-services activities was impaired, outside the scope of the annual impairment test.

The reversal of restructuring provisions no longer required resulted in income totaling €5.4 million in the Interior division, which included €4.8 million from a reversal of impairment losses on property, plant and equipment.

In addition, the acquisition of the remaining shares in a joint venture resulted in income of €1.9 million in the Interior division from the adjustment of the market value of the previously held shares.

Special effects in 2017 had a negative impact totaling €15.7 million in the Interior division.

Special effects in 2016
In the context of the plant closure in Melbourne, Australia, restructuring expenses totaling €22.1 million were incurred in the Interior division, of which €8.5 million was attributable to impairment on property, plant and equipment.

The planned closure of the location in Gravataí, Brazil, resulted in restructuring expenses totaling €4.4 million. This included impairment on property, plant and equipment in the amount of €3.1 million.

The reversal of restructuring provisions no longer required resulted in income of €0.1 million.

A purchase price adjustment resulted in expense of €0.1 million.

Special effects in 2016 had a negative impact totaling €26.5 million in the Interior division.

Interior in € millions	**2017**	2016	Δ in %
Sales	9,305.2	8,324.7	11.8
EBITDA	1,140.0	904.2	26.1
in % of sales	12.3	10.9	
EBIT	749.2	567.8	31.9
in % of sales	8.1	6.8	
Research and development expenses (net)	1,062.7	956.0	11.2
in % of sales	11.4	11.5	
Depreciation and amortization[1]	390.8	336.4	16.2
thereof impairment[2]	18.2	11.6	
Operating assets as at December 31	5,240.8	4,758.9	10.1
Operating assets (average)	5,028.9	4,513.8	11.4
ROCE	14.9	12.6	
Capital expenditure[3]	453.3	428.9	5.7
in % of sales	4.9	5.2	
Number of employees as at December 31[4]	46,006	43,344	6.1
Adjusted sales[5]	9,234.3	8,324.7	10.9
Adjusted operating result (adjusted EBIT)[6]	850.5	632.7	34.4
in % of adjusted sales	9.2	7.6	

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.

Procurement

For Interior, the year 2017 was dominated by supply problems as a result of earthquakes in the Kumamoto region of Japan in the previous year. Demand for microcontrollers from a Japanese supplier could only be covered at great expense. There were also supply problems for electronic components, which resulted in increased costs in the supply chain. In the interests of active risk management, the process of nominating alternative supply options for key components was further advanced. The share of displays in total procurement volumes for the Interior division and the size of the displays have both increased further.

Research and development

Research and development expenses (net) rose by €106.7 million or 11.2% year-on-year to €1,062.7 million (PY: €956.0 million), corresponding to 11.4% (PY: 11.5%) of sales.

Depreciation and amortization

Depreciation and amortization rose by €54.4 million compared to fiscal 2016 to €390.8 million (PY: €336.4 million) and amounted to 4.2% (PY: 4.0%) of sales. This included impairment totaling €18.2 million in 2017 (PY: €11.6 million).

Operating assets

Operating assets in the Interior division increased by €481.9 million year-on-year to €5,240.8 million (PY: €4,758.9 million) as at December 31, 2017.

Working capital increased by €92.9 million to €778.9 million (PY: €686.0 million). Inventories increased by €60.7 million to €823.7 million (PY: €763.0 million). Operating receivables rose by €152.1 million to €1,595.9 million (PY: €1,443.8 million) as at the reporting date. Operating liabilities were up €119.9 million at €1,640.7 million (PY: €1,520.8 million).

Non-current operating assets were up €373.9 million year-on-year at €5,076.4 million (PY: €4,702.5 million). Goodwill increased by €138.9 million to €2,701.4 million (PY: €2,562.5 million). The increase resulted primarily from the acquisition of Argus Cyber Security Ltd, Tel Aviv, Israel, amounting to €177.5 million and two share deals totaling €23.4 million, which were countered by a purchase price adjustment of €0.7 million, exchange-rate effects of €38.3 million and allowances of €23.0 million. At €1,519.0 million, property, plant and equipment was €124.6 million above the previous year's level of €1,394.4 million. Other intangible assets climbed by

€93.0 million to €684.8 million (PY: €591.8 million). This increase was due mainly to the acquisition of Argus Cyber Security Ltd, Tel Aviv, Israel, which accounted for €179.5 million. This was countered by exchange-rate effects of €26.2 million and amortization of intangible assets from purchase price allocation (PPA) in the amount of €46.1 million (PY: €38.4 million).

Overall, the acquisition of Argus Cyber Security Ltd, Tel Aviv, Israel, at €353.4 million and two share deals totaling €32.4 million resulted in an increase in operating assets. The value was reduced by a purchase price adjustment of €0.7 million. Other changes in the scope of consolidation did not result in any additions or disposals of operating assets.

While exchange-rate effects increased the Interior division's total operating assets by €25.9 million in the previous year, they reduced them by €131.8 million in the year under review.

Average operating assets in the Interior division climbed by €515.1 million to €5,028.9 million as compared to fiscal 2016 (€4,513.8 million).

Capital expenditure (additions)
Additions to the Interior division rose by €24.4 million year-on-year to €453.3 million (PY: €428.9 million). Capital expenditure amounted to 4.9% (PY: 5.2%) of sales.

In addition to the expansion of production capacity at German locations, investments were also made in China, Czechia, Mexico, Romania and the U.S.A. Investments focused primarily on the expansion of manufacturing capacity for the Instrumentation & Driver HMI and Body & Security business units. In the Instrumentation & Driver HMI business unit, manufacturing capacity for operation and display solutions was expanded.

Employees
The number of employees in the Interior division rose by 2,662 to 46,006 (PY: 43,344). The rise in staff numbers is due to the continuing expansion in research and development and the adjustment in line with greater volumes. The increase related to the Body & Security, Commercial Vehicles & Aftermarket, Instrumentation & Driver HMI, and Intelligent Transportation Systems business units, while Infotainment & Connectivity remained at the previous year's level.

Rubber Group

Rubber Group in € millions	**2017**	2016	Δ in %
Sales	17,494.7	16,097.6	8.7
EBITDA	3,499.6	3,559.6	–1.7
in % of sales	20.0	22.1	
EBIT	2,593.5	2,688.6	–3.5
in % of sales	14.8	16.7	
Research and development expenses (net)	428.2	380.6	12.5
in % of sales	2.4	2.4	
Depreciation and amortization[1]	906.1	871.0	4.0
thereof impairment[2]	2.9	37.2	
Operating assets as at December 31	9,073.6	8,640.4	5.0
Operating assets (average)	9,325.1	8,561.4	8.9
ROCE	27.8	31.4	
Capital expenditure[3]	1,060.2	1,094.1	–3.1
in % of sales	6.1	6.8	
Number of employees as at December 31[4]	100,749	94,966	6.1
Adjusted sales[5]	16,965.4	16,093.3	5.4
Adjusted operating result (adjusted EBIT)[6]	2,643.6	2,815.8	–6.1
in % of adjusted sales	15.6	17.5	

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) is known for maximizing safety through short braking distances and excellent grip as well as reducing fuel consumption by minimizing rolling resistance.

› The **ContiTech** division (14% of consolidated sales) develops, manufactures and markets functional parts, intelligent components and systems made of rubber, plastic, metal and fabric for machine and plant engineering, mining, agriculture, the automotive industry, and for other important sectors.

In the year under review, the 15 business units in total generated 40% of consolidated sales.

The Rubber Group was confronted with considerably increased raw materials prices in 2017. For example, natural rubber and butadiene, an input material for synthetic rubber, reached their highest price levels in recent years in the first quarter of 2017. In particular, primary products for rubber compounds posted notably higher price in this period.

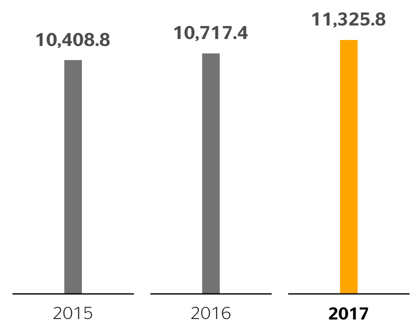
Development of the Tire Division

- Sales up 5.7%
- Sales up 5.3% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT down 7.3%

Sales volumes
In 2017, sales figures for passenger and light truck tires were at the previous year's level in original-equipment business, while sales volumes in the tire-replacement business were up 4% year-on-year. Sales figures in commercial-vehicle tire business were 5% higher than in the previous year as well. The Tire division therefore sold around 155 million tires in 2017.

Sales up 5.7%
Sales up 5.3% before changes in the scope of consolidation and exchange-rate effects
Sales in the Tire division rose by 5.7% year-on-year to €11,325.8 million (PY: €10,717.4 million) in 2017. Before changes in the scope of consolidation and exchange-rate effects, sales rose by 5.3%.

Sales € millions



Adjusted EBIT down 7.3%
The Tire division's adjusted EBIT fell by €168.4 million or 7.3% year-on-year in 2017 to €2,128.2 million (PY: €2,296.6 million), equivalent to 19.0% (PY: 21.4%) of adjusted sales.

EBIT down 6.0%
In comparison to the previous year, the Tire division posted a decline in EBIT of €138.1 million, or 6.0%, to €2,151.3 million (PY: €2,289.4 million) in 2017. The return on sales fell to 19.0% (PY: 21.4%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €19.5 million (PY: €10.7 million).

ROCE amounted to 35.0% (PY: 40.8%).

Special effects in 2017
In the Tire division, the disposal of equity interests held as financial assets resulted in income totaling €14.0 million.

In addition, a first-time consolidation resulted in a gain of €0.5 million.

Moreover, the reversal of restructuring provisions no longer required resulted in income of €10.0 million.

Impairment on property, plant and equipment resulted in expense totaling €0.5 million in the Tire division.

Special effects in 2017 had a positive impact totaling €24.0 million in the Tire division.

Special effects in 2016
The disposal of an equity interest held as a financial asset resulted in income of €3.9 million.

Impairment on property, plant and equipment resulted in expense totaling €0.2 million.

Special effects in 2016 had a positive impact totaling €3.7 million in the Tire division.

Procurement
The prices for natural rubber and important oil-based raw materials reached a high in the first half of 2017. In particular, the prices of input materials such as butadiene and of raw materials such as natural rubber were very volatile because of both increased demand and speculation. For example, these prices rose sharply in the first quarter of 2017, reaching the highest value of recent years. In the subsequent quarter, prices for rubber were quoted much lower again. The second half of the year was characterized by substantially reduced volatility. On average, the price level in 2017 as a whole was much higher than in the previous year.

Research and development
Research and development expenses (net) rose by €28.9 million or 11.1% year-on-year to €289.8 million (PY: €260.9 million), corresponding to 2.6% (PY: 2.4%) of sales.

Depreciation and amortization
Depreciation and amortization rose by €58.1 million compared to fiscal 2016 to €597.4 million (PY: €539.3 million) and amounted to 5.3% (PY: 5.0%) of sales. This included impairment totaling €0.5 million in 2017 (PY: €0.2 million).

Tires in € millions	**2017**	2016	Δ in %
Sales	11,325.8	10,717.4	5.7
EBITDA	2,748.7	2,828.7	-2.8
in % of sales	24.3	26.4	
EBIT	2,151.3	2,289.4	-6.0
in % of sales	19.0	21.4	
Research and development expenses (net)	289.8	260.9	11.1
in % of sales	2.6	2.4	
Depreciation and amortization[1]	597.4	539.3	10.8
thereof impairment[2]	0.5	0.2	
Operating assets as at December 31	5,995.7	5,771.9	3.9
Operating assets (average)	6,143.0	5,612.7	9.4
ROCE	35.0	40.8	
Capital expenditure[3]	847.0	882.1	-4.0
in % of sales	7.5	8.2	
Number of employees as at December 31[4]	53,811	52,057	3.4
Adjusted sales[5]	11,194.7	10,716.6	4.5
Adjusted operating result (adjusted EBIT)[6]	2,128.2	2,296.6	-7.3
in % of adjusted sales	19.0	21.4	

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.

Operating assets

Operating assets in the Tire division increased by €223.8 million year-on-year to €5,995.7 million (PY: €5,771.9 million) as at December 31, 2017.

The Tire division posted a €138.5 million increase in working capital to €2,474.2 million (PY: €2,335.7 million). Inventories increased by €177.4 million to €1,608.2 million (PY: €1,430.8 million). Operating receivables increased by €66.3 million to €2,163.2 million (PY: €2,096.9 million) as at the reporting date. Operating liabilities were up €105.2 million at €1,297.2 million (PY: €1,192.0 million).

Non-current operating assets were up €74.2 million year-on-year at €4,492.8 million (PY: €4,418.6 million). This increase was due primarily to the €78.7 million rise in property, plant and equipment to €4,023.4 million (PY: €3,944.7 million). Goodwill had a contrary effect and decreased by €2.0 million to €205.2 million (PY: €207.2 million). This decrease is attributable to exchange-rate effects of €5.1 million and a contrary purchase price adjustment of €3.1 million. Other intangible assets declined by €17.0 million to €129.3 million (PY: €146.3 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €19.5 million (PY: €10.7 million) reduced the value of intangible assets.

In connection with several asset deals and a purchase price adjustment, operating assets rose by €5.7 million overall. Other changes in the scope of consolidation did not result in any notable additions or disposals of operating assets.

While exchange-rate effects increased the Tire division's total operating assets by €145.9 million in the previous year, they reduced them by €353.7 million in the year under review.

Average operating assets in the Tire division increased by €530.3 million to €6,143.0 million compared with fiscal 2016 (€5,612.7 million).

Capital expenditure (additions)

Additions to the Tire division decreased by €35.1 million year-on-year to €847.0 million (PY: €882.1 million). Capital expenditure amounted to 7.5% (PY: 8.2%) of sales.

In the Tire division, production capacity was expanded in Europe, North America and Asia. There were major additions relating to the expansion of existing production sites in Hefei, China; Mount Vernon, Illinois and Sumter, South Carolina, U.S.A.; Púchov, Slovakia; and Lousado, Portugal. Investments were also made in the new plant buildings in Rayong, Thailand, and Clinton, Mississippi, U.S.A. In addition, quality assurance and cost-cutting measures were implemented.

Employees

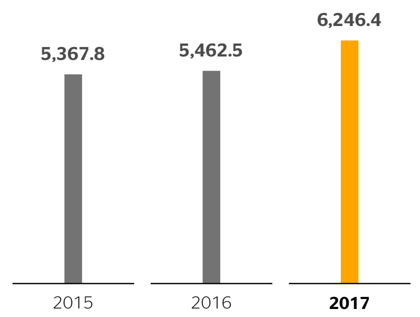
The number of employees in the Tire division increased by 1,754 to 53,811 (PY: 52,057). At the production companies, the ongoing expansion of the plants in Lousado, Portugal; Otrokovice, Czechia; Púchov, Slovakia; Hefei, China; and Sumter, South Carolina and Mount Vernon, Illinois, U.S.A., led to an increase in staff numbers. In addition, the increase in the number of employees was attributable to expansion projects with regard to distribution and retail companies, especially as a result of the acquisition of Vaysse S.A.S., France, and the expansion of research and development activities worldwide.

Development of the ContiTech Division

- Sales up 14.4%
- Sales up 8.1% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT down 0.7%

Sales up 14.4%
Sales up 8.1% before changes in the scope of consolidation and exchange-rate effects
Sales in the ContiTech division rose by 14.4% year-on-year to €6,246.4 million (PY: €5,462.5 million) in 2017. Before changes in the scope of consolidation and exchange-rate effects, sales rose by 8.1%. Sales grew strongly in the industrial business, due in particular to increased demand in the mining and oil production business. In addition, sales in both automotive original equipment and the replacement business increased significantly in comparison to the previous year.

Sales € millions



Adjusted EBIT down 0.7%
The ContiTech division's adjusted EBIT was down by €3.8 million or 0.7% year-on-year in 2017 to €515.4 million (PY: €519.2 million), equivalent to 8.8% (PY: 9.5%) of adjusted sales.

EBIT up 10.8%
In comparison to the previous year, the ContiTech division posted an increase in EBIT of €43.0 million, or 10.8%, to €442.2 million (PY: €399.2 million) in 2017. The return on sales fell to 7.1% (PY: 7.3%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €93.2 million (PY: €82.7 million).

ROCE amounted to 13.9% (PY: 13.5%).

Special effects in 2017
Impairment on property, plant and equipment resulted in expense totaling €2.4 million in the ContiTech division.

In addition, restructuring expenses and the reversal of restructuring provisions no longer required resulted in income of €0.2 million overall.

In the ContiTech division, disposals of companies and assets resulted in an expense totaling €1.6 million.

Special effects in 2017 had a negative impact totaling €3.8 million in the ContiTech division.

Special effects in 2016
Due to the market situation in 2016, impairment totaling €33.1 million on intangible assets was recognized for the Conveyor Belt Group and Industrial Fluid Solutions business units.

A subsequent purchase price adjustment in connection with the acquisition of Veyance Technologies resulted in income totaling €27.0 million.

A further purchase price adjustment resulted in expense of €0.9 million.

The sale of the steel cord business in Brazil, coupled with the fulfillment of conditions imposed by antitrust authorities, resulted in expense totaling €15.9 million. This figure comprises a loss on disposal of €9.3 million, market value adjustments totaling €6.0 million, and sales tax receivables that can no longer be utilized in the amount of €0.6 million.

The temporary cessation of conveyor belt production in Volos, Greece, resulted in restructuring expenses of €11.2 million, of which €3.4 million was attributable to impairment on property, plant and equipment.

Restructuring expenses of €3.1 million were incurred in Chile, including impairment on property, plant and equipment in the amount of €0.9 million.

Additional restructuring expenses and the reversal of restructuring provisions no longer required resulted in expense of €0.2 million overall. This included reversal of impairment losses on property, plant and equipment in the amount of €0.4 million.

Impairment and a reversal of an impairment loss on property, plant and equipment did not result in any effect on earnings overall.

Special effects in 2016 had a negative impact totaling €37.4 million in the ContiTech division.

ContiTech in € millions	2017	2016	Δ in %
Sales	6,246.4	5,462.5	14.4
EBITDA	750.9	730.9	2.7
in % of sales	12.0	13.4	
EBIT	442.2	399.2	10.8
in % of sales	7.1	7.3	
Research and development expenses (net)	138.4	119.7	15.6
in % of sales	2.2	2.2	
Depreciation and amortization[1]	308.7	331.7	-6.9
thereof impairment[2]	2.4	37.0	
Operating assets as at December 31	3,077.9	2,868.5	7.3
Operating assets (average)	3,182.1	2,948.7	7.9
ROCE	13.9	13.5	
Capital expenditure[3]	213.2	212.0	0.6
in % of sales	3.4	3.9	
Number of employees as at December 31[4]	46,938	42,909	9.4
Adjusted sales[5]	5,848.2	5,459.0	7.1
Adjusted operating result (adjusted EBIT)[6]	515.4	519.2	-0.7
in % of adjusted sales	8.8	9.5	

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.

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, rubber and carbon black prices were up significantly year-on-year. In the first quarter of 2017, prices for rubber and the input material butadiene, driven by speculation, climbed to their highest level in years. The higher crude oil prices year-on-year resulted in increased carbon black prices. Prices for rubber sank appreciably in the second half of the year.

Research and development
Expenses for research and development (net) rose by €18.7 million or 15.6% year-on-year to €138.4 million (PY: €119.7 million), corresponding to 2.2% of sales as in the previous year.

Depreciation and amortization
Depreciation and amortization declined by €23.0 million compared to fiscal 2016 to €308.7 million (PY: €331.7 million) and amounted to 4.9% (PY: 6.1%) of sales. This included impairment totaling €2.4 million in 2017 (PY: €37.0 million).

Operating assets
Operating assets in the ContiTech division increased by €209.4 million year-on-year to €3,077.9 million (PY: €2,868.5 million) as at December 31, 2017.

Working capital was up €118.3 million at €1,021.8 million (PY: €903.5 million). Inventories increased by €90.0 million to €720.1 million (PY: €630.1 million). Operating receivables rose by €114.3 million to €1,061.1 million (PY: €946.8 million) as at the reporting date. Operating liabilities were up €86.0 million at €759.4 million (PY: €673.4 million).

Non-current operating assets were up €143.4 million year-on-year at €2,439.3 million (PY: €2,295.9 million). Goodwill increased by €61.2 million to €486.5 million (PY: €425.3 million). €91.8 million of this increase resulted from the acquisition of the Hornschuch Group and €4.0 million from a share deal, which were countered by exchange-rate effects of €34.6 million. At €1,388.6 million, property, plant and equipment was €57.8 million above the previous year's level of €1,330.8 million. Intangible assets climbed by €16.4 million to €532.8 million (PY: €516.4 million). This includes the acquisition of the Hornschuch Group, which accounts for €163.3 million, while the value was reduced by exchange-rate effects of €54.5 million. Amortization of intangible assets from purchase price allocation (PPA) in the amount of €93.2 million (PY: €82.7 million) reduced the value of intangible assets.

The acquisition of the Hornschuch Group and a share deal at €463.0 million and €14.9 million contributed to an increase in the ContiTech division's operating assets. Other changes in the scope of consolidation did not result in any notable additions or disposals of operating assets.

While exchange-rate effects increased the ContiTech division's total operating assets by €30.8 million in the previous year, they reduced them by €196.4 million in the year under review.

Average operating assets in the ContiTech division climbed by €233.4 million to €3,182.1 million as compared to fiscal 2016 (€2,948.7 million).

Capital expenditure (additions)
Additions to the ContiTech division increased by €1.2 million year-on-year to €213.2 million (PY: €212.0 million). Capital expenditure amounted to 3.4% (PY: 3.9%) of sales.

In the ContiTech division, the production facilities at German locations and in China, the U.S.A., Mexico and Hungary were expanded and established. Production capacity for the Mobile Fluid Systems, Benecke-Hornschuch Surface Group (formerly Benecke-Kaliko Group), Power Transmission Group, and Conveyor Belt Group business units was expanded in particular. Investments were made in all business units to rationalize existing production processes.

Employees
The number of employees in the ContiTech division increased by 4,029 compared with the previous year to 46,938 (PY: 42,909). This increase in the workforce was due chiefly to higher volumes in the Mobile Fluid Systems and Benecke-Hornschuch Surface Group (formerly Benecke-Kaliko Group) business units. The increase in the number of employees is also due to the acquisition of the Hornschuch Group.

Continental AG
Short Version in acc. with *HGB*

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

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 decreased by €264.5 million year-on-year to €18,801.5 million (PY: €19,066.0 million). On the assets side, the change is due primarily to the €322.0 million decline in cash and cash equivalents. This was countered by a €74.5 million increase in receivables from affiliated companies to €7,442.5 million (PY: €7,368.0 million).

Investments increased by €4.7 million year-on-year to €10,995.4 million (PY: €10,990.7 million) and now account for 58.5% of total assets after 57.6% in the previous year. The increase resulted primarily from the addition of investment securities.

At €28.6 million (PY: €31.2 million), prepaid expenses and deferred charges were down €2.6 million. The decline resulted from the straight-line reversal of prepaid expenses for the syndicated loan and from the reduction of other prepaid expenses.

On the equity and liabilities side, liabilities to affiliated companies decreased by €575.5 million year-on-year to €9,208.1 million (PY: €9,783.6 million). Bank loans and overdrafts also declined by €257.5 million to €214.0 million (PY: €471.5 million) and trade accounts payable by €7.5 million to €25.5 million (PY: €33.0 million).

Net assets and financial position of Continental AG	**Dec. 31, 2017**	Dec. 31, 2016
Assets in € millions		
Intangible assets	26.4	40.2
Property, plant and equipment	6.8	3.2
Investments	10,995.4	10,990.7
Non-current assets	**11,028.6**	**11,034.1**
Inventories	0.0	0.0
Receivables and other assets	7,487.1	7,421.5
Cash and cash equivalents	257.2	579.2
Current assets	**7,744.3**	**8,000.7**
Prepaid expenses and deferred charges	**28.6**	**31.2**
Total assets	**18,801.5**	**19,066.0**
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	253.1	264.1
Net income	1,217.3	839.0
Shareholders' equity	**6,216.2**	**5,848.9**
Provisions	**963.1**	**755.6**
Liabilities	**11,622.2**	**12,461.5**
Total equity and liabilities	**18,801.5**	**19,066.0**
Gearing ratio in %	65.1	78.4
Equity ratio in %	33.1	30.7

Provisions increased by €207.5 million to €963.1 million (PY: €755.6 million) due to the increase in tax provisions of €181.1 million to €697.0 million (PY: €515.9 million) and in pension provisions of €8.8 million to €175.3 million (PY: €166.5 million). Other provisions likewise increased by €17.6 million to €90.8 million in the year under review.

Equity increased from €5,848.9 million in the previous year to €6,216.2 million. The decrease as a result of the dividend payment for 2016 in the amount of €850.0 million was offset by the net income of €1,217.3 million generated in fiscal 2017. As a result of the increase in equity and the decrease in total assets, the equity ratio climbed from 30.7% to 33.1%.

Sales increased by €36.7 million to €237.7 million (PY: €201.0 million), primarily due to the increase in sales from corporate services of €36.1 million.

Net investment income increased by €607.6 million year-on-year to €1,737.1 million (PY: €1,129.5 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 €989.0 million; Continental Automotive GmbH, Hanover, in the amount of €560.9 million; and Formpolster GmbH, Hanover, in the amount of €196.5 million. This was countered by expenses of €36.0 million from absorbing the loss of UMG Beteiligungsgesellschaft mbH, Hanover.

The negative net interest result improved by €10.1 million year-on-year to €85.6 million in fiscal 2017 (PY: €95.7 million). Interest expense decreased by €15.2 million to €118.3 million (PY: €133.5 million), due primarily to the decrease in interest and similar expense from affiliated companies.

Interest income declined by €5.1 million year-on-year to €32.7 million (PY: €37.8 million). Interest and similar income from affiliated companies accounted for €1.3 million and interest and similar income from other companies €3.8 million.

The tax expense of €265.6 million (PY: €67.2 million) resulted primarily from current expenses in Germany, from expense for previous years as a result of tax audits and from non-imputable foreign withholding tax.

After taking this tax expense into account, Continental AG posted net income for the year of €1,217.3 million (PY: €839.0 million). The after-tax return on equity was 19.6% (PY: 14.3%).

Taking into account the accumulated profits brought forward from the previous year of €253.1 million, retained earnings amounted to €1,470.4 million. The Supervisory Board and the Executive Board will propose to the Annual Shareholders' Meeting the distribution of a dividend of €4.50 per share. With 200,005,983 shares entitled to dividends, the total distribution will thus amount to €900,026,923.50. The remaining amount is to be carried forward to new account.

We expect stable income from profit and loss transfers and investment income from the subsidiaries in fiscal 2018.

Earnings position of Continental AG in € millions	**2017**	2016
Sales	237.7	201.0
Cost of sales	–230.9	–194.8
Gross margin on sales	**6.8**	**6.2**
General administrative expenses	–182.3	–144.5
Other operating income	35.8	36.9
Other operating expenses	–39.2	–36.6
Net investment income	1,737.1	1,129.5
Income from other securities and long-term loans	10.3	10.4
Net interest result	–85.6	–95.7
Result from activities	**1,482.9**	**906.2**
Income tax expense	–265.6	–67.2
Net income	**1,217.3**	**839.0**
Accumulated profits brought forward from the previous year	253.1	264.1
Retained earnings	**1,470.4**	**1,103.1**

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 2017, 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, 2017, 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 2017 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 amounts 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 37 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) Number 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) As at the reporting date, the agreement concluded on April 24, 2014, for a syndicated loan originally amounting to €4.5 billion consists only of a revolving tranche of €3.0 billion. This agreement 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 two bonds issued by Continental AG in 2013 at a nominal amount of €750 million each, the bond issued by another subsidiary of Continental AG, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in November 2015 at a nominal amount totaling €500 million, and the bond of €600 million issued by Continental AG in November 2016 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. 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 for 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 for 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 24. 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 at www.continental-corporation.com in the Company/Corporate Governance section.

Report on Risks and Opportunities

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

The management of the Continental Corporation 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 lead us to expect to achieve 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 sector 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 23. 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 the 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, 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 which risks are significant for the corporation. The GRC Committee regularly informs the Executive Board and the Audit Committee of the Supervisory Board of the major 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 major 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.

Significant 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. Regular audits of the risk management process by Corporate Audit guarantee its efficiency 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, then 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 or its subsidiaries 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 syndicated loan agreement in April 2014 from which risks may arise. This loan agreement was last renegotiated in April 2016. 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 Further Disclosures and Notes section, pursuant to sections 289a and 315a *HGB*, on pages 96 and 97. 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.

Furthermore, in addition to other obligations, this syndicated loan agreement also requires Continental to comply with a financial covenant. This provides for a maximum leverage ratio (calculated from the ratio of Continental's consolidated net indebtedness to consolidated adjusted EBITDA) of 3.00.

Owing to the market and operational risks presented below, it cannot be ruled out that under certain extreme circumstances it may not be possible for Continental to comply with the ratio described previously. If Continental fails in this obligation, the creditors are entitled to declare the loan and bonds immediately due and payable. The committed volume of the syndicated loan consists of a revolving tranche of €3.0 billion (due in April 2021). This had not been utilized as at the end of fiscal 2017.

The leverage ratio was 0.23 as at December 31, 2017. The financial covenant was complied with at all times.

