

Management Report

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

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Glossary of Financial Terms

The following glossary of financial terms applies to the Management Report and the Consolidated Financial Statements.

Adjusted EBIT. EBIT before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects (e.g. impairment, restructuring, and gains and losses from disposals of companies and business operations). Since it eliminates one-off effects, it can be used to compare operational profitability between periods.

Adjusted sales. Sales adjusted for changes in the scope of consolidation.

American depositary receipts (ADRs). ADRs securitize the ownership of shares and can refer to one, several, or even a portion of a share. ADRs are traded on U.S. stock exchanges in the place of foreign shares or shares that may not be listed on U.S. stock exchanges.

Capital employed. The funds used by the company to generate its sales.

Changes in the scope of consolidation. Changes in the scope of consolidation include additions and disposals as part of share and asset deals. Adjustments were made for additions in the reporting year and for disposals in the comparative period of the prior year.

Continental Value Contribution (CVC). The absolute amount of additional value created. The delta CVC represents the change in absolute value creation compared to the prior year. Delta CVC allows us to monitor the extent to which management units generate value-creating growth or employ resources more efficiently.

The CVC is measured by subtracting the weighted average cost of capital (WACC) from the return on capital employed (ROCE) and multiplying this by the average operating assets for the fiscal year. The WACC calculated for the Continental Corporation corresponds to the required minimum return. The cost of capital is calculated as the weighted average ratio of the cost of equity and borrowing costs.

Currency swap. Swap of principal payable or receivable in one currency into similar terms in another currency. Often used when issuing loans denominated in a currency other than the functional currency of the lender.

Derivative instruments. Transactions used to manage interest rate and/or currency risks.

Dividend payout ratio. The ratio between the dividend for the fiscal year and the earnings per share.

EBIT. Earnings before interest and tax. In Continental's financial reports, this abbreviation is defined as earnings before financial result and tax. It is the result of ordinary business activities and is used to assess operational profitability.

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

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

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

Free cash flow. The sum of cash flow arising from operating activities and cash flow arising from investing activities. Also referred to as cash flow before financing activities. Free cash flow is used to assess financial performance.

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

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

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

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

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

IASB. International Accounting Standards Board. Independent standardization committee.

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

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

IFRS IC. International Financial Reporting Standards Interpretations Committee.

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

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

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

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

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

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

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

Return on capital employed (ROCE). The ratio of EBIT to average operating assets for the fiscal year. ROCE corresponds to the rate of return on the capital employed and is used to assess the company's profitability and efficiency.

SIC. Standing Interpretations Committee (predecessor to the IFRIC).

Tax rate. The ratio of income tax expense to the earnings before tax. It can be used to estimate the company's tax burden.

Weighted average cost of capital (WACC). The weighted average cost of the required return on equity and net interest-bearing liabilities.

Working capital. Inventories plus trade accounts receivable less trade accounts payable. It does not include receivables from and liabilities to related parties or sale of trade accounts receivable.

Corporate Profile

Structure of the Corporation

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

Market- and customer-oriented corporate structure

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

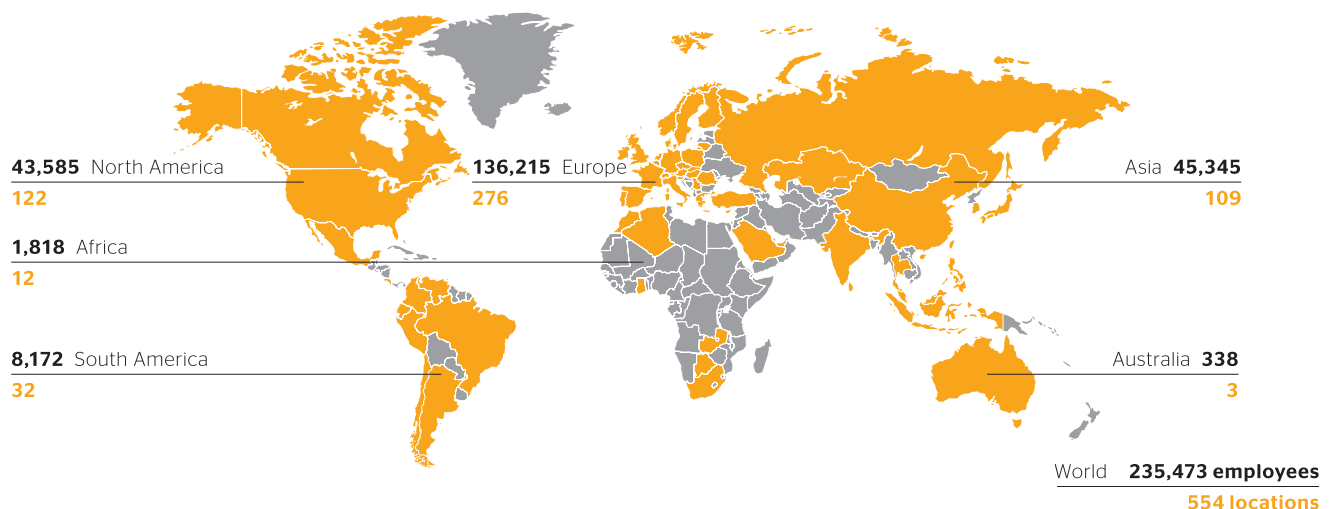
The Executive Board of Continental AG has overall responsibility for management. The divisions each have their own Executive Board member who represents them. With the exception of Corporate Purchasing, the central functions are represented by the chairman of the Executive Board, the chief financial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

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

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

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

554 locations in 61 countries



Structure of the corporation

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

Automotive Group:

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

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

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

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

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

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

Rubber Group:

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

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

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

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

Interconnected value creation

Research and development (R&D) takes place at 78 locations, predominantly in close proximity to our customers to ensure that we can respond flexibly to their various requirements and to regional market conditions. This applies particularly to the R&D projects of the Automotive Group and the ContiTech division, both of which have a decentralized organizational structure. The product requirements governing tire business are largely similar all around the world. They are adapted according to the specific requirements of each market. In this respect, R&D has a largely centralized structure in the Tire division. Continental invests about 7% of sales in R&D each year. For more information, see the Research and Development section.

Continental processes a wide range of raw materials and semi-finished products. The purchasing volume in the reporting year was €29.6 billion in total, €20.2 billion of which was for production materials. The Automotive Group uses primarily steel, aluminum, precious metals, copper and plastics. Key areas when it comes to purchasing materials and semifinished products include electronics and electromechanical components, which together make up more

than 40% of the corporation's purchasing volume of production materials. Furthermore, mechanical components account for about a quarter of production materials. Natural rubber and oil-based chemicals such as synthetic rubber and carbon black are key raw materials for the Rubber Group. The total purchasing volume for these materials amounts to around a sixth of the total volume for production material. For more information, see the Development of Raw Materials Markets section in the Economic Report.

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

Globally interconnected value creation

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

Corporate Strategy

Our strategy comprises seven dimensions that complement each other.

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

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

The Hoshin Kanri planning system means that all managers and employees in the entire company – companies and business units as well as divisions and corporate functions – are involved in a sys-

tematic, interconnected strategy process. We are thus aligning the activities for achieving the goals of individual units with our vision and the seven strategic dimensions. At the same time, we are identifying potential contradictions of our vision and our seven strategic dimensions as well as commonalities and opportunities. We are deriving measures from this so as to align the content of our work more closely with our strategic dimensions.

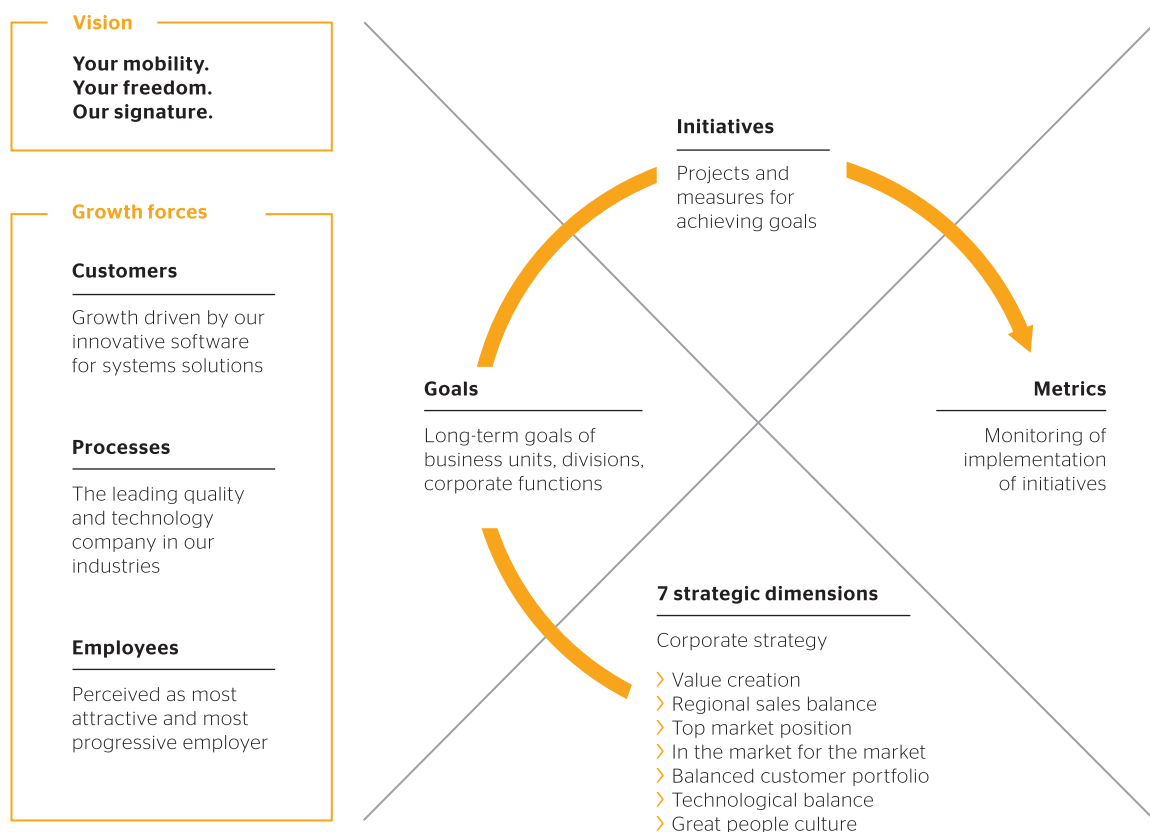
Seven strategic dimensions for enhancing the value of the corporation on a sustainable basis

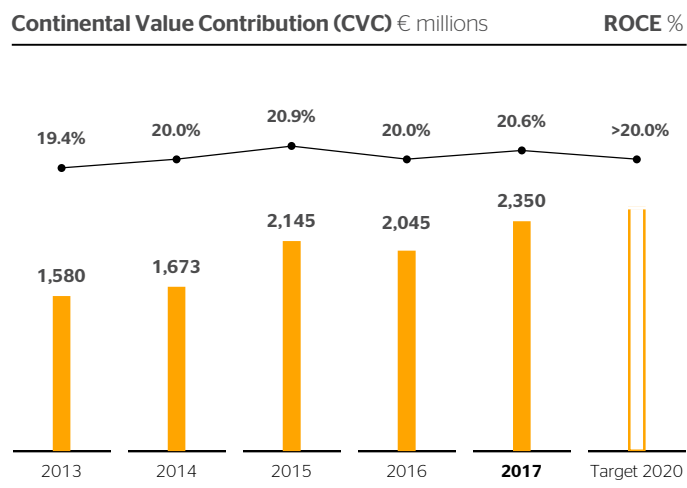
Our seven strategic dimensions complement one another. They are geared toward sustainably creating value for all stakeholders and ensuring the future viability of the company.

