Consolidated Financial Statements

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Statement of the Executive Board

The Executive Board of Continental AG is responsible for the preparation, completeness and integrity of the consolidated financial statements and the management report for the corporation and Continental AG, as well as for the other information provided in the annual report. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and include any necessary and appropriate estimates. The management report for the corporation and Continental AG contains an analysis of the earnings, financial and net assets position of the corporation, as well as further information provided in accordance with the provisions of the German Commercial Code *(Handelsgesetzbuch – HGB)*.

An effective internal management and control system is employed to ensure that the information used for the preparation of the consolidated financial statements, including the management report for the corporation and Continental AG, as well as for internal reporting, is reliable. This includes standardized guidelines at corporation level for accounting and risk management in accordance with Section 91 (2) of the German Stock Corporation Act *(Aktiengesetz – AktG)* and an integrated financial control system as part of the corporation's value-oriented management, plus audits by Corporate Audit. The Executive Board is thus in a position to identify significant risks at an early stage and to take countermeasures.

KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, Germany, was engaged as the auditor for fiscal 2018 by the Annual Shareholders' Meeting of Continental AG. The audit mandate was issued by the Audit Committee of the Supervisory Board. KPMG audited the consolidated financial statements prepared in accordance with IFRS and the management report for the corporation and Continental AG. The auditor will issue the independent auditor's report.

The consolidated financial statements, the management report for the corporation and Continental AG, the auditor's report and the risk management system in accordance with Section 91 (2) *AktG* are discussed in detail by the Audit Committee of the Supervisory Board together with the auditor. These documents relating to the annual financial statements and these reports will then be discussed with the entire Supervisory Board, also in the presence of the auditor, at the meeting of the Supervisory Board held to approve the financial statements.

Hanover, March 1, 2019

The Executive Board

Independent Auditor's Report

To Continental Aktiengesellschaft, Hanover

Report on the Audit of the Consolidated Financial Statements and the Corporate Management Report

Opinions

We have audited the consolidated financial statements of Continental Aktiengesellschaft and its subsidiaries (the corporation), which comprise the Consolidated Statement of Financial Position as at December 31, 2018, and the Consolidated Statement of Income, Consolidated Comprehensive Income, the Consolidated Statement of Changes in Equity, and the Consolidated Statement of Cash Flows for the financial year from January 1, 2018, to December 31, 2018, and Notes to the Consolidated Financial Statements, including a summary of significant accounting policies. In addition, we have audited the Corporate Management Report of Continental Aktiengesellschaft for the financial year from January 1, 2018, to December 31, 2018. In line with the German legal regulations, we have not audited the content of the combined corporate non-financial statement, which is included in the corresponding section of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

› the accompanying consolidated financial statements comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code *(Handelsgesetzbuch – HGB)* and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the corporation as at December 31, 2018, and of its financial performance for the financial year from January 1, 2018, to December 31, 2018, and

› the accompanying Corporate Management Report as a whole provides an appropriate view of the corporation's position. In all material respects, this Corporate Management Report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 *HGB*, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the Corporate Management Report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the Corporate Management Report in accordance with Section 317 *HGB* and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the *Institut der Wirtschaftsprüfer* (Institute of Public Auditors in Germany, IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the Corporate Management Report" section of our auditor's report. We are independent of the corporation's entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the Corporate Management Report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2018, to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters.

Recoverability of the carrying amount of goodwill

The accounting policies as well as the assumptions made are disclosed in Note 2 of the Notes to the Consolidated Financial Statements. Disclosure of the amount of goodwill is provided in the Notes to the Consolidated Financial Statements in Note 13.

THE FINANCIAL STATEMENT RISK

As at December 31, 2018, goodwill totaled €7,233 million, thus comprising a substantial portion of net assets at approximately 18%.

Goodwill is tested for impairment annually at the level of the cash-generating units. The carrying amount is thereby compared with the recoverable amount of the respective cash-generating unit. If the carrying amount exceeds the recoverable amount, an impairment is recorded. The recoverable amount is the higher of the fair value less costs to sell and value in use of the cash-generating unit. The impairment test was carried out as at November 30, 2018.

The goodwill impairment test is complex and is based on a number of judgmental assumptions. These include, among others, the expected business and earnings development of the cash-generating units for the upcoming five years, the assumed long-term growth rates and the discount rate used.

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

There is a risk for the financial statements that existing impairment as at the reporting date may not have been identified. In addition, there is a risk that the disclosures in the notes associated herewith may not be appropriate.

OUR AUDIT APPROACH

With the support of our valuation specialists, we assessed, among other things, the appropriateness of the significant assumptions as

well as the company's valuation model. This included a discussion of the expected development of the business and results as well as of the assumed underlying long-term growth rates with those responsible for the planning process. Furthermore, reconciliations were made with the annual planning prepared by the Executive Board which was approved by the Supervisory Board and the long-term planning of which the Supervisory Board took note. We also assessed the consistency of the assumptions with external market expectations.

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

To ensure the calculative correctness of the valuation model utilized, we verified the company's calculations on the basis of elements selected in a risk-oriented manner.

To reflect the existing uncertainty with respect to forecasts as well as the earlier valuation date for the impairment test, we assessed reasonably possible changes of the sales, the discount rate respectively EBIT margin on the recoverable amount (sensitivity analysis) by calculating alternative scenarios and comparing these with the company's valuation results. The risk-oriented focal point of our analysis was on four cash-generating units, for which we performed detailed analyses.

Finally, we assessed whether the disclosures in the notes with respect to the recoverability of the carrying amount of the goodwill are appropriate.

OUR OBSERVATIONS
The underlying valuation model used in the impairment test of goodwill is appropriate and consistent with the applicable accounting principles.

The company's assumptions and parameters underlying the valuation are within an acceptable bandwidth and are, on the whole, balanced.

The disclosures in the notes associated herewith are appropriate.

Accrual of sales by period in accordance with IFRS 15
The accounting policies as well as the assumptions made are disclosed in the Notes to the Consolidated Financial Statements in Notes 2 and 6.

THE FINANCIAL STATEMENT RISK
Corporate sales amounted to €44,404 million in the 2018 fiscal year.

Sales revenue is recognized when the entity satisfies a performance obligation by transferring a promised good or service to a customer. An asset is transferred when (or as) the customer obtains control of that asset. Based on the transfer of control, sales revenue shall be recognized either at a point in time or over time at the amount at which there is expected to be a claim.

Based on the identification of the following criteria, it was determined that the performance obligation will now be satisfied over time – rather than at a point in time according to IAS 18 – for portions of the sales revenue and that recognition of sales revenue will therefore be related to a time period:

- The customer simultaneously receives and consumes the benefits provided by the corporation's performance as the corporation performs.

- The corporation's performance does not create an asset with alternative use to the corporation and the corporation has an enforceable right to payment for performance completed to date, including an appropriate margin.

The transition effect resulting from the change to sales revenue recognition of €22 million as at January 1, 2018, including deferred taxes, was recognized in revenue reserves.

Due to the variety of different complex contractual agreements for the global corporation companies and the existing discretion when it comes to judging the criteria for assessing the timing of the transfer of control within the scope of the introduction of IFRS 15, there is a financial statement risk that sales revenue may be incorrectly accrued as at the reporting date.