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, which result from cash inflows and outflows in currencies that are 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 using a mathematical model based on historical volatility. 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 €200 million and €300 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 (72%) 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.

During the global economic crisis in 2008 and 2009, automotive sales and production deteriorated substantially, resulting in a sharp decline in demand for Continental's products among its OEM customers. At present, it is not known if the current economic situation will persist. If this is not the case, automobile production could fall again and remain at a low level for an extended period of time. This would impact Continental's business and earnings situation, especially in Europe, where Continental generated 49% of its sales in 2017. A prolonged weakness in or deterioration of the European automotive market would be likely to adversely affect Continental's sales and results of operations. Furthermore, Continental's five largest OEM customers (Daimler, Fiat-Chrysler, Ford, Renault-Nissan-Mitsubishi and VW) generated approximately 41% of the Continental Corporation's sales in 2017. 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.

The potential trade difficulties that arise from the current political developments in the European Union (e.g. Brexit) and in North America could also negatively impact Continental's business and earnings situation.

Based on a scenario analysis that assumes a 20% decrease in volumes in fiscal 2018, and taking account of restructuring measures required as a result, we anticipate a decline of around 6 percentage points in the EBIT margin and of 3 to 4 percentage points in the adjusted EBIT margin.

Continental operates in a cyclical industry.
Global production of vehicles and, as a result, sales to OEM customers (from whom Continental currently generates 72% of its sales) experience 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 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 2017, Continental generated 49% of its total sales in Europe and 20% in Germany alone. By comparison, 25% of Continental's total sales in 2017 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. Continental is therefore seeking to generate more sales in emerging markets, particularly Asia, to mitigate the effects of its strong focus on Europe and Germany. In the current global economic situation, adverse changes in the geographical distribution of automotive demand could also cause Continental to suffer. The current level of automotive production is driven mainly by solid demand from the European and Asian markets, while demand in North America recently consolidated at a high level and even fell slightly. It is not known if the current development in Europe and Asia will prove sustainable. If demand falls further in North America and is not compensated for by an increase on another regional market, this could also adversely affect demand for Continental products. To minimize these risks, Continental is striving to improve the regional sales balance, as described in the corporate strategy.

Continental is exposed to risks associated with the market trends and developments that could affect the vehicle mix sold by OEMs.
Continental currently generates 72% 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 technical developments that may affect the vehicle mix sold by OEMs.

- Due to increasingly stringent consumption and emission standards throughout the industrial world, including the EU 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. These developments have caused a trend toward lower-consumption vehicles. The emerging markets are focusing strongly on the small-car segment as their introduction to mobility.

- In recent years, the market segment of affordable cars has grown steadily, particularly in emerging markets such as China, India and Brazil, as well as in Eastern Europe.

- Over the past decade, hybrid electric vehicles, which combine a conventional internal-combustion-engine drive system with an electric drive system, have become increasingly popular. Their market share will increase further in the coming years. Furthermore, the first purely electric vehicles that use one or more electric motors for propulsion have already been launched. If the industry is able to develop electric vehicles in line with consumers' expectations, these could gain a considerable market share in the medium to long term.

As a result of the market trends and technical developments described previously, the vehicle mix sold by Continental's customers has shifted considerably in the last few years and may also change further in the future. As a technology leader, Continental is reacting to this development with a balanced and innovative product portfolio.

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. In addition, the cost of certain types of synthetic rubber looks set to increase, as stricter environmental requirements will apply for the plants operated in China, one of the most important countries of origin, starting in 2018. This could result in the closure of plants, and thus loss of capacity, which could result in price increases. 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 onto customers, the price increases could reduce Continental's income 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 of December 31, 2017, the pension obligations amounted to €6,379.7 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 pension trust arrangements in connection with the acquisition of Siemens VDO. As of December 31, 2017, Continental's net pension obligations (defined benefit obligations less the fair value of plan assets) amounted to €3,830.6 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, it does not determine their individual investment alternatives. 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 in a range from €500 million to €600 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 can 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, 2017, 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 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. The financial and economic crisis in 2008 and 2009, in addition to the natural disasters in Japan and Thailand, have shown how quickly the financing strength and ability of some automotive suppliers to deliver can be impaired and even result in insolvency. This mainly affected Tier 2 and Tier 3 suppliers (suppliers who sell their products to Tier 1 or Tier 2 suppliers respectively), while Tier 1 suppliers (suppliers who sell their products to OEMs directly) were not affected to the same degree. Such developments and events can 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 amongst 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 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 additional regulations could adversely affect demand for Continental'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 EU 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 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. 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 €3.0 million) on CBIA, which was then reduced to BRL 10.8 million (around €2.7 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. On December 23, 2013, the KFTC announced that it had imposed a fine of KRW 45,992 million (around €36 million) on Continental Automotive Electronics LLC, Bugan-myeon, South Korea (CAE). On June 25, 2015, the Seoul High Court, Seoul, South Korea, vacated the administrative fine imposed by the KFTC on CAE's appeal against the amount of the fine. The Supreme Court of South Korea rejected KFTC's appeal against this decision on May 31, 2017. It is not yet known how high the new fine from the KFTC will be. On November 13, 2014, the competent South Korean criminal court also imposed a fine of KRW 200 million (around €157,000). Following CAE's appeal, this fine was reduced to KRW 100 million (around €78,000). The decision is final. On November 24, 2014, CAE and Continental Automotive Korea Ltd., Seongnam-si, South Korea, entered into an agreement in which 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 €3.3 million). The competent U.S. court confirmed the agreement on April 1, 2015. The risk of investigations by other antitrust authorities into this matter and claims for damages by 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. The commission has since completed proceedings initiated in this regard and communicated that it is fining Continental AG; Continental Teves AG & Co. oHG, Frankfurt, Germany; and Continental Automotive GmbH, Hanover, Germany; €44.0 million 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, 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 32 of the Notes to the Consolidated Financial Statements.

Material Opportunities

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

There are opportunities for Continental if macroeconomic development is 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 (49%).

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 steel and electronic components. 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 and synthetic rubber in particular settle down at the level of the second half of 2017, this could have a positive impact on Continental's earnings. We currently anticipate that prices, particularly of rubber, will rise again over the course of 2018 as a result of the assumed increase in demand on the global tire-replacement and industrial markets.

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 in developing markets, too, could trigger higher demand for Continental's products. With our comprehensive portfolio of gasoline and diesel systems including sensors, actuators, exhaust-gas aftertreatment and tailor-made electronics, through to fuel supply systems, engine management and transmission control units, down to systems and components for hybrid and electric drives, as well as with tires with optimized rolling resistance and tires for hybrid vehicles, we are already providing solutions that enable compliance with such changes in the legal framework and can therefore respond quickly to changes that arise in the regulatory provisions. 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.

There are opportunities for Continental from an intensified trend toward vehicle hybridization.
If the trend toward vehicle hybridization intensifies, with the effect that hybrid technology then represents more of a cost-effective alternative than previously expected due to economies of scale, this would have a positive impact on Continental, since Continental is already well positioned on these future markets with its products.

There are opportunities for Continental 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 coming decade by means of collaborations with leading providers from the technology and internet sector. To this end, we are developing new cross-divisional system, service and software solutions that can offer substantial growth potential for Continental with positive effects on its future sales and attainable margins. External studies estimate the market potential of connecting vehicles with each other and with the internet at U.S. $70 billion to U.S. $110 billion in 2025. This also includes the intelligent use of automotive data. This digitalization is opening up a new market for mobility services that enables Continental to tap new business areas with its Continental.cloud and eHorizon, which are paving the way for such 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 intensified considerably. Some OEMs expect to be able to provide this function in just a few years. A key requirement for fully automated driving is the equipment of vehicle with sensors. Today, an average of one sensor for assisted driving is installed per vehicle. Merely for partly automated driving, an average of 16 sensors are required, including radars, lasers and camera sensors. OEMs estimate that up to 44 sensors are needed in order to realize fully automated driving. Continental is already one of the leading providers of advanced driver assistance systems. According to our own

estimate, the market volume for sensors for assisted/automated driving in 2025 will be €35 billion. However, this estimate is based on far fewer sensors per vehicle than is currently assumed by our customers. Should the trend toward automated driving continue to accelerate in the years to come and the data we assume for sensor equipment per vehicle prove too conservative, this would result in considerable sales and earnings opportunities for Continental.

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 then 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 zero-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.

In the current year, it remains to be seen how further political developments in North America, Europe (e.g. Brexit) and China will affect the economy and our business development – and whether the prevailing volatile situation will affect our company – and, if so, to what extent.

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 its January 2018 World Economic Outlook Update, the International Monetary Fund (IMF) predicts that growth in Germany and the eurozone will continue in the current fiscal year, due in particular to consistently good domestic demand. By contrast, the appreciation of the euro is likely to dampen exports and foreign trade. For 2018, the IMF is now projecting that the gross domestic product (GDP) of Germany and the eurozone will grow by 2.3% and 2.2% respectively.

For the U.S.A., the IMF expects a significant increase in GDP growth to 2.7% this year. Here, the tax cuts enacted for companies are likely to result in greater investing activity and a revival in domestic demand. Above all, economic activity could be curbed in 2018 by further interest rate hikes by the U.S. Federal Reserve (Fed) and a higher trade deficit due to increasing imports.

The IMF expects moderate growth of 1.2% for Japan in 2018. The main reason for the lower growth compared to 2017 is an anticipated smaller increase in the trade surplus. Low interest rates, which are boosting private investment, and increasing consumer and public spending continue to have a positive effect.

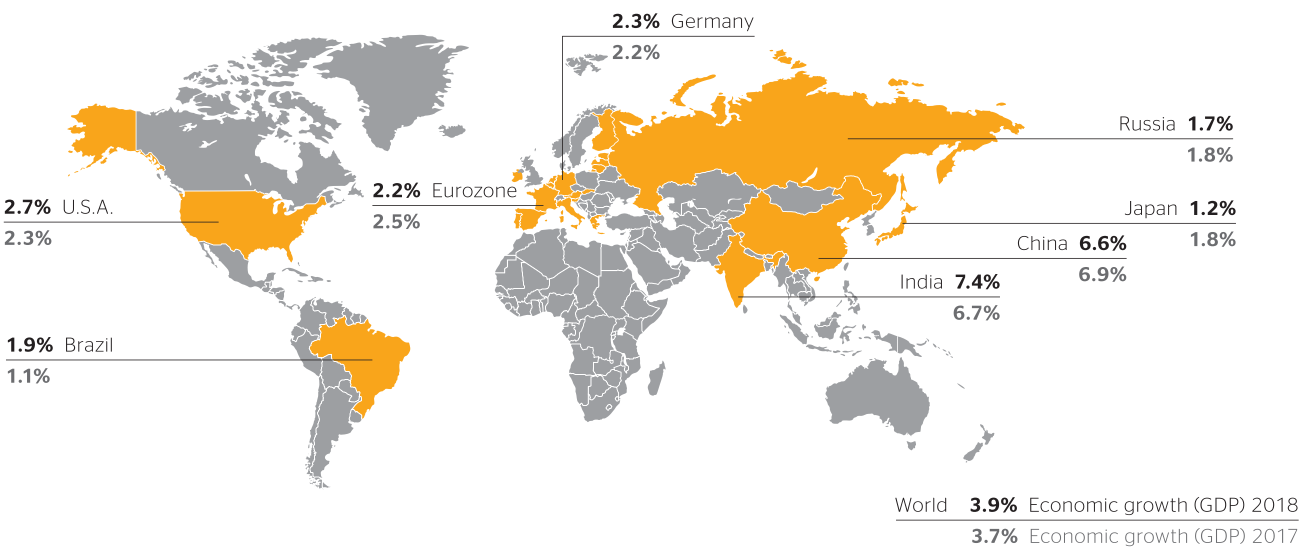
According to the IMF, emerging and developing economies will record GDP growth of 4.9% in 2018. The increase in growth is mainly being driven by India, whose economy is likely to gain momentum again after the extensive reforms of recent years. The IMF expects growth of 7.4% for India in 2018. The economic recovery in Brazil is also expected to continue this year, with the IMF expecting GDP to increase by 1.9% in 2018. In contrast, it expects growth to decline slightly in China and Russia. The IMF forecasts GDP growth of 6.6% for China and 1.7% for Russia in 2018.

Based upon these estimates, the IMF expects global economic growth to increase by 0.2 percentage points year-on-year to 3.9% in 2018.

However, the IMF points out that the acceleration of growth is mostly based on short-term factors. The IMF sees risks including a rise in inflation, which would require many central banks to tighten their expansionary monetary policy. Against the backdrop of increased national and corporate debt and in view of the high valuations on many capital markets, this could have considerable negative consequences. The IMF also continues to see risks in tendencies to put up barriers to trade and in geopolitical tensions between individual countries. At the same time, it points to ongoing structural problems and growing income inequality in some economies and urges appropriate reforms.

In 2018, the IMF primarily sees opportunities – given the favorable financing conditions and positive economic prospects at present – in a greater-than-expected increase in businesses' investing activities.

Year-on-year economic growth (GDP) in 2018



Sources: IMF – World Economic Outlook Update January 2018, Eurostat, statistical offices of the respective countries, Bloomberg.

Forecast for Key Customer Sectors

Forecast for production of passenger cars and light commercial vehicles
For the global production of passenger cars and light commercial vehicles weighing less than 6 metric tons, we currently expect growth of more than 1% to 96.5 million units in 2018.

In 2018, we again expect Asia to generate the largest absolute growth in production volumes. In our estimation, India, South Korea and Iran in particular should record rises in production volumes. We also currently consider it likely that China's production will be slightly higher than the previous year's record level, while we expect a slight decline in Japan. For Asia as a whole, we anticipate a 2% rise in production to around 52.5 million units. We expect passenger-car production in Europe to grow by 2% in 2018. In Western Europe, apart from the United Kingdom, we anticipate stable development of domestic demand. However, the higher euro exchange rate is likely to result in lower export figures. In Eastern Europe, passenger-car demand and production are expected to keep recovering. In contrast, demand is expected to continue to cool off in North America, where we consider a 2% decline in production to be probable. In South America, we expect production to increase by 8% as a result of the economic recovery.

Forecast for production of medium and heavy commercial vehicles
We estimate that global production of commercial vehicles weighing more than 6 metric tons will fall short of the previous year's level in 2018.

After the sharp rise in the previous year, we expect a considerable decline in production in China in 2018. As a result, we expect a 5% decrease in production in Asia. In contrast, the expected economic development in most countries is likely to lead to rising demand and increasing production. We expect production to increase by 2% in Europe and 9% in North America. We currently anticipate growth of 10% for South America.

Forecast for replacement-tire markets for passenger cars and light commercial vehicles
The positive trend in demand for replacement tires for passenger cars and light commercial vehicles weighing less than 6 metric tons is expected to continue in all regions in 2018. On a global level, we expect demand to increase by 3%.

The Asian market is expected to contribute around 60% of this with growth of 5%. As in previous years, this will be driven primarily by rising demand in China as a result of the further growth in vehicle numbers. Demand will also grow in India, Indonesia and South Korea. In Europe, we expect an increase in demand for replacement tires for passenger cars and light commercial vehicles in Eastern Europe in particular in 2018, which is likely to cause sales volumes in Europe as a whole to increase by 2%. Demand in North America is set to recover again after the stagnation in 2017 and increase by 2% in 2018, partly as a result of the continuing rise in mileage. In South America, we currently expect tire sales volumes to increase by 4%.

Forecast for replacement-tire markets for medium and heavy commercial vehicles
Thanks to the growing economy, global demand for replacement tires for commercial vehicles weighing more than 6 metric tons is likely to continue increasing in all regions and to rise by over 2% overall in 2018.

Asia is likely to account for nearly half the expected increase in demand. As a result of rising transport volumes, we currently expect demand for replacement tires for medium and heavy commercial vehicles to increase by 2%. We also currently expect sales volumes to increase by 2% in Europe. At present, we consider 3% growth in demand in North America to be realistic. In South America, we currently expect demand for replacement tires for medium and heavy commercial vehicles to go up by 5%.

Forecast for 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	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Europe	22.5	22.1	673	660	358	351	25.8	25.3
North America	16.8	17.1	559	513	290	285	25.3	24.5
South America	3.6	3.3	112	102	76	73	16.4	15.7
Asia	52.5	51.5	2,033	2,140	475	453	91.0	89.2
Other markets	1.1	1.1	0	0	48	47	7.8	7.8
Worldwide	**96.5**	**95.1**	**3,377**	**3,415**	**1,247**	**1,208**	**166.3**	**162.5**

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

Outlook for the Continental Corporation

Forecast process

Continental reports its expectations regarding the development of the important production and sales markets already in January of the current fiscal year. This forms the basis of our forecast for the corporation's key performance indicators, which we publish at the same time. These include sales and the adjusted EBIT margin for the corporation. In addition, we provide information on the assessment of important factors influencing EBIT. These include 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 allocation. We thus allow investors, analysts, and other interested parties to estimate the corporation's EBIT. Furthermore, we publish an assessment of the development of interest income and expenses as well as the tax rate for the corporation, which in turn allows the corporation's net income to be estimated. We also publish a forecast of the capital expenditures planned for the current year and the free cash flow before acquisitions. In February of the current fiscal year, we supplement 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 publish this forecast in March as part of our annual financial press conference and our annual report for the previous year. The forecast for the current year is reviewed continually. Possible changes to the forecast are described at the latest in the financial report for the respective quarter. At the start of the subsequent year, i.e. when the annual report for the previous year is prepared, a comparison is made with the forecast published in the annual report for the year before.

In 2015, Continental compiled a medium-term forecast in addition to the targets for the current year. This comprises the corporate strategy, the incoming orders in the Automotive Group and the medium-term targets of the Rubber Group. Accordingly, we want to generate sales of more than €50 billion and a return on capital employed (ROCE) of at least 20% in 2020. These medium-term targets were confirmed again after the review in 2017.

Comparison of the past fiscal year against forecast

We achieved all and even significantly exceeded some aspects of the forecast compiled in February 2017.

On the basis of the good business development, the forecast for consolidated sales was raised in the first-quarter reporting in May 2017 and the reporting on the first half of the year in August 2017. With consolidated sales of €44.0 billion, the original forecast was exceeded by more than €1 billion.

The forecast for the corporation's adjusted EBIT margin of more than 10.5% was maintained over the entire forecast period. It was 10.9% at the end of the reporting year and thus considerably higher than the forecast target value.

The sales forecast for the Automotive Group was likewise revised upward twice over the course of the reporting year, first in the first-quarter reporting in May 2017 and then again in the reporting on the first half of the year in August 2017. At €26.6 billion, the Automotive Group's sales were considerably higher than the original forecast of around €26 billion. This was due to the better-than-expected volume development in all divisions of the Automotive Group.

The forecast for the Automotive Group's adjusted EBIT margin was maintained over the entire forecast period. At 8.4%, it was in line with the forecast of approximately 8.5%.

Comparison of fiscal 2017 against forecast

	Corporation				Automotive Group		Rubber Group	
	Sales[1]	Adjusted EBIT margin	Capital expenditure in % of sales	Free cash flow[2]	Sales[1]	Adjusted EBIT margin	Sales[1]	Adjusted EBIT margin
January 2017	>€43 billion	>10.5%	~6.5%	~€2 billion				
2016 Annual Report	**>€43 billion**	**>10.5%**	**~6.5%**	**~€2 billion**	**~€26 billion**	**~8.5%**	**>€17 billion**	**>15%**
Financial Report as at March 31, 2017	>€43.5 billion	>10.5%	~6.5%	~€2 billion	>€26 billion	~8.5%	>€17 billion	>15%
Half-Year Financial Report as at June 30, 2017	>€44 billion	>10.5%	~6.5%	~€2 billion	~€26.5 billion	~8.5%	>€17 billion	>15%
Financial Report as at September 30, 2017	>€44 billion	>10.5%	~6.5%	~€2 billion	~€26.5 billion	~8.5%	>€17 billion	>15%
2017 reported	**€44.0 billion**	**10.9%**	**6.5%**	**€2.3 billion**	**€26.6 billion**	**8.4%**	**€17.5 billion**	**15.6%**

1 Assuming exchange rates remain constant year-on-year. The negative exchange-rate effects for the corporation amounted to €435 million in 2017. Around two-thirds of this was attributable to the Automotive Group, around one-third to the Rubber Group.
2 Before acquisitions.

The sales forecast of more than €17 billion for the Rubber Group was maintained at all times during the reporting year. With sales of €17.5 billion, the original forecast was exceeded. This was due firstly to the earlier-than-expected first-time consolidation of the Hornschuch Group and secondly to the good volume development in the Tire and ContiTech divisions.

The forecast for the Rubber Group's adjusted EBIT margin was maintained over the forecast period. At 15.6%, it was ultimately above the original forecast of more than 15%.

The negative financial result increased in the reporting year despite the good development of free cash flow. This was due to effects from currency translation, as well as effects from changes in the fair value of derivative instruments, and other valuation effects. Altogether, these had a negative impact of €98.6 million (PY: positive impact of €90.4 million) on the reported financial result in 2017. Adjusted for these effects, the negative financial result of €187.1 million was in line with the forecast we compiled at the start of the year of around €200 million assuming constant exchange rates. The tax rate of 28.7% was slightly below our forecast of less than 30%.

As in the previous year, the free cash flow before acquisitions was €2.3 billion despite the slightly increased capital expenditure ratio and the partial outflows for the provisions for warranty cases in the Automotive Group recognized in 2016.

Order situation

The Automotive Group continued to experience a positive trend in incoming orders in the past fiscal year. All three Automotive divisions considerably increased their goods on order compared to the previous year. Altogether, the Chassis & Safety, Powertrain and Interior divisions acquired orders for a total value of nearly €40 billion for the entire duration of the deliveries for the vehicles. 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 correct, 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 since January 2018 has comprised 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 the Continental Corporation

For fiscal 2018, we anticipate an increase in global light-vehicle production (passenger cars, station wagons and light commercial vehicles) of more than 1% to 96.5 million units. We expect demand on our key replacement-passenger-tire markets – Europe and North America – to grow by a total of 12 million replacement tires or 2% in each case. Based on these market assumptions and provided that exchange rates remain constant, we anticipate an increase in consolidated sales to around €47 billion in 2018.

We have set ourselves the goal for the corporation of achieving a consolidated adjusted EBIT margin of around 10.5% for fiscal 2018. With regard to the development of the adjusted EBIT margin, the lower expectation in comparison to the previous year is attributable mainly to the expected additional expenses due to the rising fixed costs in the Tire division and additionally due to rising raw material costs in the Rubber Group. The increase in fixed costs in the Tire division has resulted primarily from the considerable expansion of capacity over recent years. In 2017, this already led to an increase in depreciation and amortization of around €60 million year-on-year. This year, the startup of the tire plants in Clinton, Mississippi, U.S.A., and in Rayong, Thailand, is expected to result in a further rise in depreciation and amortization, but also other fixed costs, before these two plants generate their first sales. We estimate these costs alone at around €120 million. For the Automotive Group, assuming constant exchange rates, we anticipate sales growth of 7% to approximately €28.5 billion with an adjusted EBIT margin of around 8.5%. For the Rubber Group, assuming constant exchange rates, we expect sales growth to approximately €18.5 billion with an adjusted EBIT margin of around 15%.

In 2018, we anticipate a negative effect of approximately €50 million from the rising prices of raw materials in the Rubber Group. This is based on the assumption of an average price of U.S. $1.84 per kilogram (2017: U.S. $1.67 per kilogram) for natural rubber (TSR 20) and U.S. $1.60 per kilogram (2017: U.S. $1.51 per kilogram) for butadiene, a base material for synthetic rubber. We also expect costs for carbon black and other chemicals to increase by at least 10% compared to the average prices in 2017. For the Rubber Group, every U.S. $10 increase in the average price of crude oil equates to a negative annual gross effect on EBIT of around U.S. $50 million. The average price of North Sea Brent was around U.S. $54 in 2017.

In 2018, we expect 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 less than €180 million. The tax rate should again be less than 30% in 2018.

For 2018, we expect negative special effects to total €100 million. Amortization from purchase price allocations, resulting primarily from the acquisitions of Veyance Technologies (acquired in 2015), Elektrobit Automotive (acquired in 2015), and the Hornschuch Group (acquired in 2017), is expected to total approximately €180 million and to affect mainly the ContiTech and Interior divisions.

In fiscal 2018, the capital expenditure ratio before financial investments will increase to around 7% of sales. Approximately 60% of capital expenditure will be attributable to the Automotive Group and 40% to the Rubber Group.

The largest projects within the Chassis & Safety division in 2018 remain the global expansion of production capacity for the MK 100 and for the MK C1 brake generations in the Vehicle Dynamics business unit. In addition, major investments are planned for the global expansion of capacity for long- and short-range radar sensors as well as for 360-degree and multi-function cameras in the Advanced Driver Assistance Systems business unit. Initial investments will also be made in increasing the production of high-resolution 3D lidar sensors. The Powertrain division is planning investments in a new plant in China. Investments in the Hybrid Electric Vehicle business unit are also a priority of the investment program. Besides investments in capacity for electric motors, capital expenditure is planned to increase production of 48V belt-driven starter generators. The Interior division is investing in the construction of new plants in Eastern Europe and North America and the expansion of R&D capacity at certain European locations.

In the Tire division, investments in 2018 will focus on the expansion of passenger tire production in Southern and Eastern Europe, Asia, and North America. In the area of commercial-vehicle tires, the emphasis will be on the expansion of production capacity in Eastern Europe and North America. In the ContiTech division, investments will continue to concentrate on the relocation of a plant in the Mobile Fluid Systems business unit and the expansion of production in the Benecke-Hornschuch Surface Group business unit in China.

As at the end of 2017, Continental's net indebtedness amounted to €2.0 billion. In the future, we intend to continue strengthening industrial business in particular, in line with our objective of reducing our dependency on the automotive original-equipment sector. The acquisition of further companies for this purpose has not been ruled out. Another focus will be the selective reinforcement of our technological expertise in future-oriented fields within the Automotive Group.

For 2018, we are planning on free cash flow of approximately €2 billion before acquisitions. One reason for this year-on-year decrease is an increase in the capital expenditure ratio. In addition, we expect the rest of the warranty provisions recognized in 2016 and the provision recognized in 2016 for potential antitrust fines to flow out in full in 2018.

The start to 2018 has confirmed our expectations for the full year.

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, 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 EU, and include any necessary and appropriate estimates. The management report for the corporation and Continental AG contains an analysis of the net assets, financial and earnings 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 2017 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, February 8, 2018

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, 2017, and the Consolidated Statement of Income, Consolidated Comprehensive Income, the Consolidated Statement of Changes in Equity, and the Consolidated Statement of Cash Flows for the financial year from January 1, 2017, to December 31, 2017, and 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 financial year from January 1, 2017, to December 31, 2017.

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 EU and the additional requirements of German commercial law pursuant to Section 315e (1) *HGB Handelsgesetzbuch*: German Commercial Code 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, 2017, and of its financial performance for the financial year from January 1, 2017, to December 31, 2017, 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.

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 EU Audit Regulation No. 537/2014 (referred to subsequently as "EU 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 Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU 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 financial year from January 1, 2017, to December 31, 2017. 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 the Notes to the Consolidated Financial Statements in Note 2. Disclosure of the amount of goodwill is provided in the Notes to the Consolidated Financial Statements in Note 11.

The financial statement risk

As at December 31, 2017, goodwill totaled €7,010.1 million thereby comprising approximately 19% of the balance sheet total and a substantial portion of the assets.

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 was carried out as at November 30, 2017.

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.

On the basis of the impairment test carried out, the company has not identified the need for the recording of an impairment. The company's sensitivity analysis has shown that reasonably possible changes in the discount rate, in the long-term growth rate or in the sales in perpetuity would not lead to an impairment to the recoverable amount.

There is the risk for the financial statements that the required impairments were not sufficiently recorded. In addition, there is the risk that the disclosures in the notes associated herewith are not 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. In addition, reconciliations were made with the annual planning prepared by the Executive Board, which was approved by the Supervisory Board and the long-term planning for which the Supervisory Board took note of. Furthermore, we assessed the consistency of the assumptions with external market assessments.

We also assessed the company's planning accuracy by comparing projections for previous financial years with the actual results realized and analyzed deviations. As small changes in the discount rate can have a substantial impact on the results of the impairment test, we have compared the assumptions and parameters underlying the discount rate – in particular the risk-free rate, the market risk premium and the beta factor – with own assumptions and publicly available information.

To provide for the mathematical accuracy of the valuation model utilized, we recalculated the company's calculations on the basis of elements selected in a risk-orientated manner.

To reflect the existing uncertainty with respect to forecasts as well as the earlier valuation date for the impairment test, we have assessed reasonably possible changes of the sales, the discount rate respectively 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 thereby on three 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. This also included an assessment as to the appropriateness of the disclosures in the notes pursuant to IAS 36.134(f) with respect to sensitivities resulting from reasonably possible changes of key assumptions underlying the valuation.

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.