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

For us, enhancing the value of the corporation on a long-term basis means sustainable success while taking into consideration the cost of capital. Our target is at least 20% ROCE. We reached this target again in 2017. After 20.0% in 2016, we achieved 20.6% in the reporting year.

Hoshin Kanri matrix





2. Regional sales balance – globally balanced distribution of sales

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

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

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

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

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

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

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

We have production locations in 38 of 61 countries in which we are represented. We again expanded our production in various divisions in 2017, for example by increasing tire production capacity in Portugal and beginning the expansion of tire production as well as opening a new plant for coated fabrics in China. The construction of a tire plant began in Thailand. We opened a research and development center in Silicon Valley in the U.S.A.

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

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

Our dependency on the automotive economy is to be reduced by way of a balanced customer portfolio. To this end, we want to increase business in industries outside of the automotive original-equipment sector while at the same time achieving further growth with carmakers. In the medium to long term, we want to lift the share of sales with end users and industrial customers outside of the automotive original-equipment sector toward a figure of 40%.

This will be based mainly on our Tire and ContiTech divisions. Our activities in the field of software-based services for the end-user market will also make an increasing impact. Examples include advanced traffic management, intelligent payment systems, maintenance management and new technologies that go beyond the vehicle.

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

6. Technological balance – combination of established and pioneering technologies

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

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

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

In order to strengthen the innovation and agility so essential in times of digital transformation, we set up a special program for co-operating with startups last year. The potential of employees and external startups is thus to be utilized worldwide. It is a special and

comprehensive program with a separate company that links the startup world to Continental – co-pac GmbH. The startup program comprises three elements: In the “incubator,” our employees are given the opportunity to develop new business concepts in a startup environment. In the “cooperation program,” external startups are brought together with Continental to develop and trial applications on a prototype basis. The third element is “corporate venture capital,” where investments are made in selected startups.

7. Great people culture – a culture of inspiration

We aim to foster an inspiring management culture, in which our employees can enjoy demonstrating their full commitment and achieving top performance. We promote a culture of trust and personal responsibility in all divisions and functions, one in which we openly deal with and tolerate our mistakes and turn them into lessons learned. Our working conditions are intended to make it easy for our employees to focus on what is important and to strike the right work-life balance. We keep in regular contact with our employees, for example through our worldwide surveys. These give our employees the chance to tell us about how satisfied they are in general, the quality of management in the company and their atti-

tude toward Continental. Participation is voluntary and anonymous. In previous years, we invited all employees around the world to take part every two to three years. Since 2017, the survey has been carried out annually with a representative sample of the workforce. This enables us to identify potential improvements faster and implement changes more quickly.

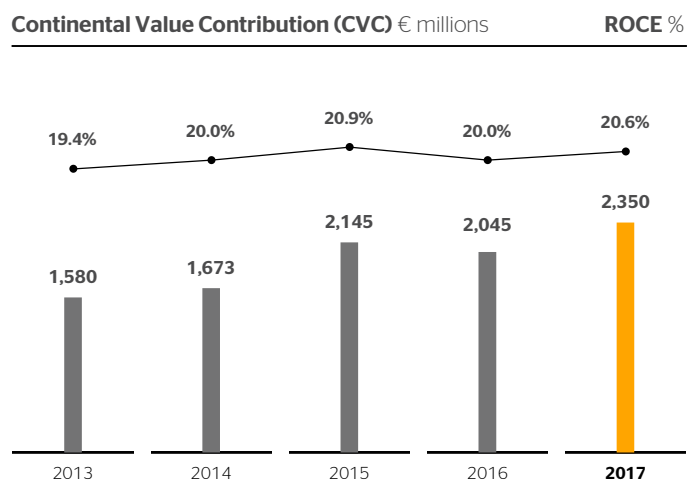
In the reporting year, we asked around a quarter of employees for their opinion on 50 questions. 74% of these employees took part in the survey. The results included the following: employee loyalty to the company is very positive; 84% of respondents are proud to work at Continental; 86% support our corporate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

Corporate Management

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

Value management

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



› EBIT is calculated from the ongoing sales process. The figure is the net total of sales, other income and expenses plus income from equity-accounted investees and from investments but before financial result and income tax expense. Consolidated EBIT amounted to €4.6 billion in 2017.

› Capital employed is the funds used by the company to generate its sales. At Continental, this figure is calculated as the average of operating assets as at the end of the quarterly reporting periods. In 2017, average operating assets amounted to €22.2 billion.

› The return on capital employed (ROCE) represents the ratio of these two calculated values. Comparing a figure from the statement of income (EBIT) with one from the statement of financial position (capital employed) produces an integral analysis. We deal with the problem of the different periods of analysis by calculating the capital employed as an average figure over the ends of quarterly reporting periods. ROCE amounted to 20.6% in 2017, once again significantly exceeding the cost of capital.

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

› Value is added only if ROCE exceeds the weighted average cost of capital (WACC). We call this value added, produced by subtracting WACC from ROCE multiplied by average operating assets, the Continental Value Contribution (CVC).

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

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

Financing strategy

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

The corporate function Finance & Treasury provides the necessary financial framework to finance corporate growth and secure the long-term existence of the company. The company's annual investment requirements will be around 7% of sales in the coming years. The reasons for this are the continuing increase in incoming orders in the Automotive Group and the successful implementation of Vision 2025 in our Tire division, which will mean the expansion of tire production capacity, particularly in North America and Asia.

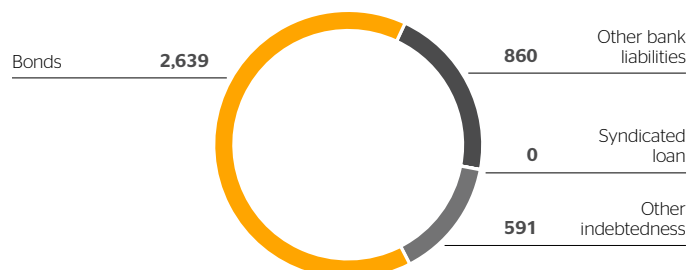
Our goal is to finance ongoing investment requirements from the operating cash flow. Other investment projects, for example acquisitions, should be financed from a balanced mix of equity and debt depending on the ratio of net indebtedness to equity (gearing ratio) and the liquidity situation to achieve constant improvement in the respective capital market environment. In general, our goal is to continue to keep the gearing ratio below 20% in the coming years and ensure that it does not exceed 60% in general. If justified by extraordinary financing grounds or specific market circumstances, we can rise above this maximum level under certain conditions. The equity ratio should exceed 35%. In the year under review, the equity ratio was 43.5% and the gearing ratio 12.6%.

Our gross indebtedness should be a balanced mix of liabilities to banks and other sources of financing on the capital market. For short-term financing in particular, we use a wide range of financing instruments. As at the end of 2017, this mix consisted of bonds (65%), syndicated loan (0%), other bank liabilities (21%) and other indebtedness (14%) based on the gross indebtedness of €4,090.0 million. The committed volume of the syndicated loan, which consists of the revolving tranche, remained unchanged at €3.0 billion. The tranche will run until April 2021. The financing mix will not change significantly.

The corporation strives to have at its disposal unrestricted liquidity of about €1.5 billion as at the end of the reporting period. This is supplemented by committed, unutilized credit lines from banks in order to cover liquidity requirements at all times. These requirements fluctuate during a calendar year owing in particular to the seasonal nature of some business areas. In addition, the amount of liquidity required is also influenced by corporate growth. Unrestricted cash and cash equivalents amounted to €1,726.7 million as at December 31, 2017. There were also committed and unutilized credit lines of €3,686.8 million.

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

Composition of gross indebtedness (€4,090 million)

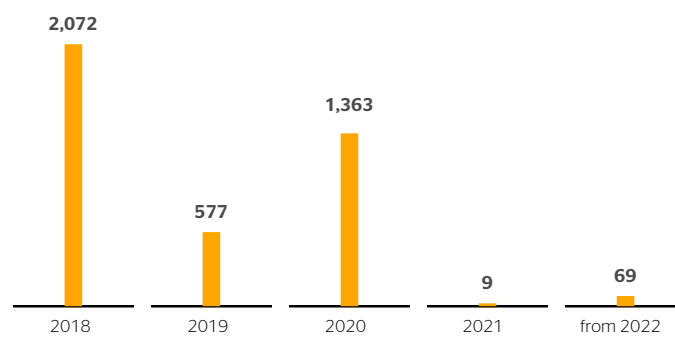


The revolving credit line had not been utilized as at December 31, 2017. Around 63% of gross indebtedness is financed on the capital market in the form of bonds maturing between July 2018 and September 2020. The interest coupons vary between 0.0% and 3.125%. The repayment amounts are €750.0 million in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

Maturity profile

Continental always strives for a balanced maturity profile of its liabilities in order to be able to repay the amounts due each year from free cash flow as far as possible. Other than short-term maturities, which are usually rolled on to the next year, the repayment of the bonds amounting to €750.0 million and €500.0 million due in July 2018 and February 2019 is on the agenda for 2018 and 2019.

Maturities of gross indebtedness (€4,090 million)



Continental's credit rating unchanged

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

Continental's credit rating

	December 31, 2017	December 31, 2016
Standard & Poor's¹		
Long term	BBB+	BBB+
Short term	A-2	A-2
Outlook	stable	stable
Fitch²		
Long term	BBB+	BBB+
Short term	F2	F2
Outlook	stable	stable
Moody's³		
Long term	Baa1	Baa1
Short term	no rating	no rating
Outlook	stable	stable

¹ Contracted rating since May 19, 2000.

² Contracted rating since November 7, 2013.

³ Non-contracted rating since February 1, 2014.

Research and Development

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

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

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

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

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

R&D center in Silicon Valley opened

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

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

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

Further expansion of international research network

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

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

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

Artificial intelligence

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

BEE – for personal mobility in urban traffic

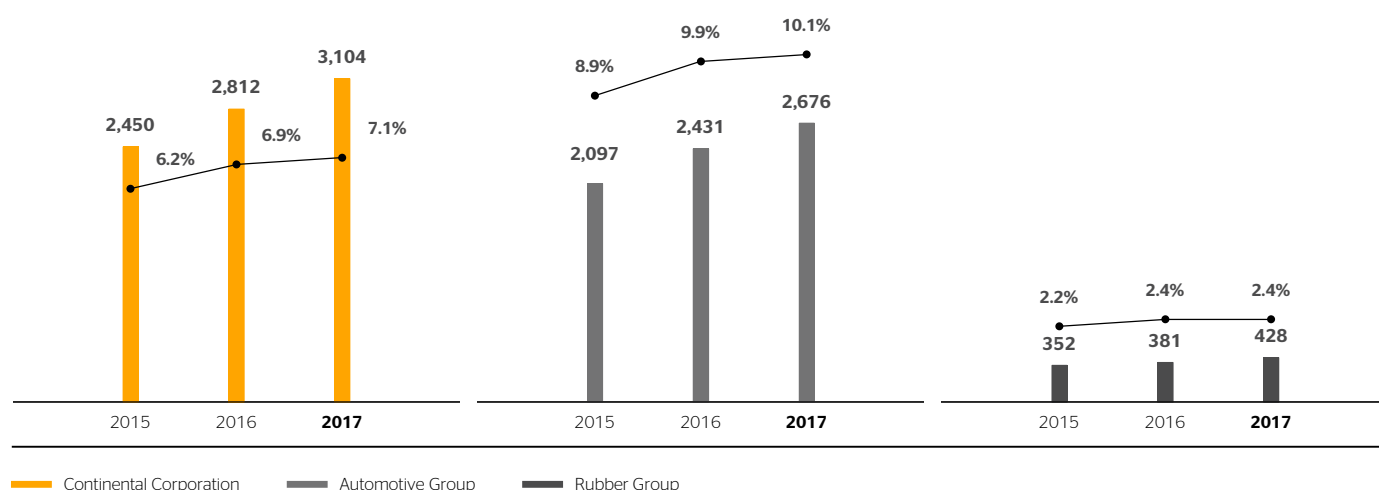
We are using the CUBE (“Continental Urban mobility Experience”) test vehicle to investigate and test driverless passenger transportation in Frankfurt. This kind of vehicle, also known as a driverless taxi, will play a crucial role as an addition to public transport in the future.

