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

€ millions	Subscribed capital[1]	Capital reserves	Retained earnings	Successive purchases[2]	Difference from remeasurement of defined benefit plans[3]	Difference from currency translation[4]	Difference from 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:

€ millions	Dec. 31, 2017	Cash	Non-cash					Dec. 31, 2016
			Exchange-rate changes	Reclassifications	Changes in fair value	Changes in the scope of consolidation	Other	
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.