Other information
The Executive Board is responsible for the other information. The other information comprises:

- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and Corporate Management Report 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, with the Corporate Management Report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

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 EU and the additional requirements of German commercial law pursuant to Section 315e (1) *HGB* and 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 such internal control as they have determined 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. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are 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 such arrangements and measures (systems) as they have considered 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 EU 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 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 EU 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 Article 10 of the EU Audit Regulation
We were elected as corporate auditor by the Annual Shareholders' Meeting on April 28, 2017. We were engaged by the Supervisory Board on December 14, 2017. We have been the corporate auditor of Continental Aktiengesellschaft without interruption for more than thirty years.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU 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 the half-year financial statements of subsidiaries. Audit-related IT services, audits of various IT systems and IT processes as well as migration tests were carried out. We have also provided other attestation services, such as granting of a comfort letter, legal or contractual attestation services, such as the audit according to the EEG, according to § 20 *WpHG* (EMIR), the audit of the separate non-financial report as well as performance indicators regarding sustainability and the audit of transfer prices. We have issued confirmations of compliance with contractual arrangements. Related to the first-time adoption of new accounting standards, such as IFRS 9, IFRS 15 and 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 as well as income tax and sales tax advice on individual matters.

German public auditor responsible for the engagement
The German public auditor responsible for the engagement is Dirk Papenberg.

Hanover, February 22, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Ufer	Papenberg
Wirtschaftsprüfer	Wirtschaftsprüfer

Consolidated Statement of Income

€ millions	See Note	2017	2016
Sales		**44,009.5**	**40,549.5**
Cost of sales		-32,635.0	-29,783.0
Gross margin on sales		**11,374.5**	**10,766.5**
Research and development expenses		-3,103.7	-2,811.5
Selling and logistics expenses		-2,430.2	-2,251.0
Administrative expenses		-1,144.3	-1,012.6
Other income[1]	6	584.5	316.0
Other expenses[1]	6	-796.6	-981.8
Income from equity-accounted investees	8	76.8	69.7
Other income from investments	8	0.5	0.5
EBIT		**4,561.5**	**4,095.8**
Interest income	9	94.4	101.4
Interest expense	9	-281.5	-308.8
Effects from currency translation	9	-138.8	157.1
Effects from changes in the fair value of derivative instruments, and other valuation effects	9	40.2	-66.7
Financial result[2]	9	**-285.7**	**-117.0**
Earnings before tax		**4,275.8**	**3,978.8**
Income tax expense	10	-1,227.5	-1,096.8
Net income		**3,048.3**	**2,882.0**
Non-controlling interests		-63.7	-79.5
Net income attributable to the shareholders of the parent		2,984.6	2,802.5
Basic earnings per share in €	34	**14.92**	**14.01**
Diluted earnings per share in €	34	**14.92**	**14.01**

1 To improve transparency, other expenses and income are shown separately from fiscal 2017. The figures from the comparative period have been adjusted accordingly.
2 To improve transparency, the components of the financial result (previously: net interest result) are shown separately from fiscal 2017. The figures from the comparative period have been adjusted accordingly.

Consolidated Statement of Comprehensive Income

€ millions	2017	2016
Net income	**3,048.3**	**2,882.0**
Reclassification within equity not affecting net income	**–**	**0.4**
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit plans[1]	64.1	-363.9
Fair value adjustments[1]	117.4	-520.6
Reclassification from disposals of pension obligations	–	-0.4
Investment in equity-accounted investees[2]	0.0	0.0
Currency translation[1]	39.6	-1.0
Tax on other comprehensive income	-92.9	158.1
Items that may be reclassified subsequently to profit or loss		
Currency translation[1]	-641.6	-97.2
Difference from currency translation[1]	-639.0	-103.1
Reclassification adjustments to profit and loss	1.1	–
Investment in equity-accounted investees[2]	-3.7	5.9
Available-for-sale financial assets	2.1	1.2
Fair value adjustments	3.9	1.5
Reclassification adjustments to profit and loss	-1.8	-0.3
Cash flow hedges	0.2	8.9
Fair value adjustments	63.3	-8.0
Reclassification adjustments to profit and loss	-63.1	16.9
Investment in equity-accounted investees[2]	0.0	0.0
Tax on other comprehensive income	-21.2	20.2
Other comprehensive income	**-596.4**	**-430.8**
Comprehensive income	**2,451.9**	**2,451.6**
Attributable to non-controlling interests	-42.1	-75.8
Attributable to the shareholders of the parent	2,409.8	2,375.8

1 Including non-controlling interests.
2 Including taxes.

Consolidated Statement of Financial Position

Assets

€ millions	See Note	**Dec. 31, 2017**	Dec. 31, 2016
Goodwill	11	7,010.1	6,857.3
Other intangible assets	11	1,607.3	1,514.1
Property, plant and equipment	12	11,202.1	10,538.1
Investment property	13	10.5	10.3
Investments in equity-accounted investees	14	414.8	384.8
Other investments	15	51.0	43.1
Deferred tax assets	16	1,517.2	1,836.1
Defined benefit assets	24	16.0	24.3
Long-term derivative instruments and interest-bearing investments	28	113.3	19.7
Long-term other financial assets	17	68.8	66.4
Long-term other assets	18	27.3	26.8
Non-current assets		**22,038.4**	**21,321.0**
Inventories	19	4,128.2	3,753.2
Trade accounts receivable	20	7,669.3	7,392.7
Short-term other financial assets	17	529.5	455.5
Short-term other assets	18	954.3	989.0
Income tax receivables		178.2	124.7
Short-term derivative instruments and interest-bearing investments	28	47.6	27.8
Cash and cash equivalents	21	1,881.5	2,107.0
Assets held for sale	22	13.5	4.0
Current assets		**15,402.1**	**14,853.9**
Total assets		**37,440.5**	**36,174.9**

Equity and liabilities

€ millions	See Note	Dec. 31, 2017	Dec. 31, 2016
Subscribed capital		512.0	512.0
Capital reserves		4,155.6	4,155.6
Retained earnings		13,669.3	11,534.7
Other comprehensive income		–2,508.5	–1,932.3
Equity attributable to the shareholders of the parent		**15,828.4**	**14,270.0**
Non-controlling interests		461.9	464.8
Total equity	23	**16,290.3**	**14,734.8**
Long-term employee benefits	24	4,394.1	4,392.3
Deferred tax liabilities	16	348.5	371.5
Long-term provisions for other risks and obligations	25	139.6	204.2
Long-term indebtedness	27	2,017.8	2,803.7
Long-term other financial liabilities	29	36.1	97.1
Long-term other liabilities	31	25.4	17.1
Non-current liabilities		**6,961.5**	**7,885.9**
Short-term employee benefits	24	1,490.6	1,314.1
Trade accounts payable	30	6,798.5	6,248.0
Income tax payables	26	889.7	783.6
Short-term provisions for other risks and obligations	25	943.0	1,146.4
Short-term indebtedness	27	2,072.2	2,148.6
Short-term other financial liabilities	29	1,276.8	1,187.3
Short-term other liabilities	31	717.9	726.2
Current liabilities		**14,188.7**	**13,554.2**
Total equity and liabilities		**37,440.5**	**36,174.9**

Consolidated Statement of Cash Flows

€ millions	See Note	2017	2016
Net income		**3,048.3**	**2,882.0**
Income tax expense	10	1,227.5	1,096.8
Financial result	9	285.7	117.0
EBIT		**4,561.5**	**4,095.8**
Interest paid		-131.5	-136.1
Interest received		26.1	24.2
Income tax paid	10, 26	-1,122.1	-1,047.3
Dividends received		40.7	45.1
Depreciation, amortization, impairment and reversal of impairment losses	6, 11, 12, 13	2,117.4	1,961.6
Income from equity-accounted investees and other investments, incl. impairment and reversal of impairment losses	8, 14	-77.3	-70.2
Gains/losses from the disposal of assets, companies and business operations		-34.6	-15.3
Changes in			
inventories	19	-484.3	-326.5
trade accounts receivable	20	-737.1	-631.7
trade accounts payable	30	737.6	748.1
employee benefits and other provisions	24	94.4	384.8
other assets and liabilities		229.7	-94.4
Cash flow arising from operating activities		**5,220.5**	**4,938.1**
Cash flow from the disposal of property, plant and equipment, and intangible assets	11, 12	59.3	53.0
Capital expenditure on property, plant and equipment, and software	11, 12	-2,849.7	-2,592.5
Capital expenditure on intangible assets from development projects and miscellaneous	11	-101.4	-115.7
Cash flow from the disposal of companies and business operations	5	20.4	4.6
Acquisition of companies and business operations	5	-596.3	-516.2
Cash flow arising from investing activities		**-3,467.7**	**-3,166.8**
Cash flow before financing activities (free cash flow)		**1,752.8**	**1,771.3**
Net cash change in short-term indebtedness[1]	27	-879.0	-1,006.8
Cash change in long-term indebtedness[1]	27	-117.8	659.7
Other cash changes[1]		14.1	7.1
Successive purchases		-0.7	-109.7
Dividends paid		-850.0	-750.0
Dividends paid to and cash changes from equity transactions with non-controlling interests		-46.5	-55.6
Cash and cash equivalents arising from the first-time consolidation of subsidiaries		0.7	0.6
Cash flow arising from financing activities		**-1,879.2**	**-1,254.7**
Change in cash and cash equivalents		**-126.4**	**516.6**
Cash and cash equivalents as at January 1		2,107.0	1,621.5
Effect of exchange-rate changes on cash and cash equivalents		-99.1	-31.1
Cash and cash equivalents as at December 31	21	**1,881.5**	**2,107.0**

1 The statement was adjusted in line with the requirements of the changes to IAS 7, Statement of Cash Flows (Disclosure Initiative). 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 instruments[5]	Subtotal	Non-controlling interests	**Total**
As at January 1, 2016	**512.0**	**4,155.6**	**9,481.8**	**-39.8**	**-1,420.6**	**101.0**	**-3.7**	**12,786.3**	**427.6**	**13,213.9**
Net income	–	–	2,802.5	–	–	–	–	2,802.5	79.5	**2,882.0**
Comprehensive income	–	–	0.4	–	-363.2	-71.0	7.1	-426.7	-3.7	**-430.4**
Net profit for the period	**–**	**–**	**2,802.9**	**–**	**-363.2**	**-71.0**	**7.1**	**2,375.8**	**75.8**	**2,451.6**
Dividends paid	–	–	-750.0	–	–	–	–	-750.0	-48.0	**-798.0**
Successive purchases	–	–	–	-142.3	–	–	–	-142.3	-13.3	**-155.6**
Other changes[6]	–	–	–	0.2	–	–	–	0.2	22.7	**22.9**
As at December 31, 2016	**512.0**	**4,155.6**	**11,534.7**	**-181.9**	**-1,783.8**	**30.0**	**3.4**	**14,270.0**	**464.8**	**14,734.8**
Net income	–	–	2,984.6	–	–	–	–	2,984.6	63.7	**3,048.3**
Comprehensive income	–	–	–	–	63.1	-640.2	2.3	-574.8	-21.6	**-596.4**
Net profit for the period	**–**	**–**	**2,984.6**	**–**	**63.1**	**-640.2**	**2.3**	**2,409.8**	**42.1**	**2,451.9**
Dividends paid/resolved	–	–	-850.0	–	–	–	–	-850.0	-48.6	**-898.6**
Successive purchases	–	–	–	-1.4	–	–	–	-1.4	0.3	**-1.1**
Other changes[6]	–	–	–	0.0	–	–	–	0.0	3.3	**3.3**
As at December 31, 2017	**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**

See Notes 2, 5 and 23 to the consolidated financial statements.

1 Divided into 200,005,983 shares outstanding.

2 Includes an amount of -€0.3 million (PY: -€70.8 million) from successive purchases of shares in fully consolidated companies, an amount of €0.1 million (PY: -€2.3 million) from a subsequent purchase price adjustment, and an amount of €0.0 million (PY: €0.2 million) relating to effects from the first-time consolidation of previously non-consolidated subsidiaries. The reporting period also includes the change in value of a put option of -€1.2 million (PY: addition of the put option of -€54.0 million and a call option of -€15.2 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 -€3.7 million (PY: €5.9 million) in the currency translation of equity-accounted investees.

5 The change in the difference arising from financial instruments, including deferred taxes, was due mainly to changes in the fair values of the cash flow hedges of €0.3 million (PY: €5.9 million) for interest and currency hedging and to available-for-sale financial assets of €2.0 million (PY: €1.2 million).

6 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 develops, produces and markets intelligent systems to improve driving safety and vehicle dynamics.

Powertrain combines innovative and efficient system solutions for the powertrains of today and tomorrow.

Interior specializes in information management. It develops and produces information, communication and network solutions for cars and commercial vehicles.

Tires is known for maximizing safety through short braking distances and excellent grip as well as reducing fuel consumption by minimizing rolling resistance.

ContiTech develops, manufactures and markets functional parts, intelligent components and systems made of rubber, plastic, metal and fabric for machine and plant engineering, mining, agriculture, the automotive industry, and for other important sectors.

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 finance leases and capitalized borrowing costs in line with IAS 23. 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 of and 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 €6,179.9 million (PY: €5,608.5 million) with a group of companies under common control in the year under review.

In 2017, 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 in the period under review.

For information on the objectives, policies and processes for managing capital, please see the Corporate Management section of the Management Report.

Segment report for 2017

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
External sales	9,743.7	7,535.8	9,276.4	11,303.4	6,150.2	–	44,009.5
Intercompany sales	24.1	125.1	28.8	22.4	96.2	-296.6	–
Sales (total)	**9,767.8**	**7,660.9**	**9,305.2**	**11,325.8**	**6,246.4**	**-296.6**	**44,009.5**
EBIT (segment result)	897.7	439.9	749.2	2,151.3	442.2	-118.8	4,561.5
in % of sales	9.2	5.7	8.1	19.0	7.1	–	10.4
thereof income from equity-accounted investees	22.2	4.7	30.5	18.5	0.1	0.8	76.8
Capital expenditure[1]	682.5	653.7	453.3	847.0	213.2	4.7	2,854.4
in % of sales	7.0	8.5	4.9	7.5	3.4	–	6.5
Depreciation and amortization[2]	403.9	414.9	390.8	597.4	308.7	1.7	2,117.4
thereof impairment[3]	0.5	18.6	18.2	0.5	2.4	–	40.2
Internally generated intangible assets	–	51.8	40.2	–	–	0.1	92.1
Significant non-cash expenses/income	9.7	-37.1	-4.2	3.4	-20.8	7.4	-41.6
Segment assets	7,350.9	5,430.1	7,669.4	8,432.1	4,342.8	32.0	33,257.3
thereof investments in equity-accounted investees	112.4	59.9	132.3	100.2	1.7	8.3	414.8
Segment liabilities	2,805.3	2,029.3	2,428.6	2,436.4	1,264.9	79.2	11,043.7
Operating assets as at December 31	4,545.6	3,400.8	5,240.8	5,995.7	3,077.9	-47.2	22,213.6
Operating assets (average)	4,519.6	3,325.6	5,028.9	6,143.0	3,182.1	-26.8	22,172.4
ROCE	19.9	13.2	14.9	35.0	13.9	–	20.6
Number of employees as at December 31[4]	47,788	40,492	46,006	53,811	46,938	438	235,473
Adjusted sales[5]	9,767.8	7,652.9	9,234.3	11,194.7	5,848.2	-296.6	43,401.3
Adjusted operating result (adjusted EBIT)[6]	898.1	473.5	850.5	2,128.2	515.4	-118.8	4,746.9
in % of adjusted sales	9.2	6.2	9.2	19.0	8.8	–	10.9

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 2016

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
External sales	8,958.4	7,219.1	8,308.6	10,696.2	5,367.2	–	40,549.5
Intercompany sales	19.2	100.4	16.1	21.2	95.3	-252.2	–
Sales (total)	**8,977.6**	**7,319.5**	**8,324.7**	**10,717.4**	**5,462.5**	**-252.2**	**40,549.5**
EBIT (segment result)	580.8	378.0	567.8	2,289.4	399.2	-119.4	4,095.8
in % of sales	6.5	5.2	6.8	21.4	7.3	–	10.1
thereof income from equity-accounted investees	22.6	3.8	27.0	15.3	0.2	0.8	69.7
Capital expenditure[1]	523.7	544.4	428.9	882.1	212.0	1.9	2,593.0
in % of sales	5.8	7.4	5.2	8.2	3.9	–	6.4
Depreciation and amortization[2]	373.8	378.2	336.4	539.3	331.7	2.2	1,961.6
thereof impairment[3]	1.5	8.3	11.6	0.2	37.0	–	58.6
Internally generated intangible assets	0.0	57.4	48.6	–	–	-0.1	105.9
Significant non-cash expenses/income	30.9	-20.6	4.6	8.1	-8.8	13.5	27.7
Segment assets	7,107.9	5,120.1	7,059.7	8,086.5	3,973.7	31.0	31,378.9
thereof investments in equity-accounted investees	113.2	54.3	113.7	94.1	1.8	7.7	384.8
Segment liabilities	2,598.4	1,894.9	2,300.8	2,314.6	1,105.2	96.3	10,310.2
Operating assets as at December 31	4,509.5	3,225.2	4,758.9	5,771.9	2,868.5	-65.3	21,068.7
Operating assets (average)	4,448.7	3,015.8	4,513.8	5,612.7	2,948.7	-86.6	20,453.1
ROCE	13.1	12.5	12.6	40.8	13.5	–	20.0
Number of employees as at December 31[4]	43,907	37,502	43,344	52,057	42,909	418	220,137
Adjusted sales[5]	8,977.6	7,319.5	8,324.7	10,716.6	5,459.0	-252.2	40,545.2
Adjusted operating result (adjusted EBIT)[6]	582.6	398.1	632.7	2,296.6	519.2	-119.4	4,309.8
in % of adjusted sales	6.5	5.4	7.6	21.4	9.5	–	10.6

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 2017

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Sales	**9,767.8**	**7,660.9**	**9,305.2**	**11,325.8**	**6,246.4**	**-296.6**	**44,009.5**
Changes in the scope of consolidation[1]	–	-8.0	-70.9	-131.1	-398.2	–	-608.2
Adjusted sales	**9,767.8**	**7,652.9**	**9,234.3**	**11,194.7**	**5,848.2**	**-296.6**	**43,401.3**
EBITDA	**1,301.6**	**854.8**	**1,140.0**	**2,748.7**	**750.9**	**-117.1**	**6,678.9**
Depreciation and amortization[2]	-403.9	-414.9	-390.8	-597.4	-308.7	-1.7	-2,117.4
EBIT	**897.7**	**439.9**	**749.2**	**2,151.3**	**442.2**	**-118.8**	**4,561.5**
Amortization of intangible assets from purchase price allocation (PPA)	0.0	11.9	46.1	19.5	93.2	–	170.7
Changes in the scope of consolidation[1]	–	3.6	39.5	-18.6	-23.8	–	0.7
Special effects							
Impairment[3]	0.5	18.8	23.0	0.5	2.4	–	45.2
Restructuring[4]	-0.1	-0.7	-5.4	-10.0	-0.2	–	-16.4
Gains and losses from disposals of companies and business operations	–	–	–	-14.0	1.6	–	-12.4
Other	–	–	-1.9	-0.5	–	–	-2.4
Adjusted operating result (adjusted EBIT)	**898.1**	**473.5**	**850.5**	**2,128.2**	**515.4**	**-118.8**	**4,746.9**

Reconciliation of sales to adjusted sales and of EBITDA to adjusted operating result (adjusted EBIT) in 2016

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Sales	**8,977.6**	**7,319.5**	**8,324.7**	**10,717.4**	**5,462.5**	**-252.2**	**40,549.5**
Changes in the scope of consolidation[1]	–	–	–	-0.8	-3.5	–	-4.3
Adjusted sales	**8,977.6**	**7,319.5**	**8,324.7**	**10,716.6**	**5,459.0**	**-252.2**	**40,545.2**
EBITDA	**954.6**	**756.2**	**904.2**	**2,828.7**	**730.9**	**-117.2**	**6,057.4**
Depreciation and amortization[2]	-373.8	-378.2	-336.4	-539.3	-331.7	-2.2	-1,961.6
EBIT	**580.8**	**378.0**	**567.8**	**2,289.4**	**399.2**	**-119.4**	**4,095.8**
Amortization of intangible assets from purchase price allocation (PPA)	0.3	11.5	38.4	10.7	82.7	–	143.6
Changes in the scope of consolidation[1]	–	–	–	0.2	-0.1	–	0.1
Special effects							
Impairment[3]	1.3	7.6	0.0	0.2	33.1	–	42.2
Restructuring[5]	0.2	2.1	26.4	–	14.5	–	43.2
Gains and losses from disposals of companies and business operations	–	-1.1	0.1	-3.9	10.2	–	5.3
Other	–	–	–	–	-20.4	–	-20.4
Adjusted operating result (adjusted EBIT)	**582.6**	**398.1**	**632.7**	**2,296.6**	**519.2**	**-119.4**	**4,309.8**

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 reversal of impairment losses totaling €5.0 million (Powertrain €0.2 million; Interior €4.8 million).
5 This includes impairment and reversal of impairment losses totaling €16.4 million (Chassis & Safety €0.2 million; Powertrain €0.7 million; Interior €11.6 million; ContiTech €3.9 million).

Reconciliation of EBIT to net income

€ millions	2017	2016
Chassis & Safety	897.7	580.8
Powertrain	439.9	378.0
Interior	749.2	567.8
Tires	2,151.3	2,289.4
ContiTech	442.2	399.2
Other/consolidation	–118.8	–119.4
EBIT	**4,561.5**	**4,095.8**
Financial result	–285.7	–117.0
Earnings before tax	**4,275.8**	**3,978.8**
Income tax expense	–1,227.5	–1,096.8
Net income	**3,048.3**	**2,882.0**
Non-controlling interests	–63.7	–79.5
Net income attributable to the shareholders of the parent	**2,984.6**	**2,802.5**

Segment report by region

€ millions	Germany	Europe excluding Germany	North America	Asia	Other countries	Continental Corporation
External sales 2017	**8,927.2**	**12,839.0**	**10,823.2**	**9,618.5**	**1,801.6**	**44,009.5**
External sales 2016	8,410.2	11,599.9	10,394.6	8,604.9	1,539.9	40,549.5
Capital expenditure 2017[1]	**690.5**	**818.7**	**589.0**	**685.3**	**70.9**	**2,854.4**
Capital expenditure 2016[1]	648.4	794.4	572.4	501.0	76.8	2,593.0
Segment assets as at Dec. 31, 2017	**10,717.3**	**8,298.2**	**6,944.9**	**6,627.9**	**669.0**	**33,257.3**
Segment assets as at Dec. 31, 2016	10,038.5	7,716.2	7,259.5	5,664.5	700.2	31,378.9
Number of employees as at Dec. 31, 2017[2]	**61,029**	**75,186**	**43,585**	**45,683**	**9,990**	**235,473**
Number of employees as at Dec. 31, 2016[2]	57,105	69,972	40,850	42,475	9,735	220,137

1 Capital expenditure on property, plant and equipment, and software.
2 Excluding trainees.

Reconciliation to operating assets in 2017

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Total assets	**7,330.8**	**5,413.4**	**7,619.0**	**8,421.1**	**4,348.0**	**4,308.2**	**37,440.5**
Cash and cash equivalents	–	–	–	–	–	1,881.5	1,881.5
Short- and long-term derivative instruments, interest-bearing investments	–	–	–	–	–	160.9	160.9
Other financial assets	10.0	39.4	18.7	23.3	6.6	2.9	100.9
Less financial assets	**10.0**	**39.4**	**18.7**	**23.3**	**6.6**	**2,045.3**	**2,143.3**
Less other non-operating assets	**-30.1**	**-56.1**	**-69.1**	**-34.3**	**-1.4**	**535.5**	**344.5**
Deferred tax assets	–	–	–	–	–	1,517.2	1,517.2
Income tax receivables	–	–	–	–	–	178.2	178.2
Less income tax assets	**–**	**–**	**–**	**–**	**–**	**1,695.4**	**1,695.4**
Segment assets	**7,350.9**	**5,430.1**	**7,669.4**	**8,432.1**	**4,342.8**	**32.0**	**33,257.3**
Total liabilities and provisions	**4,003.1**	**2,835.8**	**3,083.3**	**3,315.4**	**1,797.7**	**6,114.9**	**21,150.2**
Short- and long-term indebtedness	–	–	–	–	–	4,090.0	4,090.0
Interest payable and other financial liabilities	–	–	–	–	–	81.8	81.8
Less financial liabilities	**–**	**–**	**–**	**–**	**–**	**4,171.8**	**4,171.8**
Deferred tax liabilities	–	–	–	–	–	348.5	348.5
Income tax payables	–	–	–	–	–	889.7	889.7
Less income tax liabilities	**–**	**–**	**–**	**–**	**–**	**1,238.2**	**1,238.2**
Less other non-operating liabilities	**1,197.8**	**806.5**	**654.7**	**879.0**	**532.8**	**625.7**	**4,696.5**
Segment liabilities	**2,805.3**	**2,029.3**	**2,428.6**	**2,436.4**	**1,264.9**	**79.2**	**11,043.7**
Operating assets	**4,545.6**	**3,400.8**	**5,240.8**	**5,995.7**	**3,077.9**	**-47.2**	**22,213.6**

Reconciliation to operating assets in 2016

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Total assets	**7,118.5**	**5,163.0**	**7,030.2**	**8,095.8**	**3,986.8**	**4,780.6**	**36,174.9**
Cash and cash equivalents	–	–	–	–	–	2,107.0	2,107.0
Short- and long-term derivative instruments, interest-bearing investments	–	–	–	–	–	47.5	47.5
Other financial assets	10.6	42.5	14.7	20.4	7.2	18.0	113.4
Less financial assets	**10.6**	**42.5**	**14.7**	**20.4**	**7.2**	**2,172.5**	**2,267.9**
Less other non-operating assets	**–**	**0.4**	**-44.2**	**-11.1**	**5.9**	**616.3**	**567.3**
Deferred tax assets	–	–	–	–	–	1,836.1	1,836.1
Income tax receivables	–	–	–	–	–	124.7	124.7
Less income tax assets	**–**	**–**	**–**	**–**	**–**	**1,960.8**	**1,960.8**
Segment assets	**7,107.9**	**5,120.1**	**7,059.7**	**8,086.5**	**3,973.7**	**31.0**	**31,378.9**
Total liabilities and provisions	**3,877.4**	**2,766.6**	**2,990.4**	**3,295.3**	**1,644.7**	**6,865.7**	**21,440.1**
Short- and long-term indebtedness	–	–	–	–	–	4,952.3	4,952.3
Interest payable and other financial liabilities	–	–	–	–	–	101.9	101.9
Less financial liabilities	**–**	**–**	**–**	**–**	**–**	**5,054.2**	**5,054.2**
Deferred tax liabilities	–	–	–	–	–	371.5	371.5
Income tax payables	–	–	–	–	–	783.6	783.6
Less income tax liabilities	**–**	**–**	**–**	**–**	**–**	**1,155.1**	**1,155.1**
Less other non-operating liabilities	**1,279.0**	**871.7**	**689.6**	**980.7**	**539.5**	**560.1**	**4,920.6**
Segment liabilities	**2,598.4**	**1,894.9**	**2,300.8**	**2,314.6**	**1,105.2**	**96.3**	**10,310.2**
Operating assets	**4,509.5**	**3,225.2**	**4,758.9**	**5,771.9**	**2,868.5**	**-65.3**	**21,068.7**

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 registered in the commercial register (HR B No. 3527) of the Hanover Local Court *(Amtsgericht)*. 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 Note 1 on Segment Reporting. By way of resolution of the Executive Board of February 8, 2018, the consolidated financial statements of Continental AG for fiscal 2017 were approved and will be submitted to the electronic German Federal Gazette *(elektronischer Bundesanzeiger)* and published there. Continental AG is included in the consolidated financial statements of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, which is published in the electronic German Federal Gazette.

The consolidated financial statements of Continental AG as at December 31, 2017, have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union, in accordance with EU Regulation (EC) 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) and the interpretations issued by the International Financial Reporting Standards Interpretations Committee or its predecessor the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). All International Financial Reporting Standards mandatory for fiscal 2017 have been applied, subject to endorsement by the European Union.

The consolidated financial statements have been prepared on the basis of amortized cost, except for those financial assets categorized as available-for-sale and derivative instruments recognized at fair value.

The annual financial statements of companies included in the corporation have been prepared using accounting principles consistently applied throughout the corporation, in accordance with IFRS 10. The end of the reporting period for the subsidiary financial statements is the same as the end of the reporting period for the consolidated financial statements.

The consolidated financial statements have been prepared in euros. Unless otherwise stated, all amounts are shown in millions of euros. Please note that differences may arise as a result of the use of rounded amounts and percentages.

Consolidation principles

All major subsidiaries that Continental AG controls in accordance with the provisions of IFRS 10 have been included in the consolidated financial statements and 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 purchase method by offsetting the acquisition cost against the proportion of net assets attributed to the parent company at fair value at the date of acquisition. 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 date of acquisition only if the requirements under IAS 38 for an intangible asset are met. Measurement at the time of acquisition is usually provisional only. Increases or reductions of assets and liabilities that become necessary within 12 months after the acquisition are adjusted retrospectively to the date of acquisition accordingly. 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 annual 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. Such companies are recognized in the consolidated financial statements at cost unless there are listings for these shares on the capital markets and unless the calculation of fair value is expected to provide a significant improvement of the presentation of financial statements.