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

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

R&D expenses (net) € millions

R&D ratio %



Sustainability

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

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

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

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

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

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

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

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

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

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

Employees and collaboration

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

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

Environmental and climate protection

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

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

Social obligations and responsibility

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

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

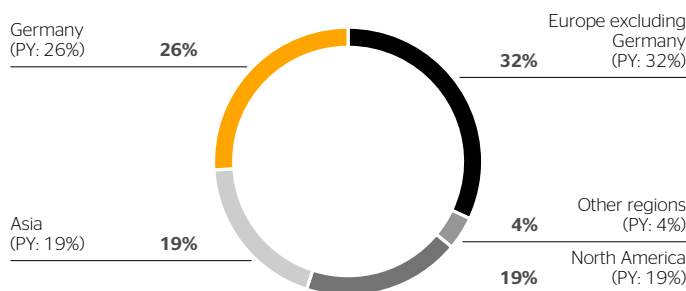
Employees

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

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

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

Employees by region



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

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

With "Industrialize Best Fit," we are developing HR management in the context of our "best fit" concept in order to meet our considerable need for employees with the right skills and abilities – now and in the future.

"Enable Transformation" supports digital transformation at Continental so that we can make the most of the opportunities of digitalization throughout the corporation.

"Industrialize Best Fit" – meeting staffing needs with precision

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

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

Strategic HR planning

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

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

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

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

¹ In Germany.

Big-data analyses in HR

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

Diagnostic procedure to find the right employee

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

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

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

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

Training record in the reporting year

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

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

Training program for automotive software technicians

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

“Enable Transformation” - accompanying digital transformation

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

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

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

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

Equal opportunities and increasing diversity

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

Diversity breeds innovation

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

In the reporting year, the second Women@Work event was held with 75 participants, mostly from Europe and South Africa. The aim of this event was to support young women with their career devel-

opment, strengthen their impact and increase their presence within the corporation. Similar national events in Korea and India with the same aim reached another 240 participants.

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

Promotion of entrepreneurial spirit with comprehensive startup program

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

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

Flexible working conditions come into force

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

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

Mastering digital transformation through a good leadership culture

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

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

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

Environment

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

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

Environmental strategy pays off ecologically and economically

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

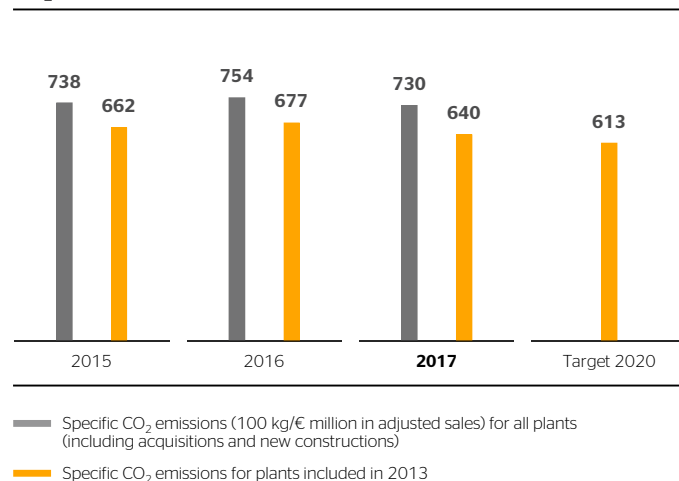
In the reporting year, Continental generated around 40% of consolidated sales through products that are exceptionally energy efficient and/or reduce CO₂ emissions. Our environmental strategy and the achievement of our environmental targets pay off ecologically and economically.

Clear targets for improvement

We have set ourselves clear targets. By 2020, we want to reduce our CO₂ emissions, energy and water consumption, and waste generation by 20% – in relation to adjusted sales, using 2013 as a basis. We also intend to improve our waste recycling and reuse rate by two percentage points a year. We are on track to achieve our targets. With regard to energy consumption, CO₂ emissions and water consumption, we already achieved a reduction of roughly 13% to 15% three years before the end of the timeframe at the locations where we launched the environmental strategy programs in 2013. However, it is also apparent that the consolidated key figures for the environment have not developed in the desired direction due to the many acquisitions in recent years. The number of sites that must be included in reporting has increased from 191 in 2013 to 245 in 2017. Further measures must be implemented at our new locations so that we can contribute to the achievement of

the environmental targets there, too. In waste generation and recycling, it also appears that the achievement of the targets will require further initiatives besides the programs to reduce waste and increase the recycling rate already begun.

CO₂ emissions



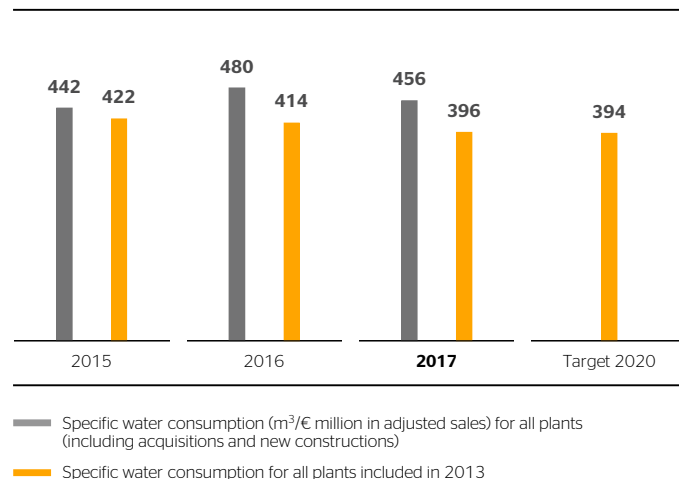
Certification to environmental standard ISO 14001 is to be compulsory for our strategic suppliers as well. Under these circumstances, we have defined an extensive catalog of individual measures that all serve the same goal of continuously improving our environmental performance.

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

Sharper focus on the protection of drinking water

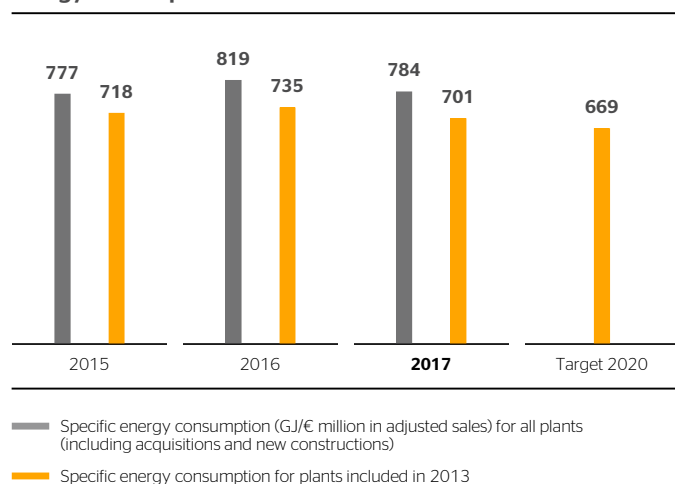
Around 41% of the world's population is currently living in regions that experience (in some cases extreme) water shortages, while

Water consumption



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

Energy consumption



Successful project for sustainability in the supply chain

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

- > 775 tons of CO₂ emissions
- > 923 megawatt hours of energy
- > 210 tons of waste
- > 4,600 cubic meters of water

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

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

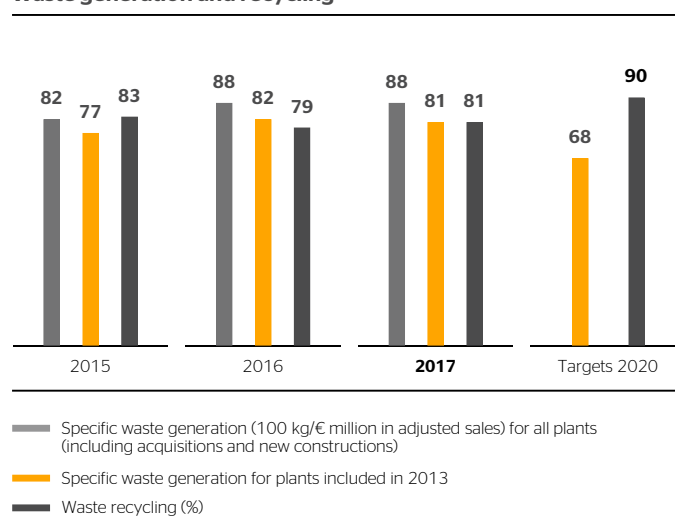
Reduction of plastic waste

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

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

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

Waste generation and recycling



Social Responsibility

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

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

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

Support in international disasters

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

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

Local involvement

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

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

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

Creating opportunities for refugees

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

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

Supporting young jobseekers and inspiring love for Europe

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

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

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

Economic Report

General Conditions

Macroeconomic Development

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

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

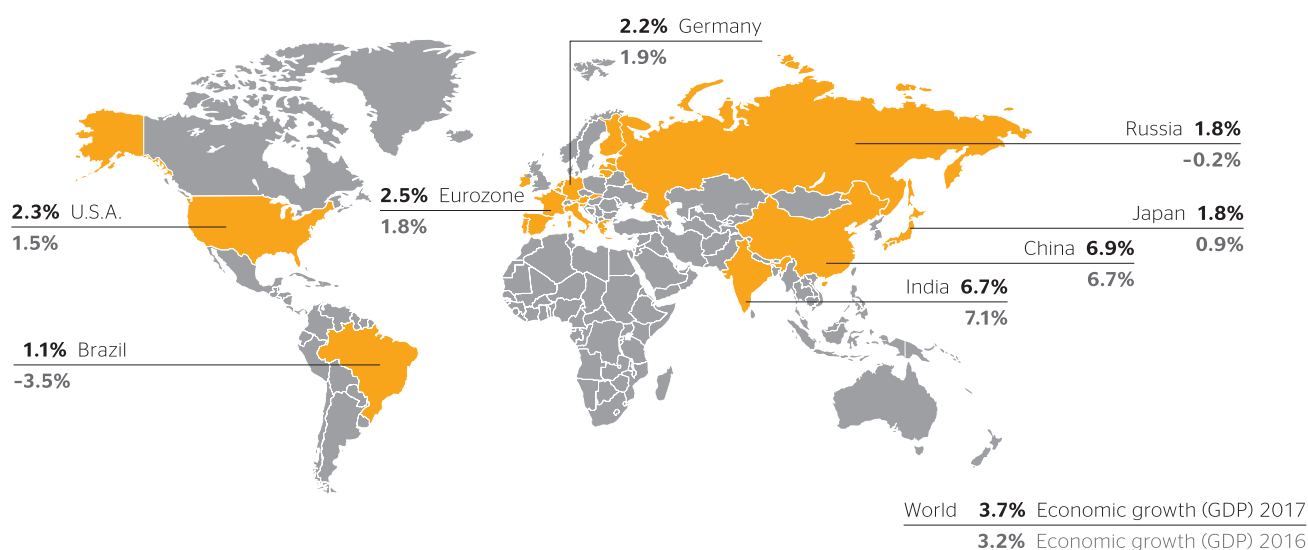
The U.S. economy picked up momentum from quarter to quarter during 2017 and is expected to have achieved GDP growth of 2.3%, meeting the IMF's forecast from January 2017 precisely. This was due primarily to an increase in consumer spending and private investment. In March, June and December 2017, the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

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

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

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

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



Development of Key Customer Sectors

The most important market segment for Continental is the global supply business with the manufacturers of passenger cars and commercial vehicles, accounting for 72% of sales in fiscal 2017 (PY: 73%). The second-biggest market segment for Continental is global replacement-tire business for passenger cars and commercial vehicles. Because passenger cars and light commercial vehicles weighing less than 6 metric tons make up a considerably higher share of vehicle production and replacement-tire business, their development is particularly important to our economic success.