OUR AUDIT APPROACH
Given the introduction of IFRS 15, we made the assessment of the legal representatives' interpretation of criteria for sales revenue recognition based on IFRS 15 a priority of our audit. We acknowledged the corresponding structure of the corporate-wide accounting policies based on our knowledge of the transactions.

We assessed the appropriateness of significant judgments, such as the identification of distinct performance obligations, the existence of alternative use of the asset to the corporation, the existence of a legally enforceable right to payment including an appropriate margin for services completed to date, the determination of the degree of progress and the assessment of the degree of performance progress achieved, based on agreements selected in a risk-oriented manner.

OUR OBSERVATIONS
The approach to accruing sales revenue based on IFRS 15 is appropriate. The assumptions underlying the accounting are appropriate.

Measurement of the investment in OSRAM CONTINENTAL GmbH
The accounting policies as well as the assumptions made are disclosed in Note 2 of the Notes to the Consolidated Financial Statements.

THE FINANCIAL STATEMENT RISK
As part of the set-up of a new business partnership with OSRAM, parts of a business unit were transferred in capital reserves to the associate OSRAM CONTINENTAL GmbH on July 2, 2018, and a cash payment made. In addition, further parts of the same business

unit were sold to the company and subsidiaries of OSRAM CONTINENTAL GmbH. A total carrying amount of €189 million and a positive earnings effect of €184 million was reported on the acquisition date after intercompany profits were eliminated on a pro rata basis.

The cost of acquisition of the investment in the associate is based on the cash payment and the fair value of the parts of the business unit that were transferred. The sales price for the other parts of the business unit is also measured based on the fair value of these sold parts of the business unit. Continental enlisted an external assessor to assess the transferred and sold parts of the business unit and to determine and measure the identifiable assets acquired on a pro rata basis to continue the investment based on the equity method and the measurement of OSRAM CONTINENTAL GmbH.

The measurement of the investment in the associate is complex and based on discretionary assumptions by the Executive Board. The significant assumptions relate to sales planning and margin development for the business and costs of capital.

There is a risk for the consolidated financial statements that the measurement of the associate may be incorrect. In addition, there is a risk that the disclosures in the Notes to the Consolidated Financial Statements may not be appropriate.

OUR AUDIT APPROACH
With the support of our own measurement specialists, we assessed, among other things, the appropriateness of the significant assumptions as well as the assessment and measurement methods. To do this, we initially obtained an understanding of the transaction on the basis of employee inquiries and an appraisal of the relevant agreements.

We assessed the expertise, capabilities and objectivity of the independent assessors engaged by Continental AG. We also acknowledged the process used to determine the assets acquired on a pro rata basis based on our knowledge of the OSRAM CONTINENTAL GmbH business model. We evaluated the measurement methods used to check that they were consistent with the accounting policies.

We discussed the expected sales and margin development with those responsible for the planning process. We also assessed the consistency of the assumptions with external market expectations. We compared the assumptions and parameters underlying the cost of capital – in particular the risk-free interest rate, the market risk premium and the beta factor – with own assumptions and data that is publicly available.

To assess calculative correctness, we verified selected calculations in a risk-oriented manner. We also assessed whether the disclosures in the notes are appropriate.

OUR OBSERVATIONS
The underlying method used to measure the associate is appropriate and consistent with the applicable accounting policies. The presentation in the notes to the consolidated financial statements is appropriate.

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

- the combined corporate non-financial statement and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and Corporate Management Report and our auditor's report.

Our opinions on the consolidated financial statements and on the Corporate Management Report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, the Corporate Management Report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

In accordance with our engagement, we performed a separate operational audit of the combined corporate non-financial statement. The type, scope and results of this operational audit are disclosed in our unqualified audit opinion dated February 20, 2019.

Responsibilities of the Executive Board and the Supervisory Board for the consolidated financial statements and the Corporate Management Report
The Executive Board is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) *HGB* and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the corporation. In addition, the Executive Board is responsible for internal controls that it deems necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Executive Board is responsible for assessing the corporation's ability to continue as a going concern. It also is responsible for disclosing, as applicable, matters related to the going concern. In addition, the Executive Board is responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the corporation or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Executive Board is responsible for the preparation of the Corporate Management Report that, as a whole, provides an appropriate view of the corporation's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the

Executive Board is responsible for arrangements and measures (systems) that it considers necessary to enable the preparation of the Corporate Management Report that is in accordance with the applicable German legal requirements and to be able to provide sufficient appropriate evidence for the assertions in the Corporate Management Report.

The Supervisory Board is responsible for overseeing the corporation's financial reporting process for the preparation of the consolidated financial statements and of the Corporate Management Report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the Corporate Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Corporate Management Report as a whole provides an appropriate view of the corporation's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements, and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the Corporate Management Report.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with Section 317 *HGB* and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the *Institut der Wirtschaftsprüfer* (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this Corporate Management Report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the Corporate Management Report, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the Corporate Management Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the Executive Board and the reasonableness of estimates made by the Executive Board and related disclosures.

- Conclude on the appropriateness of the Executive Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the Corporate Management Report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the corporation to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in such a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the corporation in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) *HGB*.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the corporation to express opinions on the consolidated financial statements and on the Corporate Management Report. We are responsible for the direction, supervision and performance of the corporate audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the Corporate Management Report with the consolidated financial statements, its conformity with German law and the view of the corporation's position it provides.

- Perform audit procedures on the prospective information presented by the Executive Board in the Corporate Management Report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Executive Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further information pursuant to Art. 10 of the EU Audit Regulation
We were elected as corporate auditor by the Annual Shareholders' Meeting on April 27, 2018. We were engaged by the Supervisory Board on December 27, 2018. We have been the corporate auditor of Continental Aktiengesellschaft without interruption for more than 30 years.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

We have provided to the corporation's entities the following services that are not disclosed in the consolidated financial statements or the Corporate Management Report:

In addition to the audit of the consolidated and annual financial statements as well as the review of the half-year financial statements of Continental Aktiengesellschaft, we conducted various audits of financial statements as well as reviews of half-year financial statements of subsidiaries. Audit-related IT services, audits of various IT systems and IT processes as well as migration tests were carried out. We have also provided other attestation services, such as the granting of a comfort letter, and legal or contractual attestation services, such as audits according to the *EEG*, EMIR audits in accordance with Section 20 *WpHG*, the audit of the combined corporate non-financial statement and performance indicators regarding sustainability, the audit of transfer prices, the audit of the treasury management process, and audits of the use of funds. We have issued confirmations of compliance with contractual arrangements. Related to the first-time adoption of new accounting standards, such as IFRS 9, IFRS 15 and IFRS 16, we supported the implementation of regulatory requirements in a quality-assured manner. Furthermore, workshops on accounting-related issues and tax issues were conducted. Tax advisory services provided by us also include support services in the preparation of tax returns and in tax audits, as well as income tax and sales tax advice on individual matters.

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

Hanover, March 5, 2019

KPMG AG Wirtschaftsprüfungsgesellschaft

Ufer	Papenberg
Wirtschaftsprüfer	*Wirtschaftsprüfer*

Consolidated Statement of Income

Due to the application of the modified retrospective approach during the first-time adoption of IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, as at January 1, 2018, all the following figures from comparative periods are shown unadjusted.