Intercompany receivables and liabilities, 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 assets and liabilities of foreign subsidiaries with a functional currency other than the euro are translated into euros at the year-end middle rates (closing rate). The statement of comprehensive income is translated at the average exchange rates 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 liabilities are measured on recognition at the transaction rate and adjusted at the end of the reporting period to the related spot 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		**Dec. 31, 2017**	Dec. 31, 2016	**2017**	2016
Brazil	BRL	3.97	3.43	3.61	3.86
Switzerland	CHF	1.17	1.07	1.11	1.09
China	CNY	7.80	7.32	7.63	7.35
Czechia	CZK	25.56	27.02	26.33	27.03
United Kingdom	GBP	0.89	0.86	0.88	0.82
Hungary	HUF	310.45	310.45	309.30	311.47
Japan	JPY	134.83	123.23	126.67	120.31
South Korea	KRW	1,277.29	1,267.91	1,275.94	1,284.96
Mexico	MXN	23.60	21.85	21.34	20.67
Malaysia	MYR	4.86	4.73	4.85	4.58
Philippines	PHP	59.69	52.37	56.95	52.57
Romania	RON	4.66	4.54	4.57	4.49
U.S.A.	USD	1.20	1.05	1.13	1.11
South Africa	ZAR	14.74	14.43	15.05	16.29

Revenue recognition
Only sales of products and services resulting from the ordinary business activities of the company are shown as revenue. Continental recognizes revenue for product sales when there is proof or an agreement to the effect that delivery has been made and the risks have been transferred to the customer. In addition, it must be possible to reliably measure the amount of revenue and the recoverability of the receivable must be assumed.

Revenues from made-to-order production are recognized using the percentage-of-completion method. The ratio of costs already incurred to the estimated total costs associated with the contract serves as the basis of calculation. Expected losses from these contracts are recognized in the reporting period in which the current estimated total costs exceed the sales expected from the respective contract. The percentage-of-completion method is of no significance to the Continental Corporation.

Product-related expenses
Costs for advertising, sales promotion and other sales-related items are expensed as incurred. Provisions are recognized for probable 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.

Research and development expenses
Research and development expenses comprise expenditure on research and development and expenses for customer-specific applications, prototypes and testing. Advances and reimbursements from customers are netted against expenses at the time they are invoiced. 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 comfort and safety 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 of the 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.

Financial result and investment income
Interest income and expenses are recognized for the period to which they relate. Distributions from financial instruments categorized as available-for-sale 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 outstanding. 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 purchase 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.

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.

Property, plant and equipment

Property, plant and equipment is carried 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.

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 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

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.

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.

Capitalized goodwill is tested for impairment once per year in the fourth quarter at the level of cash-generating units (CGUs). CGUs are the strategic business units that come below the segments (sub-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 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 the management. The plans are based in particular on assumptions for macroeconomic developments, as well as trends in sales prices, raw materials prices and exchange rates. In addition to these current market forecasts, past developments and experience are also taken into account. The perpetuity beyond the period of five years is extrapolated using the expected long-term growth rates for the individual business units. For the two cash-generating units High Voltage Power Applications and Low Voltage & Control Unit Applications of the Hybrid Electric Vehicle (HEV) business unit, a detailed model with long-term detailed planning was used as a basis due to the specific situation of a startup.

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. In the year under review, for the CGUs of the Automotive Group, the cash flows were discounted with an interest rate before tax of 11.3% (PY: 11.5%); for the Rubber Group the interest rate was 9.6% (PY: 9.3%). These two 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 1.2% and the market risk premium 6.5% in both cases. 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. The sources of this information were data from Bloomberg.

The long-term growth rate for the CGUs of the Interior, Chassis & Safety and Powertrain segments was 1.5% in the year under review (PY: 1.5%). For the CGUs 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 fields of business in which the CGUs operate.

The annual impairment testing of goodwill determined no requirements for impairment for 2017.

Assuming a 0.5 percentage point increase in the discount rate to 11.8% before tax for the Automotive Group and 10.1% before tax for the Rubber Group would not result in goodwill impairment. There would be no asset impairment. Reducing long-term growth rates by 0.5 percentage points would not have resulted in goodwill impairment. There would be no asset impairment. If sales in perpetuity would decline by 5.0%, this would not result in goodwill impairment. There would be no asset impairment.

Assets held for sale and related liabilities
Individual non-current assets or a group of non-current assets and related liabilities are classified separately as held for sale in the statement of financial position if their disposal has been resolved and is probable. Assets held for sale are recognized at the lower of their carrying amount and their fair value less costs to sell, and are no longer depreciated once they are classified as held for sale.

Financial instruments
A financial instrument in accordance with IAS 32 is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include non-derivative financial instruments such as trade accounts receivable and payable, securities and financial receivables or liabilities and other financial liabilities. They also include derivative instruments that are used to hedge against risks from changes in exchange rates and interest rates.

Non-derivative financial instruments
Non-derivative financial instruments are recognized at the settlement date, i.e. the date at which the asset is delivered to or by Continental AG.

Non-derivative financial assets are classified under one of the following four categories according to the purpose for which they are held. The classification is reviewed at the end of each reporting period and affects whether the financial asset is reported as non-current or current as well as determining whether measurement is at cost or fair value.

- Changes in the fair value of financial assets at fair value through profit and loss – which are either designated as such (fair value option) on initial recognition or are classified as held for trading – are recognized immediately in the income statement. In addition, they are reported as current financial assets if they are either held for trading purposes or are expected to be realized within 12 months of the end of the reporting period. The fair value option is not applied in the Continental Corporation.

- Held-to-maturity financial assets – which have fixed or determinable payments as well as a fixed maturity and are intended to be held until that maturity, together with the ability to retain these assets until maturity – are recognized at amortized cost and reported as non-current or current financial assets in accordance with their term. Any impairment is reported in profit or loss. No financial assets are classified as held-to-maturity at present.

- Loans and receivables – which have fixed or determinable payments and are not quoted in an active market – are measured at amortized cost less any necessary impairment. They are reported in the statement of financial position in accordance with their term as non-current or current financial assets.

- Financial assets – which were categorized as available for sale – are measured at fair value and reported as non-current or current financial assets according to the expected date of sale. Unrealized gains or losses are recognized in other reserves in equity, net of tax effects, until the date of derecognition. In the event of a significant or long-lasting decline in fair value to below cost, the impairment is recognized immediately in profit or loss. Reversal of impairment losses on equity instruments is recognized outside profit or loss. Reversal of impairment losses on debt instruments is recognized in profit or loss. Unless there is a price quoted on an active market and unless the calculation of fair value is expected to provide a significant improvement of the presentation of financial statements, for example in the case of investments in unconsolidated affiliated companies or other equity investments, the assets are measured at cost.

Liabilities arising from non-derivative financial instruments may be recognized either at amortized cost or at fair value through profit and loss. In the consolidated financial statements of Continental AG, all non-derivative financial liabilities are generally 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, classification is in line with the items disclosed in the statement of financial position and/or the measurement category used in accordance with IAS 39.

Hybrid financial instruments
Financial instruments that have both a debt and an equity component are classified and measured separately by those components. Instruments under this heading primarily include bonds with warrants and convertible bonds. In the case of convertible bonds, the fair value of the share conversion rights is recognized separately in capital reserves at the date the bond is issued and therefore deducted from the liability incurred by the bond. Fair values of conversion rights from bonds with below-market interest rates are calculated based on the present value of the difference between the coupon rate and the market rate of interest. The interest expense for the debt component is calculated for the term of the bond based on the market interest rate at the date of issue for a comparable bond without conversion rights. The difference between the deemed interest and the coupon rate increases the carrying amount of the bond indebtedness. In the event of maturity or conversion, the equity component previously recognized in capital reserves at the date of issue is offset against the accumulated retained earnings in accordance with the option permitted by IAS 32.

Derivative instruments
Derivative instruments are only used to hedge statement of financial position items or forecast cash flows, and are measured at their fair values. 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, for example by discounting expected future cash flows at the market rate of interest or by applying recognized option pricing models. Derivative instruments are recognized at the date when the obligation to buy or sell the instrument arises.

Changes in the fair values of derivative instruments used for fair value hedging purposes to offset fluctuations in the market value of recognized assets or liabilities are charged to income together with the changes in value of the hedged item. Changes in the fair values of derivative instruments used to hedge future cash flows where effectiveness is demonstrated are recognized in the difference from financial instruments in equity until the associated hedged transaction is settled.

In the hedging of foreign-currency risks from net investments in foreign operations, the effective portion of the change in value of the hedges together with the effect from the currency translation of the net investment is recognized 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.

If the criteria for hedge accounting are not met or the hedge becomes ineffective, the changes in fair value of the specific derivative instrument are recognized in net income as incurred, independently of the hedged item.

Embedded derivatives
Non-derivative host contracts are regularly inspected for embedded derivatives, for example, contractual payment terms neither in the functional currency of one of the contractual partners nor in a typical trading currency. 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. Embedded derivatives to be separated are measured at fair value and corresponding changes in value are charged to income.

Receivables
Receivables are carried at their nominal value. Valuation allowances on special items are recognized in specific cases where default is known or based on experience. Default risks leading to lower payment inflows usually manifest themselves in financial difficulties, non-fulfillment, probable insolvency or breach of contract on the part of the customer.

Continental sells some of its trade accounts receivable under sale-of-receivables programs with banks. Receivables 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 from these sales are, as a rule, then shown as short-term financial liabilities.

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. Tax expenses and refunds that relate to income are recognized as income taxes. Accordingly, late payment fines and interest arising from subsequently assessed taxes are reported as tax expenses as soon as it becomes probable that the recognition of a reduction in taxes will be rejected.

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.

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 (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 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 remuneration
Cash-settled share-based remuneration is 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 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 stock option plans; the recognition and measurement of liabilities and provisions, especially the actuarial parameters for pensions and other post-employment obligations; 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 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 as comprising 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.

3. New Accounting Pronouncements

In accordance with EU Regulation (EC) 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 the IFRS as adopted by the European Union under the endorsement procedure. Thus IFRS are only required to be applied following endorsement of a new standard by the European Union.

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 2017 and have been adopted accordingly:
The amendments to IAS 7, *Statement of Cash Flows (Disclosure Initiative)*, are intended to improve information about an entity's financing activities. Therefore extended disclosures about changes in liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities are required. In addition, the disclosure requirement also applies to changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities. Changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in exchange rates, changes in fair values and other changes have to be disclosed. The amendments are required to be applied for annual periods beginning on or after January 1, 2017. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The amendments to IAS 12, *Income Taxes (Recognition of Deferred Tax Assets for Unrealized Losses)*, address the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments clarify that unrealized losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes give rise to deductible temporary differences, regardless of whether it is expected to hold the debt instrument until maturity or to sell the debt instrument. The amendments specify how to determine future taxable profits regarding the accounting of deferred tax assets. Furthermore, the amendments clarify that an entity in general has to assess a deductible temporary difference in combination with all of its other deductible temporary differences. If tax law restricts the utilization of losses to deduction against income of a specific type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendments are required to be applied for annual periods beginning on or after January 1, 2017. The amendments had no significant effect on the consolidated financial statements of Continental AG.

Under the IASB's annual improvements project *(Improvements to IFRSs, December 2016, Cycle 2014–2016)*, the following amendments are effective:

- The amendments to IFRS 12, *Disclosure of Interests in Other Entities (Clarification of the scope of the standards)*, clarify that the requirements in IFRS 12 apply to entity's interests that are classified as non-current assets held for sale or as discontinued operations in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, except for the disclosed summarized financial information in accordance with IFRS 12.B17. The amendments must be applied for annual periods beginning on or after January 1, 2017. 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 endorsed by the EU but will not take effect until a later date:
The amendments to IFRS 4, *Insurance Contracts (Applying IFRS 9, Financial Instruments with IFRS 4, Insurance Contracts)*, addresses the concerns about the different effective dates of IFRS 9 and the new insurance contract standard. The amendments introduce two possible optional solutions: the temporary exemption from IFRS 9 in limited circumstances and the overlay approach. The latter permits insurers to reclassify from profit or loss to other comprehensive income any changes in the fair value of financial assets held in respect of an activity that is connected with contracts within the scope of IFRS 4, if these changes are recognized in profit or loss under IFRS 9 but not under IAS 39. With respect to the temporary exemption from IFRS 9, the amendment is effective for annual periods beginning on or after January 1, 2018. Both approaches are to be applied at the latest as of the effective date of the new standard for insurance contracts. The amendments are not expected to have any effect on the future consolidated financial statements of Continental AG.

IFRS 9, *Financial Instruments*, replaces IAS 39, *Financial Instruments: Recognition and Measurement*. The final IFRS 9 and the consequential amendments to other standards and interpretations are required to be applied for annual periods beginning on or after January 1, 2018. The Continental AG will apply IFRS 9 initially in fiscal 2018.

- Classification and measurement
  IFRS 9 includes new requirements on the classification and measurement of financial instruments, especially financial assets, based on the business model in which assets are managed and on their cash flow characteristics. IFRS 9 supersedes the present categories of IAS 39 for financial assets ("held to maturity," "loans and receivables," "available for sale" and "held for trading") by the measurement categories "at amortised cost," "at fair value through profit or loss (FVTPL)" and "at fair value through other

comprehensive income (FVOCI).” In the last measurement category, there are differences regarding the reclassification of other comprehensive income, which depend on the financial instrument. Derivative instruments embedded in financial assets are not accounted for separately anymore under IFRS 9. Instead, it will be assessed for classification as whole. The existing requirements of IAS 39 regarding the classification of financial liabilities are largely adopted by IFRS 9. In contrast to IAS 39 with application of the fair value option under IFRS 9, the portion of the change in the fair value due to changes in the entity’s own credit risk should be presented in other comprehensive income.

The standard and the consequential amendments are not expected to have any significant effect on the classification and measurement of the financial assets and financial liabilities of the corporation. In addition to the fundamentally changed categorization, the switch at January 1, 2018, gives no reason to expect material effects out of the allocation of the items recognized at December 31, 2017, to the items on the statement of financial position. The cumulated gains (including related deferred tax effects) in other comprehensive income from the previous measurement category “financial assets available for sale” with an amount of approximately €3.4 million will be reclassified to retained earnings within equity.

It is expected that for the major part of financial assets in the consolidated financial statements of Continental AG the “hold to collect” business model will be applied. Furthermore, it is expected that the cash flows of the financial assets in the consolidated financial statements of Continental AG largely fulfill the IFRS 9 criteria (the SPPI test; solely payments of principal interest). Currently, Continental AG does not intend to apply the fair value option.

Only for a few cases does the group expect to identify an implication due to a deviation of managing financial instruments compared to the characteristics of the hold-to-collect business model. For bank drafts of some Chinese subsidiaries, the business model “hold to collect and sell” is expected to be appropriate. These debt instruments are expected to pass the SPPI test so that they will be recognized at fair value through other comprehensive income (FVOCI) with recycling. For recognized Trade A/R from third parties which will probably be sold under a true sale-of-receivables factoring agreement the business “others” model is expected to be appropriate. These debt instruments are appropriately expected to be recognized at fair value through profit or loss (FVTPL). In contrast, Trade A/R that are sold or will be sold (hold-to-collect business model) under a receivables factoring agreement and do not qualify for derecognition will be accounted for at amortized cost as the SPPI test of IFRS 9 is expected to be passed.

› Impairment

For calculating impairment the standard replaces the incurred loss model with an expected credit loss model. The new impairment model will apply to financial assets measured at amortized cost or at fair value through other comprehensive income (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. Under IFRS 9, loss allowances will be 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. There are exceptions for trade receivables, contract assets according to IFRS 15 and lease receivables. For these items the lifetime expected credit loss measurement has to be applied (trade receivables and contract assets according to IFRS 15 without a significant financing component) or may be applied (trade receivables and contract assets according to IFRS 15 with a significant financing component and lease receivables).

The standard and the consequential amendments are expected to have an effect on impairment in the consolidated financial statements of Continental AG. Compared to the balance of the relevant instruments as of December 31, 2017, it is expected that the recognized impairments will change by up to €10 million at transition date.

› Hedge accounting

When initially applying IFRS 9, Continental AG may choose, as accounting policy, to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. Continental AG will apply IFRS 9 for hedge accounting with the effective date of January 1, 2018.

The regulation of IFRS 9 introduces a new (general) hedge accounting model with the aim of aligning risk management more closely with accounting. IFRS 9 includes new requirements regarding rebalancing of hedge relationships and prohibits voluntary discontinuations of hedge accounting. Furthermore, in the future it is possible that additional risk management strategies, which involve hedging a risk component (other than foreign-currency risk) of a non-financial item, will likely qualify for hedge accounting. Continental AG has no hedges of such risk components.

With the application of IFRS 9, the corporation may occasionally elect at inception of the hedging relationship that forward points and the cross-currency basis spread of the hedging instrument can be separately accounted for as a cost of hedging. In this case, these components will be recognized in other comprehensive income and accumulated in a cost of hedging reserve as a separate equity component and subsequently accounted for as gains and losses accumulated in the cash flow hedge reserve. Continental AG will not apply this approach to the hedging relationships which are recognized as of December 31, 2017, and which are continued from January 1, 2018, with the application of IFRS 9.

The standard and the consequential amendments are not expected to have any significant effect on the hedge accounting in the consolidated financial statements of the Continental AG. It is expected that the current hedge accounting is in accordance with the requirements of IFRS 9. No effects are expected for the accounting of existing hedging relationships as of December 31, 2017, at the transition date.

› Disclosures
IFRS 9 introduces new presentation requirements and new disclosures, especially about hedge accounting, credit risk and expected credit losses. The identification of the required data, the comparison with current processes and the analysis of changes in systems, processes and control workflows have almost been finalized in the corporation.

› Transition
Changes in accounting policies resulting from adoption of IFRS 9 will generally be applied retrospectively. The corporation will take advantage of the exemption that comparative information for prior periods with respect to classification and measurement (including impairment) do not have to be restated as at initial application. Differences between the previous carrying amounts and the carrying amounts as at the beginning of the first reporting period (January 1, 2018) which result from the adoption of IFRS 9 will be recognized in equity. Furthermore, the new regulations for hedge accounting are to be applied prospectively. The determination of the business model within which a financial asset is held and the application of the election to designate certain investments in equity instruments not held for trading as at FVOCI have to be made on the basis of facts and circumstances that exist at the date of initial application.

IFRS 15, *Revenue from Contracts with Customers*, replaces existing revenue recognition guidance and supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions Involving Advertising Services*. In accordance with IFRS 15, the amount is to be recognized as revenue from contracts with customers, which is received for the transfer of promised goods or services to customers in exchange for those goods or services. The relevant point in time or period of time is the transfer of control of the goods or services (control approach). To determine when to recognize revenue, and at what amount a five-step model has to be applied in accordance with the core principle. The standard and the consequential amendments to other standards and interpretations are required to be applied for annual periods beginning on or after January 1, 2018.

Within the project of the implementation of the IFRS 15 and the consequential amendments, in the Continental Corporation, it was analyzed, especially with regard to goods without an alternative use, how to depict our various products over the product life cycle, variable consideration of the transaction price, and multi-component contracts, as well as the transfer of control to the customer according to IFRS 15.

By applying and implementing the five-step model in the Continental Corporation for contracts with customers, distinct performance obligations are identified. The transaction price will be 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, will be 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 material for the Continental Corporation according to our analysis up to now.

The first-time adoption of IFRS 15 is expected to result in immaterial effects only. In the volume-production business with automobile manufacturers of the Automotive Group and the ContiTech segment, no material changes to the current accounting are expected as a result of the use of an output-based measurement method within revenue recognition over time. The Tire segment's business and the industrial business of the ContiTech segment predominantly comprise revenue that is recognized at a point in time. For those as well, no material effects are expected from the application of IFRS 15. In the future, revenue from research and development will no longer be recognized together with the corresponding costs. In smaller business areas, revenue recognition over time will be relevant in the future, generally leading to an earlier recognition of sales.

The changes in the opening statement of financial position in 2018 are expected to result in an increase in inventories of up to about €15 million. Contract assets are expected to total up to €20 million in the opening statement of financial position. Receivables from third parties are reduced by about €5 million. Moreover, reclassifications are expected from other liabilities and other financial liabilities to contract liabilities. The deferred taxes arising from the adjustment of the opening statement of financial position are expected to total less than €10 million.

The revenue from reimbursements from customers for research and development expenses recognized within research and development expenses according to previous accounting standards will in the future be recognized under other income due to the application of IFRS 15.

Effective date for IFRS 15 for the Continental Corporation is January 1, 2018. The effects of the first application of IFRS 15 on contracts, for which the performance obligations have not yet been satisfied, will be recorded as a cumulative effect to the opening balance sheet, using the cumulative effect method as the transition method. As practically expedient, we will make use of IFRS 15.C5 (c) for the transition to IFRS 15.

With the clarifications to IFRS 15, *Revenue from Contracts with Customers*, the IASB makes targeted amendments to IFRS 15 with respect to the topics – identifying performance obligations, principal versus agent considerations and licensing. The clarifications are required to be applied for annual periods beginning on or after January 1, 2018. The expected effects on the future consolidated financial statements of Continental AG are described in the previous chapter to IFRS 15, *Revenue from Contracts with Customers*.

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 displays the obligation to lease payment. Furthermore, IFRS 16 does not require a company to recognize the assets and liabilities for short-term leases and the leases for which the underlying assets are of low value. At this point in time, Continental plans to apply these exceptions.

Regarding the lessor accounting, the standard maintains the requirements of IAS 17. Accordingly, a lessor will continue to classify its leases as finance or operating leases.

The standard and the amendments to other standards shall 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. At this stage, Continental AG prefers to select the modified retrospective approach as the transition method for initially applying IFRS 16 as of January 1, 2019.

Continental has initiated an analysis to determine the effects on its consolidated financial statements. The most significant impact that has been recently identified is that Continental AG as lessor will account for new assets and liabilities based on operating leases of administration and production buildings as well as warehouses. Moreover, the impacts on the consolidated income statement are to be expected due to the substitution of the straight-line expenses from operating leases with the depreciation charges of the right-of-use assets and the interest expenses resulting from the measurement of lease liabilities. Subsequently, a positive effect on EBIT at the expense of the financial result is expected.

Quantitative effects on the earnings and net assets position of Continental based on the implementation of IFRS 16 cannot yet be determined. The effects depend on the pending decisions about simplifications and practical expedients as well as additional leases, which Continental AG will contract until the effective date of IFRS 16. It is expected that the standard will have a significant effect on the future consolidated financial statements of Continental AG. Information regarding quantitative effects is expected to be disclosed prior to first application of the standard.

Under the IASB's annual improvements project, *Improvements to IFRSs, December 2016, Cycle 2014–2016*, the following amendments will become effective at a later date:

- The amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards (Deletion of short-term exemptions for first-time adopters)*, delete some of the short-term exemptions from IFRS which are not relevant anymore through the passage of time.

- The amendments to IAS 28, *Investment in Associates and Joint Ventures (Measuring an associate or joint venture at fair value)*, address the question whether an entity has an investment-by-investment choice for measuring investments in an associate or a joint venture at fair value through profit or loss. The option is applicable for investments in associates or joint ventures which are held by an entity that is a venture capital organization or a mutual fund, unit trust or similar entities including investment-linked insurance funds. The amendments clarify that an entity shall make the election separately for each associate or joint venture at initial recognition of the associate or joint venture. Furthermore, the amendments deal with the accounting for cases in which an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity. The election to retain fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries is made separately for each investment entity associate or joint venture at the later of the date on which the investment entity associate or joint venture is initially recognized, the associate or joint venture becomes an investment entity, or the investment entity associate or joint venture first become a parent.

The amendments are required to be applied for annual periods beginning on or after January 1, 2018. 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 are not yet endorsed by the EU and will become effective at a later date:
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 are not expected to have any significant effect on the future 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 an entity's long-term interest 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 are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IAS 40, *Investment Property (Transfers of Investment Property)*, clarify that a transfer into or out of investment property should be made only when there has been a change in use of the property. A change in use occurs when the property meets or ceases to meet the definition of investment property, and there is evidence of the change in use. The amendments clarify that the list of evidence in the standard is a non-exhaustive list of examples. The amendments are required to be applied for annual periods beginning on or after January 1, 2018. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 2, *Share-based Payment (Classification and Measurement of Share-based Payment Transactions)*, address the measurement for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity settled. Furthermore, the amendments introduce an exemption for cases in which an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment. The employer has to pay that amount to the tax authority. The amendments clarify that those transactions would be classified as equity-settled in its entirety if it would have been so classified had it not included the net settlement feature. The amendments are required to be applied for annual periods beginning on or after January 1, 2018. 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 (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 the contract 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 costs that does not result in the derecognition of the financial liability, the amendments clarify in the basis for conclusion 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 are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 10, *Consolidated Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)*, eliminate an inconsistency between both standards. The amendments clarify that the accounting treatment for sales or contribution of assets between an investor and its associates or joint venture depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a business in accordance with IFRS 3, *Business Combinations*. In case the non-monetary assets constitute a business, full gain or loss will be recognized by the investor. If the definition of a business is not met, the gain or loss is recognized by the investor to the extent of the other investor's interests. With the amendments to IFRS 10 and IAS 28, *Effective Date of Amendments to IFRS 10 and IAS 28*, the IASB has decided to defer indefinitely the effective date of the amendments. 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.

IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, addresses the question of how to determine the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The interpretation clarifies that for the purpose of determining the exchange rate the date of transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The interpretation is required to be applied for annual periods beginning on or after January 1, 2018. The interpretation is not expected to have a significant effect on the future 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 shall be 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 is required to be applied for annual periods beginning on or after January 1, 2019. The interpretation is not expected to have a significant effect on the future consolidated financial statements of Continental AG.

Under the IASB's annual improvements project, *Improvements to IFRSs, December 2017, Cycle 2015–2017*, the following amendments will become effective at a later date:

- The amendments to IFRS 3, *Business Combinations (Previously held interest 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 conclusion on 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 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 consolidated financial statements include 527 (PY: 510) domestic and foreign companies that Continental Aktiengesellschaft incorporates according to the regulations of IFRS 10 or that are classified as joint arrangements or associated companies. Of these, 412 (PY: 396) are fully consolidated and 115 (PY: 114) are accounted for using the equity method.

The number of consolidated companies has increased by a total of 17 since the previous year. Twelve companies were formed, 16 were acquired, and one previously unconsolidated unit was included in consolidation for the first time. Two structured entities were also fully consolidated according to IFRS 10. Four companies were liquidated, one was deconsolidated, and one was sold. In addition, the number of companies consolidated was reduced by eight as a result of mergers.

The additions in 2017 to the scope of consolidation essentially resulted from the acquisition of the Hornschuch Group in the ContiTech segment.

A total of 45 (PY: 42) 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. 44 (PY: 41) of these are affiliated companies, three (PY: 5) of which are currently inactive. One further company not included in consolidation (PY: 1) is an associated company. This unit is active.

Information on subsidiaries and investments

As at December 31, 2017, 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; and Continental Teves Taiwan Co., Ltd., Tainan, Taiwan; and e.solutions GmbH, Ingolstadt, Germany, each of which with a 51% share of voting rights, and Carrel Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz, Germany, with a share of voting rights of 94%, are not fully consolidated as, under the companies' statutes, these interests are not enough to direct the relevant activities of these investments.

Continental AG consolidates 12 (PY: 10) 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 corporations and partnerships that utilized the exemption provisions of Section 264 (3) of the German Commercial Code *(Handelsgesetzbuch – HGB)* and Section 264b *HGB* can be found in Note 38.

5. Acquisition and Disposal of Companies and Business Operations

Acquisition of companies and business operations

On March 1, 2017, ContiTech AG, Hanover, Germany, purchased 100% of the shares in the Hornschuch Group GmbH, Weißbach, Germany. The Hornschuch Group is a leading manufacturer of design, functional, foam and compact foils as well as artificial leather in the industrial business (furniture and construction industry) and the automotive sector. In the 2016 fiscal year, the group generated sales of €436.2 million with over 1,800 employees at four production sites in Germany and the U.S.A. With this acquisition, the Benecke-Hornschuch Surface Group business unit (formerly Benecke-Kaliko Group) intends to expand its industrial business further and tap new sales markets, particularly in North America. The purchase price of the Hornschuch Group was €245.8 million and was paid in cash. The overall incidental acquisition costs of €4.7 million were recognized as other expenses: €2.3 million for fiscal 2016 and €2.4 million for fiscal 2017. The final purchase price allocation resulted in goodwill of €91.8 million and intangible assets of €162.9 million for the ContiTech segment. If the transaction had already been completed on January 1, 2017, net income after tax would have been €3.4 million higher and sales would have been up by €75.1 million. The transaction was closed on March 1, 2017. Since then the Hornschuch Group has generated sales of €393.3 million and, taking into account the effects of purchase price allocation, contributed net income after tax of €5.7 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, 2017.

In connection with the acquisition of Hornschuch Group GmbH, Weißbach, Germany, assets and liabilities included in the consolidated statement of financial position for the first time were carried in the following amounts:

Acquired net assets in € millions	**Fair value at date of first-time consolidation**
Other intangible assets[1]	163.3
Property, plant and equipment	124.5
Other investments	1.1
Deferred tax assets	7.3
Long-term other financial assets	0.5
Long-term other assets	0.1
Inventories	86.0
Trade accounts receivable	44.9
Short-term other financial assets	0.7
Short-term other assets	8.4
Income tax receivables	0.0
Cash and cash equivalents	21.3
Long-term employee benefits	-14.1
Deferred tax liabilities	-69.8
Long-term provisions for other risks and obligations	-0.9
Long-term indebtedness	-138.1
Long-term other financial liabilities	-7.2
Short-term employee benefits	-13.3
Trade accounts payable	-31.6
Income tax payables	-2.5
Short-term provisions for other risks and obligations	-11.6
Short-term indebtedness	-11.8
Short-term other financial liabilities	-1.3
Short-term other liabilities	-1.9
Purchased net assets	**154.0**
Purchase price	245.8
Goodwill	**91.8**

1 This includes €0.4 million for purchased software.

Another share deal took place in the ContiTech segment. The purchase price of €13.4 million was fully paid in cash. The provisional purchase price allocation resulted in goodwill of €4.1 million and intangible assets of €4.8 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, 2017.