Continental's biggest sales region is still Europe, which accounted for 49% of sales in the year under review (PY: 50%), followed by North America with 25% (PY: 26%) and Asia with 22% (PY: 21%).

Development of new passenger-car registrations

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

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

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

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

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

Development of production of passenger cars and light commercial vehicles

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

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

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

New registrations/sales of passenger cars

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

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

Production of passenger cars and light commercial vehicles

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

Source: IHS Inc., preliminary figures and own estimates.

¹ Western, Central and Eastern Europe, including Russia and Turkey.

² Asia including Kazakhstan, Uzbekistan, Middle East and Oceania with Australia.

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

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

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

Development of production of medium and heavy commercial vehicles

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

duction of commercial vehicles weighing more than 6 metric tons in Europe increased 9% year-on-year in 2017.

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

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

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

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

Production of medium and heavy commercial vehicles

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

Source: IHS Inc., preliminary figures and own estimates.

¹ Western, Central and Eastern Europe, including Russia and Turkey.

² Asia including Kazakhstan, Uzbekistan, Middle East and Oceania with Australia.

Sales of replacement tires for passenger cars and light commercial vehicles

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

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

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

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

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

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

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

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

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

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

According to preliminary data, demand for replacement tires for medium and heavy commercial vehicles in North America, our other core market for replacement commercial-vehicle tires alongside Europe, increased by 4% year-on-year. Here, too, the price increases announced by various manufacturers caused sharp fluctuations in demand during the course of the year.

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

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

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

Sales of replacement tires for medium and heavy commercial vehicles

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

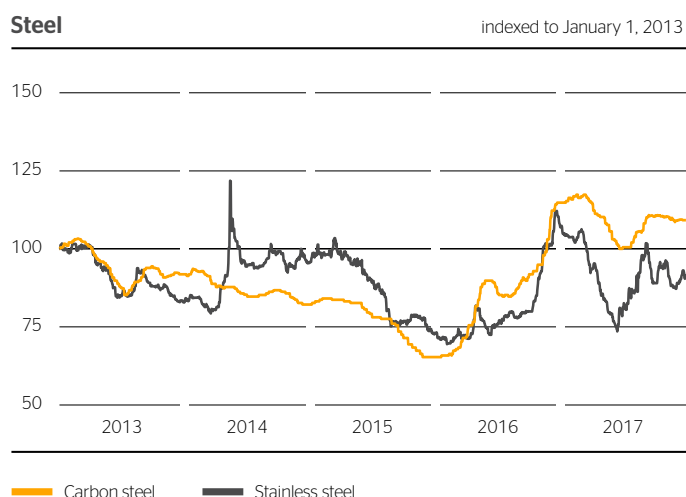
Source: LMC International Ltd., preliminary figures and own estimates.

Development of Raw Materials Markets

Various raw materials such as steel, aluminum, copper, precious metals and plastics are key input materials for a wide range of different electronic, electromechanical and mechanical components. We need these components, in turn, in order to manufacture our products and systems for the automotive industry. Consequently, developments in the prices of raw materials usually influence Continental's production costs indirectly, in most cases, via changes in costs at our suppliers. Depending on the contractual arrangement, these cost changes are either passed on to us after a certain amount of time or redefined in upcoming contract negotiations.

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

Carbon steel and stainless steel are input materials for many of the mechanical components such as stamped, turned, drawn and die-cast parts integrated by Continental into its products. Average prices for carbon steel increased in Europe by around 30% compared to the previous year's average. This was due firstly to the growing demand for steel and secondly to the development of global market prices for the primary products iron ore and coking coal. Although these abated again after the sharp rise at the beginning of the year and in the fourth quarter of the previous year, they stabilized at a much higher level than their respective averages in the previous year.



Sources:

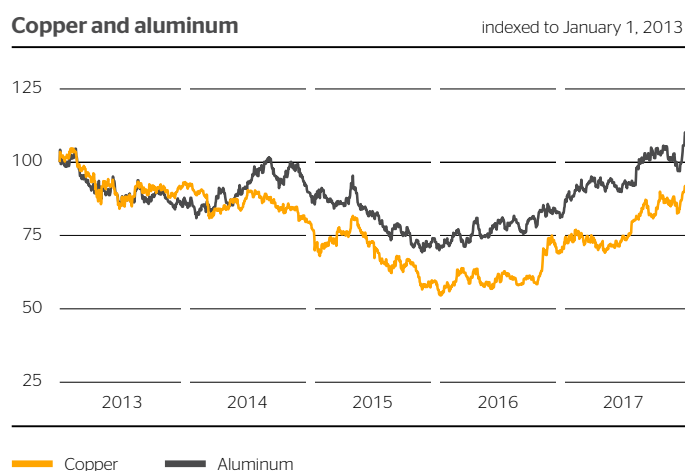
Carbon steel: Hot-rolled coil Germany (Ruhr) from Platts (€ per metric ton).

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

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

relatively limited at 6%. Overall, average prices for stainless steel in Europe increased by around 15% year-on-year in 2017.

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



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

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

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

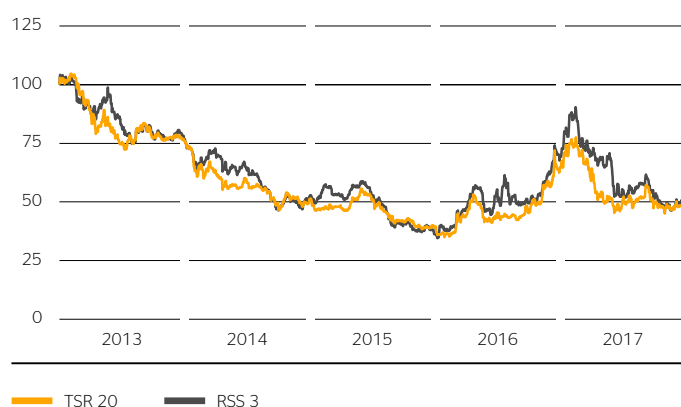
Continental uses various types of natural rubber and synthetic rubber for the production of tires and industrial rubber products in the Rubber Group. It also uses relatively large quantities of carbon black as a filler material and of steel cord and nylon cord as structural materials. Due to the large quantities and direct purchasing of raw materials, their price development, especially that of rubber,

has a significant influence on the earnings of the Rubber Group, particularly the Tire division.

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

Natural rubber

indexed to January 1, 2013

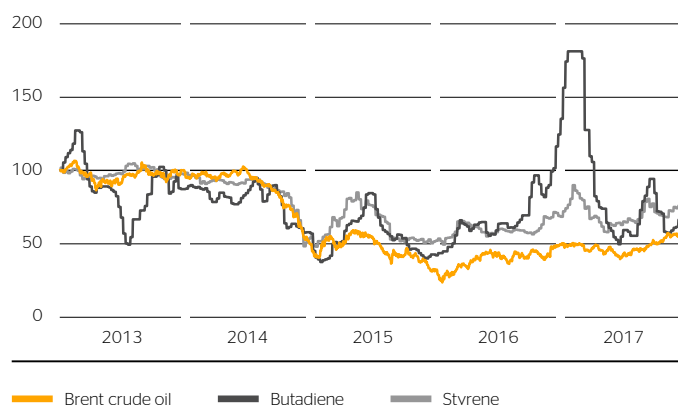


Source: Rolling one-month contracts from the Singapore Exchange (U.S. \$ cents per kg).

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

Crude oil, butadiene and styrene

indexed to January 1, 2013



Sources:

Crude oil: Europe Brent Forties Oseberg Ekofisk price from Bloomberg (U.S. \$ per barrel).

Butadiene, styrene: South Korea export price (FOB) from PolymerUpdate.com (U.S. \$ per metric ton).

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

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

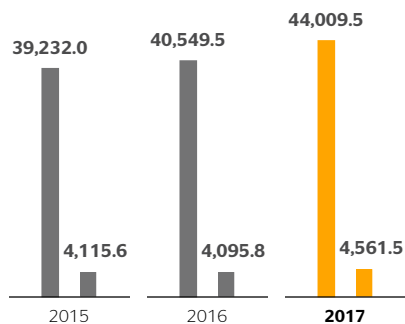
Overall, the described price increases for the various raw materials led to considerable costs for Continental in 2017, which were passed on to customers via price adjustments only in part and with a delay. The Rubber Group was particularly affected by this in the year under review.

Earnings, Financial and Net Assets Position

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

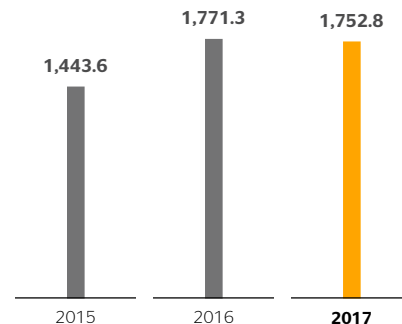
Sales; EBIT

€ millions



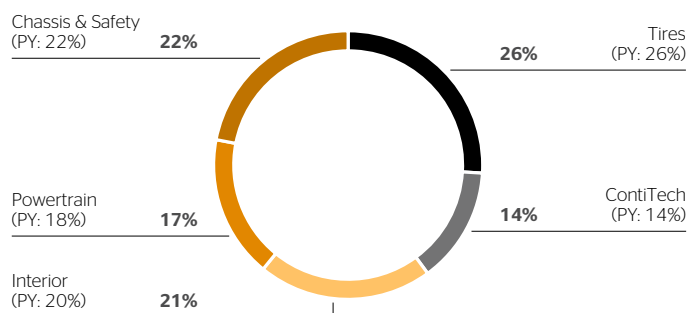
Free cash flow

€ millions



Sales by division

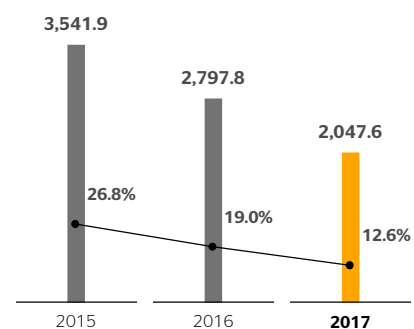
%



Net indebtedness

€ millions

Gearing ratio %



Earnings Position

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

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

¹ Excluding impairment on financial investments.

² Impairment also includes necessary reversal of impairment losses.

³ Capital expenditure on property, plant and equipment, and software.

⁴ Excluding trainees.

⁵ Before changes in the scope of consolidation.