€ millions	See Note	**2018**	2017
Sales		**44,404.4**	**44,009.5**
Cost of sales		-33,299.5	-32,635.0
Gross margin on sales		**11,104.9**	**11,374.5**
Research and development expenses[1]	7	-4,280.2	-3,103.7
Selling and logistics expenses		-2,494.3	-2,430.2
Administrative expenses		-1,149.0	-1,144.3
Other income[1]	8	1,803.4	584.5
Other expenses	8	-1,027.5	-796.6
Income from equity-accounted investees	10	69.6	76.8
Other income from investments	10	0.8	0.5
EBIT		**4,027.7**	**4,561.5**
Interest income	11	122.9	94.4
Interest expense	11	-276.2	-281.5
Effects from currency translation	11	-30.4	-138.8
Effects from changes in the fair value of derivative instruments, and other valuation effects	11	5.9	40.2
Financial result	11	**-177.8**	**-285.7**
Earnings before tax		**3,849.9**	**4,275.8**
Income tax expense	12	-891.6	-1,227.5
Net income		**2,958.3**	**3,048.3**
Non-controlling interests		-61.0	-63.7
Net income attributable to the shareholders of the parent		2,897.3	2,984.6
Basic earnings per share in €	36	**14.49**	**14.92**
Diluted earnings per share in €	36	**14.49**	**14.92**

1 Please see the "Revenue from contracts with customers" section in Note 6 regarding the changes in these items resulting from the first-time adoption of new IFRS standards.

Consolidated Statement of Comprehensive Income

€ millions	2018	2017
Net income	**2,958.3**	**3,048.3**
Reclassification within equity not affecting net income	**-0.3**	**—**
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit plans[1]	-105.7	64.1
Fair value adjustments[1]	-93.8	117.4
Reclassification from disposals of pension obligations	0.3	–
Investment in equity-accounted investees[2]	0.0	0.0
Currency translation[1]	-12.2	39.6
Tax on other comprehensive income	n. a.	-92.9
Other investments	-3.9	–
Fair value adjustments[1]	-3.9	–
Tax on other comprehensive income	30.7	n. a.
Items that may be reclassified subsequently to profit or loss		
Currency translation[1]	107.7	-641.6
Difference from currency translation[1]	103.0	-639.0
Reclassification adjustments to profit and loss	14.5	1.1
Investment in equity-accounted investees[2]	-9.8	-3.7
Available-for-sale financial assets	n. a.	2.1
Fair value adjustments	n. a.	3.9
Reclassification adjustments to profit and loss	n. a.	-1.8
Cash flow hedges	-2.3	0.2
Fair value adjustments	-24.9	63.3
Reclassification adjustments to profit and loss	22.6	-63.1
Investment in equity-accounted investees[2]	–	0.0
Tax on other comprehensive income	2.7	-21.2
Other comprehensive income	**29.2**	**-596.4**
Comprehensive income	**2,987.2**	**2,451.9**
Attributable to non-controlling interests	-70.3	-42.1
Attributable to the shareholders of the parent	2,916.9	2,409.8

1 Including non-controlling interests.
2 Including taxes.

Consolidated Statement of Financial Position

Assets

€ millions	See Note	Dec. 31, 2018	Dec. 31, 2017
Goodwill	13	7,233.4	7,010.1
Other intangible assets	13	1,566.3	1,607.3
Property, plant and equipment	14	12,375.5	11,202.1
Investment property	15	12.0	10.5
Investments in equity-accounted investees	16	644.9	414.8
Other investments	17	192.9	51.0
Deferred tax assets	18	1,464.4	1,517.2
Defined benefit assets	26	27.8	16.0
Long-term contract assets	6	0.1	n. a.
Long-term derivative instruments and interest-bearing investments	30	32.4	113.3
Long-term other financial assets	19	81.4	68.8
Long-term other assets	20	27.6	27.3
Non-current assets		**23,658.7**	**22,038.4**
Inventories	21	4,521.1	4,128.2
Trade accounts receivable	22	7,631.9	7,669.3
Short-term contract assets	6	67.4	n. a.
Short-term other financial assets[1]	19	320.7	297.0
Short-term other assets[1]	20	1,124.2	1,186.8
Income tax receivables		208.2	178.2
Short-term derivative instruments and interest-bearing investments	30	151.8	47.6
Cash and cash equivalents	23	2,761.4	1,881.5
Assets held for sale	24	–	13.5
Current assets		**16,786.7**	**15,402.1**
Total assets		**40,445.4**	**37,440.5**

1 From the 2018 reporting year, the presentation of financial assets is made more transparent by reclassifying deferred costs from the sale of customer tooling from short-term other financial assets to short-term other assets among these items of the statement of financial position. The figures from the comparative periods have been adjusted accordingly.

Equity and liabilities

€ millions	See Note	Dec. 31, 2018	Dec. 31, 2017
Subscribed capital		512.0	512.0
Capital reserves		4,155.6	4,155.6
Retained earnings		15,697.2	13,669.3
Other comprehensive income		–2,514.4	–2,508.5
Equity attributable to the shareholders of the parent		**17,850.4**	**15,828.4**
Non-controlling interests		482.9	461.9
Total equity	25	**18,333.3**	**16,290.3**
Long-term employee benefits	26	4,407.0	4,394.1
Deferred tax liabilities	18	315.7	348.5
Long-term provisions for other risks and obligations	27	163.7	139.6
Long-term indebtedness	29	1,449.0	2,017.8
Long-term other financial liabilities	31	38.4	36.1
Long-term contract liabilities	6	11.0	n. a.
Long-term other liabilities	33	13.4	25.4
Non-current liabilities		**6,398.2**	**6,961.5**
Short-term employee benefits	26	1,454.2	1,490.6
Trade accounts payable	32	7,293.0	6,798.5
Short-term contract liabilities	6	150.2	n. a.
Income tax payables	28	750.7	889.7
Short-term provisions for other risks and obligations	27	1,066.1	943.0
Short-term indebtedness	29	3,157.9	2,072.2
Short-term other financial liabilities	31	1,275.2	1,276.8
Short-term other liabilities	33	566.6	717.9
Current liabilities		**15,713.9**	**14,188.7**
Total equity and liabilities		**40,445.4**	**37,440.5**