Four asset deals took place in the Tire segment. The purchase prices totaling €2.6 million were paid in cash. The purchase price allocations resulted in intangible assets of €0.8 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, 2017.

The purchase price from the acquisition of shares in Hoosier Racing Tire Corp., Lakeville, Indiana, U.S.A., on October 3, 2016, increased by €3.1 million. In the Tire segment, the final purchase price allocation therefore results in goodwill of €17.0 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, 2017.

In the Interior segment, the final purchase price settlement for the acquisition of Zonar Systems, Inc., Seattle, Washington, U.S.A., on November 1, 2016, resulted in a purchase price reduction of €0.7 million to €238.4 million. The final purchase price allocation therefore results in goodwill of €144.1 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, 2017.

In the Interior segment, Continental Automotive Holding Netherlands B.V., Maastricht, Netherlands, acquired 100% of the shares in Argus Cyber Security Ltd, Tel Aviv, Israel, on November 3, 2017. This company is one of the world's leading providers of IT security for vehicles worldwide. This acquisition adds to the Interior segment's expertise in this area. As at the acquisition date, the company had around 70 employees. The provisional purchase price of €319.1 million was paid in cash. Incidental acquisition costs of €0.7 million were recognized as other expenses in fiscal 2017. As the closing took place near to the reporting date, the purchase price allocation, which resulted in goodwill of €177.5 million and intangible assets totaling €179.4 million, is provisional. If the transaction had already been completed on January 1, 2017, net income after tax would have been €4.8 million lower and sales would have been up by €1.1 million. The transaction was closed on November 3, 2017. Since then, Argus Cyber Security has generated sales of €0.2 million and, taking into account the effects of purchase price allocation, contributed net income after tax of -€23.5 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, 2017.

Two further share deals took place in the Interior segment. The purchase prices of €29.2 million were paid in cash. The purchase price allocation resulted in goodwill of €23.4 million and intangible assets of €9.6 million. This goodwill was written down in full in the Intelligent Transportation Systems business unit in 2017. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2017.

Assets and liabilities that were part of the aforementioned acquisitions (not taking into account the acquisition of the Hornschuch Group GmbH, Weißbach, Germany) and which were included in the consolidated statement of financial position for the first time were carried in the following amounts:

Acquired net assets in € millions	**Fair value at date of first-time consolidation**
Other intangible assets	194.6
Property, plant and equipment	4.6
Other investments	0.3
Deferred tax assets	1.6
Inventories	2.5
Trade accounts receivable	4.1
Short-term other financial assets	0.2
Short-term other assets	0.7
Cash and cash equivalents	15.7
Deferred tax liabilities	-44.4
Long-term other liabilities	-0.3
Short-term employee benefits	-1.1
Trade accounts payable	-6.8
Short-term indebtedness	-1.8
Short-term other financial liabilities	-5.6
Short-term other liabilities	-2.9
Purchased net assets	**161.4**
Purchase price	366.7
Fair value of the previously held shares	2.1
Non-controlling interests	0.0
Goodwill	**207.4**

Disposal of companies and business operations
In the ContiTech segment, sub-activities of the Elastomer Coatings business unit were disposed of. This transaction resulted in expense of €2.0 million and income of €0.4 million.

Notes to the Consolidated Statement of Income

6. Other Income and Expenses

€ millions	**2017**	2016
Other income	584.5	316.0
Other expenses	-796.6	-981.8
Other income and expenses	**-212.1**	**-665.8**

Other income

Starting with the year under review, 2017, the structure of other income has been adjusted to increase transparency. Items that have been netted up to this point are now accounted for separately. The figures from the comparative period have been adjusted accordingly.

€ millions	**2017**	2016
Income from the reversal of provisions	194.6	122.6
Income from the reimbursement of customer tooling expenses	81.2	17.5
Compensation from customers and suppliers	31.9	37.2
Income from the reversal of provisions for litigation and environmental risks	29.7	13.5
Income from the disposal of property, plant and equipment	28.1	22.7
Income from the reversal of allowances on receivables	25.0	32.7
Income from the disposal of companies and business operations	14.4	5.0
Reversal of impairment losses on property, plant and equipment	5.9	4.0
Income from the reversal of provisions for severance payments	2.5	–
Miscellaneous	171.2	60.8
Other income	**584.5**	**316.0**

Other income increased by €268.5 million to €584.5 million (PY: €316.0 million) in the reporting period.

The reversal of specific warranty provisions and provisions for restructuring measures resulted in income of €194.6 million (PY: €122.6 million) in the reporting period.

Reimbursements for customer tooling resulted in income of €81.2 million (PY: €17.5 million) in 2017.

The reversal of provisions for litigation and environmental risks resulted in income totaling €29.7 million (PY: €13.5 million).

Income of €28.1 million (PY: €22.7 million) was generated from the disposal of property, plant and equipment in the period under review.

The income from the reversal of allowances on receivables was €25.0 million (PY: €32.7 million).

Disposals of companies and business operations resulted in income of €14.4 million (PY: €5.0 million) in 2017.

Reversal of impairment losses on property, plant and equipment resulted in total income of €5.9 million (PY: €4.0 million).

Income of €2.5 million (PY: –) arose from the reversal of provisions for severance payments in 2017.

The "Miscellaneous" item includes proceeds from license 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: €13.7 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

Starting with the year under review, 2017, the structure of other expenses has been adjusted to increase transparency. Items that have been netted up to this point are now accounted for separately. The figures from the comparative period have been adjusted accordingly.

€ millions	2017	2016
Additions to specific warranty provisions and provisions for restructuring measures	326.0	526.6
Additions to provisions for litigation and environmental risks	101.8	137.8
Expenses from customer tooling	59.2	–
Expenses from severance payments	51.2	56.3
Expenses from valuation allowances for doubtful accounts	38.5	49.6
Expenses from currency translation	29.7	59.1
Impairment on property, plant and equipment, and intangible assets	23.1	62.6
Impairment on goodwill	23.0	–
Losses on the disposal of property, plant and equipment, and from scrapping	14.1	12.4
Compensation to customers and suppliers	4.3	2.6
Incidental acquisition costs from acquisitions of companies and business operations	3.3	3.4
Losses on the disposal of companies and business operations	2.0	10.3
Miscellaneous	120.4	61.1
Other expenses	**796.6**	**981.8**

Other expenses decreased by €185.2 million to €796.6 million (PY: €981.8 million) in the reporting period.

Additions to specific warranty provisions and provisions for restructuring measures resulted in expenses totaling €326.0 million (PY: €526.6 million).

In connection with provisions for litigation and environmental risks, there were expenses of €101.8 million (PY: €137.8 million).

Expenses from customer tooling of €59.2 million (PY: –) arose in 2017.

Personnel adjustments not related to restructuring led to expenses from severance payments of €51.2 million (PY: €56.3 million).

The expenses resulting from valuation allowances for doubtful accounts were €38.5 million (PY: €49.6 million).

In the year under review, expenses of €29.7 million (PY: €59.1 million) were incurred as a result of currency translations from operating receivables and liabilities in foreign currencies not classified as indebtedness.

Impairment on property, plant and equipment, and intangible assets amounted to €23.1 million (PY: €62.6 million) in the reporting period.

In the Interior segment, goodwill totaling €23.0 million that arose in connection with the expansion of our mobility-services activities in the Intelligent Transportation Systems business unit was impaired, outside the scope of the annual impairment test.

Losses of €14.1 million (PY: €12.4 million) arose from the disposal of property, plant and equipment, and from scrapping activities in 2017.

Compensation for customer and supplier claims that are not warranties resulted in expenses of €4.3 million (PY: €2.6 million) in the reporting period.

Incidental acquisition costs of €3.3 million (PY: €3.4 million) were incurred for the acquisition of companies and business operations.

Disposals of companies and business operations resulted in losses of €2.0 million (PY: €10.3 million).

The “Miscellaneous” item also includes expenses from other taxes and losses due to force majeure.

7. Personnel Expenses

The following total personnel expenses are included in function costs in the income statement:

€ millions	2017	2016
Wages and salaries	8,641.2	7,890.8
Social security contributions	1,685.4	1,517.9
Pension and post-employment benefit costs	360.7	287.0
Personnel expenses	**10,687.3**	**9,695.7**

Compared to the 2016 reporting year, personnel expenses rose by €991.6 million to €10,687.3 million (PY: €9,695.7 million). This rise is due in particular to global recruitment activities and acquisitions in the ContiTech segment and the Interior segment.

The average number of employees in 2017 was 230,656 (PY: 216,019). As at the end of the year, there were 235,473 (PY: 220,137) employees in the Continental Corporation. Please also see the comments in the Management Report.

8. Income from Investments

€ millions	2017	2016
Income from equity-accounted investees	76.8	69.7
Other income from investments	0.5	0.5

Net investment income includes, in particular, the share of earnings of companies accounted for using the equity method in the amount of €76.8 million (PY: €69.7 million).

9. Financial Result

To improve transparency, the components of the financial result (previously: net interest result) are shown separately from fiscal 2017. The figures from the comparative period have been adjusted accordingly.

€ millions	2017	2016
Interest and similar income	26.6	25.5
Expected income from long-term employee benefits and from pension funds	67.8	75.9
Interest income	**94.4**	**101.4**
Interest and similar expenses	-123.3	-138.2
Finance lease expenses	-1.1	-2.0
Interest expense for long-term provisions and liabilities	-5.6	-0.4
Interest expense from long-term employee benefits	-151.5	-168.2
Interest expense	**-281.5**	**-308.8**
Effects from currency translation	**-138.8**	**157.1**
Effects from changes in the fair value of derivative instruments	38.4	-67.0
Gains from available-for-sale financial assets	1.8	0.3
Effects from changes in the fair value of derivative instruments, and other valuation effects	**40.2**	**-66.7**
Financial result	**-285.7**	**-117.0**

The negative financial result increased by €168.7 million year-on-year to €285.7 million (PY: €117.0 million) in 2017. This is primarily attributable to the sum of the effects from changes in the fair value of derivative instruments and from currency translation.

Interest income in 2017 decreased by €7.0 million year-on-year to €94.4 million (PY: €101.4 million). Of this, expected income from long-term employee benefits and from pension funds amounted to €67.8 million (PY: €75.9 million). This does not include the interest income from the plan assets of the pension contribution funds.

Interest expense totaled €281.5 million in 2017 and was thus €27.3 million lower than the previous year's figure of €308.8 million. At €130.0 million, interest expense resulting from bank borrowings, capital market transactions and other financing instruments was €10.6 million lower than the prior-year figure of €140.6 million. The major portion related to expense of €70.7 million (PY: €86.1 million) from the bonds issued by Continental AG, Conti-Gummi Finance B.V., Maastricht, Netherlands, and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A. The year-on-year decline in this expense is attributable to the repayment of the €750.0 million euro bond from Conti-Gummi Finance B.V., Maastricht, Netherlands, on March 20, 2017. The 3.5-year bond bore interest at a rate of 2.5% p.a. The interest expense from long-term employee benefits totaled €151.5 million (PY: €168.2 million) in 2017. This does not include the interest expense from the defined benefit obligations of the pension contribution funds.

The effects from currency translation resulted in a negative contribution to earnings of €138.8 million (PY: positive contribution to earnings of €157.1 million) in 2017. This was countered by effects from changes in the fair value of derivative instruments, and other valuation effects, which resulted in earnings of €40.2 million (PY: expense of €66.7 million) in 2017. The available-for-sale financial assets accounted for income of €1.8 million (PY: €0.3 million) of this. Taking into account the sum of the effects from currency translation and changes in the fair value of derivative instruments, earnings were negatively impacted by €100.4 million (PY: income of €90.1 million) in 2017. This resulted primarily from the development of the Mexican peso in relation to the U.S. dollar, which resulted in a positive contribution to earnings in the previous year, and of the Brazilian real in relation to the euro.

10. Income Tax Expense

The domestic and foreign income tax expense of the corporation is as follows:

€ millions	**2017**	2016
Current taxes (domestic)	–335.5	–136.7
Current taxes (foreign)	–852.4	–1,043.2
Deferred taxes (domestic)	46.6	–106.0
Deferred taxes (foreign)	–86.2	189.1
Income tax expense	**–1,227.5**	**–1,096.8**

The average domestic tax rate in 2017 was 30.6% (PY: 30.6%). This takes 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 14.8% (PY: 14.8%).

The following table shows the reconciliation of the expected tax expense to the reported tax expense:

€ millions	2017	2016
Earnings before tax	**4,275.8**	**3,978.8**
Expected tax expense at the domestic tax rate	-1,308.4	-1,217.5
Foreign tax rate differences	253.3	202.4
Non-deductible expenses and non-imputable withholding taxes	-171.7	-179.2
Incentives and tax holidays	133.5	119.9
Non-recognition of deferred tax assets unlikely to be realized	-91.0	-78.6
Taxes for previous years	-59.7	-28.2
Tax effect from equity-accounted investees	22.5	20.4
Local income tax with different tax base	-19.5	-31.7
Realization of previously non-recognized deferred taxes	11.3	33.5
Effects from changes in enacted tax rate	5.1	-15.5
First-time recognition of deferred tax assets likely to be realized	—	80.8
Effects from sale of or impairment on investments	—	-1.3
Other	-2.9	-1.8
Income tax expense	**-1,227.5**	**-1,096.8**
Effective tax rate in %	**28.7**	**27.6**

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, 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 €91.0 million (PY: €78.6 million), of which €40.2 million (PY: €11.7 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. Please see Note 16.

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 €19.5 million (PY: €31.7 million) were incurred with a different tax base, mainly in Hungary and the U.S.A.

The result of equity-accounted investees included in net income resulted in tax income of €22.5 million (PY: €20.4 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 reduction in the corporate tax rate in the U.S.A. to 21% from 2018 had no material effect on the Continental Corporation as at December 31, 2017.

The following table shows the total income tax expense, also including the items reported under reserves recognized directly in equity:

€ millions	Dec. 31, 2017	Dec. 31, 2016
Income tax expense (acc. to Consolidated Statement of Income)	-1,227.5	-1,096.8
Tax income on other comprehensive income	-114.0	178.4
Remeasurement of defined benefit plans	-92.9	158.1
Investment in equity-accounted investees	0.1	0.1
Currency translation	-21.6	23.4
Available-for-sale financial assets	—	0.0
Cash flow hedges	0.4	-3.2
Total income tax expense	**-1,341.5**	**-918.4**

Notes to the Consolidated Statement of Financial Position

11. 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, 2016					
Cost	**9,210.4**	322.5	2,090.4	10.2	**2,423.1**
Accumulated amortization	**-2,569.8**	-165.3	-921.4	—	**-1,086.7**
Book value	**6,640.6**	**157.2**	**1,169.0**	**10.2**	**1,336.4**
Net change in 2016					
Book value	**6,640.6**	157.2	1,169.0	10.2	**1,336.4**
Exchange-rate changes	**36.7**	-0.7	29.4	0.1	**28.8**
Additions	**—**	105.9	61.3	17.2	**184.4**
Additions from the first-time consolidation of subsidiaries	**180.0**	—	274.7	—	**274.7**
Reclassification to assets held for sale	**—**	—	0.0	—	**0.0**
Transfers	**—**	—	7.6	-7.6	**0.0**
Disposals	**—**	0.0	-0.7	-0.1	**-0.8**
Amortization	**—**	-54.3	-222.0	—	**-276.3**
Impairment[2]	**—**	—	-33.1	—	**-33.1**
Book value	**6,857.3**	**208.1**	**1,286.2**	**19.8**	**1,514.1**
As at December 31, 2016					
Cost	**9,429.1**	310.1	2,446.1	19.8	**2,776.0**
Accumulated amortization	**-2,571.8**	-102.0	-1,159.9	—	**-1,261.9**
Book value	**6,857.3**	**208.1**	**1,286.2**	**19.8**	**1,514.1**
Net change in 2017					
Book value	**6,857.3**	208.1	1,286.2	19.8	**1,514.1**
Exchange-rate changes	**-123.4**	-3.3	-95.2	-0.2	**-98.7**
Additions	**—**	92.1	51.7	13.0	**156.8**
Additions from the first-time consolidation of subsidiaries[3]	**299.2**	—	359.3	—	**359.3**
Amounts disposed of through disposal of subsidiaries	**—**	—	-0.1	—	**-0.1**
Transfers	**—**	—	15.2	-15.2	**—**
Disposals	**—**	—	-1.7	-0.1	**-1.8**
Amortization	**—**	-74.5	-247.8	—	**-322.3**
Impairment[2]	**-23.0**	—	0.0	—	**0.0**
Book value	**7,010.1**	**222.4**	**1,367.6**	**17.3**	**1,607.3**
As at December 31, 2017					
Cost	**9,597.7**	393.5	2,705.7	17.3	**3,116.5**
Accumulated amortization	**-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**

1 Not including development costs for internally generated software.
2 Impairment also includes necessary reversal of impairment losses.
3 Including subsequent adjustment from purchase price allocations. Included in the additions from the first-time consolidation of subsidiaries are additions from other intangible assets in the amount of €1.4 million from a previously unconsolidated entity that was included in the consolidation for the first time.

Acquisitions of companies in 2017 resulted in an addition to goodwill totaling €299.2 million (PY: €180.0 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), Veyance Technologies (2015) and Continental Temic (2001).

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	**Dec. 31, 2017**		Dec. 31, 2016
Vehicle Dynamics	1,254.4	Vehicle Dynamics	1,305.6
Hydraulic Brake Systems	405.4	Hydraulic Brake Systems	415.4
Passive Safety & Sensorics	591.1	Passive Safety & Sensorics	552.5
Advanced Driver Assistance Systems	362.8	Advanced Driver Assistance Systems	366.5
Continental Engineering Services	17.0	Continental Engineering Services	17.4
Chassis & Safety	**2,630.7**	**Chassis & Safety**	**2,657.4**
Engine Systems	451.3	Engine Systems	460.5
Fuel & Exhaust Management	78.5	Fuel & Exhaust Management	79.4
Sensors & Actuators	207.3	Sensors & Actuators	212.3
Transmission	249.2	Transmission	252.6
Powertrain	**986.3**	**Powertrain**	**1,004.8**
Instrumentation & Driver HMI	773.0	Instrumentation & Driver HMI	598.1
Infotainment & Connectivity	563.8	Infotainment & Connectivity	572.3
Body & Security	712.2	Body & Security	722.3
Commercial Vehicles & Aftermarket	652.4	Commercial Vehicles & Aftermarket	669.8
Interior	**2,701.4**	**Interior**	**2,562.5**
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	133.6	Passenger and Light Truck Tire Replacement Business, EMEA	133.9
Passenger and Light Truck Tire Replacement Business, The Americas	15.9	Passenger and Light Truck Tire Replacement Business, The Americas	13.9
Commercial Vehicles Tires	53.7	Commercial Vehicles Tires	57.4
Tires	**205.2**	**Tires**	**207.2**
Air Spring Systems	23.1	Air Spring Systems	23.7
Benecke-Hornschuch Surface Group	102.2	Benecke-Kaliko Group[1]	11.2
Compounding Technology[2]	1.8	Compounding Technology	1.8
Conveyor Belt Group	109.8	Conveyor Belt Group	119.7
Elastomer Coatings[3]	14.2	Elastomer Coatings	14.2
Mobile Fluid Systems	49.4	Mobile Fluid Systems	51.5
Industrial Fluid Solutions	140.0	Industrial Fluid Systems[4]	152.1
Power Transmission Group	43.0	Power Transmission Group	48.3
Vibration Control	0.6	Vibration Control	0.6
CT Other[2]	2.4	CT Other	2.3
ContiTech	**486.5**	**ContiTech**	**425.4**
Continental Corporation	**7,010.1**	**Continental Corporation**	**6,857.3**

1 Since June 2017: Benecke-Hornschuch Surface Group.
2 Since January 2018: Special Technologies and Solutions.
3 Since January 2018: Part of Benecke-Hornschuch Surface Group.
4 Since January 2017: Industrial Fluid Solutions.

The additions to purchased intangible assets from consolidation changes are attributable primarily to customer relationships and know-how. Other additions related mainly to software in the amount of €42.3 million (PY: €51.6 million). Under IAS 38, €92.1 million (PY: €105.9 million) of the total development costs incurred in 2017 qualified for recognition as an asset.

Amortization of other intangible assets amounted to €322.3 million (PY: €276.3 million). Of this, €257.9 million (PY: €221.0 million) is included in the consolidated statement of income under the cost of sales and €64.4 million (PY: €55.3 million) of which is included in 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. These relate in particular to the VDO brand name in the amount of €71.2 million, the Elektrobit brand name in the amount of €30.4 million, the Phoenix brand name in the amount of €4.2 million, and the Matador brand name in the amount of €3.2 million.

The purchased intangible assets also include the carrying amounts of software amounting to €114.4 million (PY: €130.2 million), which are amortized on a straight-line basis as scheduled.

12. Property, Plant and Equipment

The additions to property, plant and equipment from changes in the scope of consolidation essentially resulted from the acquisition of the Hornschuch Group (€124.5 million). Please see Note 5.

Investments in the Chassis & Safety segment focused on both increasing production capacity in Europe and expanding the locations in North America and Asia. Production capacity was hereby increased for all business units. Important additions related to the creation of new production facilities for electronic brake systems.

In the Powertrain segment, production capacity was increased at the German locations and in China, the U.S.A., Czechia and Romania. Important additions related to the Engine Systems and Sensors & Actuators business units. In the Engine Systems business unit, manufacturing capacity for engine injection systems was expanded.

In the Interior segment, there were major investments in expanding production capacity at German locations and in China, Czechia, Mexico, Romania and the U.S.A. Investments focused primarily on the expansion of manufacturing capacity for the Instrumentation & Driver HMI and Body & Security business units. In the Instrumentation & Driver HMI business unit, manufacturing capacity for operation and display solutions was expanded.

In the Tire segment, production capacity was expanded in Europe, in North America and in Asia. There were major additions relating to the expansion of existing production sites in Hefei, China; Mount Vernon, Illinois, and Sumter, South Carolina, U.S.A.; Púchov, Slovakia; and Lousado, Portugal. Investments were also made in the new plant buildings in Rayong, Thailand, and Clinton, Mississippi, U.S.A. Quality assurance and cost-cutting measures were also implemented.

Investments in the ContiTech segment focused on the expansion of production facilities at German locations and in China, the U.S.A., Mexico and Hungary. Production capacity for the Mobile Fluid Systems, Benecke-Hornschuch Surface Group (formerly Benecke-Kaliko Group), Power Transmission Group and Conveyor Belt Group business units was expanded in particular. In addition, investments were made in all business units to rationalize existing production processes.

Please see Note 6 for information on impairment and reversal of impairment losses.

Government investment grants of €37.5 million (PY: €6.6 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 22 for information on reclassifications during the period to assets held for sale.

Property, plant and equipment includes buildings, technical equipment and other facilities assigned to the corporation as the beneficial owner on the basis of the lease agreement. These relate primarily to administration and manufacturing buildings. The leases have an average term of up to 20 years for buildings and five to ten years for technical equipment. The effective interest rate of the main leases is between 2.7% and 9.8% (PY: 4.6% and 8.7%). Some of the main leases include prolongation or purchase options.

There are restrictions on title and property, plant and equipment pledged as security for liabilities in the amount of €14.1 million (PY: €14.7 million).

€ 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, 2016					
Cost	4,157.3	15,053.0	2,458.6	1,365.8	**23,034.7**
Accumulated depreciation	-1,620.1	-10,063.9	-1,804.7	-7.1	**-13,495.8**
Book value	**2,537.2**	**4,989.1**	**653.9**	**1,358.7**	**9,538.9**
thereof finance leases	24.7	0.8	0.2	–	**25.7**
Net change in 2016					
Book value	2,537.2	4,989.1	653.9	1,358.7	**9,538.9**
Exchange-rate changes	48.9	39.0	4.5	0.8	**93.2**
Additions	182.2	752.4	179.5	1,410.1	**2,524.2**
Additions from the first-time consolidation of subsidiaries	18.8	36.7	15.5	0.5	**71.5**
Amounts disposed of through disposal of subsidiaries	–	–	-0.1	–	**-0.1**
Reclassification to/from assets held for sale	-4.2	–	–	–	**-4.2**
Transfers	158.3	823.8	73.6	-1,055.9	**-0.2**
Disposals	-6.1	-22.4	-3.5	-1.4	**-33.4**
Depreciation	-167.0	-1,239.8	-219.5	–	**-1,626.3**
Impairment[2]	-12.4	-11.2	-1.9	–	**-25.5**
Book value	**2,755.7**	**5,367.6**	**702.0**	**1,712.8**	**10,538.1**
As at December 31, 2016					
Cost	4,546.2	16,376.7	2,613.7	1,720.8	**25,257.4**
Accumulated depreciation	-1,790.5	-11,009.1	-1,911.7	-8.0	**-14,719.3**
Book value	**2,755.7**	**5,367.6**	**702.0**	**1,712.8**	**10,538.1**
thereof finance leases	17.3	1.6	0.1	–	**19.0**
Net change in 2017					
Book value	2,755.7	5,367.6	702.0	1,712.8	**10,538.1**
Exchange-rate changes	-112.3	-221.7	-24.6	-80.2	**-438.8**
Additions	153.1	929.8	179.8	1,536.4	**2,799.1**
Additions from the first-time consolidation of subsidiaries[3]	43.2	65.5	9.5	11.7	**129.9**
Amounts disposed of through disposal of subsidiaries	–	-0.1	-0.2	–	**-0.3**
Reclassification to/from assets held for sale	-13.3	-0.4	–	–	**-13.7**
Transfers	160.1	924.4	116.2	-1,201.6	**-0.9**
Disposals	-2.7	-32.3	-2.7	-1.8	**-39.5**
Depreciation	-182.4	-1,327.5	-244.7	–	**-1,754.6**
Impairment[2]	5.0	-18.6	-0.8	-2.8	**-17.2**
Book value	**2,806.4**	**5,686.7**	**734.5**	**1,974.5**	**11,202.1**
As at December 31, 2017					
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**

1 Investment property is shown separately in Note 13.
2 Impairment also includes necessary reversal of impairment losses.
3 Included in the additions from the first-time consolidation of subsidiaries are additions from property, plant and equipment in the amount of €0.8 million from a previously unconsolidated entity that was included in the consolidation for the first time.

13. Investment Property

€ millions	2017	2016
Cost as at January 1	20.2	29.2
Accumulated depreciation as at January 1	-9.9	-13.2
Net change		
Book value as at January 1	**10.3**	**16.0**
Exchange-rate changes	-0.2	-0.1
Additions	–	0.0
Disposals	–	-5.3
Reclassifications	0.7	0.1
Depreciation	-0.3	-0.4
Book value as at December 31	**10.5**	**10.3**
Cost as at December 31	20.7	20.2
Accumulated depreciation as at December 31	-10.2	-9.9

The fair value – determined using the gross rental method – of land and buildings accounted for as investment property as at December 31, 2017, amounted to €16.0 million (PY: €16.2 million). Rental income in 2017 amounted to €2.7 million (PY: €2.7 million), while associated maintenance costs of €1.2 million (PY: €1.4 million) were incurred.

14. Investments in Equity-Accounted Investees

€ millions	2017	2016
As at January 1	**384.8**	**345.8**
Additions	7.6	8.5
Changes in the consolidation method, and transfers	-7.6	-0.7
Share of income	76.8	69.7
Dividends received	-40.2	-44.6
Changes in other comprehensive income	-3.8	6.0
Exchange-rate changes	-2.8	0.1
As at December 31	**414.8**	**384.8**

Investments in equity-accounted investees include carrying amounts of joint ventures in the amount of €260.4 million (PY: €241.7 million) and of associates in the amount of €154.4 million (PY: €143.1 million).

A significant 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 that is jointly controlled by Continental Global Holding Netherlands B.V., Maastricht, Netherlands, and Compagnie Financière Michelin SCmA, Granges-Paccot, Switzerland, which each hold 50% of the voting rights, essentially operates in the field of delivering tire-wheel assemblies for the 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 shares were held in significant joint ventures in the Automotive Group:

- Continental AG, Hanover, Germany, holds a 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 key 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.

The figures taken from the last two available sets of IFRS annual financial statements (2016 and 2015) for the main 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. All shares are accounted for using the equity method.