⁶ Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Sales up 8.5%

Sales up 8.1% before changes in the scope of consolidation and exchange-rate effects

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

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

Adjusted EBIT up 10.1%

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

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

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

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

EBIT up 11.4%

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

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

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

Special effects in 2017

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

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

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

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

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

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

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

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

Special effects in 2016

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

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

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

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

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

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

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

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

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

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

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

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

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

Procurement

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

Reconciliation of EBIT to net income

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

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

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

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

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

¹ Changes in the scope of consolidation include additions and disposals as part of share and asset deals. Adjustments were made for additions in the reporting year and for disposals in the comparative period of the prior year.

² Excluding impairment on financial investments.

³ Impairment also includes necessary reversal of impairment losses. This item does not include impairment that arose in connection with a restructuring and impairment on financial investments.

⁴ This includes reversal of impairment losses totaling €5.0 million (Powertrain €0.2 million; Interior €4.8 million).

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

Research and Development

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

In the Chassis & Safety, Powertrain and Interior divisions, costs in connection with initial product development projects in the original-equipment business are capitalized. Costs are capitalized as at the time at which we are named as a supplier and have successfully achieved a specific pre-release stage. Capitalization ends with the approval for unlimited volume production. The costs of customer-specific applications, pre-production prototypes and testing for products already being sold do not qualify as development expenditure that may be recognized as an intangible asset. Capitalized development expenses are amortized on a straight-line basis over a useful life of three to seven years and recognized in the cost of sales. In Continental's opinion, the assumed useful life reflects the period for which an economic benefit is likely to be derived from the corresponding development projects. €92.1 million (PY: €105.9 million) of the development costs incurred in the three divisions in 2017 qualified for recognition as an asset.

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

This results in a capitalization ratio of 2.9% (PY: 3.6%) for the corporation.

Depreciation and amortization

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

Financial result

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

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

Interest expense totaled €281.5 million in 2017 and was thus €27.3 million lower than the previous year's figure of €308.8 million. At €130.0 million, interest expense resulting from bank borrowings, capital market transactions, and other financing instruments was €10.6 million lower than the prior-year figure of €140.6 million. The major portion related to expense of €70.7 million (PY: €86.1 million) from the bonds issued by Continental AG, Conti-Gummi Finance B.V., Maastricht, Netherlands, and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A. The year-on-

year decline in this expense is attributable to the repayment of the €750.0 million euro bond from Conti-Gummi Finance B.V., Maastricht, Netherlands, on March 20, 2017. The 3.5-year bond bore interest at a rate of 2.5% p.a. The interest expense from long-term employee benefits totaled €151.5 million (PY: €168.2 million) in 2017. This does not include the interest expense from the defined benefit obligations of the pension contribution funds.

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

Income tax expense

Income tax expense for fiscal 2017 amounted to €1,227.5 million (PY: €1,096.8 million). The tax rate was 28.7% after 27.6% in the previous year.

As in the previous year, foreign tax rate differences, incentives and tax holidays had positive effects in the year under review. The tax rate was negatively impacted by non-cash allowances on deferred tax assets totaling €91.0 million (PY: €78.6 million), of which €40.2 million (PY: €11.7 million) was for previous years. Furthermore, as in the previous year, the tax rate was negatively affected by non-deductible expenses and non-imputable foreign withholding tax.

Net income attributable to the shareholders of the parent

The net income attributable to the shareholders of the parent increased by €182.1 million in 2017 to €2,984.6 million (PY: €2,802.5 million). This corresponds to earnings per share of €14.92 (PY: €14.01).

Employees

The number of employees in the Continental Corporation rose by 15,336 from 220,137 in 2016 to 235,473. The number of employees in the Automotive Group rose by 9,533, as a result in particular of increased production volumes and the continuous expansion of

research and development. In the Rubber Group, the increase in the number of employees by 5,783 was chiefly attributable to the expansion of production capacity and sales channels and to the acquisition of the Hornschuch Group in the ContiTech division.

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

Financial Position

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

Reconciliation of cash flow

EBIT increased by €465.7 million to €4,561.5 million after €4,095.8 million in 2016.

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

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

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

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

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

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

Capital expenditure (additions)

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

Financing and indebtedness

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

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

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

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

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

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

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

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

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

The restrictions that may impact the availability of capital are also understood as comprising all existing restrictions on the cash and cash equivalents. In the Continental Corporation, the aforementioned cash and cash equivalents are restricted with regard to pledged amounts and balances in countries with foreign-exchange restrictions or other barriers to accessing liquidity. Taxes to be paid on the transfer of cash assets from one country to another are not usually considered to represent a restriction on cash and cash equivalents. As at December 31, 2017, unrestricted cash and cash equivalents totaled €1,726.7 million (PY: €1,673.9 million).

Reconciliation of net indebtedness

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

Reconciliation of change in net indebtedness

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

Net Assets Position

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

Total assets

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

Non-current assets

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

Current assets

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

Equity

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

Non-current liabilities

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

Current liabilities

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

Operating assets

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

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

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

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

Consolidated statement of financial position

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

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

Net indebtedness	2,047.6	2,797.8
Gearing ratio in %	12.6	19.0

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

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

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

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

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

Reconciliation to operating assets in 2017

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

Reconciliation to operating assets in 2016

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

Automotive Group

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

¹ Excluding impairment on financial investments.

² Impairment also includes necessary reversal of impairment losses.

³ Capital expenditure on property, plant and equipment, and software.

⁴ Excluding trainees.

⁵ Before changes in the scope of consolidation.

⁶ Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

The Automotive Group comprises three divisions:

- › The **Chassis & Safety** division (22% of consolidated sales) develops, produces and markets intelligent systems to improve driving safety and vehicle dynamics.
- › The **Powertrain** division (17% of consolidated sales) combines innovative and efficient system solutions for the powertrains of today and tomorrow.
- › The **Interior** division (21% of consolidated sales) specializes in information management. It develops and produces information, communication and network solutions for cars and commercial vehicles.

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

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

Development of the Chassis & Safety Division

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

Sales volumes

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

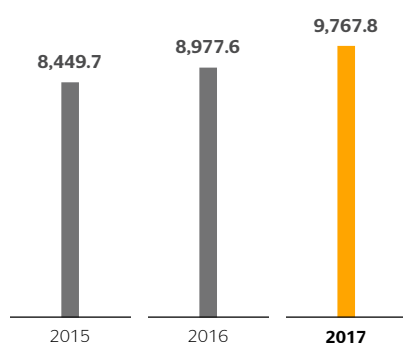
Sales up 8.8%

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

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

Sales

€ millions



Adjusted EBIT up 54.2%

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

EBIT up 54.6%

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

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

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

Special effects in 2017

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

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

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

Special effects in 2016

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

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

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

Procurement

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

Research and development

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

Depreciation and amortization

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

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

¹ Excluding impairment on financial investments.

² Impairment also includes necessary reversal of impairment losses.

³ Capital expenditure on property, plant and equipment, and software.

⁴ Excluding trainees.

⁵ Before changes in the scope of consolidation.

⁶ Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Operating assets

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

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

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

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

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

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

Capital expenditure (additions)

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

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

Employees

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

Development of the Powertrain Division

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

Sales volumes

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

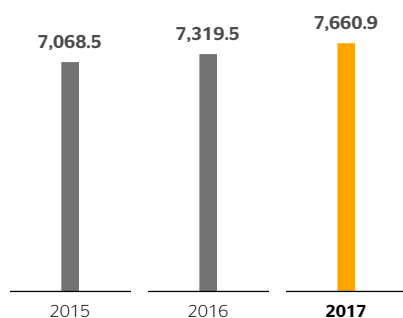
Sales up 4.7%

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

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

Sales

€ millions



Adjusted EBIT up 18.9%

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

EBIT up 16.4%

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

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

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

Special effects in 2017

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

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

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

Special effects in 2016

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

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

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

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

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

Procurement

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

Research and Development

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

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

¹ Excluding impairment on financial investments.

² Impairment also includes necessary reversal of impairment losses.

³ Capital expenditure on property, plant and equipment, and software.

⁴ Excluding trainees.

⁵ Before changes in the scope of consolidation.

⁶ Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Depreciation and amortization

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

Operating assets

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

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

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

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

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

Capital expenditure (additions)

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

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

Employees

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

Development of the Interior Division

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

Sales volumes

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

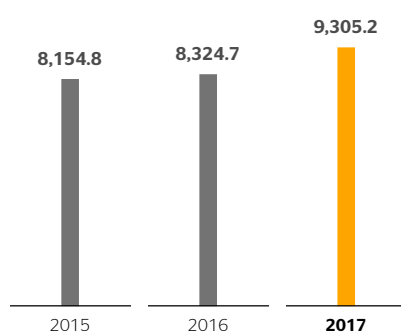
Sales up 11.8%

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

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

Sales

€ millions



Adjusted EBIT up 34.4%

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

EBIT up 31.9%

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

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

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

Special effects in 2017

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

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

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

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

Special effects in 2016

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

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

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

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

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

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

¹ Excluding impairment on financial investments.

² Impairment also includes necessary reversal of impairment losses.

³ Capital expenditure on property, plant and equipment, and software.

⁴ Excluding trainees.

⁵ Before changes in the scope of consolidation.

⁶ Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Procurement

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

Research and development

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

Depreciation and amortization

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

Operating assets

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

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

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

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

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

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

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

Capital expenditure (additions)

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

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

Employees

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

Rubber Group

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

¹ Excluding impairment on financial investments.

² Impairment also includes necessary reversal of impairment losses.

³ Capital expenditure on property, plant and equipment, and software.

⁴ Excluding trainees.

⁵ Before changes in the scope of consolidation.

⁶ Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

The Rubber Group comprises two divisions:

- › The **Tire** division (26% of consolidated sales) is known for maximizing safety through short braking distances and excellent grip as well as reducing fuel consumption by minimizing rolling resistance.
- › The **ContiTech** division (14% of consolidated sales) develops, manufactures and markets functional parts, intelligent components and systems made of rubber, plastic, metal and fabric for machine and plant engineering, mining, agriculture, the automotive industry, and for other important sectors.

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

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

Development of the Tire Division

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

Sales volumes

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

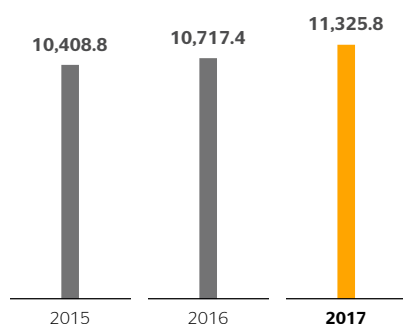
Sales up 5.7%

Sales up 5.3% before changes in the scope of consolidation and exchange-rate effects

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

Sales

€ millions



Adjusted EBIT down 7.3%

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

EBIT down 6.0%

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

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

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

Special effects in 2017

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

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

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

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

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

Special effects in 2016

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

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

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

Procurement

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

Research and development

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

Depreciation and amortization

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

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

¹ Excluding impairment on financial investments.

² Impairment also includes necessary reversal of impairment losses.

³ Capital expenditure on property, plant and equipment, and software.

⁴ Excluding trainees.

⁵ Before changes in the scope of consolidation.

⁶ Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Operating assets

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

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

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

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

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

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

Capital expenditure (additions)

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

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

Employees

The number of employees in the Tire division increased by 1,754 to 53,811 (PY: 52,057). At the production companies, the ongoing expansion of the plants in Lousado, Portugal; Otrokovice, Czechia; Púchov, Slovakia; Hefei, China; and Sumter, South Carolina and Mount Vernon, Illinois, U.S.A., led to an increase in staff numbers. In

addition, the increase in the number of employees was attributable to expansion projects with regard to distribution and retail companies, especially as a result of the acquisition of Vaysse S.A.S., France, and the expansion of research and development activities worldwide.