Consolidated Statement of Cash Flows

€ millions	See Note	2018	2017
Net income		**2,958.3**	**3,048.3**
Income tax expense	12	891.6	1,227.5
Financial result	11	177.8	285.7
EBIT		**4,027.7**	**4,561.5**
Interest paid		-115.5	-131.5
Interest received		36.7	26.1
Income tax paid	12, 28	-860.8	-1,122.1
Dividends received		45.0	40.7
Depreciation, amortization, impairment and reversal of impairment losses	8, 13, 14, 15	2,208.0	2,117.4
Income from equity-accounted investees and other investments, incl. impairment and reversal of impairment losses	10, 16	-70.4	-77.3
Gains/losses from the disposal of assets, companies and business operations		-176.0	-34.6
Changes in			
inventories	21	-358.4	-484.3
trade accounts receivable	22	38.3	-737.1
trade accounts payable	32	456.7	737.6
employee benefits and other provisions	26	-232.1	94.4
other assets and liabilities		-22.0	229.7
Cash flow arising from operating activities		**4,977.2**	**5,220.5**
Cash flow from the disposal of property, plant and equipment, and intangible assets	13, 14	64.0	59.3
Capital expenditure on property, plant and equipment, and software	13, 14	-3,124.4	-2,849.7
Capital expenditure on intangible assets from development projects and miscellaneous	13	-161.0	-101.4
Cash flow from the disposal of companies and business operations	5	13.1	20.4
Acquisition of companies and business operations	5	-417.9	-596.3
Cash flow arising from investing activities		**-3,626.2**	**-3,467.7**
Cash flow before financing activities (free cash flow)		**1,351.0**	**1,752.8**
Net cash change in short-term indebtedness	29	453.7	-879.0
Cash change in long-term indebtedness	29	13.9	-117.8
Other cash changes		23.7	14.1
Successive purchases		-19.2	-0.7
Dividends paid		-900.0	-850.0
Dividends paid to and cash changes from equity transactions with non-controlling interests		-45.4	-46.5
Cash and cash equivalents arising from the first-time consolidation of subsidiaries		2.0	0.7
Cash flow arising from financing activities		**-471.3**	**-1,879.2**
Change in cash and cash equivalents		**879.7**	**-126.4**
Cash and cash equivalents as at January 1		1,881.5	2,107.0
Effect of exchange-rate changes on cash and cash equivalents		0.2	-99.1
Cash and cash equivalents as at December 31	23	**2,761.4**	**1,881.5**

Consolidated Statement of Changes in Equity

					Difference from					
€ millions	Subscribed capital[1]	Capital reserves	Retained earnings	Successive purchases[2]	remeasurement of defined benefit plans[3]	currency translation[4]	financial instru-ments[5]	Subtotal	Non-controlling interests	**Total**
As at January 1, 2017	**512.0**	**4,155.6**	**11,534.7**	**-181.9**	**-1,783.8**	**30.0**	**3.4**	**14,270.0**	**464.8**	**14,734.8**
Net income	–	–	2,984.6	–	–	–	–	2,984.6	63.7	**3,048.3**
Comprehensive income	–	–	–	–	63.1	-640.2	2.3	-574.8	-21.6	**-596.4**
Net profit for the period	**–**	**–**	**2,984.6**	**–**	**63.1**	**-640.2**	**2.3**	**2,409.8**	**42.1**	**2,451.9**
Dividends paid	–	–	-850.0	–	–	–	–	-850.0	-48.6	**-898.6**
Successive purchases	–	–	–	-1.4	–	–	–	-1.4	0.3	**-1.1**
Other changes[6]	–	–	–	0.0	–	–	–	0.0	3.3	**3.3**
As at December 31, 2017	**512.0**	**4,155.6**	**13,669.3**	**-183.3**	**-1,720.7**	**-610.2**	**5.7**	**15,828.4**	**461.9**	**16,290.3**
Effects from the first-time adoption of new standards (IFRS 9/15)[7]	–	–	30.8	–	–	–	-3.4	27.4	-0.1	**27.3**
Adjusted as at January 1, 2018	**512.0**	**4,155.6**	**13,700.1**	**-183.3**	**-1,720.7**	**-610.2**	**2.3**	**15,855.8**	**461.8**	**16,317.6**
Net income	–	–	2,897.3	–	–	–	–	2,897.3	61.0	**2,958.3**
Comprehensive income	–	–	-0.2	–	-74.8	100.2	-5.6	19.6	9.3	**28.9**
Net profit for the period	**–**	**–**	**2,897.1**	**–**	**-74.8**	**100.2**	**-5.6**	**2,916.9**	**70.3**	**2,987.2**
Dividends paid/resolved	–	–	-900.0	–	–	–	–	-900.0	-45.6	**-945.6**
Successive purchases	–	–	–	-21.0	–	–	–	-21.0	-0.8	**-21.8**
Other changes[6]	–	–	–	-1.3	–	–	–	-1.3	-2.8	**-4.1**
As at December 31, 2018	**512.0**	**4,155.6**	**15,697.2**	**-205.6**	**-1,795.5**	**-510.0**	**-3.3**	**17,850.4**	**482.9**	**18,333.3**

See Notes 2, 5 and 25 to the consolidated financial statements.
1 Divided into 200,005,983 shares outstanding.
2 Includes an amount of -€20.7 million (PY: -€0.3 million) from successive purchases of shares in fully consolidated companies, an amount of €0.1 million in the previous year from a subsequent purchase price adjustment, and an amount of -€1.3 million (PY: €0.0 million) relating to effects from the first-time consolidation of previously non-consolidated subsidiaries. The reporting period also includes the change in value of a put option of -€0.3 million (PY: -€1.2 million) for the acquisition of remaining shares in a fully consolidated company.
3 Includes shareholder's portion of €0.0 million (PY: €0.0 million) in non-realized gains and losses from pension obligations of equity-accounted investees.
4 Includes shareholder's portion of -€9.8 million (PY: -€3.7 million) in the currency translation of equity-accounted investees.
5 The change in the difference arising from financial instruments, including deferred taxes, was due mainly to changes in the fair values of the cash flow hedges of -€1.7 million (PY: €0.3 million) for interest and currency hedging, other investments of -€3.9 million (PY: –) and in the previous year to available-for-sale financial assets of €2.0 million.
6 Other changes in non-controlling interests due to changes in the scope of consolidation and capital increases.
7 Please see our comments in the "Revenue from contracts with customers" and "Financial instruments" sections.

Notes to the Consolidated Financial Statements

1. Segment Reporting

Notes to segment reporting
In accordance with the provisions of IFRS 8, *Operating Segments*, Continental AG's segment reporting is based on the management approach with regard to segment identification, under which information regularly provided to the chief operating decision maker for decision-making purposes is considered decisive.

Given the affinity of certain products, these have been combined as segments. This can mainly be seen in product requirements, market trends, customer groups and distribution channels.

The activities of the Continental Corporation are divided into the following segments:

Chassis & Safety develops, produces and markets intelligent systems to improve driving safety and vehicle dynamics.

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

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

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

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

Other/consolidation
This comprises centrally managed subsidiaries and affiliates, such as holding, financing and insurance companies, as well as the holding function of Continental AG and certain effects of consolidation. It also contains the effects on earnings of uncertain risks, particularly those in connection with contractual and similar claims or obligations representing, among other things, risks from investments that cannot currently be assigned to the individual operating units.

Internal control and reporting within the Continental Corporation are based on International Financial Reporting Standards (IFRS) as described in Note 2. The corporation measures the performance of its segments on the basis of their adjusted operating result (adjusted EBIT). Their performance is expressed as the return on sales (adjusted EBIT divided by adjusted sales) and as the return on capital employed (ROCE), which represents EBIT as a percentage of average operating assets. Intersegment sales and other proceeds are determined at arm's length prices. For administrative services performed by centrally operated companies or by the corporation's management, costs are calculated on an arm's length basis in line with utilization. Where direct allocation is not possible, costs are assigned according to the services performed.