	MC Projects B.V.		Shanghai Automotive Brake Systems Co., Ltd.		SAS Autosystemtechnik GmbH & Co. KG	
€ millions	2016	2015	2016	2015	2016	2015
Dividends received	6.0	10.0	18.3	19.2	15.0	15.0
Current assets	166.7	149.9	308.6	252.8	393.7	420.8
thereof cash and cash equivalents	39.6	28.4	64.3	53.8	127.8	113.3
Non-current assets	77.6	72.2	105.1	103.1	89.3	82.5
Total assets	244.3	222.1	413.7	355.9	483.0	503.3
Current liabilities	109.9	97.5	209.3	156.0	368.5	389.3
thereof other short-term financial liabilities	0.0	2.4	–	–	0.6	0.2
Non-current liabilities	5.9	7.1	20.2	23.0	4.6	5.9
thereof long-term financial liabilities	1.3	1.3	–	–	–	–
Total liabilities	115.8	104.6	229.5	179.0	373.1	395.2
Sales	153.5	139.2	527.6	484.4	3,315.6	3,419.3
Interest income	0.2	0.6	1.2	3.0	0.5	0.6
Interest expense	0.5	0.4	–	–	0.3	0.4
Depreciation and amortization	9.9	11.2	13.0	13.0	19.7	20.6
Earnings from continued operations	23.6	14.7	50.7	45.4	34.0	39.6
Other comprehensive income	-0.5	-0.9	–	–	-2.3	0.4
Income tax expense	9.1	7.4	7.7	6.8	10.5	13.5
Earnings after tax	23.0	13.8	50.7	45.4	31.7	40.0
Contingent liabilities	–	–	–	–	42.7	49.7
Net assets	128.5	117.5	184.2	176.9	109.9	108.2
Share of net assets	64.3	58.7	90.3	86.7	55.0	54.1
Goodwill	–	–	10.6	10.6	20.3	20.3
Exchange-rate changes	–	–	-10.7	-10.7	–	–
Change in other comprehensive income for the prior year	–	–	3.0	-4.9	1.1	-0.2
Share earnings for prior years	-6.5	-3.2	0.0	0.0	–	–
Carrying amount	57.8	55.5	93.2	81.7	76.3	74.1

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, essentially performs development services for the automotive industry and is assigned to the Engine Systems business unit.

The figures taken from the last two available sets of IFRS annual financial statements (2016 and 2015) for IAV GmbH Ingenieurgesellschaft Auto und Verkehr, Berlin, Germany, are as follows. Amounts are stated at 100%. Furthermore, the pro rata net assets have been reconciled to the respective carrying amount, which is accounted for using the equity method.

	IAV GmbH Ingenieurgesellschaft Auto und Verkehr	
€ millions	2016	2015
Dividends received	0.2	0.2
Current assets	289.6	265.5
Non-current assets	230.0	208.4
Total assets	519.6	473.9
Current liabilities	213.7	191.8
Non-current liabilities	94.7	90.7
Total liabilities	308.4	282.5
Sales	734.1	696.8
Earnings from continued operations	20.6	17.0
Other comprehensive income	0.3	1.8
Earnings after tax	20.9	18.8
Contingent liabilities	56.5	102.1
Net assets	211.2	191.4
Share of net assets	42.2	38.3
Goodwill	12.7	12.7
Change in other comprehensive income for the prior year	-0.1	-0.4
Share earnings for prior years	-0.8	-0.4
Carrying amount	54.3	50.3

The figures taken from the last two available sets of annual financial statements (2016 and 2015) for the joint ventures and associates that are not material to the corporation are summarized as follows. Amounts are stated in line with the investment ratio.

	Associates		**Joint ventures**	
€ millions	2016	2015	2016	2015
Earnings from continued operations	13.2	7.2	-4.1	-1.2
Earnings after tax	**13.2**	**7.2**	**-4.1**	**-1.2**

15. Other Investments

€ millions	Dec. 31, 2017	Dec. 31, 2016
Investments in unconsolidated affiliated companies	14.3	6.4
Other participations	36.7	36.7
Other investments	**51.0**	**43.1**

Other investments are carried at cost, unless there are listings for these shares on the capital markets and unless the calculation of fair value is expected to provide a significant improvement for the presentation of financial statements. There is no intention to sell these at the current time.

16. Deferred Taxes

Deferred tax assets and liabilities are composed of the following items:

	Dec. 31, 2017		Dec. 31, 2016	
€ millions	Assets	Liabilities	Assets	Liabilities
Other intangible assets and goodwill	–	397.1	66.9	542.8
Property, plant and equipment	190.4	261.2	133.0	318.0
Inventories	310.0	81.5	310.9	95.6
Other assets	215.7	257.5	207.3	297.1
Employee benefits less defined benefit assets	947.3	6.6	1,137.9	32.1
Provisions for other risks and obligations	137.7	9.9	251.6	24.7
Indebtedness and other financial liabilities	215.5	32.3	229.0	44.7
Other differences	193.9	213.9	229.0	187.7
Allowable tax credits	18.0	–	23.5	–
Tax losses carried forward and limitation of interest deduction	200.2	–	418.2	–
Offsetting (IAS 12.74)	-911.5	-911.5	-1,171.2	-1,171.2
Amount recognized in statement of financial position	**1,517.2**	**348.5**	**1,836.1**	**371.5**
Net deferred taxes	**1,168.7**	**–**	**1,464.6**	**–**

Deferred taxes are measured in accordance with IAS 12 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.

In particular, the development of deferred taxes was influenced by various acquisitions and by the change in actuarial gains and losses from pensions and similar obligations in the year under review. Please see Notes 5 and 24.

Deferred tax assets were down €318.9 million to €1,517.2 million (PY: €1,836.1 million). This was due mainly to a decrease in deferred taxes on employee benefits in the amount of €190.6 million, which resulted from the provision for pension liabilities and similar obligations, and the decline in tax losses and interest carried forward by €218.0 million. This was offset by the €259.7 million reduction in net deferred taxes.

Deferred tax liabilities declined by €23.0 million year-on-year to €348.5 million (PY: €10.3 million increase). This change particularly results from deferred taxes on other intangible assets and goodwill.

As at December 31, 2017, the corporate tax losses, in Germany and abroad, carried forward amounted to €2,294.1 million (PY: €2,745.7 million). The majority of the corporation's tax losses carried forward relates to foreign subsidiaries and is mostly limited in the time period 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	Dec. 31, 2017	Dec. 31, 2016
Temporary differences	54.2	51.8
Tax losses carried forward and limitation of interest deduction	362.0	323.0
Allowable tax credits	46.1	35.1
Total unrecognized deferred tax assets	**462.3**	**409.9**

As at December 31, 2017, some corporation companies and tax groups that reported a loss recognized total deferred tax assets of €69.0 million (PY: €68.9 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 amount to a total of €587.2 million (PY: €587.0 million). Deferred tax liabilities were not taken account, since remittance to the parent company is not planned in the short and medium term.

The measurement differences from assets or liabilities held for sale are included in the "Other assets" and "Other differences" items.

17. Other Financial Assets

	Dec. 31, 2017		Dec. 31, 2016	
€ millions	Short-term	Long-term	Short-term	Long-term
Amounts receivable from related parties	176.4	1.8	93.8	0.3
Loans to third parties	–	60.5	–	57.4
Amounts receivable from employees	19.7	–	18.8	–
Amounts receivable for customer tooling	232.4	–	229.4	–
Other amounts receivable	101.0	6.5	113.5	8.7
Other financial assets	**529.5**	**68.8**	**455.5**	**66.4**

The receivables from related parties were mainly attributable to receivables from operating service business with equity-accounted investees and shareholders, as well as loans to associates.

Loans to third parties mainly related to tenants' loans for individual properties and include loans to customers with various maturities.

Receivables from employees related mainly to preliminary payments for hourly wages and for other advances.

The receivables from the sale of customer tooling related to costs that have not yet been invoiced.

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.

Impairment amounting to a total of €22.8 million (PY: €15.5 million) was recognized for the probable default risk on other financial assets, resulting in expenses of €7.3 million (PY: €1.1 million) in the period under review.

18. Other Assets

	Dec. 31, 2017		Dec. 31, 2016	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Tax refund claims (incl. VAT and other taxes)	530.8	–	607.2	–
Prepaid expenses	199.4	–	177.9	–
Miscellaneous	224.1	27.3	203.9	26.8
Other assets	**954.3**	**27.3**	**989.0**	**26.8**

The tax refund claims primarily resulted from VAT receivables from the purchase of production materials.

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 €5.2 million (PY: €5.3 million) was recognized for the probable default risk on other assets. As in the previous year, neither expenses nor income arose in a significant amount in the reporting period.

19. Inventories

€ millions	**Dec. 31, 2017**	Dec. 31, 2016
Raw materials and supplies	1,415.4	1,338.8
Work in progress	563.2	502.4
Finished goods and merchandise	2,149.6	1,912.0
Inventories	**4,128.2**	**3,753.2**

Write-downs recognized on inventories increased by €31.9 million to €435.2 million (PY: €403.3 million).

20. Trade Accounts Receivable

€ millions	**Dec. 31, 2017**	Dec. 31, 2016
Trade accounts receivable	7,779.7	7,505.1
Allowances for doubtful accounts	-110.4	-112.4
Trade accounts receivable	**7,669.3**	**7,392.7**

The carrying amounts of the trade accounts receivable, net of allowances for doubtful accounts, are their fair values.

The risk provision is calculated on the basis of corporation-wide standards. Customer relationships are analyzed at regular intervals. Individual valuation allowances are distinguished from general portfolio allowances for trade accounts receivable measured at amortized cost. Trade accounts receivable for which individual valuation allowances must be recognized are not taken into account in calculating the general portfolio allowance.

The allowance for doubtful accounts essentially includes estimates and assessments of individual receivables 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.

Individual allowances are recognized if the customer displays significant financial difficulties or there is a high probability of insolvency. Corresponding expenses are recognized in the allowances for doubtful accounts. If there is evidence of uncollectibility, the receivables are derecognized. If creditworthiness improves, the allowance is reversed.

Accordingly, the specific valuation allowances and general portfolio allowances for trade accounts receivable developed as follows in the year under review:

€ millions	**2017**	2016
As at January 1	**112.4**	**108.8**
Additions	38.5	49.5
Utilizations	-12.0	-14.0
Reversals	-25.0	-32.7
Amounts disposed of through disposal of subsidiaries	-0.3	—
Exchange-rate changes	-3.2	0.8
As at December 31	**110.4**	**112.4**

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 not been primarily 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 €1,799.2 million (PY: €1,937.0 million) are approximately equivalent to their fair value. The respective liabilities with a carrying amount of €513.7 million (PY: €487.1 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 €894.5 million (PY: €1,069.3 million).

The trade accounts receivable for which specific valuation allowances have not been recognized are broken down into the following maturity periods:

			thereof overdue in the following maturity periods					
€ millions	**Book value**	thereof not overdue	less than 15 days	15–29 days	30–59 days	60–89 days	90–119 days	120 days and more
Dec. 31, 2017								
Trade accounts receivable[1]	**7,350.8**	6,753.9	219.2	100.2	86.9	36.0	30.5	124.1
Dec. 31, 2016								
Trade accounts receivable[1]	**6,042.5**	5,513.0	184.3	85.2	71.2	29.6	26.9	132.3

1 The difference between this figure and the first table in this Note of €428.9 million (PY: €1,462.6 million) results from receivables for which specific valuation allowances have been recognized.

Based on the customers' payment history and analysis of their creditworthiness, the Continental Corporation expects that the overdue receivables not written down and the receivables not overdue will be settled in full and no valuation allowance will be required. The receivables as at December 31, 2017, do not include any amounts from the percentage-of-completion method.

21. 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 €1,881.5 million (PY: €2,107.0 million). Of that, €1,726.7 million (PY: €1,673.9 million) was unrestricted.

For information on the interest-rate risk and the sensitivity analysis for financial assets and liabilities, please see Note 28.

22. Assets Held for Sale

€ millions	**Dec. 31, 2017**	Dec. 31, 2016
Individual assets held for sale	13.5	4.0
Assets of a disposal group	–	–
Assets held for sale	**13.5**	**4.0**

The assets held for sale in the amount of €13.5 million (PY: €4.0 million) include mainly assets from the plant closure in Melbourne, Australia, of €11.4 million.

23. Equity

Number of shares outstanding	**2017**	2016
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, 2017, of €1,470.4 million (PY: €1,103.1 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 €4.50 per share. With 200,005,983 no-par-value shares entitled to dividends, the total distribution thus amounts to €900,026,923.50. The remaining amount is to be carried forward to new account.

24. Employee Benefits

The following table outlines the employee benefits:

	Dec. 31, 2017		Dec. 31, 2016	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	–	3,847.8	–	3,871.9
Provisions for other post-employment benefits	–	209.3	–	232.6
Provisions for similar obligations	1.6	45.9	0.8	45.5
Other employee benefits	–	266.3	–	160.9
Liabilities for workers' compensation	41.1	24.8	35.1	81.4
Liabilities for payroll and personnel related costs	1,025.3	–	880.2	–
Termination benefits	44.7	–	37.3	–
Liabilities for social security	177.1	–	171.2	–
Liabilities for vacation	200.8	–	189.5	–
Employee benefits	**1,490.6**	**4,394.1**	**1,314.1**	**4,392.3**
Defined benefit assets (difference between pension obligations and related funds)		**16.0**		**24.3**

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 were 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 were 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 160,632 beneficiaries, including 117,105 active employees, 16,545 former employees with vested benefits, and 26,982 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 18 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 allocation obligations.

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, 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, 2017. 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.

The company 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. Acquisitions in the previous year 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 Tire and Automotive 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.

There were plan settlements in the U.S.A. in 2017, whereby departed employees with vested benefits were offered compensation for the pension entitlements. The payments to employees who accepted this offer were made in December 2017.

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.

In line with this strategy, the Continental Group Pension and Life Assurance Scheme funded the pension obligations to current pension beneficiaries by purchasing annuities in the first quarter.

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 discounting rate based on government bonds and other conservatively selected actuarial assumptions. Compared to IAS 19, which derives the discounting 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 last technical valuations of the four defined benefit pension plans took place with their valuation dates between December 2014 and March 2016 and led to the following result:

- Continental Teves UK Employee Benefit Scheme (assessment as at December 31, 2014): 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.

- Continental Group Pension and Life Assurance Scheme (assessment as at April 5, 2015): As part of the assessment and in connection with the pension plan being frozen to accretion of further benefits, a one-time contribution of GBP 15.0 million was made in 2016 and an agreement was concluded to enable the pension plan to fund a full buyout by purchasing annuities in the next five years.

- 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, 2015): 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. In 2017, three plans (Bowmanville, Collingwood and Owen Sound) were fully funded by the purchase of annuities, so there are no longer any pension obligations from these plans for Continental companies.

Fluctuations in the amount of the pension obligation resulting from exchange-rate effects are subject to the same risks as the 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:

	2017						2016					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Defined benefit obligations as at January 1	**4,416.5**	**1,247.0**	**151.3**	**402.2**	**311.7**	**6,528.7**	**3,814.1**	**1,199.0**	**140.4**	**378.6**	**275.3**	**5,807.4**
Exchange-rate differences	—	-147.3	-7.5	-13.7	-7.9	**-176.4**	—	41.6	9.4	-57.1	-3.0	-9.1
Current service cost	223.2	5.5	1.5	2.5	24.2	**256.9**	148.5	5.7	1.9	2.8	22.0	180.9
Service cost from plan amendments	—	—	—	—	0.0	**0.0**	—	4.2	—	1.5	0.0	5.7
Curtailments/settlements	—	-4.8	1.6	-0.1	-1.8	**-5.1**	—	—	—	-6.4	-5.7	-12.1
Interest on defined benefit obligations	77.2	48.0	5.4	10.0	7.7	**148.3**	86.5	51.5	5.8	12.6	8.7	165.1
Actuarial gains/losses from changes in demographic assumptions	20.5	5.8	—	-11.3	-0.9	**14.1**	—	-17.2	0.6	-3.4	-0.1	-20.1
Actuarial gains/losses from changes in financial assumptions	-89.2	74.3	7.0	10.5	-27.2	**-24.6**	445.0	32.2	5.2	84.5	29.8	596.7
Actuarial gains/losses from experience adjustments	-44.9	13.8	-0.6	-0.7	3.8	**-28.6**	22.9	-2.1	-0.3	0.6	-1.4	19.7
Net changes in the scope of consolidation	12.2	—	—	—	0.2	**12.4**	—	—	—	—	0.7	0.7
Employee contributions	—	—	0.3	0.2	0.2	**0.7**	—	—	0.3	0.3	0.0	0.6
Other changes	—	—	—	-0.5	0.1	**-0.4**	0.1	—	—	-0.6	0.0	-0.5
Benefit payments	-97.0	-175.3	-48.3	-12.7	-13.0	**-346.3**	-100.6	-67.9	-12.0	-11.2	-14.6	-206.3
Defined benefit obligations as at December 31	**4,518.5**	**1,067.0**	**110.7**	**386.4**	**297.1**	**6,379.7**	**4,416.5**	**1,247.0**	**151.3**	**402.2**	**311.7**	**6,528.7**

The reconciliation of the changes in the fund assets from the beginning to the end of the year is as follows:

	2017						2016					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Fair value of fund assets as at January 1	**1,123.0**	**904.4**	**133.9**	**391.5**	**131.6**	**2,684.4**	**1,065.8**	**870.5**	**124.5**	**386.7**	**124.4**	**2,571.9**
Exchange-rate differences	—	-105.2	-6.3	-13.4	-4.2	**-129.1**	—	30.1	8.3	-57.3	-0.8	-19.7
Interest income from pension funds	29.8	34.5	4.9	10.1	3.7	**83.0**	28.5	37.3	5.2	13.4	4.3	88.7
Actuarial gains/losses from fund assets	15.9	71.7	-0.5	-15.4	5.5	**77.2**	7.9	18.6	4.5	36.6	-2.2	65.4
Employer contributions	45.7	17.8	7.2	18.7	16.0	**105.4**	44.8	17.7	3.4	23.7	17.6	107.2
Employee contributions	—	—	0.3	0.2	0.2	**0.7**	—	—	0.3	0.3	0.3	0.9
Net changes in the scope of consolidation	—	—	—	—	—	**—**	—	—	—	—	—	—
Other changes	-2.2	-1.3	-0.5	-0.5	-0.2	**-4.7**	—	-1.9	-0.3	-0.7	-4.3	-7.2
Benefit payments	-23.2	-175.3	-48.3	-12.7	-8.3	**-267.8**	-24.0	-67.9	-12.0	-11.2	-7.7	-122.8
Fair value of fund assets as at December 31	**1,189.0**	**746.6**	**90.7**	**378.5**	**144.3**	**2,549.1**	**1,123.0**	**904.4**	**133.9**	**391.5**	**131.6**	**2,684.4**

The carrying amount of pension provisions fell by €15.8 million as compared to the previous year. This was due primarily to closures of plans and the associated plan settlements in the U.S.A. and Canada. Defined benefit assets decreased by €8.3 million year-on-year. This was due chiefly to the decline in plan assets in the U.K. as a result of actuarial losses of the fund assets.

€6,262.5 million (PY: €6,403.3 million) of the defined benefit obligations as at December 31, 2017, related to plans that are fully or partially funded, and €117.2 million (PY: €125.4 million) relates to plans that are unfunded.

The decline in defined benefit obligations of €149.0 million compared to December 31, 2016, resulted in particular from plan settlements and resulting benefit payments.

The plan assets in Germany include the CTA assets amounting to €815.2 million (PY: €744.5 million), pension contribution fund assets of €264.0 million (PY: €275.1 million), insurance annuity contracts amounting to €109.5 million (PY: €101.0 million) and further plan assets of €0.3 million (PY: €2.4 million).

In the year under review, fund assets decreased by €135.3 million to €2,549.1 million. This is mainly due to the settlement of pension entitlements in the U.S.A. and Canada.

Actuarial gains and losses on fund assets in Germany resulted from actuarial gains of €15.9 million (PY: €7.9 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, 2017, 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 €264.0 million as at December 31, 2017 (PY: €275.1 million). The pension contribution funds have tariffs with an interest rate of 2.6%, for which Continental AG is ultimately liable under the German Company Pensions Law. 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:

	Dec. 31, 2017						Dec. 31, 2016					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Funded status[1]	**-3,329.5**	**-320.4**	**-20.0**	**-7.9**	**-152.8**	**-3,830.6**	**-3,293.5**	**-342.6**	**-17.4**	**-10.7**	**-180.1**	**-3,844.3**
Asset ceiling	–	–	0.0	–	-1.2	**-1.2**	–	–	-1.9	–	-1.4	-3.3
Carrying amount	**-3,329.5**	**-320.4**	**-20.0**	**-7.9**	**-154.0**	**-3,831.8**	**-3,293.5**	**-342.6**	**-19.3**	**-10.7**	**-181.5**	**-3,847.6**

1 Difference between fund assets and defined benefit obligations.

The carrying amount comprises the following items of the statement of financial position:

	Dec. 31, 2017						Dec. 31, 2016					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Defined benefit assets	–	–	1.1	11.7	3.2	**16.0**	–	–	0.7	22.7	0.9	24.3
Pension provisions	-3,329.5	-320.4	-21.1	-19.6	-157.2	**-3,847.8**	-3,293.5	-342.6	-20.0	-33.4	-182.4	-3,871.9
Carrying amount	**-3,329.5**	**-320.4**	**-20.0**	**-7.9**	**-154.0**	**-3,831.8**	**-3,293.5**	**-342.6**	**-19.3**	**-10.7**	**-181.5**	**-3,847.6**

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:

	2017					2016				
%	**Germany[1]**	**U.S.A.**	**CAN**	**U.K.**	**Other**	Germany[1]	U.S.A.	CAN	U.K.	Other
Discount rate	1.90	3.70	3.40	2.45	3.17	1.80	4.25	3.80	2.70	2.47
Long-term salary growth rate	3.00	0.00	2.85	3.80	3.49	3.00	3.50	3.50	4.15	3.31

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, 2017, for the key countries: Germany 1.75% (PY: 1.75%), Canada 1.6% (PY: 1.6%) and the United Kingdom 3.4% (PY: 3.0%). 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:

	2017						2016					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Current service cost	223.2	5.5	1.5	2.5	24.2	**256.9**	148.5	5.7	1.9	2.8	22.0	180.9
Service cost from plan amendments	–	–	–	–	0.0	**0.0**	–	4.2	–	1.5	0.0	5.7
Curtailments/settlements	–	-4.8	1.6	-0.1	-1.8	**-5.1**	–	–	–	-6.4	-5.7	-12.1
Interest on defined benefit obligations	77.2	48.0	5.4	10.0	7.7	**148.3**	86.5	51.5	5.8	12.6	8.7	165.1
Expected return on the pension funds	-29.8	-34.5	-4.9	-10.1	-3.7	**-83.0**	-28.5	-37.3	-5.2	-13.4	-4.3	-88.7
Effect of change of asset ceiling	–	–	0.1	–	0.2	**0.3**	–	–	0.1	0.1	0.1	0.3
Other pension income and expenses	–	1.2	0.5	–	-0.1	**1.6**	–	1.9	0.3	–	-0.1	2.1
Net pension cost	**270.6**	**15.4**	**4.2**	**2.3**	**26.5**	**319.0**	**206.5**	**26.0**	**2.9**	**-2.8**	**20.7**	**253.3**

Curtailments and settlements in 2017 particularly related to settlements in the U.S.A. and the resulting reduction in the defined benefit pension obligation.

The table below shows the reconciliation of changes in actuarial gains and losses at the start and end of the reporting year:

	2017						2016					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Actuarial gains/losses as at Jan. 1	**-1,989.3**	**-283.6**	**-7.6**	**-85.1**	**-93.4**	**-2,459.0**	**-1,529.3**	**-289.3**	**-6.1**	**-44.9**	**-62.2**	**-1,931.8**
Actuarial gains/losses from defined benefit obligations	113.6	-93.9	-6.4	1.5	24.3	**39.1**	-467.9	-12.9	-5.5	-81.7	-28.3	-596.3
Actuarial gains/losses from plan assets	15.9	71.7	-0.5	-15.4	5.5	**77.2**	7.9	18.6	4.5	36.6	-2.2	65.4
Actuarial gains/losses from asset ceiling	–	–	1.9	–	0.2	**2.1**	–	–	-0.5	4.9	-0.7	3.7
Actuarial gains/losses as at Dec. 31	**-1,859.8**	**-305.8**	**-12.6**	**-99.0**	**-63.4**	**-2,340.6**	**-1,989.3**	**-283.6**	**-7.6**	**-85.1**	**-93.4**	**-2,459.0**

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 rate in the U.S.A., Canada and the United Kingdom in the 2017 reporting period as compared to 2016 resulted in actuarial losses in these countries. On the other hand, these losses were more than offset by the increase in the discount rate in Germany and other countries and the resulting actuarial gains. In addition, actuarial gains resulted primarily due to differing events in Germany. By contrast, the actuarial losses incurred in the 2016 reporting period from changes in financial assumptions were due to a decrease in the discount rate compared to 2015.

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 one-half 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:

	Dec. 31, 2017					Dec. 31, 2016				
€ millions	**Germany[1]**	**U.S.A.**	**CAN**	**U.K.**	**Other**	Germany[1]	U.S.A.	CAN	U.K.	Other
0.5% increase										
Effects on service and interest cost	-14.9	-1.8	-0.2	0.3	-0.5	-17.6	-2.0	-0.3	0.6	-0.4
Effects on benefit obligations	-407.7	-59.2	-7.8	-21.8	-15.7	-404.3	-66.0	-10.3	-35.7	-18.3
0.5% decrease										
Effects on service and interest cost	17.0	1.5	0.1	-0.3	0.8	20.2	1.7	0.3	-0.8	0.4
Effects on benefit obligations	475.5	65.4	8.7	24.9	17.2	472.4	72.6	11.5	40.5	20.4

1 Not including the pension contribution funds.

A one-half 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:

	Dec. 31, 2017				Dec. 31, 2016			
€ millions	**Germany**	**U.S.A.[1]**	**CAN**	**U.K.**	Germany	U.S.A.[1]	CAN	U.K.
0.5% increase								
Effects on benefit obligations	6.8	–	0.8	2.3	1.8	–	0.8	2.7
0.5% decrease								
Effects on benefit obligations	-6.2	–	-0.7	-2.2	-1.7	–	-0.8	-2.5

1 Any change in the long-term salary growth rate would have no effect on the value of the benefit obligations.

A one-half 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:

	Dec. 31, 2017				Dec. 31, 2016			
€ millions	**Germany**	**U.S.A.[1]**	**CAN**	**U.K.**	Germany	U.S.A.[1]	CAN	U.K.
0.5% increase								
Effects on benefit obligations	162.2	–	3.8	24.4	173.9	–	4.3	23.9
0.5% decrease								
Effects on benefit obligations	-147.2	–	-3.5	-22.9	-157.5	–	-3.9	-23.4

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 €206.1 million (PY: €216.3 million) increase in the value of the benefit obligations, and that figure would be broken down as follows: Germany €160.9 million (PY: €166.9 million), U.S.A. €28.8 million (PY: €31.7 million), U.K. €13.8 million (PY: €13.8 million) and Canada €2.6 million (PY: €3.9 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 *Richttafeln 2005 G von Prof. Klaus Heubeck*. For foreign pension plans, comparable criteria are used for the respective country. 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 2017 and 2016 are as follows:

%	2017					2016				
Asset class	**Germany[1]**	**U.S.A.**	**CAN**	**U.K.**	**Other**	Germany[1]	U.S.A.	CAN	U.K.	Other
Equity instruments	1	54	55	17	11	1	52	46	22	10
Debt securities	60	45	43	43	72	60	43	53	41	51
Real estate	7	–	–	1	2	7	4	–	1	0
Absolute return[2]	16	–	–	17	14	16	–	–	23	25
Cash, cash equivalents and other[3]	16	1	2	1	1	16	1	1	4	14
Annuities[3]	–	–	–	21	–	–	–	–	9	–
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. Previously these were reported in "cash, cash equivalents and other." The figures from the comparative period have been adjusted accordingly.