Development of the ContiTech Division

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

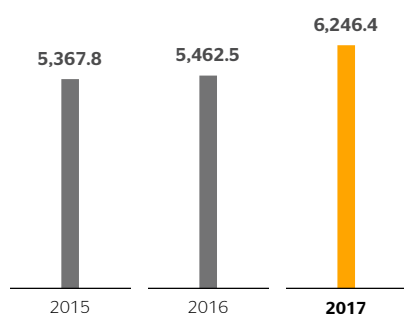
Sales up 14.4%

Sales up 8.1% before changes in the scope of consolidation and exchange-rate effects

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

Sales

€ millions



Adjusted EBIT down 0.7%

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

EBIT up 10.8%

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

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

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

Special effects in 2017

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

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

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

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

Special effects in 2016

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

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

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

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

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

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

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

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

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

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

¹ Excluding impairment on financial investments.

² Impairment also includes necessary reversal of impairment losses.

³ Capital expenditure on property, plant and equipment, and software.

⁴ Excluding trainees.

⁵ Before changes in the scope of consolidation.

⁶ Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Procurement

As a result of rising demand on the raw materials markets, the ContiTech division registered increasing prices for many raw materials in a very volatile environment. In particular, rubber and carbon black prices were up significantly year-on-year. In the first quarter of 2017, prices for rubber and the input material butadiene, driven by speculation, climbed to their highest level in years. The higher crude oil prices year-on-year resulted in increased carbon black prices. Prices for rubber sank appreciably in the second half of the year.

Research and development

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

Depreciation and amortization

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

Operating assets

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

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

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

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

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

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

Capital expenditure (additions)

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

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

Employees

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

Continental AG

Short Version in acc. with *HGB*

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

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

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

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

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

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

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

Net assets and financial position of Continental AG	Dec. 31, 2017	Dec. 31, 2016
Assets in € millions		
Intangible assets	26.4	40.2
Property, plant and equipment	6.8	3.2
Investments	10,995.4	10,990.7
Non-current assets	11,028.6	11,034.1
Inventories	0.0	0.0
Receivables and other assets	7,487.1	7,421.5
Cash and cash equivalents	257.2	579.2
Current assets	7,744.3	8,000.7
Prepaid expenses and deferred charges	28.6	31.2
Total assets	18,801.5	19,066.0
Shareholders' equity and liabilities in € millions		
Subscribed capital	512.0	512.0
Capital reserves	4,179.1	4,179.1
Revenue reserves	54.7	54.7
Accumulated profits brought forward from the previous year	253.1	264.1
Net income	1,217.3	839.0
Shareholders' equity	6,216.2	5,848.9
Provisions	963.1	755.6
Liabilities	11,622.2	12,461.5
Total equity and liabilities	18,801.5	19,066.0
Gearing ratio in %	65.1	78.4
Equity ratio in %	33.1	30.7

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

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

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

Net investment income increased by €607.6 million year-on-year to €1,737.1 million (PY: €1,129.5 million). As in the previous year, it mainly consisted of profit and loss transfers from the subsidiaries. The income from profit transfers resulted particularly from Continental Caoutchouc-Export-GmbH, Hanover, in the amount of €989.0 million; Continental Automotive GmbH, Hanover, in the amount of €560.9 million; and Formpolster GmbH, Hanover, in the amount of €196.5 million. This was countered by expenses of €36.0 million from absorbing the loss of UMG Beteiligungsgesellschaft mbH, Hanover.

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

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

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

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

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

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

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

Other Information

Dependent Company Report

Final declaration from the Executive Board's report on relations with affiliated companies pursuant to Section 312 of the German Stock Corporation Act (*Aktiengesetz – AktG*)

In fiscal 2017, Continental AG was a dependent company of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, as defined under Section 312 *AktG*. In line with Section 312 (1) *AktG*, the Executive Board of Continental AG has prepared a report on relations with affiliated companies, which contains the following final declaration:

"We declare that the company received an appropriate consideration for each transaction and measure listed in the report on relations with affiliated companies from January 1 to December 31, 2017, under the circumstances known to us at the time the transactions were made or the measures taken or not taken. To the extent the company suffered any detriment thereby, the company was granted the right to an appropriate compensation before the end of the 2017 fiscal year. The company did not suffer any detriment because of taking or refraining from measures."

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

1. Composition of subscribed capital

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

2. Shareholdings exceeding 10% of voting rights

For details of the equity interests exceeding 10% of the voting rights (reported level of equity interest), please refer to the notice in accordance with the German Securities Trading Act (*Wertpapierhandelsgesetz – WpHG*) under Note 37 to the consolidated financial statements.

3. Bearers of shares with privileges

There are no shares with privileges granting control.

4. Type of voting right control for employee shareholdings

The company is not aware of any employees with shareholdings not directly exercising control of their voting rights.

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

a) In accordance with the Articles of Incorporation, the Executive Board consists of at least two members; beyond this the number of members of the Executive Board is determined by the Supervisory Board. Members of the Executive Board are appointed and dismissed in accordance with Section 84 of the German Stock Corporation Act (*Aktiengesetz – AktG*) in conjunction with Section 31 of the German Co-determination Act (*Mitbestimmungsgesetz – MitbestG*). In line with this, the Supervisory Board is responsible for the appointment and dismissal of members of the Executive Board. It passes decisions with a majority of two-thirds of its members. If this majority is not reached in the event of an

appointment, the so-called Mediation Committee must submit a nomination to the Supervisory Board for the appointment within one month of voting. Other nominations can also be submitted to the Supervisory Board in addition to the Mediation Committee's nomination. A simple majority of the votes is sufficient when voting on these nominations submitted to the Supervisory Board. In the event that voting results in a tie, a new vote takes place in which the Chairman of the Supervisory Board has the casting vote in accordance with Section 31 (4) *MitbestG*.

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

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

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

- a) The Executive Board can issue new shares only on the basis of resolutions by the Shareholders' Meeting. As at the end of the reporting period, the Executive Board has not been authorized to issue new shares in connection with a capital increase (authorized capital) or to issue convertible bonds, warrant-linked bonds, or other financial instruments that could entitle the bearers to subscribe to new shares.
- b) The Executive Board may only buy back shares under the conditions codified in Section 71 *AktG*. The Shareholders' Meeting has not authorized the Executive Board to acquire treasury shares in line with Section 71 (1) Number 8 *AktG*.

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

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

- a) As at the reporting date, the agreement concluded on April 24, 2014, for a syndicated loan originally amounting to €4.5 billion consists only of a revolving tranche of €3.0 billion. This agreement grants each creditor the right to terminate the agreement prematurely and to demand repayment of the loans granted by it if one person or several persons acting in concert acquire control of Continental AG and subsequent negotiations concerning a continuation of the loan do not lead to an agreement. The term "control" is defined as the holding of more than 50% of the voting rights or if Continental AG concludes a domination agreement as defined under Section 291 *AktG* with Continental AG as the company dominated.
- b) The two bonds issued by Continental AG in 2013 at a nominal amount of €750 million each, the bond issued by another subsidiary of Continental AG, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in November 2015 at a nominal amount totaling €500 million, and the bond of €600 million issued by Continental AG in November 2016 entitle each bondholder to demand that the respective issuer redeem or acquire the bonds held by the bondholder at a price established in the bond conditions in the event of a change of control at Continental AG. The bond conditions define a change of control as the sale of all or substantially all of the company's assets to third parties that are not affiliated with the company, or as one person or several persons acting in concert, pursuant to Section 2 (5) of the German Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz - WpÜG*), holding more than 50% of the voting rights in Continental AG by means of acquisition or as a result of a merger or other form of combination with the participation of Continental AG. The holding of voting rights by Schaeffler GmbH (operating as IHO Verwaltungs GmbH following legal restructuring within the corporation in 2015), its legal successors, or its affiliated companies does not constitute a change of control within the meaning of the bond conditions.

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

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

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

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

Remuneration of the Executive Board

The total remuneration of the members of the Executive Board comprises a number of remuneration components. Specifically, these components comprise fixed remuneration, variable remuneration elements including components with a long-term incentive effect, additional benefits and retirement benefits. Further details including individual remuneration are specified in the Remuneration Report contained in the Corporate Governance Report starting on page 24. The Remuneration Report is a part of the Management Report.

Corporate Governance Declaration Pursuant to Section 289f *HGB*

The Corporate Governance Declaration pursuant to Section 289f of the German Commercial Code (*Handelsgesetzbuch* – *HGB*) is available to our shareholders at www.continental-corporation.com in the Company/Corporate Governance section.

Report on Risks and Opportunities

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

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

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

Risk and Opportunity Management and Internal Control System

In order to operate successfully as a company in a complex business sector and to ensure the effectiveness, efficiency and propriety of accounting and compliance with the relevant legal and sub-legislative regulations, Continental has created a governance system that encompasses all relevant business processes. The governance system comprises the internal control system, the risk management system and the compliance management system, which is described in detail in the Corporate Governance Declaration on page 23. The risk management system in turn also includes the early risk identification system in accordance with Section 91 (2) of the German Stock Corporation Act (*Aktengesetz - AktG*).

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

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

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

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

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

Governance, risk and compliance (GRC)

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

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

Risk reporting



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

Risk assessment and reporting

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

Significant individual risks for the corporation are identified from all the reported risks based on the probability of occurrence and the amount of damage that would be caused in the period under consideration. The individual risks that Continental has classified as material and the aggregated risks that have been assigned to risk

categories are all described in the Report on Risks and Opportunities, provided the potential negative EBIT effect of an individual risk or the sum of risks included in a category exceeds €100 million in the period under consideration or there is a significant negative impact on the strategic corporate goals.

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

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

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

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

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

Material Risks

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

Financial Risks

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

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

In order to finance its current business activities as well as its investments and payment obligations, Continental concluded a syndicated loan agreement in April 2014 from which risks may arise. This loan agreement was last renegotiated in April 2016. Under the terms of the syndicated loan agreement, the lenders have the right to demand repayment of the loan in the event of a change of control at Continental AG. The requirements for and consequences of a change in control in accordance with the terms of the bonds or the syndicated loan agreement are described in detail in the Further Disclosures and Notes section, pursuant to sections 289a and 315a HGB, on pages 96 and 97. The loans and bonds cited here could also immediately become due and payable if other financing agreements of more than €75.0 million are not repaid on time or are prematurely called for repayment.

Risk management

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

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

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

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

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

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

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

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

In order to quantify the possible effects of transaction-related exchange-rate risks from financial instruments on the earnings position of the Continental Corporation, transaction currencies with a significant exchange-rate risk within the next 12 months were identified using a mathematical model based on historical volatility. If the exchange rates of these currencies all develop disadvantageously for Continental at the same time, then the hypothetical negative effect on the corporation's earnings position, calculated based on a 10% change in the current closing rate, would amount to between €200 million and €300 million.

Risks Related to the Markets in which Continental Operates

Continental could be exposed to material risks in connection with a global financial and economic crisis.

Continental generates a large percentage (72%) of its sales from automobile manufacturers (original-equipment manufacturers, OEMs). The remainder of Continental's sales is generated from the replacement or industrial markets, mainly in the replacement markets for passenger-car and truck tires, and to a lesser extent in the non-automotive end markets of the other divisions.

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

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

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

Continental operates in a cyclical industry.

