

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

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

Good, responsible corporate governance geared toward sustainable, long-term value creation and in the interests of all stakeholder groups is the measure that governs the actions of the Executive Board and Supervisory Board of Continental AG, and the basis of the company's success. Below, the Supervisory Board and Executive Board report on corporate governance at Continental. This Corporate Governance Declaration pursuant to Section 289f of the German Commercial Code (*Handelsgesetzbuch - HGB*) is simultaneously the Corporate Governance Report as recommended by Section 3.10 of the German Corporate Governance Code. It is supplemented by the remuneration report of Continental AG, which is a part of the company's Management Report.

### Declaration pursuant to Section 161 AktG and deviations from the German Corporate Governance Code

In December 2017, the Executive Board and the Supervisory Board issued the following annual declaration in accordance with Section 161 AktG:

"In accordance with Section 161 AktG, the Executive Board and the Supervisory Board of Continental AG declare that the Company has complied with and will comply with the recommendations issued by the Government Commission on the German Corporate Governance Code (as amended on February 7, 2017; published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette (*Bundesanzeiger*) on April 24, 2017), subject to the qualifications set forth below. Reference is made to the declaration of the Executive Board and the Supervisory Board of December 2016, as well as to the previous declarations pursuant to Section 161 AktG and the qualifications regarding the recommendations of the German Corporate Governance Code explained therein.

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

Hanover, December 2017

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

Dr. Elmar Degenhart  
Chairman of the Executive Board"

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

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

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

### Key corporate governance practices

Corporate governance at Continental is fundamentally based on Continental AG's Corporate Governance Principles, which are closely modeled on the German Corporate Governance Code and are published in the Company/Corporate Governance section of Continental's [website](#).

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

- › The BASICS - Continental AG's corporate guidelines. The BASICS have reflected the vision, values and self-image of the corporation since 1989, and are available in the Company/Corporate Strategy section of Continental's [website](#).
- › The Corporate Social Responsibility Principles; available in the Sustainability/Downloads section of Continental's [website](#).
- › Compliance with the binding Code of Conduct for all Continental employees. For more information, see the Compliance section on page 23 or the Sustainability/Downloads section of Continental's [website](#).