The following table shows the cash contributions made by the company to the pension funds for 2017 and 2016 as well as the expected contributions for 2018:

€ millions	2018 (expected)	**2017**	2016
Germany	41.4	45.7	44.8
U.S.A.	16.1	17.8	17.7
CAN	2.8	7.2	3.4
U.K.	18.9	18.7	23.7
Other	12.5	16.0	17.6
Total	**91.7**	**105.4**	**107.2**

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 ten years:

€ millions	Germany	U.S.A.	CAN	U.K.	Other	**Total**
Benefits paid						
2016	100.6	67.9	12.0	11.2	14.6	**206.3**
2017	97.0	175.3	48.3	12.7	13.0	**346.3**
Benefit payments as expected						
2018	117.3	59.6	5.4	9.0	14.0	**205.3**
2019	113.6	60.9	5.4	9.9	14.5	**204.3**
2020	119.5	61.1	5.5	10.5	14.2	**210.8**
2021	126.5	62.5	5.7	11.5	16.3	**222.5**
2022	134.9	62.8	5.7	12.0	18.1	**233.5**
Total of years 2023 to 2027	706.0	317.7	33.2	74.9	119.6	**1,251.4**

The pension payments from 2016 onwards 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	2017	2016	2015	2014	2013
Defined benefit obligations	6,379.7	6,528.7	5,807.4	5,265.6	4,052.2
Fund assets	2,549.1	2,684.4	2,571.9	2,035.7	1,882.2
Funded status	-3,830.6	-3,844.3	-3,235.5	-3,229.9	-2,170.0
Experience adjustments to plan liabilities	-39.1	596.3	51.9	981.6	-117.5
Experience adjustments to plan assets	77.2	65.4	-21.6	55.5	112.7

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 ten 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	2017	2016
Defined benefit obligations as at January 1	**232.6**	**229.9**
Exchange-rate differences	-25.1	9.3
Current service cost	1.4	1.5
Curtailments/settlements	-0.1	-0.1
Interest on healthcare and life insurance benefit obligations	8.9	9.7
Actuarial gains/losses from changes in demographic assumptions	-1.6	-2.1
Actuarial gains/losses from changes in financial assumptions	10.7	-0.4
Actuarial gains/losses from experience adjustments	-2.8	0.4
Net changes in the scope of consolidation	—	—
Benefit payments	-14.7	-15.6
Defined benefit obligations/net amount recognized as at December 31	**209.3**	**232.6**

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:

%	2017	2016
Discount rate	3.71	4.24
Rate of increase in healthcare and life insurance benefits in the following year	4.77	5.58
Long-term rate of increase in healthcare and life insurance benefits	3.77	4.64

The net cost of healthcare and life insurance benefit obligations can be broken down as follows:

€ millions	2017	2016
Current service cost	1.4	1.5
Curtailments/settlements	-0.1	-0.1
Interest on healthcare and life insurance benefit obligations	8.9	9.7
Net loss/income	**10.2**	**11.1**

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	2017	2016
0.5% increase		
Effects on service and interest cost	0.1	0.4
Effects on benefit obligations	2.6	4.6
0.5% decrease		
Effects on service and interest cost	-0.1	0.1
Effects on benefit obligations	-2.4	-0.2

A one-half 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	2017	2016
0.5% increase		
Effects on service and interest cost	0.5	0.7
Effects on benefit obligations	-10.2	-8.9
0.5% decrease		
Effects on service and interest cost	-0.5	-0.2
Effects on benefit obligations	11.3	14.2

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 ten years:

€ millions	
Benefits paid	
2016	15.6
2017	14.7
Benefit payments as expected	
2018	14.6
2019	14.6
2020	14.7
2021	14.7
2022	14.7
Total of years 2023 to 2027	72.8

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	**2017**	2016	2015	2014	2013
Defined benefit obligations	209.3	232.6	229.9	212.0	173.8
Funded status	–209.3	–232.6	–229.9	–212.0	–173.8
Experience adjustments to plan liabilities	6.3	–2.1	–22.2	21.2	–22.9

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 €1.3 million (PY: income of €0.2 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 €86.6 million (PY: €81.8 million) in the fiscal year. The year-on-year increase resulted mainly from the newly concluded compensation plans, changes in the scope of consolidation and the switch from defined benefit to defined contribution plans.

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 0.98% (PY: 0.35%). Provisions for anniversary and other long-service benefits were calculated using a discount rate of 1.9% (PY: 1.8%). In accordance with the option under IAS 19, 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).

All LTI plans up to 2013 are classified and assessed as "other long-term employee benefits" under IAS 19. The LTI plans for the years starting from 2014 and the deferral are classified as cash-settled share-based remuneration; hence they are recognized at fair value in accordance with IFRS 2.

The costs of LTI plans, amounting to €45.5 million (PY: €32.0 million), were recognized in the respective function costs.

- **2013 LTI plan:** In 2013, the 2013/17 LTI tranche, with a term of four years, was issued to the senior executives of the Continental Corporation and the members of the Executive Board. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2013/17 LTI tranche was resolved on June 24, 2013, by the Executive Board for senior executives and on September 25, 2013, by the Supervisory Board for the members of the Executive Board.

  For each beneficiary of the 2013/17 LTI tranche, the Executive Board 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, which can lie between 0% (no payment) and 300% (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 consists of the 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 weighted average in terms of the LTI is calculated by adding together 10% of the CVC of the first fiscal year of the LTI tranche, 20% of the CVC of the second fiscal year of the LTI tranche, 30% of the CVC of the third fiscal year of the LTI tranche and 40% of the CVC of the fourth fiscal year of the LTI tranche. The second target criterion comprises the ratio of free cash flow in the Continental Corporation to consolidated sales. The key variable for measuring this target criterion is based on the last full fiscal year prior to expiry of the LTI tranche. The degree of target achievement for both target criteria can lie between 0% and 300%. The key variables for determining the degree of target achievement are defined for each target criterion upon issue of an LTI tranche. The ultimate degree of target achievement used to calculate the LTI bonus to be paid out is determined through the addition of the two equally weighted target criteria. The basis for calculating the LTI bonus comprises the individual bonus amount in the event of 100% target achievement promised upon issue of an LTI tranche. The LTI bonus is paid as a gross one-off payment normally at the end of the second full calendar month following expiry of the LTI tranche at the latest but not before the end of July.

After the expiration of the 2013/17 LTI tranche in June 2017, the bonus was paid out in August 2017.

› 2014, 2015, 2016 and 2017 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.

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.

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.

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%. The target achievement is calculated on a straight-line basis in between. 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 level of achievement of 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 paid, and the restriction for the distribution amount.

The following TSR parameters were used as at the measurement date of December 31, 2017:

- Constant zero rates as at the measurement date of December 31, 2017:
  2014 LTI plan: -0.86% as at the due date and -0.79% as at the expected payment date;
  2015 LTI plan: -0.74% as at the due date and -0.69% as at the expected payment date;
  2016 LTI plan: -0.65% as at the due date and -0.57% as at the expected payment date;
  2017 LTI plan: -0.51% as at the due date and -0.41% 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 2018 to 2020; the paid dividend of Continental AG amounted to €4.25 per share in 2017.

- 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 2014 LTI plan is 9.69%, for the 2015 LTI plan 16.30%, for the 2016 LTI plan 23.40%, and for the 2017 LTI plan 25.91%.

  The fair values of the tranches developed as follows:
  2014 LTI plan: €36.4 million (PY: €28.1 million), the vesting level is 100%;
  2015 LTI plan: €36.3 million (PY: €28.9 million), the vesting level is 75%;
  2016 LTI plan: €27.6 million (PY €23.8 million), the vesting level is 50%;
  2017 LTI plan: €37.2 million, the vesting level is 25%.

  The liabilities for payroll and personnel-related costs for LTI resulted in expenses of €13.8 million for the 2014 LTI plan (PY: €5.6 million), €11.5 million for the 2015 LTI plan (PY: €7.0 million), €7.2 million for the 2016 LTI plan (PY: €6.7 million) and €9.3 million for the 2017 LTI plan in the period under review.

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, the dividends paid, and the floor and cap for the distribution amount.

The costs of the performance bonus were recognized in the respective function costs.

The following performance-bonus parameters were used as at the measurement date of December 31, 2017:

- Constant zero rates as at the measurement date of December 31, 2017:
  2014 tranche: -0.82% as at the due date and as at the expected payment date;
  2015 tranche: -0.72% as at the due date and as at the expected payment date;
  2016 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 2018 and 2019; the paid dividend of Continental AG amounted to €4.25 per share in 2017, and Continental AG distributed a dividend of €3.75 per share in 2016.

- 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 2014 tranche is 13.39%, for the 2015 tranche 17.57%, and for the 2016 tranche 24.21%.

As at December 31, 2017, commitments with a fair value of €14.8 million (PY: €14.9 million) are attributable to Executive Board members active at the end of the reporting period; this is equivalent to 63,617 virtual shares (PY: 77,925 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 €184.2 million (PY: €174.9 million) was recognized in liabilities for staff costs for the period under review.

25. Provisions for Other Risks and Obligations

	Dec. 31, 2017		Dec. 31, 2016	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Restructuring provisions	17.2	8.4	62.1	14.2
Litigation and environmental risks	182.9	94.0	131.7	145.5
Warranties	526.1	—	752.4	—
Other provisions	216.8	37.2	200.2	44.5
Provisions for other risks and obligations	**943.0**	**139.6**	**1,146.4**	**204.2**

The provisions for other risks developed as follows:

€ millions	**Restructuring provisions**	**Litigation and environmental risks**	**Warranties**	**Other provisions**
As at Jan. 1, 2017	**76.3**	**277.2**	**752.4**	**244.7**
Additions	0.1	101.8	546.5	228.9
Utilizations	-38.6	-59.4	-518.6	-109.8
Net changes in the scope of consolidation	—	0.3	9.3	2.8
Reversals	-11.5	-27.8	-235.2	-99.8
Interest	0.1	4.6	—	0.2
Exchange-rate changes	-0.8	-19.8	-28.3	-13.0
As at Dec. 31, 2017	**25.6**	**276.9**	**526.1**	**254.0**

The utilization of restructuring provisions relates primarily to the implementation of the restructuring measures resolved in previous years at the French location in Clairox, the Australian location in Melbourne, and the German location in Wetzlar.

The reversals of restructuring provisions are attributable to Clairox, France, in particular.

As in the previous year, 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 32.

Utilization includes mainly the product-liability risks from tire activities mentioned above.

The changes in provisions for warranties include utilization of €518.6 million (PY: €304.0 million) and reversals of €235.2 million (PY: €124.8 million), which are offset by additions of €546.5 million (PY: €714.8 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 tire-recycling obligations.

26. Income Tax Liabilities

Income tax liabilities developed as follows:

€ millions	2017	2016
As at January 1	**783.6**	**719.8**
Additions	733.5	628.1
Utilizations and advance payments for the current fiscal year	-567.1	-539.1
Reversals	-49.7	-24.7
Additions from the first-time consolidation of subsidiaries	2.5	0.8
Exchange-rate changes	-13.1	-1.3
As at December 31	**889.7**	**783.6**

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.

27. Indebtedness and Additional Notes on the Statement of Cash Flows

	Dec. 31, 2017			Dec. 31, 2016		
€ millions	Total	Short-term	Long-term	Total	Short-term	Long-term
Bonds	**2,639.4**	748.5	1,890.9	3,383.5	751.0	2,632.5
Bank loans and overdrafts[1]	**859.7**	757.6	102.1	931.9	807.0	124.9
Derivative instruments	**16.9**	16.9	0.0	62.9	51.1	11.8
Finance lease liabilities	**16.4**	4.2	12.2	28.9	8.5	20.4
Liabilities from sale-of-receivables programs	**513.7**	513.7	–	487.1	487.1	–
Other indebtedness[2]	**43.9**	31.3	12.6	58.0	43.9	14.1
Indebtedness	**4,090.0**	**2,072.2**	**2,017.8**	**4,952.3**	**2,148.6**	**2,803.7**

1 Thereof €13.9 million (PY: €3.8 million) secured by land charges, mortgages and similar securities.
2 Other indebtedness in 2017 included a carrying amount of €12.6 million (PY: €20.5 million) from the issuances in the scope of a commercial-paper program.

Continental's key bond issues

€ millions Issuer/type	Amount of issue Dec. 31, 2017	Carrying amount Dec. 31, 2017	Stock market value Dec. 31, 2017	Amount of issue Dec. 31, 2016	Carrying amount Dec. 31, 2016	Stock market value Dec. 31, 2016	Coupon p.a.	Issue/maturity and fixed interest until	Issue price
CGF euro bond	–	–	–	750.0	749.5	754.3	2.500%	2013/03.2017	99.595%
CAG euro bond	750.0	748.5	763.3	750.0	745.8	785.3	3.000%	2013/07.2018	98.950%
CRoA euro bond	500.0	498.9	503.9	500.0	498.0	505.4	0.500%	2015/02.2019	99.739%
CAG euro bond	600.0	596.3	601.4	600.0	594.6	598.5	0.000%	2016/02.2020	99.410%
CAG euro bond	750.0	745.7	812.0	750.0	744.1	832.7	3.125%	2013/09.2020	99.228%
Total	**2,600.0**	**2,589.4**	**2,680.6**	**3,350.0**	**3,332.0**	**3,476.2**			

Abbreviations
- CAG, Continental Aktiengesellschaft, Hanover, Germany
- CGF, Conti-Gummi Finance B.V., Maastricht, Netherlands
- CRoA, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.

The carrying amount of the bonds fell by €744.1 million from €3,383.5 million in the previous year to €2,639.4 million as at the end of fiscal 2017. This decline is attributable to the repayment of the €750.0 million euro bond from Conti-Gummi Finance B.V., Maastricht, Netherlands. The 3.5-year bond bore interest at a rate of 2.5% p.a. and was redeemed at a rate of 100.00% at its maturity on March 20, 2017.

Cross-currency interest-rate swaps were concluded for the euro bond with a nominal volume of €500.0 million issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in November 2015. These swaps are used to hedge against the currency risks arising from the bond's denomination in euros, on the one hand, and involve exchanging 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., on the other (please see Note 28 for further information on the accounting for the cross-currency interest-rate swaps).

The carrying amount of the bonds also includes a private placement issued by Continental AG at 100.0% 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 €859.7 million (PY: €931.9 million) as at December 31, 2017, and were therefore down €72.2 million on the previous year's level. On December 31, 2017, there were credit lines and available financing from banks in the amount of €4,556.5 million (PY: €4,831.0 million). A nominal amount of €3,686.8 million of this had not been utilized as at the end of the reporting period (PY: €3,888.4 million). As in the previous year, €3,000.0 million of this relates to the revolving tranche of the syndicated loan, which, like at the end of the previous year, had not been utilized. 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 syndicated loan comprises a revolving tranche of €3,000.0 million. This credit line is available to Continental until April 2021. 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.

As in the previous year, the agreed financial covenants were also complied with as at the end of the respective quarter in 2017. Please see Note 28 for the maturity structure of indebtedness.

Finance lease liabilities

The future payment obligations resulting from finance leases are shown in the table below:

Dec. 31, 2017/€ millions	2018	2019	2020	2021	2022	from 2023	**Total**
Minimum lease payments	4.8	2.9	2.5	2.5	2.3	3.0	**18.0**
Interest component	0.6	0.3	0.2	0.2	0.1	0.2	**1.6**
Finance lease liabilities	**4.2**	**2.6**	**2.3**	**2.3**	**2.2**	**2.8**	**16.4**

Dec. 31, 2016/€ millions	2017	2018	2019	2020	2021	from 2022	**Total**
Minimum lease payments	9.6	5.8	3.7	3.5	3.5	6.3	**32.4**
Interest component	1.1	0.9	0.6	0.4	0.2	0.3	**3.5**
Finance lease liabilities	**8.5**	**4.9**	**3.1**	**3.1**	**3.3**	**6.0**	**28.9**

The fair value of the lease liabilities is €16.6 million (PY: €30.3 million). The effective interest rate of the main leases is between 2.7% and 9.8% (PY: between 4.6% and 8.7%).

Additional Notes on 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:

		Cash	Non-cash					
€ millions	**Dec. 31, 2017**		**Exchange-rate changes**	**Reclassi-fications**	**Changes in fair value**	**Changes in the scope of consolidation**	**Other**	Dec. 31, 2016
Change in derivative instruments and interest-bearing investments	160.9	45.5	-6.0	-8.8	81.7	–	1.0	47.5
Change in short-term indebtedness	-2,072.2	833.5	65.7	-793.8	-14.5	-13.5	-1.0	-2,148.6
Change in long-term indebtedness	-2,017.8	117.8	5.2	802.5	0.1	-138.1	-1.6	-2,803.7

28. Financial Instruments

The carrying amounts and fair values of financial assets and liabilities in the various measurement categories, classified by statement of financial position category, as well as the summarized non-current and current items, are as follows:

€ millions	Measurement category in acc. with IAS 39	**Carrying amount as at Dec. 31, 2017**	**Fair value as at Dec. 31, 2017**	Carrying amount as at Dec. 31, 2016	Fair value as at Dec. 31, 2016
Other investments	AfS	51.0	51.0	43.1	43.1
Derivative instruments and interest-bearing investments					
Derivative instruments accounted for as effective hedging instruments	n. a.	51.5	51.5	–	–
Derivative instruments not accounted for as effective hedging instruments	HfT	18.5	18.5	12.3	12.3
Available-for-sale financial assets	AfS	37.8	37.8	16.8	16.8
Other receivables with a financing character	LaR	53.1	53.1	18.4	18.4
Trade accounts receivable	LaR	7,669.3	7,669.3	7,392.7	7,392.7
Other financial assets	LaR	598.3	598.3	521.9	521.9
Cash and cash equivalents					
Cash and cash equivalents	LaR	1,682.1	1,682.1	2,044.4	2,044.4
Available-for-sale financial assets	AfS	199.4	199.4	62.6	62.6
Financial assets		**10,361.0**	**10,361.0**	**10,112.2**	**10,112.2**
Indebtedness					
Derivative instruments accounted for as effective hedging instruments	n. a.	–	–	13.6	13.6
Derivative instruments not accounted for as effective hedging instruments	HfT	16.9	16.9	49.3	49.3
Finance lease liabilities	n. a.	16.4	16.6	28.9	30.3
Other indebtedness	OL	4,056.7	4,155.3	4,860.5	5,015.4
Trade accounts payable	OL	6,798.5	6,798.5	6,248.0	6,248.0
Other financial liabilities					
Liabilities to related parties from finance leases	n. a.	7.3	7.1	–	–
Miscellaneous financial liabilities	OL	1,305.6	1,305.5	1,284.4	1,283.9
Financial liabilities		**12,201.4**	**12,299.9**	**12,484.7**	**12,640.5**
Aggregated according to categories as defined in IAS 39:					
Financial assets held for trading (HfT)		18.5		12.3	
Loans and receivables (LaR)		10,002.8		9,977.4	
Available-for-sale financial assets (AfS)		288.2		122.5	
Financial liabilities held for trading (HfT)		16.9		49.3	
Financial liabilities measured at amortized cost (OL)		12,160.8		12,392.9	

Abbreviations

› AfS: available for sale

› HfT: held for trading

› LaR: loans and receivables

› n. a.: not applicable, not assigned to any measurement category

› OL: other liability, financial liabilities measured at amortized cost

Derivative instruments that meet the requirements of hedge accounting are not allocated to any IAS 39 measurement category, since they are explicitly excluded from the individual measurement categories.

Derivative instruments for which effective hedge accounting is not applied are classified as financial assets or liabilities held for trading.

Finance lease liabilities are not assigned to an IAS 39 measurement category as they are accounted for under IAS 17.

The measurement methods applied are described in the notes to the consolidated financial statements under General Information and Accounting Principles (Note 2).

Cash and cash equivalents, trade accounts receivable and payable, as well as other receivables with a financing character and other financial assets and liabilities 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.

As in the previous year, other investments are carried at cost.

The fair values of other indebtedness and of finance lease liabilities 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.

The total of the positive carrying amounts is equivalent to the maximum default risk of the Continental Corporation from financial assets.

The following table shows the fair values of financial assets and liabilities and the respective levels of the fair value hierarchy in accordance with IFRS 13 relevant for calculating fair value.

- 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.

In addition to the financial instruments measured at fair value as set out in IAS 39, the table also includes financial instruments measured at amortized cost, which have a different fair value. Financial instruments measured at amortized cost whose carrying amounts are approximately equivalent to their fair value are not shown in the table.

€ millions		**Dec. 31, 2017**	Level 1	Level 2	Cost
Available-for-sale financial assets	AfS	237.2	227.7	9.5	0.0
Derivative instruments accounted for as effective hedging instruments	n. a.	51.5	–	51.5	–
Derivative instruments not accounted for as effective hedging instruments	HfT	18.5	–	18.5	–
Financial assets measured at fair value		**307.2**	**227.7**	**79.5**	**0.0**
Derivative instruments not accounted for as effective hedging instruments	HfT	16.9	–	16.9	–
Financial liabilities measured at fair value		**16.9**	**–**	**16.9**	**–**
Finance lease liabilities	n. a.	16.6	–	16.6	–
Other indebtedness	OL	4,155.3	2,680.6	298.9	1,175.8
Liabilities to related parties from finance leases	n. a.	7.1	–	7.1	–
Miscellaneous financial liabilities	OL	1,305.5	–	4.9	1,300.6
Financial liabilities not measured at fair value		**5,484.5**	**2,680.6**	**327.5**	**2,476.4**

€ millions		Dec. 31, 2016	Level 1	Level 2	Cost
Available-for-sale financial assets	AfS	79.4	69.9	9.5	0.0
Derivative instruments not accounted for as effective hedging instruments	HfT	12.3	–	12.3	–
Financial assets measured at fair value		**91.7**	**69.9**	**21.8**	**0.0**
Derivative instruments accounted for as effective hedging instruments	n. a.	13.6	–	13.6	–
Derivative instruments not accounted for as effective hedging instruments	HfT	49.3	–	49.3	–
Financial liabilities measured at fair value		**62.9**	**–**	**62.9**	**–**
Finance lease liabilities	n. a.	30.3	–	30.3	–
Other indebtedness	OL	5,015.4	3,477.7	513.6	1,024.1
Miscellaneous financial liabilities	OL	1,283.9	–	23.1	1,260.8
Financial liabilities not measured at fair value		**6,329.6**	**3,477.7**	**567.0**	**2,284.9**

There are currently no financial assets or liabilities in the Continental Corporation which are measured according to level 3 of the fair value hierarchy.

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 2017, as in the previous year, there were no transfers between the different levels of the fair value hierarchy.

The net gains and losses by measurement category were as follows:

		From remeasurement			Net gains and losses	
€ millions	From interest	At fair value	Currency translation	Impairment	**2017**	2016
Loans and receivables	26.4	–	-50.6	-13.5	-37.7	-26.5
Available-for-sale financial assets	0.1	1.8	–	–	1.9	0.4
Financial assets and financial liabilities held for trading	–	38.3	–	–	38.3	-67.1
Financial liabilities at amortized cost	-123.3	–	56.7	–	-66.6	-119.0
Net gains and losses	**-96.8**	**40.1**	**6.1**	**-13.5**	**-64.1**	**-212.2**

Interest income and expense from financial instruments is reported in the financial result (see Note 9). No interest income was generated from impaired financial assets.

The valuation allowance for loans and receivables essentially resulted from trade accounts receivable. Gains and losses on financial assets or liabilities held for trading that were determined during subsequent measurement include both interest-rate and exchange-rate effects.

The changes in value of the available-for-sale financial assets that were recognized directly in equity amounted to €3.7 million (PY: €1.5 million) in the reporting year. In addition, €1.8 million (PY: €0.3 million) was recognized in profit or loss.

Collateral

As at December 31, 2017, a total of €1,896.6 million (PY: €2,190.6 million) of financial assets had been pledged as collateral. As in the previous year, also in the year under review, collateral mainly consists of trade accounts receivable; the remainder relates to pledged cash or other financial assets.

Hedging policy and derivative instruments

The international nature of its business activities and the resulting financing requirements mean that the Continental Corporation is exposed to exchange-rate and interest-rate fluctuations. Where foreign-currency risks are not fully compensated by offsetting delivery and payment flows, exchange-rate forecasts are constantly updated to ensure that risks can be hedged as necessary in individual cases using appropriate financial instruments. In addition, long- and short-term interest-rate movements are monitored continuously and controlled as required using derivative instruments. Thus, interest-rate and currency-derivative instruments allow debt to be accessed with any required interest and currency structure, regardless of the location at which the financing is required.

The use of hedging instruments 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.

1. 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. At Continental, the net exposure, calculated primarily by offsetting receipts and payments from the corporation's external and internal transactions in the individual currencies (operational foreign-exchange exposure), is regularly recorded and measured. The Continental Corporation follows a natural-hedge approach to reduce currency risks so 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. Residual exchange-rate risks are hedged using appropriate financial instruments in individual cases. There are tight limits with regard to currency management for open positions, which considerably reduce the risks from hedging activities. 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. In addition, Continental is exposed to exchange-rate risks from external and internal net indebtedness. These exchange-rate risks are in general hedged against by using derivative instruments that have been defined in corporate-wide policies. The corporation's net foreign investments are, as a rule, not hedged against exchange-rate fluctuations.

Operational foreign-currency risk

Continental compiles its subsidiaries' actual and expected foreign-currency payments at a global level for operational currency management purposes. These future cash flows represent the corporation's transaction exposure and are measured as the net cash flow per currency on a trailing 12-month basis. The foreign-exchange and interest-rate committee convenes on a weekly basis to agree upon hedging measures to be implemented in individual cases. These must not exceed 30% of the 12-month exposure per currency without Executive Board permission.

As at December 31, 2017, 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 -€198.2 million (PY: -€104.7 million) and the U.S. dollar in the amount of -€476.0 million (PY: -€482.3 million).

Financial foreign-currency risks

In addition, 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. As at December 31, 2017, the net exposure in the major currencies amounted to -€987.8 million (PY: -€770.6 million) for the euro and €620.0 million (PY: €983.3 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.

Sensitivity analysis

IFRS 7 requires a presentation of the effects of hypothetical changes of exchange rates on income and equity using a sensitivity analysis. The changes to the exchange rates are related to all financial instruments outstanding as at the end of the reporting period. Forecast transactions 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.

	2017		2016	
€ millions	**Total equity**	**Net income**	Total equity	Net income
Local currency +10%				
Total	**50.8**	**56.6**	**95.0**	**-23.9**
thereof EUR	50.8	14.2	50.3	-14.3
thereof USD	–	20.2	44.7	-1.6
Local currency -10%				
Total	**-50.8**	**-56.6**	**-95.0**	**23.9**
thereof EUR	-50.8	-14.2	-50.3	14.3
thereof USD	–	-20.2	-44.7	1.6

Effects of translation-related currency risk

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.

2. 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 and managed by means of derivative interest-rate hedging instruments as needed. The corporation's interest-bearing net indebtedness is the subject of these activities. All 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.

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	2017	2016
Fixed-interest instruments		
Financial assets	0.1	0.5
Financial liabilities	–2,764.3	–3,542.1
Floating-rate instruments		
Financial assets	1,972.3	2,141.7
Financial liabilities	–1,308.7	–1,347.3

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 2017 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 2017 would have increased equity by €4.9 million (PY: €10.6 million).
- A decline in U.S. dollar interest rates of 100 basis points would have reduced equity by €5.0 million (PY: €10.9 million).
- An increase in euro interest rates of 100 basis points in 2017 would have reduced equity by €5.7 million (PY: €10.7 million).
- A decline in euro interest rates of 100 basis points would have increased equity by €5.8 million (PY: €11.0 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 essentially resulted 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.

€ millions	2017	2016
Interest-rate increase +100 basis points		
Total	**6.8**	**7.9**
thereof EUR	0.2	0.4
thereof CNY	4.8	4.3
thereof INR	0.7	1.0
thereof KRW	0.7	0.8
thereof MXN	0.3	0.5
thereof USD	-1.4	0.1
Interest-rate decline -100 basis points		
Total	**-7.3**	**-10.2**
thereof EUR	-0.7	-2.7
thereof CNY	-4.8	-4.3
thereof INR	-0.7	-1.0
thereof KRW	-0.7	-0.8
thereof MXN	-0.3	-0.5
thereof USD	1.4	-0.1

3. Counterparty risk

Derivative instruments are subject to default risk to the extent that counterparties may not meet their payment obligations either in part or in full. To limit this risk, contracts are entered into with selected banks only. The development of contractual partners' creditworthiness is continuously monitored, particularly by monitoring the rating classifications and the market assessment of default risk using the respective credit default swap rates.

4. Liquidity risks

A liquidity forecast is prepared by central cash management on a regular basis.

Cost-effective, adequate financing is necessary for the subsidiaries' operating business. Various marketable financial instruments are used for this purpose. They comprise overnight money, term borrowing, the commercial paper issue, sale-of-receivables programs, the syndicated loan with a committed nominal amount of €3.0 billion (PY: €3.0 billion) and other bilateral loans. Furthermore, approximately 65% 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 used and unused committed credit lines, please refer to Note 27.

The financial liabilities of €12,201.4 million (PY: €12,484.7 million) result in the following undiscounted cash outflows in the next five years and thereafter.

Dec. 31, 2017/€ millions	2018	2019	2020	2021	2022	thereafter	Total
Other indebtedness incl. interest payments	-2,091.3	-604.8	-1,394.5	-9.5	-5.2	-66.8	**-4,172.1**
Derivative instruments[1]	-17.1	—	—	—	—	—	**-17.1**
Finance lease liabilities	-4.8	-2.9	-2.5	-2.5	-2.3	-3.0	**-18.0**
Trade accounts payable	-6,798.5	—	—	—	—	—	**-6,798.5**
Other financial liabilities	-1,277.2	-5.6	-25.1	-0.3	-0.3	-5.6	**-1,314.1**

1 Not including embedded derivatives, as they do not give rise to cash outflows.

Dec. 31, 2016/€ millions	2017	2018	2019	2020	2021	thereafter	Total
Other indebtedness incl. interest payments	-2,134.7	-840.9	-602.5	-1,391.7	-6.4	-67.2	**-5,043.4**
Derivative instruments[1]	-69.3	-12.8	-14.6	—	—	—	**-96.7**
Finance lease liabilities	-9.6	-5.8	-3.7	-3.5	-3.5	-6.3	**-32.4**
Trade accounts payable	-6,248.0	—	—	—	—	—	**-6,248.0**
Other financial liabilities	-1,187.7	-73.4	-1.8	-24.8	—	—	**-1,287.7**

1 Not including embedded derivatives, as they do not give rise to cash outflows.

In the analysis, foreign-currency amounts were translated using the current spot rate as at the end of the reporting period into euros. 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:

€ millions	Carrying amounts gross	Carrying amounts net	Respective financial instruments not netted	Net amount
Dec. 31, 2017				
Financial assets				
Derivative instruments	69.9	69.9	-7.5	62.4
Financial liabilities				
Derivative instruments	-16.9	-16.9	7.5	-9.4
Dec. 31, 2016				
Financial assets				
Derivative instruments	12.2	12.2	-8.9	3.3
Financial liabilities				
Derivative instruments	-62.8	-62.8	8.9	-53.9

There were no amounts to be offset in accordance with IAS 32.42 as at the reporting date and as the same date in the previous year.