The segment assets comprise the operating assets of the assets side of the statement of financial position as at the end of the reporting period. The segment liabilities show the operating asset parts on the liabilities side of the statement of financial position.

Capital expenditure relates to additions to property, plant and equipment, and software, as well as additions to capitalized finance leases and capitalized borrowing costs in line with IAS 23, *Borrowing Costs*. Depreciation and amortization include the scheduled diminution of and the impairment on intangible assets, property, plant and equipment, and investment properties as well as the impairment on goodwill. This figure does not include impairment on financial investments.

Non-cash expenses/income mainly include the changes in provisions for pension liabilities – except for contributions to or withdrawals from the associated funds – and the profit or loss from impairment and reversal of impairment losses on the value of equity-accounted investees.

In the segment information broken down by country and region, sales are allocated on the basis of the domicile of the respective customers; in contrast, capital expenditure and segment assets are allocated on the basis of the domicile of the respective companies.

Viewed across all segments, Continental recorded sales totaling €6,295.8 million (PY: €6,179.9 million) with a group of companies under common control in the year under review.

In 2018, 20% (PY: 20%) of sales were generated in Germany. Other than this, there were no countries except the U.S.A. and China in which more than 10% of sales were achieved in the period under review, as was also the case in the previous year.

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

Segment report for 2018

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
External sales	9,559.3	7,612.0	9,668.9	11,315.9	6,248.3	—	44,404.4
Intercompany sales	28.7	129.0	38.3	36.3	96.4	-328.7	—
Sales (total)	**9,588.0**	**7,741.0**	**9,707.2**	**11,352.2**	**6,344.7**	**-328.7**	**44,404.4**
EBIT (segment result)	782.5	119.8	988.1	1,882.1	396.2	-141.0	4,027.7
in % of sales	8.2	1.5	10.2	16.6	6.2	—	9.1
thereof income from equity-accounted investees	18.8	0.2	34.1	15.7	0.2	0.6	69.6
Capital expenditure[1]	749.7	691.0	578.4	837.1	250.2	18.0	3,124.4
in % of sales	7.8	8.9	6.0	7.4	3.9	—	7.0
Depreciation and amortization[2]	430.8	454.8	401.1	613.1	305.2	3.0	2,208.0
thereof impairment[3]	1.5	19.3	-1.6	1.2	0.3	0.0	20.7
Internally generated intangible assets	0.0	55.5	102.4	0.0	0.0	0.1	158.0
Significant non-cash expenses/income	4.5	-37.0	14.0	-2.2	-21.2	10.0	-31.9
Segment assets	7,700.1	5,830.5	8,389.4	9,089.6	4,391.8	76.4	35,477.8
thereof investments in equity-accounted investees	124.5	61.0	336.6	112.1	2.0	8.7	644.9
Segment liabilities	2,709.6	2,272.8	2,601.3	2,654.3	1,270.9	215.2	11,724.1
Operating assets as at December 31	4,990.5	3,557.7	5,788.1	6,435.3	3,120.9	-138.8	23,753.7
Operating assets (average)	4,887.1	3,582.2	5,626.3	6,471.2	3,146.9	-73.2	23,640.5
ROCE	16.0	3.3	17.6	29.1	12.6	—	17.0
Number of employees as at December 31[4]	49,509	42,601	47,906	55,840	46,923	447	243,226
Adjusted sales[5]	9,586.6	7,741.0	9,693.3	11,304.9	6,251.9	-328.5	44,249.2
Adjusted operating result (adjusted EBIT)[6]	784.9	202.3	899.1	1,900.0	472.8	-141.0	4,118.1
in % of adjusted sales	8.2	2.6	9.3	16.8	7.6	—	9.3

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

Segment report for 2017

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
External sales	9,743.7	7,535.8	9,276.4	11,303.4	6,150.2	—	44,009.5
Intercompany sales	24.1	125.1	28.8	22.4	96.2	-296.6	—
Sales (total)	**9,767.8**	**7,660.9**	**9,305.2**	**11,325.8**	**6,246.4**	**-296.6**	**44,009.5**
EBIT (segment result)	897.7	439.9	749.2	2,151.3	442.2	-118.8	4,561.5
in % of sales	9.2	5.7	8.1	19.0	7.1	—	10.4
thereof income from equity-accounted investees	22.2	4.7	30.5	18.5	0.1	0.8	76.8
Capital expenditure[1]	682.5	653.7	453.3	847.0	213.2	4.7	2,854.4
in % of sales	7.0	8.5	4.9	7.5	3.4	—	6.5
Depreciation and amortization[2]	403.9	414.9	390.8	597.4	308.7	1.7	2,117.4
thereof impairment[3]	0.5	18.6	18.2	0.5	2.4	—	40.2
Internally generated intangible assets	—	51.8	40.2	—	—	0.1	92.1
Significant non-cash expenses/income	9.7	-37.1	-4.2	3.4	-20.8	7.4	-41.6
Segment assets	7,350.9	5,430.1	7,669.4	8,432.1	4,342.8	32.0	33,257.3
thereof investments in equity-accounted investees	112.4	59.9	132.3	100.2	1.7	8.3	414.8
Segment liabilities	2,805.3	2,029.3	2,428.6	2,436.4	1,264.9	79.2	11,043.7
Operating assets as at December 31	4,545.6	3,400.8	5,240.8	5,995.7	3,077.9	-47.2	22,213.6
Operating assets (average)	4,519.6	3,325.6	5,028.9	6,143.0	3,182.1	-26.8	22,172.4
ROCE	19.9	13.2	14.9	35.0	13.9	—	20.6
Number of employees as at December 31[4]	47,788	40,492	46,006	53,811	46,938	438	235,473
Adjusted sales[5]	9,767.8	7,660.9	9,286.1	11,325.8	6,234.4	-296.5	43,978.5
Adjusted operating result (adjusted EBIT)[6]	898.1	469.9	812.7	2,146.8	539.8	-118.8	4,748.5
in % of adjusted sales	9.2	6.1	8.8	19.0	8.7	—	10.8

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

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

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Sales	**9,588.0**	**7,741.0**	**9,707.2**	**11,352.2**	**6,344.7**	**-328.7**	**44,404.4**
Changes in the scope of consolidation[1]	-1.4	–	-13.9	-47.3	-92.8	0.2	-155.2
Adjusted sales	**9,586.6**	**7,741.0**	**9,693.3**	**11,304.9**	**6,251.9**	**-328.5**	**44,249.2**
EBITDA	**1,213.3**	**574.6**	**1,389.2**	**2,495.2**	**701.4**	**-138.0**	**6,235.7**
Depreciation and amortization[2]	-430.8	-454.8	-401.1	-613.1	-305.2	-3.0	-2,208.0
EBIT	**782.5**	**119.8**	**988.1**	**1,882.1**	**396.2**	**-141.0**	**4,027.7**
Amortization of intangible assets from purchase price allocation (PPA)	0.0	11.4	51.1	19.3	91.2	–	173.0
Changes in the scope of consolidation[1]	-0.4	–	15.1	-2.6	-14.5	–	-2.4
Special effects							
Impairment[3]	1.5	16.0	1.2	1.2	0.1	–	20.0
Restructuring[4]	–	22.8	-3.0	–	0.2	–	20.0
Gains and losses from disposals of companies and business operations	-3.0	–	-154.8	0.0	-0.4	–	-158.2
Other	4.3	32.3	1.4	–	–	–	38.0
Adjusted operating result (adjusted EBIT)	**784.9**	**202.3**	**899.1**	**1,900.0**	**472.8**	**-141.0**	**4,118.1**