Global production of vehicles and, as a result, sales to OEM customers (from whom Continental currently generates 72% of its sales) experience major fluctuations in some cases. They depend, among other things, on general economic conditions, disposable income and household consumer spending and preferences, which can be affected by a number of factors, including fuel costs as well as the availability and cost of consumer financing. As the volume of automotive production fluctuates, the demand for Continental's products also fluctuates, as OEMs generally do not commit to purchasing minimum quantities from their suppliers or to fixed prices. It is difficult to predict future developments in the markets Continental serves, which also makes it harder to estimate the requirements for production capacity. As Continental's business is characterized by high fixed costs, it is thus exposed to the risk that fixed costs are not fully covered in the event of falling demand and the resulting underutilization of its facilities (particularly in the Automotive Group). Conversely, should the markets in which Continental operates grow faster than anticipated, there could be insufficient capacity to meet customer demand. To reduce the impact of the potential risk resulting from this dependence on the automotive industry, Continental is strengthening its replacement business and industrial business, including by means of acquisitions.

Continental is reliant on certain markets.

In 2017, Continental generated 49% of its total sales in Europe and 20% in Germany alone. By comparison, 25% of Continental's total sales in 2017 were generated in North America, 22% in Asia, and 4% in other countries. Therefore, in the event of an economic downturn in Europe, particularly in Germany, for example, Continental's business and earnings situation could be affected more extensively than that of its competitors'. Furthermore, the automotive and tire markets in Europe and North America are largely saturated. Continental is therefore seeking to generate more sales in emerging markets, particularly Asia, to mitigate the effects of its strong focus on Europe and Germany. In the current global economic situation, adverse changes in the geographical distribution of automotive demand could also cause Continental to suffer. The current level of automotive production is driven mainly by solid demand from the European and Asian markets, while demand in North America recently consolidated at a high level and even fell slightly. It is not known if the current development in Europe and Asia will prove sustainable. If demand falls further in North America and is not compensated for by an increase on another regional market, this could also adversely affect demand for Continental products. To minimize these risks, Continental is striving to improve the regional sales balance, as described in the corporate strategy.

Continental is exposed to risks associated with the market trends and developments that could affect the vehicle mix sold by OEMs.

Continental currently generates 72% of its sales from OEMs, mainly in its Automotive Group. Global production of vehicles and, as a result, business with OEM customers are currently subject to a number of market trends and technical developments that may affect the vehicle mix sold by OEMs.

- › Due to increasingly stringent consumption and emission standards throughout the industrial world, including the EU and Asia, car manufacturers are increasingly being forced to develop environmentally compatible technologies aimed at lowering fuel consumption as well as CO₂ and particulate emissions. These developments have caused a trend toward lower-consumption vehicles. The emerging markets are focusing strongly on the small-car segment as their introduction to mobility.
- › In recent years, the market segment of affordable cars has grown steadily, particularly in emerging markets such as China, India and Brazil, as well as in Eastern Europe.
- › Over the past decade, hybrid electric vehicles, which combine a conventional internal-combustion-engine drive system with an electric drive system, have become increasingly popular. Their market share will increase further in the coming years. Furthermore, the first purely electric vehicles that use one or more electric motors for propulsion have already been launched. If the industry is able to develop electric vehicles in line with consumers' expectations, these could gain a considerable market share in the medium to long term.

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

Continental is exposed to fluctuations in the prices of raw materials and electronic components.

For the divisions of the Automotive Group, higher prices for raw materials and electronic components in particular can result in cost increases. The divisions of the Rubber Group mainly depend on the development of oil, natural rubber and synthetic rubber prices. The prices for these raw materials and components are exposed to sometimes considerable fluctuations worldwide. In addition, the cost of certain types of synthetic rubber looks set to increase, as stricter environmental requirements will apply for the plants operated in China, one of the most important countries of origin, starting in 2018. This could result in the closure of plants, and thus loss of capacity, which could result in price increases. At present, Continental does not actively hedge against the risk of rising prices of electronic components or raw materials by using derivative instruments. If the company is not able to compensate for the increased costs or to pass them onto customers, the price increases could reduce Continental's income by €100 million to €200 million.

Risks Related to Continental's Business Operations

Continental is exposed to risks in connection with its pension commitments.

Continental provides defined benefit pension plans in Germany, the U.S.A., the U.K. and certain other countries. As of December 31, 2017, the pension obligations amounted to €6,379.7 million. These existing obligations are financed predominantly through externally invested pension plan assets. In 2006, Continental established legally independent trust funds under contractual trust arrangements (CTAs) for the funding of pension obligations of certain subsidiaries in Germany. In 2007, Continental assumed additional pension trust arrangements in connection with the acquisition of Siemens VDO. As of December 31, 2017, Continental's net pension obligations (defined benefit obligations less the fair value of plan assets) amounted to €3,830.6 million.

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

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

If the discount rates used to calculate net pension obligations were to decrease by 0.5 percentage points at the end of the year, ceteris paribus, this would lead to a rise in net pension obligations in a range from €500 million to €600 million, which would not be reduced by taking measures to minimize risk. However, this would not affect EBIT.

Continental is exposed to warranty and product liability claims.

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

The quantifiable risks from warranty and product liability claims as at December 31, 2017, taking into account provisions, amounted to between €100 million and €200 million.

Continental depends on a limited number of key suppliers for certain products.

Continental is subject to the potential risk of unavailability of certain raw materials and production materials. Although Continental's general policy is to source input products from a number of different suppliers, single sourcing cannot always be avoided and, consequently, Continental is dependent on certain suppliers in the Rubber Group as well as with respect to certain products manufactured in the Automotive Group. Since Continental's procurement logistics are mostly organized on a just-in-time or just-in-sequence basis, supply delays, cancellations, strikes, insufficient quantities or inadequate quality can lead to interruptions in production and, therefore, have a negative impact on Continental's business operations in these areas. Continental tries to limit these risks by endeavoring to select suppliers carefully and monitor them regularly. However, if one of Continental's suppliers is unable to meet its delivery obligations for any reason (e.g. insolvency, destruction of production plants or refusal to perform following a change in control), Continental may be unable to source input products from other suppliers on short notice at the required volume. The financial and economic crisis in 2008 and 2009, in addition to the natural disasters in Japan and Thailand, have shown how quickly the financing strength and ability of some automotive suppliers to deliver can be impaired and even result in insolvency. This mainly affected Tier 2 and Tier 3 suppliers (suppliers who sell their products to Tier 1 or Tier 2 suppliers respectively), while Tier 1 suppliers (suppliers who sell their products to OEMs directly) were not affected to the same degree. Such developments and events can cause delays in the delivery or completion of Continental products or projects and could result in Continental having to purchase products or services from third parties at higher costs or even to financially support its own suppliers. Furthermore, in many cases OEM customers have approval rights with respect to the suppliers used by Continental, which could make it impossible for Continental to source input products from other suppliers upon short notice if the relevant OEM customer has not already approved other suppliers at an earlier point in time. All of this could lead to order cancellations or even claims for damages. Furthermore, Continental's reputation amongst OEM customers could suffer, with the possible consequence that they select a different supplier.

Continental could be adversely affected by property loss and business interruption.

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

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

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

Legal and Environmental Risks

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

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

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

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

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

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

There is a risk that Continental could infringe on industrial property rights of third parties, since its competitors, suppliers and customers also submit a large number of inventions for industrial property protection. It is not always possible to determine with certainty whether there are effective and enforceable third-party industrial property rights to certain processes, methods or applications. Therefore, third parties could assert claims (including illegitimate ones) of alleged infringements of industrial property rights against Continental. As a result, Continental could be required to cease manufacturing, using or marketing the relevant technologies or products in certain countries or be forced to make changes to manufacturing processes and/or products. In addition, Continental could be liable to pay compensation for infringements or could be forced to purchase licenses to continue using technology from third parties. In addition, Continental is subject to efforts by its customers to change contract terms and conditions concerning the participation in disputes regarding alleged infringements of intellectual property rights.

Continental could be threatened with fines and claims for damages for alleged or actual antitrust behavior.

In May 2005, the Brazilian competition authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Indústria Automotiva Ltda., Guarulhos, Brazil (CBIA), following a complaint of anticompetitive behavior in the area of commercialization of tachographs. On August 18, 2010, the Brazilian antitrust authorities determined an "invitation to cartel" and imposed a fine of BRL 12 million (around €3.0 million) on CBIA, which was then reduced to BRL 10.8 million (around €2.7 million). CBIA denies the accusation that it has infringed Brazilian antitrust law. Although the court of first instance appealed to by CBIA upheld the decision, on CBIA's further appeal the next higher court annulled this decision and remanded the matter. In case an infringement of Brazilian antitrust law is found, third parties may, in addition, claim damages from CBIA.

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

In October 2012, Continental Automotive Systems US, Inc., Auburn Hills, Michigan, U.S.A., and two of Continental's South Korean subsidiaries became aware of investigations by the U.S. Department of Justice (DOJ) and the Korean Fair Trade Commission (KFTC) in connection with the suspected involvement in violations of U.S. and South Korean antitrust law in instrument cluster business. On December 23, 2013, the KFTC announced that it had imposed a fine

of KRW 45,992 million (around €36 million) on Continental Automotive Electronics LLC, Bugan-myeon, South Korea (CAE). On June 25, 2015, the Seoul High Court, Seoul, South Korea, vacated the administrative fine imposed by the KFTC on CAE's appeal against the amount of the fine. The Supreme Court of South Korea rejected KFTC's appeal against this decision on May 31, 2017. It is not yet known how high the new fine from the KFTC will be. On November 13, 2014, the competent South Korean criminal court also imposed a fine of KRW 200 million (around €157,000). Following CAE's appeal, this fine was reduced to KRW 100 million (around €78,000). The decision is final. On November 24, 2014, CAE and Continental Automotive Korea Ltd., Seongnam-si, South Korea, entered into an agreement in which the two companies admitted to charges of violating U.S. antitrust law and agreed to pay a fine of U.S. \$4.0 million (around €3.3 million). The competent U.S. court confirmed the agreement on April 1, 2015. The risk of investigations by other antitrust authorities into this matter and claims for damages by alleged victims remain unaffected by the fines imposed. Continental has conducted internal audits in certain business units to check compliance with antitrust law. These audits revealed anticompetitive behavior with respect to product groups. Continental took measures to end this behavior. There is a risk that antitrust authorities may conduct investigations due to this behavior and impose fines and that third parties, especially customers, may file claims for damages. The amount of such fines and any subsequent claims is unknown from the current perspective, but could be significant. It also cannot be ruled out that future internal audits may reveal further actual or potential violations of antitrust law that in turn could result in fines and claims for damages. In addition, alleged or actual antitrust behavior could seriously disrupt the relationships with business partners. In September 2014, the European Commission conducted a search at a subsidiary of Continental. The commission has since completed proceedings initiated in this regard and communicated that it is fining Continental AG; Continental Teves AG & Co. oHG, Frankfurt, Germany; and Continental Automotive GmbH, Hanover, Germany; €44.0 million for the unlawful exchange of information. This involved specific brake components. Continental has set aside provisions that cover this fine. Continental cannot rule out the possibility that customers will claim for damages with reference to the commission's decision. At this point in time, it is not possible to say whether such claims will be submitted and, if they are, how much the damages will be - irrespective of whether or not the claims are justified. As a result, it cannot be ruled out that the resulting expenses will exceed the provisions that have been set aside for this purpose. In accordance with IAS 37.92, no further disclosures will be made with regard to the proceedings and the related measures so as not to adversely affect the company's interests.

Continental is exposed to risks from legal disputes.

Companies from the Continental Corporation are involved in a number of legal and arbitration proceedings and could become involved in other such proceedings in the future. These proceedings could involve substantial claims for damages or payments, particularly in the U.S.A. For more information on legal disputes, see Note 32 of the Notes to the Consolidated Financial Statements.

Material Opportunities

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

There are opportunities for Continental if macroeconomic development is better than anticipated.

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

There are opportunities for Continental if the sales markets develop better than anticipated.