5. Default risk

Credit risk from trade accounts receivable and other financial receivables includes the risk that receivables will be collected late or not at all. These risks are analyzed and monitored by central and local credit managers. The responsibilities of the central credit management function also include pooled receivables risk management. Contractual partners' creditworthiness and payment history are analyzed on a regular basis. However, default risk cannot be excluded with absolute certainty, and any remaining risk is addressed by establishing portfolio valuation allowances on the basis of experience or charging impairment for specific individual risks. Default risk for non-derivative financial amounts receivable is also limited by ensuring that agreements are entered into with partners with proven creditworthiness only or that collateral is provided or trade credit insurance is agreed. As at December 31, 2017, the corporation held no collateral (PY: collateral of €2.3 million in the form of non-financial assets). For information on determining creditworthiness, please see Note 20. Financial assets that are neither past due nor impaired accordingly have a prime credit rating. Further information about risks and risk management can be found in the Report on Risks and Opportunities section of the Corporate Management Report.

Measurement of derivative instruments

Derivative instruments are measured at fair value, which is generally determined by discounting the expected cash flows on the basis of yield curves. Accordingly, the fair value of currency forwards is calculated as the difference from the nominal amounts discounted with the risk-free interest rates of the respective currencies and translated at the current spot exchange rate. This takes into account the credit spread in general. 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 deposit rates used as short-term interest rates while long-term interest rates are based on the swap rates in the respective currency.

As at December 31, 2017, positive fair values of embedded derivatives amounted to €0.1 million (PY: €0.2 million), while negative fair values of embedded derivatives amounted to €0.0 million (PY: €0.1 million).

The following overview shows the fair values and nominal values of the stand-alone derivative instruments as at the end of the reporting period:

	Dec. 31, 2017			Dec. 31, 2016		
	Fair values		**Nominal values**	Fair values		Nominal values
€ millions	**Assets**	**Liabilities**		Assets	Liabilities	
Cash flow hedges (effective)						
Cross-currency interest-rate swaps	51.5	–	500.0	–	9.4	500.0
Hedge of a net investment						
Currency swaps	–	–	–	–	4.2	217.8
Other derivative instruments						
Currency swap/currency forwards	18.4	16.9	1,452.8	12.2	49.2	2,084.0
Total	**69.9**	**16.9**	**1,952.8**	**12.2**	**62.8**	**2,801.8**
Long-term	51.5	–		2.3	11.7	
Short-term	18.4	16.9		9.9	51.1	

In the case of highly effective and longer term hedges, Continental usually applies hedge accounting as set out in IAS 39.

As in the previous year, the Continental Corporation designated currency swaps as hedging instruments in hedges of net investments in foreign operations in the year under review. This hedge accounting was terminated as at August 25, 2017. The currency swaps served to hedge the currency risks of long-term intragroup foreign-currency loans that were classified as net investments in a foreign operation in accordance with IAS 21 until August 25, 2017. Until this date, the changes in the values of these loans due to exchange rates were offset by the recognition of changes in the value of the currency swaps in other comprehensive income. A sensitivity analysis was performed to prospectively measure effectiveness. Effectiveness was demonstrated retrospectively using the dollar offset method by comparing the changes in the value of the hedging instruments with the changes in the value of the hedged transactions. If the results of retrospective effectiveness testing fell within a range of 80% to 125%, the hedges used by the corporation were considered highly effective. In the year under review, these hedges resulted in no ineffectiveness to be recognized (PY: expenses of €9.0 million, which were reported in the financial result). The valuation effects which arose from the loans and hedges after August 25, 2017, were recognized in profit or loss.

In the case of a cash flow hedge, changes in the fair value of the derivative instruments are recognized as changes in other comprehensive income until the relevant hedged transaction has taken effect in profit or loss.

The Continental Corporation has designated cross-currency interest-rate swaps as hedging instruments for cash flow hedge accounting. The cash flow hedges are used to secure the 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., are hedged against by the denomination in euros and, second, the euro-based fixed interest rate is exchanged for a U.S.-dollar-based fixed interest rate. In this context, the market valuation of these hedges resulting in expense of €0.2 million before tax, or income of €0.3 million after tax, being recognized directly in equity in the year under review (PY: income of €9.1 million before tax or €5.9 million after tax). The interest and principal payments from the hedged transactions that are secured under this cash flow hedge accounting will impact profit and loss in the years up until 2019. The critical term match method was performed to prospectively measure effectiveness. Effectiveness was demonstrated retrospectively using a regression analysis based on the dollar offset method. The results of retrospective effectiveness testing fell within a range of 80% to 125%, meaning that the hedges used by the corporation could be considered highly effective. As in the previous year, these hedges did not result in an ineffectiveness to be recognized in profit or loss in the year under review.

29. Other Financial Liabilities

	Dec. 31, 2017		Dec. 31, 2016	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Liabilities to related parties	261.6	7.4	235.1	0.5
Interest payable	23.6	–	39.3	–
Liabilities for selling expenses	922.3	–	892.4	–
Purchase prices payable on company acquisitions	9.8	24.6	10.8	33.3
Miscellaneous financial liabilities	59.5	4.1	9.7	63.3
Other financial liabilities	**1,276.8**	**36.1**	**1,187.3**	**97.1**

The liabilities to related parties relate in particular to liabilities to associates for services provided. The clear rise resulted from a corporate company formed in 2010 that sources significant portions of its merchandise from an equity-accounted investee.

Interest payable at the end of 2017 is due mainly to deferred interest for the bonds issued. The decline compared to the end of 2016 is due in particular to the repayment of the €750.0 million euro bond issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, in the first quarter of 2017.

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, Czechia and the U.S.A.

The miscellaneous financial liabilities primarily include the put option for the acquisition of the remaining shares in Zonar Systems, Inc., Seattle, Washington, U.S.A.

30. Trade Accounts Payable

Trade accounts payable amounted to €6,798.5 million (PY: €6,248.0 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 28.

31. Other Liabilities

	Dec. 31, 2017		Dec. 31, 2016	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Liabilities for VAT and other taxes	303.6	–	321.2	–
Deferred income	137.9	18.4	145.3	12.5
Miscellaneous liabilities	276.4	7.0	259.7	4.6
Other liabilities	**717.9**	**25.4**	**726.2**	**17.1**

Deferred income includes advance payments by customers for deliveries of goods and for services to be performed. Government grants are also reported here.

Other Disclosures

32. Litigation and Compensation Claims

Continental AG and its subsidiaries are involved in lawsuits and 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, as well as to claims from alleged breaches of contract, or resulting from product recalls or government proceedings. These include lawsuits in the U.S.A. for property damage, personal injury and death caused by alleged defects in our products. Claims for material and immaterial 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, as was – merely declaratory – a higher compensatory payment under the management and profit and loss transfer agreement. In October 2012, the Hanover Regional Court had 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.

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 €3.0 million) on CBIA, which was then reduced to BRL 10.8 million (around €2.7 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 a case that had come to light at the start of 2010 as a result of searches at several companies, the European Commission imposed fines on a number of automotive suppliers on July 10, 2013, for anti-competitive conduct in the field of supplying wire harnesses for automotive applications. These companies included S-Y Systems Technologies Europe GmbH, Regensburg, Germany (S-Y), and its French subsidiary, which had to pay a fine of €11.1 million due to cartel agreements with regard to one automotive manufacturer. Continental held a 50% share of S-Y until January 29, 2013. Class action lawsuits filed by alleged victims against S-Y and other companies are pending in Canada. A claim for damages brought against S-Y was settled out of court. Further claims cannot be ruled out.

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. On December 23, 2013, the KFTC announced that it had imposed a fine of KRW 45,992 million (around €36 million) on Continental Automotive Electronics LLC, Bugan-myeon, South Korea (CAE). On June 25, 2015, the Seoul High Court, Seoul, South Korea, vacated the administrative fine imposed by the KFTC on CAE's appeal against the amount of the fine. The Supreme Court of South Korea rejected KFTC's appeal against this decision on May 31, 2017. It is not yet known how high the new fine from the KFTC will be. On November 13, 2014, the competent South Korean criminal court also imposed a fine of KRW 200 million (around €157,000). Following CAE's appeal, this fine was reduced to KRW 100 million (around €78,000). The decision is final. On November 24, 2014, CAE and Continental Automotive Korea Ltd., Seongnam-si, South Korea, entered into an agreement in which 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 €3.3 million). The competent U.S. court confirmed the agreement on April 1, 2015. Claims for damages by alleged victims remain unaffected by the fines imposed.

In September 2014, the European Commission conducted a search at a subsidiary of Continental. The commission has since completed proceedings initiated in this regard and communicated that it is fining Continental AG; Continental Teves AG & Co. oHG, Frankfurt, Germany; and Continental Automotive GmbH, Hanover, Germany; €44.0 million 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, 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.

33. Contingent Liabilities and Other Financial Obligations

€ millions	**Dec. 31, 2017**	Dec. 31, 2016
Liabilities on guarantees	9.5	24.4
Liabilities on warranties	35.6	21.2
Risks from taxation and customs	10.9	6.4
Other financial obligations	18.7	19.1
Other contingent liabilities	14.6	14.6
Contingent liabilities and other financial obligations	**89.3**	**85.7**

As in the previous years, the 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 €740.0 million (PY: €615.3 million).

In 2017, expenses from operating leases and rental agreements amounted to €255.9 million (PY: €291.0 million).

Future liabilities relating to operating leases and rental agreements with an original or remaining term of more than one year as at December 31, 2017, are shown in the table below for 2018 and cumulatively for the years 2019 through 2022, and likewise cumulatively from 2023:

Dec. 31, 2017/€ millions	2018	2019-2022	from 2023
Operating leases and rental agreements	277.3	694.1	423.1

Dec. 31, 2016/€ millions	2017	2018-2021	from 2022
Operating leases and rental agreements	255.9	638.7	407.5

34. Earnings per Share

Basic earnings per share rose to €14.92 in 2017 (PY: €14.01), 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	2017	2016
Net income attributable to the shareholders of the parent	2,984.6	2,802.5
Weighted average number of shares issued	200.0	200.0
Basic earnings per share in €	**14.92**	**14.01**

35. Events after the End of the Reporting Period

There were no significant events after December 31, 2017.

36. Auditor's Fees

For fiscal 2017, a global fee of €11.0 million (PY: €10.5 million) was agreed for the audit of the consolidated financial statements and the separate financial statements of the subsidiaries.

The following fees were recognized as an expense specifically for the auditor of Continental AG elected by the Annual Shareholders' Meeting.

The following fees relate only to services directly connected with Continental AG and its German subsidiaries:

€ millions	**2017**	2016
Audit of financial statements	4.4	4.2
Other assurance services	0.1	0.4
Tax advisory services	0.5	0.2
Other services provided to the parent company or its subsidiaries	0.4	0.1
Total	**5.4**	**4.9**

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 of September 8, 2016. The previous year disclosures have been adjusted accordingly.

KPMG AG Wirtschaftsprüfungsgesellschaft and its registered branches are deemed the auditor.

37. 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 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	**2017**	2016
Short-term benefits	17,339	15,540
Service cost relating to post-employment benefits	7,166	4,708
Termination benefits	680	686
Share-based payment	22,058	3,732
Total	**47,243**	**24,666**

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 joint Management Report with the Continental Corporation.

The total remuneration granted to the Executive Board of Continental AG in 2017 amounted to €35.8 million (PY: €25.6 million). That total remuneration also includes, in addition to short-term benefits of €17.3 million (PY: €15.5 million), the first payment of €5.1 million for the 2013/2017 LTI tranche, a newly granted long-term incentive plan totaling €7.3 million (PY: €5.7 million) and the long-term component of variable remuneration totaling €6.1 million (PY: €4.4 million), which is converted into virtual shares of the company. In 2017, this resulted in the long-term component for 2016 being converted into 22,339 virtual shares. Moreover, former members of the Executive Board and their surviving dependents received payments totaling €6.8 million (PY: €6.8 million). Provisions for pension obligations for former members of the Executive Board and their surviving dependents amounted to €121.5 million (PY: €128.9 million).

Remuneration paid to the members of Continental AG's Supervisory Board, including meeting fees, totaled €5.2 million in the past fiscal year (PY: €4.9 million).

As in 2016, no advances or loans were granted to members of Continental AG's Executive Board or Supervisory Board in 2017.

Transactions with related parties other than subsidiaries:

	Services rendered		Services received		Accounts receivable		Accounts payable	
€ millions	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Non-consolidated companies	23.3	23.5	15.1	14.8	14.7	11.7	10.4	11.4
Equity-accounted investees	317.7	200.4	293.8	239.5	141.5	64.8	236.9	209.3
Associates	2.9	2.7	0.1	0.0	1.5	0.9	7.3	–
Schaeffler Group	84.4	85.2	117.5	115.5	20.5	16.7	14.4	14.9
Other related parties	–	–	0.1	0.0	–	–	0.0	0.0
Total	**428.3**	**311.8**	**426.6**	**369.8**	**178.2**	**94.1**	**269.0**	**235.6**

Transactions with related parties other than subsidiaries are attributable solely to the ordinary business activities of the respective company and were conducted on an arm's length basis.

Notices in Accordance with the German Securities Trading Act *(Wertpapierhandelsgesetz – WpHG)*
The cited provisions of the *WpHG* relate to the version of the *WpHG* valid as at January 2, 2018.

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 21 (1) *WpHG* on holdings in Continental AG. In the event of the threshold stated in this provision being reached, exceeded or falling below on multiple occasions by the same party, only the most recent notification has been shown here. Notifications from earlier fiscal years about the existence of voting rights shares of at least 3% as at the end of the reporting period can be found online at www.continental-ir.com.

BlackRock, Inc., Wilmington, Delaware, United States, notified us that its share of voting rights in Continental AG on November 30, 2016, amounted to 3.22%.

- 3.08% of these voting rights (6,166,331 voting rights) are attributed to the company in accordance with Section 22 *WpHG*.
- 0.05% of these voting rights (105,065 voting rights) are attributed to the company as instruments in accordance with Section 25 (1) No. 1 *WpHG* (Lent Securities).
- 0.08% of these voting rights (163,606 voting rights) are attributed to the company as instruments in accordance with Section 25 (1) No. 2 *WpHG* (Contract for Difference).

By way of 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 Familienholding Drei GmbH & Co. KG, Herzogenaurach, Germany, this company's notification obligation in accordance with *WpHG* ceased to apply on January 1, 2016.

In 2017 and until February 8, 2018, 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 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 2017 and until February 8, 2018, the other members of the Supervisory Board held shares representing a total interest of less than 1% of the share capital of the company.

38. 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 electronic German Federal Gazette *(elektronischer 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
Alfred Teves Beteiligungsgesellschaft mbH	Frankfurt am Main
balance GmbH, Handel und Beratungsservice im Gesundheitswesen	Hanover
Benecke-Kaliko AG	Hanover
CAS München GmbH	Hanover
CAS-One Holdinggesellschaft mbH	Hanover
co-pace GmbH	Hanover
Conseo GmbH	Hamburg
Conti Temic microelectronic GmbH	Nuremberg
Conti Versicherungsdienst Versicherungsvermittlungsges. mbH	Hanover
Continental Aftermarket GmbH	Eschborn
Continental Automotive GmbH	Hanover
Continental Automotive Grundstücksges. mbH	Frankfurt am Main
Continental Automotive Grundstücksvermietungsges. mbH & Co. KG	Frankfurt am Main
Continental Caoutchouc-Export-GmbH	Hanover
Continental Emitec GmbH	Lohmar
Continental Engineering Services & Products GmbH	Ingolstadt
Continental Engineering Services GmbH	Frankfurt am Main
Continental Finance GmbH	Hanover
Continental Mechanical Components Germany GmbH	Roding
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

Company	Registered office
Eddelbüttel + Schneider GmbH	Hamburg
Elektrobit Automotive GmbH	Erlangen
Formpolster GmbH	Hanover
Göppinger Kaliko GmbH	Eislingen
Hornschuch GmbH	Weißbach
Hornschuch Group GmbH	Weißbach
Hornschuch Stolzenau GmbH	Weißbach
inotec Innovative Technologie GmbH	Kohren-Sahlis
kek-Kaschierungen GmbH	Herbolzheim
Konrad Hornschuch AG	Weißbach
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

39. German Corporate Governance Code/Declaration in Accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz)*

The declaration required in accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz)* was issued by the Executive Board and the Supervisory Board in December 2017, and is available to our shareholders online at www.continental-corporation.com in the Company section under Corporate Governance.

40. Report on Subsequent Events

As at February 8, 2018, 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, 2017.

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, February 8, 2018

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
- ContiTech AG, Hanover* (Chairman)

José A. Avila
Powertrain Division

Dr. Ralf Cramer
Continental China (until August 11, 2017)
- Continental Automotive Changchun Co., Ltd., Changchun, China* (Chairman, until October 9, 2017)
- Continental Automotive Holding (Shanghai) Co., Ltd., Shanghai, China* (Chairman, until July 28, 2017)
- Continental Automotive Interior Wuhu Co., Ltd., Wuhu, China* (Chairman, until August 10, 2017)
- Continental Automotive Systems Changshu Co., Ltd., Changshu, China* (Chairman, until August 22, 2017)
- Continental Automotive Systems (Shanghai) Co., Ltd., Shanghai, China* (Chairman, until February 27, 2017)
- Continental Automotive Systems (Tianjin) Co., Ltd., Tianjin, China* (Chairman, until August 11, 2017)
- Continental Brake Systems (Shanghai) Co., Ltd., Shanghai, China* (Chairman, until August 8, 2017)
- Continental Tires (China) Co., Ltd., Hefei, China* (Chairman, until September 18, 2017)
- Elektrobit Automotive Software (Shanghai) Co., Ltd., Shanghai, China* (Chairman, until August 4, 2017)

Hans-Jürgen Duensing
ContiTech Division
- Benecke-Kaliko AG, Hanover* (Chairman)
- ContiTech Antriebssysteme GmbH, Hanover* (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* (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.*
- 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.A. 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*
- Continental Automotive SLP, S.A. de C.V., San Luis Potosí, Mexico*
- Temic Servicios, S.A. de C.V., Villa de Alaya, Mexico*
- Continental Automotive Maquila Mexico S.A. de C.V., Nogales Sonora, Mexico* (Vice Chairman)

Helmut Matschi
Interior Division
- Continental Automotive GmbH, Hanover* (Chairman)
- Argus Cyber Security Ltd, Tel Aviv, Israel* (since November 3, 2017)

Dr. Ariane Reinhart
Human Relations
Director of Labor Relations
Sustainability
- Vonovia SE, Düsseldorf

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.*
- Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.*

Nikolai Setzer
Tire Division
Corporate Purchasing
- Continental Reifen Deutschland GmbH, Hanover* (Chairman)
- Continental Tire Holding US LLC, Wilmington, Delaware, U.S.A.*
- Continental Tire the Americas, LLC, Columbus, Ohio, U.S.A.*

* *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
- Ivoclar Vivadent AG, Schaan, Liechtenstein
- Axel Springer SE, Berlin
- Hawesko Holding AG, Hamburg (until June 19, 2017)
- Medical Park AG, Amerang (Chairman)
- Willy Bogner GmbH & Co. KGaA, Munich (Chairman, since January 16, 2018)

Hartmut Meine*, Vice Chairman
District manager of IG Metall (Metalworkers' Union) for Lower Saxony and Saxony-Anhalt (until December 31, 2016)
- KME Germany GmbH, Osnabrück (until March 30, 2017)

Dr. Gunter Dunkel
Chairman of the Board of Management of Norddeutsche Landesbank Girozentrale (until December 31, 2016)
- Bremer Landesbank Kreditanstalt Oldenburg Girozentrale, Bremen** (until December 31, 2016)
- Deutsche Hypothekenbank AG, Hanover** (Chairman, until December 31, 2016)
- Norddeutsche Landesbank Luxembourg S.A. Covered Bond Bank, Luxembourg, Luxembourg** (Chairman, until December 31, 2016)
- NORD/LB Vermögensmanagement Luxembourg S.A., Luxembourg, Luxembourg** (Chairman, until December 31, 2016)

Prof. Dr.-Ing. Peter Gutzmer
Deputy CEO and Member of the Executive Board, CTO of Schaeffler AG, Herzogenaurach

Peter Hausmann*
Member of the Central Board of Executive Directors, IG Bergbau, Chemie, Energie (Mining, Chemical and Energy Industries Union)
- Henkel AG & Co. KGaA, Düsseldorf
- 50Hertz Transmission GmbH, Berlin (Vice Chairman)
- Vivawest GmbH, Gelsenkirchen (Vice Chairman)
- Covestro AG, Leverkusen

Michael Iglhaut*
Works Council for the Frankfurt Location

Prof. Dr. Klaus Mangold
Chairman of the Supervisory Board of Rothschild GmbH
- TUI AG, Hanover (Chairman)
- Alstom S.A., Paris, France
- Baiterek JSC, Astana, Kazakhstan

Sabine Neuß
Member of the Management Board of Linde Material Handling GmbH, Aschaffenburg
- Juli Motorenwerk, s.r.o., Moravany, Czechia
- Linde Xiamen Forklift Truck Corp., Xiamen, China**
- 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

Klaus Rosenfeld
Chief Executive Officer of Schaeffler AG, Herzogenaurach
- FAG Bearings India Ltd., 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)

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* (since January 1, 2017)
Member of the Works Council for the Regensburg Location
Member of the Central Works Council of Continental Automotive GmbH, Hanover
Member of the Corporate Works Council of Continental AG, Hanover

Kirsten Vörkel*
Chairperson of the Works Council of Continental Automotive GmbH, Dortmund
Member of the Central Works Council of Continental Automotive GmbH, Hanover
Member of the Corporate Works Council of Continental AG, Hanover

Elke Volkmann*
Second Authorized Representative of the IG Metall, Administrative Office for North Hesse, Kassel
- Krauss-Maffei Wegmann Verwaltungs GmbH, Munich

Erwin Wörle*
Member of the Works Council of Conti Temic microelectronic GmbH, Ingolstadt (until January 17, 2017)
Engineer in the Development Department, Quality Management of Conti Temic microelectronic GmbH, Ingolstadt
- Conti Temic microelectronic GmbH, Nuremberg (Vice Chairman)

Prof. KR Ing. Siegfried Wolf
Chairman of the Board of Directors of Russian Machines LLC, Moscow, Russia
- Banque Eric Sturdza SA, Geneva, Switzerland
- GAZ Group, Nizhny Novgorod, Russia (Chairman)
- SBERBANK Europe AG, Vienna, Austria (Chairman)
- UC RUSAL Plc, Moscow, Russia
- Schaeffler AG, Herzogenaurach
- MIBA AG Mitterbauer Beteiligungs AG, Laakirchen, Austria

Members of the Supervisory Board Committees:

1. Chairman's Committee and Mediation Committee required under Section 27 (3) of the German Co-determination Act *(Mitbestimmungsgesetz)*

- Prof. Dr.-Ing. Wolfgang Reitzle
- Hartmut Meine
- Georg F. W. Schaeffler
- Jörg Schönfelder

2. Audit Committee

- Prof. Dr. Rolf Nonnenmacher
- Peter Hausmann
- Michael Iglhaut
- Dirk Nordmann
- Klaus Rosenfeld
- Georg F. W. Schaeffler

3. Nomination Committee

- Prof. Dr. Rolf Nonnenmacher
- Prof. Dr.-Ing. Wolfgang Reitzle
- Georg F. W. Schaeffler
- Maria-Elisabeth Schaeffler-Thumann

* *Employee representative.*
** *Companies pursuant to Section 100 (2) of the German Stock Corporation Act (Aktiengesetz – AktG).*

Ten-Year Review – Corporation

		2017	2016	2015	2014	2013	2012[6]	2011	2010	2009	2008
Balance sheet											
Non-current assets	€ millions	22,038.4	21,321.0	19,666.6	16,923.3	15,569.5	15,685.7	15,075.5	14,887.9	14,724.6	16,348.4
Current assets	€ millions	15,402.1	14,853.9	13,169.1	13,317.8	11,251.3	11,764.4	10,962.9	9,502.6	8,324.6	8,339.5
Total assets	€ millions	37,440.5	36,174.9	32,835.7	30,241.1	26,820.8	27,450.1	26,038.4	24,390.5	23,049.2	24,687.9
Shareholders' equity (excl. non-controlling interests)	€ millions	15,828.4	14,270.0	12,786.3	10,672.1	9,011.2	7,779.0	7,146.1	5,859.6	3,772.6	5,265.4
Non-controlling interests	€ millions	461.9	464.8	427.6	352.5	311.0	377.4	397.2	343.3	289.1	264.5
Total equity (incl. non-controlling interests)	€ millions	16,290.3	14,734.8	13,213.9	11,024.6	9,322.2	8,156.4	7,543.3	6,202.9	4,061.7	5,529.9
Equity ratio[1]	%	43.5	40.7	40.2	36.5	34.8	29.7	29.0	25.4	17.6	22.4
Capital expenditure[2]	€ millions	2,854.4	2,593.0	2,178.8	2,045.4	1,981.1	2,019.4	1,711.3	1,296.4	860.1	1,595.2
Net indebtedness	€ millions	2,047.6	2,797.8	3,541.9	2,823.5	4,289.3	5,319.9	6,772.1	7,317.0	8,895.5	10,483.5
Gearing ratio	%	12.6	19.0	26.8	25.6	46.0	65.2	89.8	118.0	219.0	189.6
Income statement											
Sales	€ millions	44,009.5	40,549.5	39,232.0	34,505.7	33,331.0	32,736.2	30,504.9	26,046.9	20,095.7	24,238.7
Share of foreign sales	%	79.7	79.3	78.6	76.6	76.2	75.4	73.7	72.8	71.0	68.5
Cost of sales[3]	%	74.2	73.4	74.1	74.9	76.6	78.3	79.0	77.8	80.0	80.4
Research and development expenses[3]	%	7.1	6.9	6.2	6.2	5.6	5.3	5.3	5.6	6.7	6.2
Selling and logistics expenses[3]	%	5.5	5.6	5.6	5.3	5.0	4.8	4.7	5.0	5.6	4.9
Administrative expenses[3]	%	2.6	2.5	2.4	2.2	2.1	2.0	2.1	2.5	3.0	3.2
EBITDA	€ millions	6,678.9	6,057.4	6,001.4	5,133.8	5,095.0	4,967.4	4,228.0	3,587.6	1,591.2	2,771.4
EBITDA[3]	%	15.2	14.9	15.3	14.9	15.3	15.2	13.9	13.8	7.9	11.4
Personnel expenses	€ millions	10,687.3	9,695.7	9,164.6	7,757.2	7,124.5	6,813.7	6,354.3	5,891.7	5,199.8	5,746.3
Depreciation and amortization[4]	€ millions	2,117.4	1,961.6	1,885.8	1,789.0	1,831.3	1,781.2	1,631.1	1,652.4	2,631.6	3,067.6
Net income attributable to the shareholders of the parent	€ millions	2,984.6	2,802.5	2,727.4	2,375.3	1,923.1	1,905.2	1,242.2	576.0	-1,649.2	-1,123.5
Dividend and earnings per share											
Dividend for the fiscal year	€ millions	900.0[5]	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	169.0	169.0
Net income (per share) attributable to the shareholders of the parent	€	14.92	14.01	13.64	11.88	9.62	9.53	6.21	2.88	-9.76	-6.84
Employees											
Annual average	thousands	230.7	216.0	204.7	186.0	175.4	169.0	159.7	142.7	133.4	148.4

1 Including non-controlling interests.
2 Capital expenditure on property, plant and equipment, and software.
3 As a percentage of sales.
4 Excluding impairment on financial investments.
5 Subject to the approval of the Annual Shareholders' Meeting on April 27, 2018.
6 IAS 19 (revised 2011), Employee Benefits, has been applied since 2012.

Financial Calendar

2018	
Preliminary figures for fiscal 2017	January 9
Annual Financial Press Conference	March 8
Analyst and Investor Conference Call	March 8
Annual Shareholders' Meeting (including key figures for the first quarter of 2018)	April 27
Financial Report as at March 31, 2018	May 8
Half-Year Financial Report as at June 30, 2018	August 2
Financial Report as at September 30, 2018	November 8

2019	
Preliminary figures for fiscal 2018	January
Annual Financial Press Conference	March
Analyst and Investor Conference Call	March
Annual Shareholders' Meeting (including key figures for the first quarter of 2019)	April 26
Financial Report as at March 31, 2019	May
Half-Year Financial Report as at June 30, 2019	August
Financial Report as at September 30, 2019	November

Publication Details

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If you wish to receive copies of any of these reports, please contact:

Continental AG, Corporate Communications
P.O. Box 1 69, 30001 Hanover, Germany
Phone: +49 511 938 -1146
Fax: +49 511 938 -1055
E-mail: prkonzern@conti.de

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Continental Aktiengesellschaft
P.O. Box 1 69, 30001 Hanover, Germany
Vahrenwalder Strasse 9, 30165 Hanover, Germany
Phone: +49 511 938 - 01, Fax: +49 511 938 - 81770
mailservice@conti.de
www.continental-corporation.com

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