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

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Sales	**9,767.8**	**7,660.9**	**9,305.2**	**11,325.8**	**6,246.4**	**-296.6**	**44,009.5**
Changes in the scope of consolidation[1]	–	–	-19.1	–	-12.0	0.1	-31.0
Adjusted sales	**9,767.8**	**7,660.9**	**9,286.1**	**11,325.8**	**6,234.4**	**-296.5**	**43,978.5**
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]	–	–	1.7	–	0.6	–	2.3
Special effects							
Impairment[3]	0.5	18.8	23.0	0.5	2.4	–	45.2
Restructuring[5]	-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**	**469.9**	**812.7**	**2,146.8**	**539.8**	**-118.8**	**4,748.5**

1 Changes in the scope of consolidation include additions and disposals as part of share and asset deals. Adjustments were made for additions in the reporting year and for disposals in the comparative period of the prior year.
2 Excluding impairment on financial investments.
3 Impairment also includes necessary reversal of impairment losses. This item does not include impairment that arose in connection with a restructuring and impairment on financial investments.
4 This includes impairment losses totaling €3.5 million (Powertrain €3.3 million; ContiTech €0.2 million) and a reversal of impairment losses of €2.8 million in the Interior division.
5 This includes reversal of impairment losses totaling €5.0 million (Powertrain €0.2 million; Interior €4.8 million).

Reconciliation of EBIT to net income

€ millions	2018	2017
Chassis & Safety	782.5	897.7
Powertrain	119.8	439.9
Interior	988.1	749.2
Tires	1,882.1	2,151.3
ContiTech	396.2	442.2
Other/consolidation	-141.0	-118.8
EBIT	**4,027.7**	**4,561.5**
Financial result	-177.8	-285.7
Earnings before tax	**3,849.9**	**4,275.8**
Income tax expense	-891.6	-1,227.5
Net income	**2,958.3**	**3,048.3**
Non-controlling interests	-61.0	-63.7
Net income attributable to the shareholders of the parent	**2,897.3**	**2,984.6**

Segment report by region

€ millions	Germany	Europe excluding Germany	North America	Asia	Other countries	Continental Corporation
External sales 2018	**8,826.8**	**13,046.1**	**10,975.1**	**9,888.7**	**1,667.7**	**44,404.4**
External sales 2017	8,927.2	12,839.0	10,823.2	9,618.5	1,801.6	44,009.5
Capital expenditure 2018[1]	**775.1**	**925.6**	**594.1**	**771.9**	**57.7**	**3,124.4**
Capital expenditure 2017[1]	690.5	818.7	589.0	685.3	70.9	2,854.4
Segment assets as at December 31, 2018	**11,231.8**	**8,702.0**	**7,707.2**	**7,241.0**	**595.8**	**35,477.8**
Segment assets as at December 31, 2017	10,717.3	8,298.2	6,944.9	6,627.9	669.0	33,257.3
Number of employees as at December 31, 2018[2]	**63,396**	**76,576**	**44,887**	**48,499**	**9,868**	**243,226**
Number of employees as at December 31, 2017[2]	61,029	75,186	43,585	45,683	9,990	235,473

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

Reconciliation to operating assets in 2018

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

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**

2. General Information and Accounting Principles

Continental Aktiengesellschaft (Continental AG), whose registered office is Vahrenwalder Strasse 9, Hanover, Germany, is the parent company of the Continental Corporation and a listed stock corporation. It is registered in the commercial register (HR B No. 3527) of the Hanover Local Court *(Amtsgericht)*. Continental AG is a supplier to the automotive industry, with worldwide operations. The areas of business and main activities in which Continental AG is engaged are described in more detail in the Segment Reporting section. By way of resolution of the Executive Board of March 1, 2019, the consolidated financial statements of Continental AG for fiscal 2018 were approved and will be submitted to the German Federal Gazette *(Bundesanzeiger)* and published there. Continental AG is included in the consolidated financial statements of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, which is published in the German Federal Gazette.

The consolidated financial statements of Continental AG as at December 31, 2018, have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union, in accordance with EU Regulation (EC) No. 1606/2002 in conjunction with Section 315e (1) of the German Commercial Code *(Handelsgesetzbuch – HGB)*. The term IFRS also includes the International Accounting Standards (IAS) and the interpretations issued by the International Financial Reporting Standards Interpretations Committee or its predecessor the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). All International Financial Reporting Standards mandatory for fiscal 2018 have been applied, subject to endorsement by the European Union.

The consolidated financial statements were prepared on the basis of historical cost, with the exception of certain financial assets and liabilities (including derivative instruments), which are measured at fair value; asset held for sale, which are measured at fair value less costs to sell; and defined benefit pension plans, for which the plan assets are measured at fair value.

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

The first-time adoption of IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, affected the reporting period.

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

Companies consolidated

All major subsidiaries that Continental AG controls in accordance with the provisions of IFRS 10 have been included in the consolidated financial statements and fully consolidated. To meet this definition, Continental AG must have the decision-making power to control the relevant activities and a right to variable returns from the associated company. Furthermore, it must be able to use its decision-making power to determine the amount of these returns. The companies consolidated may therefore also include companies that are controlled by Continental AG irrespective of the share of voting rights by way of other substantial rights such as contractual agreements, as is the case with structured units included in the consolidated financial statements.

The consolidation of subsidiaries is based on the purchase method by offsetting the acquisition cost against the proportion of net assets attributed to the parent company at fair value at the date of acquisition. Intangible assets not previously recognized in the separate financial statements of the acquired company are carried at fair value. Intangible assets identified in the course of a business combination – including, for example, brand names, patents, technology, customer relationships and order backlogs – are recognized separately at the date of acquisition only if the requirements under IAS 38, *Intangible Assets*, for an intangible asset are met. Measurement at the time of acquisition is usually provisional only. Increases or reductions of assets and liabilities that become necessary within 12 months after the acquisition are adjusted retrospectively to the date of acquisition accordingly. Significant adjustments are presented in the notes to the financial statements.

Any positive remaining amount is capitalized as goodwill. The share of non-controlling interests is measured using the pro rata (remeasured) net assets of the subsidiary. In order to ensure the recoverability of goodwill arising from an as yet incomplete measurement and the corresponding purchase price allocation, the goodwill is allocated provisionally to the affected business units as at the end of the reporting period. This provisional allocation can deviate significantly from the final allocation. Any negative difference that arises is recognized in other income after the fair value of the acquired assets and liabilities has again been reviewed.

Non-controlling interests in the net assets of subsidiaries that are not attributable to the corporation are shown under “non-controlling interests” as a separate component of total equity.

Once control has been obtained, any differences arising from successive purchases of shares from non-controlling interests between the purchase price and the carrying amount of those non-controlling interests are recognized in other comprehensive income.

Where there are successive purchases of shares resulting in control, the difference between the carrying amount and the fair value at the time of first-time consolidation for those shares already held is recognized in profit and loss under other income and expenses.