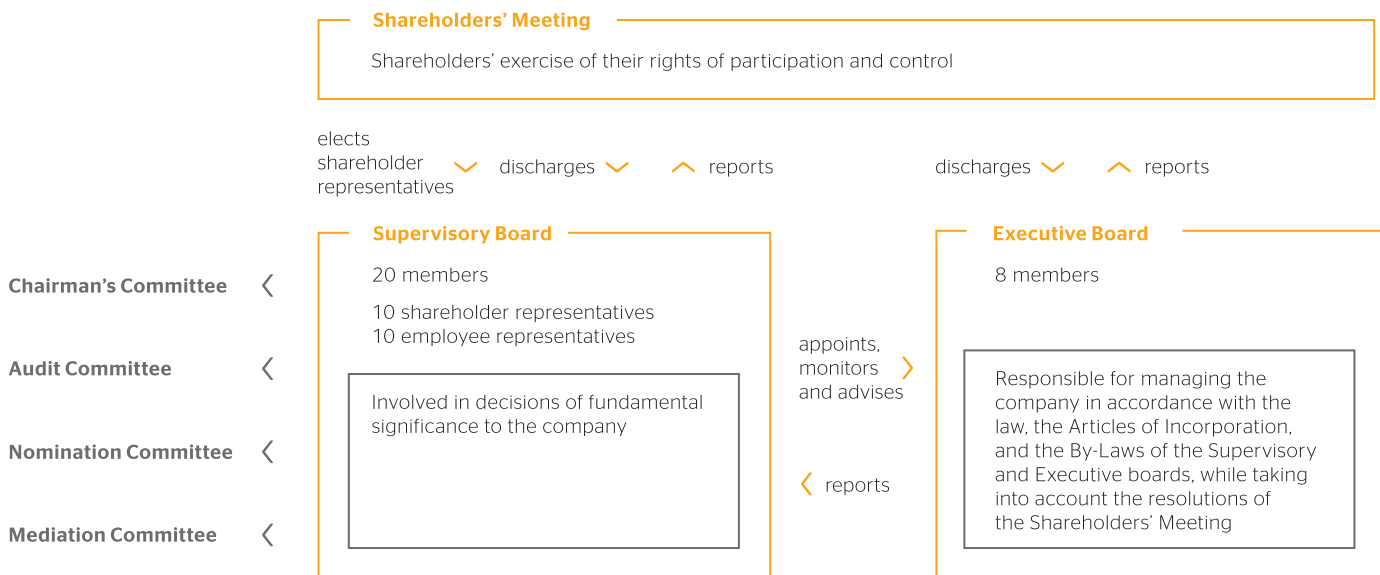
### Corporate bodies

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

### The Executive Board and its practices

The Executive Board has sole responsibility for managing the company free from instructions from third parties in accordance with the law, the Articles of Incorporation and the Executive Board's By-Laws, while taking into account the resolutions of the Shareholders' Meeting. All members of the Executive Board share responsibility for the management of the company jointly. Regardless of this prin-

## Corporate bodies of the company



principle of joint responsibility, each Executive Board member is individually responsible for the areas entrusted to him or her. The chairman of the Executive Board is responsible for the company's overall management and business policy. He ensures management coordination and uniformity on the Executive Board and represents the company to the public. The Executive Board currently has eight members. The first time a person is appointed to the Executive Board, his or her term is three years only. As a rule, a member of the Executive Board is not appointed beyond the statutory retirement age.

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

### The Supervisory Board and its practices

The Supervisory Board appoints the members of the Executive Board and supervises and advises the board in managing the company.

The Supervisory Board is directly involved in decisions of material importance to the company. As specified by law, the Articles of Incorporation or the Supervisory Board By-Laws, certain corporate management matters require the approval of the Supervisory Board. The chairman of the Supervisory Board coordinates its work

and represents it vis-à-vis third parties. Within reasonable limits, he is prepared to talk to investors about issues specific to the Supervisory Board. He maintains regular contact between meetings with the Executive Board, and in particular with its chairman, to discuss issues relating to the company's strategy, business development, risk management and compliance.

### Composition of the Supervisory Board

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

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

The Supervisory Board has drawn up its own By-Laws that supplement the law and the Articles of Incorporation with more detailed provisions, including provisions on Supervisory Board meetings, the duty of confidentiality, the handling of conflicts of interest, the Executive Board's reporting obligations, and a list of transactions

and measures that require the approval of the Supervisory Board. The Supervisory Board By-Laws are available in the Company/Corporate Governance section of Continental's [website](#). The Supervisory Board consults, in the absence of the Executive Board, on a regular basis. Before each regular meeting of the Supervisory Board, the representatives of the shareholders and of the employees each meet separately with members of the Executive Board to discuss the upcoming meeting.

The Supervisory Board reviews the efficiency of its activities every two to three years. The Supervisory Board recently carried out such a review in 2016 with the help of an external consultant. This once again confirmed the positive development of the Supervisory Board's work in the past years. The Supervisory Board has adopted the recommendations that resulted from the 2016 efficiency review.

#### Profile of skills and expertise for the Supervisory Board

In accordance with Section 5.4.1 of the German Corporate Governance Code, the Supervisory Board has prepared a profile of skills and expertise and specified targets for its composition.

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

- › Internationality: Due to Continental AG's global activities, its Supervisory Board requires international professional or business experience. This means professional training or work abroad or with a strong connection to foreign markets. International professional and business experience with regard to Asian markets is also desirable.
- › Industry experience: The Supervisory Board should have professional experience in the automotive industry or other industries in which the company operates. In particular, the Supervisory Board wants to increase its expertise in the new business areas that are an important part of the company's strategy. Therefore, professional knowledge or experience of digitalization, information technology, telecommunications, mobility services, electric mobility, or related areas should be available.
- › Management experience: The Supervisory Board should include members with management experience. In particular, this includes experience in corporate management or as a senior manager of a business or experience in a managerial role at other large organizations or associations.
- › Financial experience: The Supervisory Board should possess financial knowledge and experience, namely in the areas of accounting, control and risk management systems and the audit of financial statements. The Chairman of the Audit Committee must have in-depth knowledge in these areas.