If demand for automobiles and replacement tires develops better than we have anticipated, particularly on the European market, this would have positive effects on Continental's sales and earnings due to the high share of sales generated in this region (49%).

There are opportunities for Continental if there is a stable price level on the raw materials markets relevant to us.

Continental's earnings situation is affected to a significant extent by the cost of raw materials, electronic components and energy. For the Automotive Group divisions, this particularly relates to the cost of steel and electronic components. If we succeed even better than before in offsetting possible cost increases or compensating for them through higher prices for our products, this would then have a positive effect on Continental's earnings. The earnings situation of the Rubber Group divisions is significantly impacted by the cost of oil and of natural and synthetic rubber. If prices for natural and synthetic rubber in particular settle down at the level of the second half of 2017, this could have a positive impact on Continental's earnings. We currently anticipate that prices, particularly of rubber, will rise again over the course of 2018 as a result of the assumed increase in demand on the global tire-replacement and industrial markets.

There are opportunities for Continental from changes in the legal framework.

The further tightening of the regulatory provisions on fuel consumption and emission standards for motor vehicles in developing markets, too, could trigger higher demand for Continental's products. With our comprehensive portfolio of gasoline and diesel systems including sensors, actuators, exhaust-gas aftertreatment and tailor-made electronics, through to fuel supply systems, engine management and transmission control units, down to systems and components for hybrid and electric drives, as well as with tires with optimized rolling resistance and tires for hybrid vehicles, we are already providing solutions that enable compliance with such changes in the legal framework and can therefore respond quickly to changes that arise in the regulatory provisions. An increase in the installation rates for these products due to increased regulatory provisions would have a positive influence on our sales and earnings.

Additional legal regulations with the aim of further improving traffic safety would also provide an opportunity for a rise in demand for Continental's products. We are already among the leading providers of electronic brake systems as well as control electronics for airbags and seat belts. Based on our broad product portfolio for active vehicle safety, we have developed more advanced safety systems over the past years, including emergency brake assist, lane departure warning and blind spot detection systems, as well as the head-up display. At present, these systems are mainly optionally installed in luxury vehicles.

There are opportunities for Continental from an intensified trend toward vehicle hybridization.

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

There are opportunities for Continental from the intelligent interconnection of vehicles with each other and with the internet.

By intelligently connecting advanced driver assistance systems and driver information systems with each other and with the internet, we are laying the foundations for gradually making automated driving possible in the coming years. We also plan to implement fully automated driving in the coming decade by means of collaborations with leading providers from the technology and internet sector. To this end, we are developing new cross-divisional system, service and software solutions that can offer substantial growth potential for Continental with positive effects on its future sales and attainable margins. External studies estimate the market potential of connecting vehicles with each other and with the internet at U.S. \$70 billion to U.S. \$110 billion in 2025. This also includes the intelligent use of automotive data. This digitalization is opening up a new market for mobility services that enables Continental to tap new business areas with its Continental.cloud and eHorizon, which are paving the way for such services. In addition, the increasing digitalization of our products gives us the opportunity to offer our customers software-based services as well as the product itself (servitization). Additional sales in these fields would bring Continental closer to achieving its strategic goal of greater independence from the automotive industry.

The trend toward automated driving presents Continental with opportunities.

In recent years, the trend from assisted driving to fully automated driving has intensified considerably. Some OEMs expect to be able to provide this function in just a few years. A key requirement for fully automated driving is the equipment of vehicle with sensors. Today, an average of one sensor for assisted driving is installed per vehicle. Merely for partly automated driving, an average of 16 sensors are required, including radars, lasers and camera sensors. OEMs estimate that up to 44 sensors are needed in order to realize fully automated driving. Continental is already one of the leading providers of advanced driver assistance systems. According to our own

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

Urbanization presents Continental with opportunities.

Forecasts predict that by 2050 more than two-thirds of the world's population will live in large cities. The vehicle fleet will then have grown to over two billion vehicles by that time, and the majority of these vehicles will be used in large cities. This will pose huge challenges in terms of infrastructure, safety and vehicle emissions. In view of our broad portfolio of safety technologies, products for zero-emission mobility, and solutions for intelligently connecting vehicles with one another and with the infrastructure, this trend will bring opportunities to generate sales in the future. At the same time, it will also enhance the opportunities arising from digitalization, electrification and automated driving.

Statement on Overall Risk and Opportunities Situation

In the opinion of the Executive Board, the risk situation of the Continental Corporation has not changed significantly in the past fiscal year.

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

However, despite the changes in individual risks, the analysis in the corporation-wide risk-management system for the year under review did not reveal any risks that, individually or collectively, pose a threat to the company or the corporation as a going concern. In the opinion of the Executive Board, there are also no discernible risks to the corporation as a going concern in the foreseeable future.

Considering the material opportunities, the overall risk assessment for the Continental Corporation presents a reasonable risk and opportunities situation to which our strategic goals have been aligned accordingly.

Report on Expected Developments

Future General Conditions

Forecast of Macroeconomic Development

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

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

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

According to the IMF, emerging and developing economies will record GDP growth of 4.9% in 2018. The increase in growth is mainly being driven by India, whose economy is likely to gain momentum

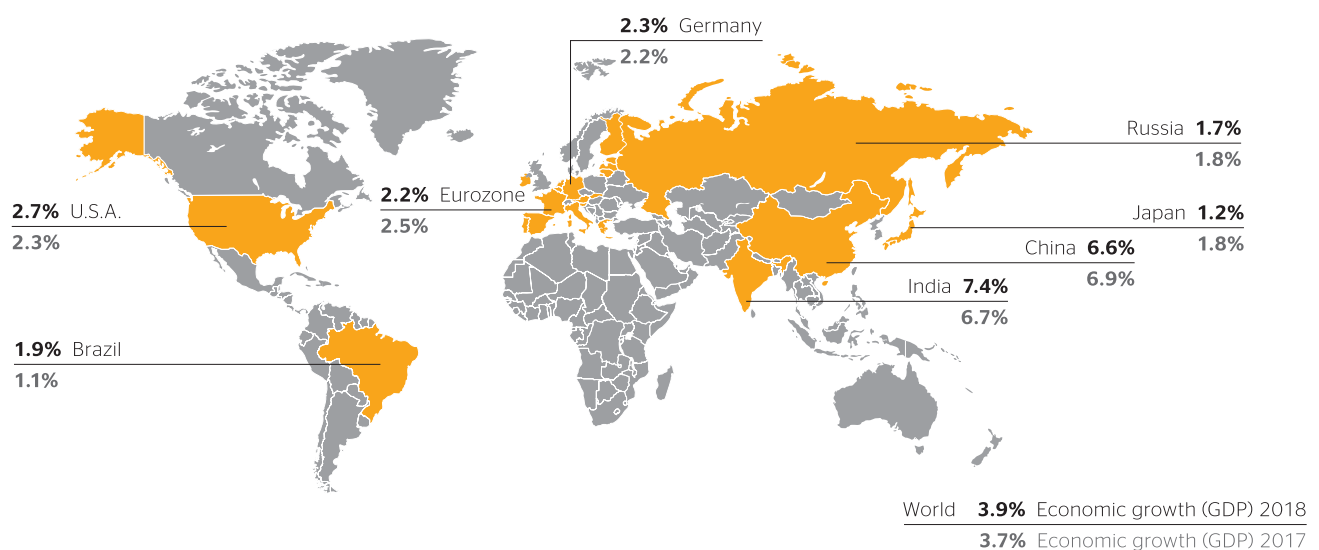
again after the extensive reforms of recent years. The IMF expects growth of 7.4% for India in 2018. The economic recovery in Brazil is also expected to continue this year, with the IMF expecting GDP to increase by 1.9% in 2018. In contrast, it expects growth to decline slightly in China and Russia. The IMF forecasts GDP growth of 6.6% for China and 1.7% for Russia in 2018.

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

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

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

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



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

Forecast for Key Customer Sectors

Forecast for production of passenger cars and light commercial vehicles

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

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

Forecast for production of medium and heavy commercial vehicles

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

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

Forecast for replacement-tire markets for passenger cars and light commercial vehicles

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

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

Forecast for replacement-tire markets for medium and heavy commercial vehicles

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

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

Forecast for vehicle production and sales volumes in the tire-replacement business

	Vehicle production				Replacement sales of tires			
	of passenger cars and light commercial vehicles in millions of units		of medium and heavy commercial vehicles in thousands of units		for passenger cars and light commercial vehicles in millions of units		for medium and heavy commercial vehicles in millions of units	
	2018	2017	2018	2017	2018	2017	2018	2017
Europe	22.5	22.1	673	660	358	351	25.8	25.3
North America	16.8	17.1	559	513	290	285	25.3	24.5
South America	3.6	3.3	112	102	76	73	16.4	15.7
Asia	52.5	51.5	2,033	2,140	475	453	91.0	89.2
Other markets	1.1	1.1	0	0	48	47	7.8	7.8
Worldwide	96.5	95.1	3,377	3,415	1,247	1,208	166.3	162.5

Sources:

Vehicle production: IHS Inc. (Europe with Western, Central, and Eastern Europe incl. Russia and Turkey; Asia incl. Kazakhstan, Uzbekistan, Middle East and Oceania with Australia).

Tire replacement business: LMC International Ltd.

Preliminary figures and own estimates.

Outlook for the Continental Corporation

Forecast process

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

In 2015, Continental compiled a medium-term forecast in addition to the targets for the current year. This comprises the corporate strategy, the incoming orders in the Automotive Group and the medium-

term targets of the Rubber Group. Accordingly, we want to generate sales of more than €50 billion and a return on capital employed (ROCE) of at least 20% in 2020. These medium-term targets were confirmed again after the review in 2017.

Comparison of the past fiscal year against forecast

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

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

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

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

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

Comparison of fiscal 2017 against forecast

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

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

² Before acquisitions.

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

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

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

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

Order situation

The Automotive Group continued to experience a positive trend in incoming orders in the past fiscal year. All three Automotive divisions considerably increased their goods on order compared to the previous year. Altogether, the Chassis & Safety, Powertrain and Interior divisions acquired orders for a total value of nearly €40 billion for the entire duration of the deliveries for the vehicles. These lifetime sales are based primarily on assumptions regarding production volumes of the respective vehicle or engine platforms, the agreed cost reductions, and the development of key raw materials prices. The volume of orders calculated in this way represents a reference point for the resultant sales achievable in the medium term that may, however, be subject to deviations if these factors change. Should the assumptions prove to be correct, the lifetime sales are a good indicator for the sales volumes that can be achieved in the Automotive Group in four to five years.

The replacement tire business accounts for a large portion of the Tire division's sales, which is why it is not possible to calculate a reliable figure for order volumes. The same applies to the ContiTech division, which since January 2018 has comprised seven business units operating in various markets and industrial sectors, each in turn with their own relevant factors. Consolidating the order figures from the various ContiTech business units would thus be meaningful only to a limited extent.

Outlook for the Continental Corporation

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

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

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

In 2018, we expect the negative financial result before effects from currency translation, effects from changes in the fair value of derivative instruments, and other valuation effects to be less than €180 million. The tax rate should again be less than 30% in 2018.

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

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

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

In the Tire division, investments in 2018 will focus on the expansion of passenger tire production in Southern and Eastern Europe, Asia, and North America. In the area of commercial-vehicle tires, the

emphasis will be on the expansion of production capacity in Eastern Europe and North America. In the ContiTech division, investments will continue to concentrate on the relocation of a plant in the Mobile Fluid Systems business unit and the expansion of production in the Benecke-Hornschuch Surface Group business unit in China.

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

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

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