Significant investments where Continental AG can exert significant influence on the associated companies (associates) are accounted for using the equity method. The carrying amount of these associates is adjusted to reflect the share in the associates' net equity. If the annual financial statements of the associates are not available, the pro rata earnings or losses are recognized as necessary based on estimated amounts. Goodwill arising from first-time consolidation is reported using the equity method. Goodwill is not amortized but the carrying amount of investments in associates consolidated using the equity method is tested for impairment if there are relevant indications.

Companies that are dormant or have only a low level of business activity and therefore no significant impact on the earnings, financial and net assets position of the Continental Corporation are not included in the consolidated financial statements. These are accounted for as other investments at fair value (FVOCI).

Intercompany receivables and liabilities, in addition to income and expenses, are eliminated on consolidation. Intercompany profits arising from internal transactions and dividend payments made within the corporation are eliminated on consolidation. Deferred taxes on the elimination of intercompany transactions are carried in the amount derived from the average income tax rate for the corporation.

Currency translation

The assets and liabilities of foreign subsidiaries with a functional currency other than the euro are translated into euros at the year-end middle rates (closing rate). The statement of comprehensive income is translated at the average exchange rates for the year. Differences resulting from currency translation are recognized in the difference from currency translation in equity until the disposal of the subsidiary, without recognizing deferred taxes.

In the separate financial statements of Continental AG and its subsidiaries, foreign-currency receivables and liabilities are measured on recognition at the transaction rate and adjusted at the end of the reporting period to the related spot rates. Gains and losses arising on currency translation are recognized in profit or loss, except for certain loans. Exchange-rate adjustments relating to the translation of intercompany financing made in the functional currency of one of the parties are recognized in the difference from currency translation in equity if repayment of these intercompany loans is not expected in the foreseeable future.

Goodwill is recognized directly as an asset of the subsidiary acquired and therefore also translated into euros for subsidiaries whose functional currencies are not the euro at the end of the reporting period using the middle rate (closing rate). Differences resulting from currency translation are recognized in the difference from currency translation in equity.

The following table summarizes the exchange rates used in currency translation that had a material effect on the consolidated financial statements:

Currencies		Closing rate		Average rate for the year	
€1 in		**Dec. 31, 2018**	Dec. 31, 2017	**2018**	2017
Brazil	BRL	4.44	3.97	4.31	3.61
Switzerland	CHF	1.13	1.17	1.16	1.11
China	CNY	7.88	7.80	7.80	7.63
Czechia	CZK	25.71	25.56	25.64	26.33
United Kingdom	GBP	0.90	0.89	0.88	0.88
Hungary	HUF	321.05	310.45	318.74	309.30
Japan	JPY	126.02	134.83	130.43	126.67
South Korea	KRW	1,276.08	1,277.29	1,299.44	1,275.94
Mexico	MXN	22.49	23.60	22.71	21.34
Malaysia	MYR	4.73	4.86	4.76	4.85
Philippines	PHP	60.11	59.69	62.26	56.95
Romania	RON	4.67	4.66	4.65	4.57
U.S.A.	USD	1.14	1.20	1.18	1.13
South Africa	ZAR	16.47	14.74	15.60	15.05

Revenue recognition
Only sales of products and services resulting from the ordinary business activities of the company are shown as revenue.

In accordance with IFRS 15, Continental recognizes the amount as revenue from contracts with customers, which is received for the transfer of promised goods or services to customers in exchange for those goods or services. The relevant point in time or period of time is the transfer of control of the goods or services (control approach).

To determine when to recognize revenue and at what amount, the five-step model has to be applied. By applying the five-step model in the Continental Corporation for contracts with customers, distinct performance obligations are identified. The transaction price is determined – and allocated to the performance obligations – according to the requirements of IFRS 15. Variable consideration in contracts with customers, such as rebates, bonus agreements or other kinds of price concessions, is analyzed, measured and included in the revenue recognition. The allocation of the transaction price in the case of more than one performance obligation at hand would be performed by using observable prices if possible. Otherwise the allocation would be performed using the adjusted market assessment approach or the approach of cost plus a margin. For every performance obligation that, in accordance with IFRS 15, is distinct within the context of the contract, the revenue recognition is determined to be at a point in time or to be satisfied over time.

Multi-component contracts that contain distinct performance obligations with different timing of revenue recognition are not currently material.

Research and development expenses
Research and development expenses comprise expenditure on research and development and expenses for customer-specific applications, prototypes and testing. If research and development expenses are planned, these costs are recognized in inventories until control is transferred. When control is transferred, they are stated under other income. In addition, the expenses are reduced by the amount relating to the application of research results from the development of new or substantially improved products, if the related activity fulfills the recognition criteria for internally generated intangible assets set out in IAS 38. This portion of the expenses is capitalized as an asset and amortized over a period of three to seven years from the date that the developed products become marketable. However, expenses for customer-specific applications, pre-production prototypes or tests for products already being marketed (application engineering) do not qualify as development expenditure which may be recognized as an intangible asset. Furthermore, expenses incurred directly in connection with the launch of new production operations and plants are recognized directly in profit or loss.

New developments for the original equipment business are not marketable until Continental AG has been nominated as the supplier for the particular vehicle platform or model and, furthermore, has successfully fulfilled pre-production release stages. Moreover, these release stages serve as the prerequisite to demonstrate the technical feasibility of the product, especially given the high demands imposed on comfort and safety technology. Accordingly, development costs are recognized as an asset only as at the date of nomination as supplier and upon fulfillment of a specific pre-production release stage. The development is considered to be completed once the final approval for the unlimited production is granted. Only very few development projects fulfill the recognition criteria.

Although suppliers are nominated by original equipment manufacturers with the general obligation to supply products over the entire life of the particular model or platform, these supply agreements constitute neither long-term contracts nor firm commitments, in particular because the original equipment manufacturers make no commitments in regard of the purchase quantities. For this reason, all pre-production expenses – with the exception of the capitalized development costs as previously described – are recognized immediately in profit or loss.

Product-related expenses
Costs for advertising, sales promotion and other sales-related items are expensed as incurred. Provisions are recognized for probable warranty claims on sold products on the basis of past experience, as well as legal and contractual terms. Additional provisions are recognized for specific known cases.

Financial result and investment income
Interest income and expenses are recognized for the period to which they relate. Distributions are recognized at the time of payment.

Dividends receivable are recognized upon the legal entitlement to payment.

Earnings per share
Basic earnings per share are calculated on the basis of the weighted average number of shares outstanding. Treasury stock is deducted for the period it is held. Diluted earnings per share also include shares from the potential exercise of option or conversion rights. The corresponding expenses that would no longer be incurred after the conversion or exchange are eliminated.

Statement of financial position classification

Assets and liabilities are reported as non-current assets and liabilities in the statement of financial position if they have a remaining term of over one year and, conversely, as current assets and liabilities if the remaining term is shorter. Liabilities are treated as current if there is no unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Provisions for pensions and other post-employment benefits, other employee benefits, as well as deferred tax assets and liabilities are accounted for as non-current. If assets and liabilities have both current and non-current portions, the amounts are classified separately and shown as current and non-current assets or liabilities.