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

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

- › The number of members of the Supervisory Board who have the required international experience specified above should at a minimum remain constant. At least seven members currently have international skills and expertise.
- › An appropriate number of members with industry experience should be maintained. Far more than half of the Supervisory Board members cover this area of expertise.
- › The Supervisory Board should have an appropriate number of members who are deemed independent by the Supervisory Board as defined in the German Corporate Governance Code. At least five shareholder representatives should be independent as defined in the Code. The independent shareholder representatives are:
  - › Prof. Dr.-Ing. Wolfgang Reitzle
  - › Dr. Gunter Dunkel
  - › Prof. Dr. Klaus Mangold
  - › Sabine Neuß
  - › Prof. Dr. Rolf Nonnenmacher
  - › Prof. KR Ing. Siegfried Wolf
- › In its nominations for election to the Supervisory Board, as a rule, the Supervisory Board does not nominate candidates who have already held this position for three full terms of office at the time of the election.
- › The Supervisory Board has not stipulated an age limit as recommended in Section 5.4.1 of the Code. It does not consider such a general criterion to be suitable for deciding whether a candidate is eligible to be a member of the Supervisory Board.

According to Section 96 (2) *AktG*, the Supervisory Board of Continental AG is also subject to the requirement that at least 30% of its members be women and at least 30% be men. The company reports on this on page 22, in accordance with Section 289f (2) No. 4 to 6 *HGB*.

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

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

### Committees of the Supervisory Board

The Supervisory Board currently has four committees: the Chairman's Committee, the Audit Committee, the Nomination Committee and the committee formed in accordance with Section 27 (3) of the *MitbestG* (Mediation Committee).

The members of the Mediation Committee also form the Chairman's Committee, which comprises the chairman of the Supervisory Board, Prof. Dr.-Ing. Wolfgang Reitzle; his vice chairman, Hartmut Meine (until February 28, 2018); Georg F. W. Schaeffler; and Jörg Schönfelder. Key responsibilities of the Chairman's Committee are preparing the appointment of Executive Board members and concluding, terminating, and amending their employment contracts and other agreements with them. However, the plenum of the Supervisory Board alone is responsible for establishing the total remuneration of the Executive Board. Another key responsibility of the Chairman's Committee is deciding on the approval of certain transactions and measures by the company as specified in the Supervisory Board By-Laws. The Supervisory Board has conferred some of these participation rights on the Chairman's Committee subject to the condition that, in individual cases, each of its members may demand that a matter again be submitted to the plenary session for decision.

The Audit Committee's tasks relate to the company's accounting, the audit of the financial statements, risk management and compliance. In particular, the committee monitors the accounting process and the effectiveness of the internal control system, the risk management system, the internal audit system and compliance; performs a preliminary examination of Continental AG's annual financial statements and the consolidated financial statements; and makes its recommendation to the plenary session of the Supervisory Board, which then passes resolutions pursuant to Section 171 of the German Stock Corporation Act (*Aktiengesetz - AktG*). Furthermore, the committee discusses the company's draft interim financial reports. It is also responsible for ensuring the necessary independence of auditors and deals with additional services performed by the auditors. The committee engages the auditors, determines the focus of the report as necessary and negotiates the fee. It also gives its recommendation for the Supervisory Board's proposal to the Annual Shareholders' Meeting for the election of the auditor. Since 2017, the committee has also been responsible for the preliminary audit of non-financial reporting and for the engagement of an auditor for its review, if any. The chairman of the Audit Committee is Prof. Dr. Rolf Nonnenmacher. He is independent and, as an auditor, has special knowledge and experience in the application of accounting principles and internal control procedures. Another committee member, Klaus Rosenfeld, is also a financial expert. The other members are Peter Hausmann, Dirk Nordmann, Georg F. W. Schaeffler, and Michael Iglhaut. Neither a former Executive Board member nor the chairman of the Supervisory Board may act as chairman of the Audit Committee.

The Nomination Committee is responsible for nominating suitable candidates for the Supervisory Board to propose to the Annual Shareholders' Meeting for election. In addition, the Committee must propose targets for the Supervisory Board's composition and profile of skills and expertise and review both regularly. The Nomination Committee consists entirely of shareholder representatives,

specifically the two shareholder representatives on the Chairman's Committee, Prof. Dr.-Ing. Wolfgang Reitzle and Georg F. W. Schaeffler, the chairman of the Audit Committee, Prof. Dr. Rolf Nonnenmacher, and Maria-Elisabeth Schaeffler-Thumann as an additional member.

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

More information on the members of the Supervisory Board and its committees can be found starting on page 207. Current resumes, which are updated annually, are available in the Company/Corporate Governance section of Continental's [website](#).

### Shareholders and the Shareholders' Meeting

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

All shareholders who register in a timely manner and prove their entitlement to participate in the Shareholders' Meeting and to exercise their voting rights are entitled to participate in the Shareholders' Meeting. To facilitate the exercise of their rights and to prepare them for the Shareholders' Meeting, the shareholders are fully informed about the past fiscal year and the points on the upcoming agenda before the Shareholders' Meeting by means of the Annual Report and the invitation to the meeting. All documents and information on the Shareholders' Meeting, including the Annual Report, are also published on the company's website in German and English. Moreover, the whole Annual Shareholders' Meeting can also be watched on the company's [website](#). To make it easier for shareholders to exercise their rights, the company offers all shareholders who cannot or do not want to exercise their voting rights themselves the opportunity to vote at the Shareholders' Meeting via a proxy who is bound by instructions. Voting instructions can also be issued to the proxy via an internet service before the end of the general debate on the day of the Shareholders' Meeting.

### Accounting and auditing of financial statements

The Continental Corporation's accounting is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The annual financial statements of Continental AG are prepared in accordance with the accounting regulations of the German Commercial Code (*Handelsgesetzbuch - HGB*). The Annual Shareholders' Meeting on April 28, 2017, elected KPMG AG Wirtschaftsprüfungsgesellschaft,

Hanover (KPMG) to audit the consolidated financial statements for fiscal 2017 as well as the interim financial reports of the company. KPMG has audited the consolidated financial statements and the separate financial statements for more than 30 years. Dirk Papenberg has been the auditor responsible at KPMG since the financial statements for fiscal 2012.

### Internal control system and risk management

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

### Transparent and prompt reporting

As part of our investor relations and corporate communications, we regularly report to shareholders, analysts, shareholders' associations, the media and interested members of the public in equal measure on significant developments in the corporation and its situation. All shareholders have instant access to all the information that is also available to financial analysts and similar parties. The website [www.continental.com](#) of Continental AG provides the latest information, including the company's financial reports, presentations held at analyst and investor conferences, press releases and ad-hoc disclosures. The dates of key periodic publications (annual and interim reports) and events as well as of the Annual Shareholders' Meeting and the annual financial press conference are announced well in advance in a financial calendar on the company's website [www.continental.com](#). For the scheduled dates for 2018 and 2019, see the [Investors/Events](#) section.

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

Pursuant to Section 96 (2) *AktG*, the Supervisory Board of Continental AG as a listed stock corporation subject to the German Co-determination Act consists of at least 30% women and at least 30% men. These minimum quotas are mandatory from January 1, 2016. However, existing appointments may continue to be held until their regular end in accordance with Section 25 (2) Sentence 3 of the German Introductory Act to the Stock Corporation Act (*Einführungsgesetz zum Aktiengesetz - EGAktG*). If a seat becomes vacant before the next scheduled elections, the percentage of women must be increased in accordance with the legal requirements. Women made up 25% of the Supervisory Board of Continental AG as at December 31, 2017.

In accordance with Section 111 (5) *AktG*, the Supervisory Board must set a target quota of women on the Executive Board and a deadline for achieving this target. If the ratio of women is less than 30% at the time this is set, the target must not subsequently fall below the ratio achieved. Based on the current composition of the Executive Board, the Supervisory Board does not anticipate any significant personnel changes in the coming years. In December 2016,

the Supervisory Board therefore set a target for the ratio of women on the Executive Board of Continental AG of at least 11% for the period up until December 31, 2021. At the same time, the Supervisory Board resolved to review the defined target as at December 31, 2019, to determine whether a target of higher than 11% can be set in view of the measures resolved. Women made up 12.5% of the Executive Board of Continental AG as at December 31, 2017, and at the time this report was prepared.

In accordance with Section 76 (4) *AktG*, the Executive Board of Continental AG is required to set targets for the ratio of women in the first two management levels below the Executive Board and a deadline for achieving these targets. In November 2016, the Executive Board set the following target quotas for women in the first two management levels below the Executive Board at Continental AG for the period up until December 31, 2021: 26% for the first management level and 33% for the second management level. As at December 31, 2017, the ratio of women was 23% at the first management level and 36% at the second management level. As a global company, Continental continues to attach high priority to the goal of steadily increasing the number of women in management positions throughout the corporation, above and beyond the legal requirements in Germany.

### Diversity concept

Continental counts on the diversity of its employees. Continental AG's activities to promote diversity are currently focused on internationality and a balanced gender ratio.

The Supervisory Board also pays attention to the diversity of the composition of the Executive Board. The Executive Board does the same when appointing people to management positions. As a basic principle, the Executive Board aims to achieve a balanced ratio of domestic to international managers everywhere. The proportion of local and international managers varies according to region. In 2017, 45% of the corporation's managers came from other countries.

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

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

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