Goodwill

Goodwill corresponds to the difference between the purchase cost and the fair value of the acquired assets and liabilities of the business combination. Goodwill is not subject to amortization; it is tested for impairment at least annually and, if necessary, impaired.

Intangible assets

Purchased intangible assets are carried at acquisition costs and internally generated intangible assets at their production costs, provided that the conditions for recognition of an internally generated intangible asset are met in accordance with IAS 38. If intangible assets have finite useful lives, they are amortized on a straight-line basis over a useful life of three to eight years in general. Intangible assets with indefinite useful lives are tested at least annually for impairment and, if necessary, impaired.

Property, plant and equipment

Property, plant and equipment is carried at cost less straight-line depreciation. If necessary, additional impairment is recognized on the affected items.

Production cost consists of the direct costs and attributable material and manufacturing overheads, including depreciation.

Under certain conditions, portions of the borrowing costs are capitalized as part of the acquisition cost. This also applies to finance leases and investment property.

As soon as an asset is available for its intended use, subsequent cost is capitalized only to the extent the related modification changes the function of the asset or increases its economic value and the cost can be clearly identified. All other subsequent expenditure is recognized as current maintenance expense.

Property, plant and equipment is broken down into the lowest level of the components that have significantly different useful lives and, to the extent integrated in other assets, when they are likely to be replaced or overhauled during the overall life of the related main asset. Maintenance and repair costs are recognized in profit or loss as incurred. The corporation has no property, plant or equipment that by the nature of its operation and deployment can be repaired and serviced only in intervals over several years. The useful lives are up to 25 years for buildings and land improvements; up to 20 years for technical equipment and machinery; and up to 12 years for operating and office equipment.

Government grants

Government grants are reported if there is reasonable assurance that the conditions in place in connection with the grants will be fulfilled and that the grants will be awarded.

Monetary government grants that are directly attributable to depreciable fixed assets are deducted from the cost of the assets in question. All other monetary grants are recognized as income in line with planning and are presented alongside the corresponding expenses. Non-monetary government grants are recognized at fair value.

Investment property

Land and buildings held for the purpose of generating rental income instead of production or administrative purposes are carried at depreciated cost. Depreciation is charged on a straight-line basis over the useful lives, which correspond to those for real estate in use by the company.

Leases

Continental leases property, plant and equipment, especially buildings. If the substantial risks and rewards from the use of the leased asset are controlled by Continental, the agreement is treated as a finance lease and an asset and related financial liability are recognized. In the case of an operating lease, where the economic ownership remains with the lessor, only the lease payments are recognized as incurred and charged to income. Other arrangements, particularly service contracts, are also treated as leases to the extent they require the use of a particular asset to fulfill the arrangement and the arrangement conveys a right to control the use of the asset.

Impairment

The corporation immediately reviews intangible assets and property, plant and equipment, investment property and goodwill as soon as there is an indication of impairment (triggering event). Impairment is assessed by comparing the carrying amount with the recoverable amount. The recoverable amount is the higher of the fair value less cost of disposal and the present value of the expected future cash flows from the continued use of the asset (value in use). If the carrying amount is higher than the recoverable amount, the difference is recognized as impairment. If the indications for the prior recognition of impairment no longer apply, the impairment losses are reversed for intangible assets, property, plant and equipment, and investment property.

Capitalized goodwill is tested for impairment once per year as at November 30 at the level of cash-generating units (CGUs). CGUs are units that come below the segments and are the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. This represents the lowest level at which goodwill is monitored for internal management purposes. The impairment test is performed by comparing the carrying amount of the business unit including its goodwill and the recoverable amount of this business unit. The recoverable amount in this case is the value in use calculated on the basis of discounted cash flows before interest and tax. Impairment is recognized to the extent the carrying amount exceeds the recoverable amount for a business unit. If the reasons for this cease to apply in future, impairment losses on goodwill are not reversed.

The expected cash flows for the business units are derived from long-term planning that covers the next five years and is approved by the management. The plans are based in particular on assumptions for macroeconomic developments, as well as trends in sales prices, raw materials prices and exchange rates. In addition to these current market forecasts, past developments and experience are also taken into account. The perpetuity beyond the period of five years is extrapolated using the expected long-term growth rates for the individual business units. For the two cash-generating units High Voltage Power Applications and Low Voltage & Control Unit Applications of the Hybrid Electric Vehicle (HEV) business unit, a detailed model with long-term detailed planning was used as a basis due to the specific situation of a startup.

The main assumptions when calculating the value in use of a CGU are the free cash flows, the discount rate and its parameters, and the long-term growth rate.

Annual impairment testing was performed on the basis of the bottom-up business plan for the next five years approved by management in the period under review. In the year under review, for the CGUs of the Automotive Group, the cash flows were discounted with an interest rate before tax of 10.7% (PY: 11.3%); for the Rubber Group the interest rate was 9.8% (PY: 9.6%). These two pre-tax WACCs are based on the capital structure of the respective relevant peer group on average over the last five years. The risk-free interest rate is 1.1% (PY: 1.2%) and the market risk premium 6.75% (PY: 6.50%) in both cases. Borrowing costs were calculated as the total of the risk-free interest rate plus the credit spreads of peer group companies rated by Standard & Poor's, Moody's or Fitch. The sources of this information were data from Bloomberg.

The long-term growth rate for the CGUs of the Interior, Chassis & Safety and Powertrain segments was 1.5% in the year under review (PY: 1.5%). For the CGUs of the Tire and ContiTech segments, the long-term growth rate was 0.5% (PY: 0.5%). These growth rates do not exceed the long-term average growth rates for the fields of business in which the CGUs operate.

The annual impairment testing of goodwill determined no requirements for impairment for 2018.

Assuming a 0.5 percentage point increase in the discount rate to 11.2% before tax for the Automotive Group and 10.3% before tax for the Rubber Group would not result in goodwill impairment. There would be no asset impairment. Reducing long-term growth rates by 0.5 percentage points would not have resulted in goodwill impairment. There would be no asset impairment. If sales in perpetuity would decline by 5.0%, consequently reducing free cash flow as a key planning parameter, this would not result in goodwill impairment. There would be no asset impairment.

Assets held for sale and related liabilities
Individual non-current assets or a group of non-current assets and related liabilities are classified separately as held for sale in the statement of financial position if their disposal has been resolved and is probable. Assets held for sale are recognized at the lower of their carrying amount and their fair value less costs to sell, and are no longer depreciated once they are classified as held for sale.

Financial instruments
A financial instrument in accordance with IAS 32, *Financial Instruments: Presentation*, is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

In the Continental Corporation, a purchase or sale of financial assets is recognized or derecognized at the settlement date.

Financial assets
Financial assets are recognized in the statement of financial position as at the date Continental becomes a contractual party to the financial instrument. At the date of acquisition, they must be classified into measurement categories that determine the subsequent accounting.

Receivables from the receivables factoring programs carried out in the corporation are recognized in the statement of financial position when the risks and rewards, in particular credit and default risk, have not been essentially transferred. The repayment obligations therefrom are, as a rule, then shown as short-term financial liabilities.

The classification and measurement of financial assets is based on the business model in which assets are managed and on their cash flow characteristics. These conditions are cumulative criteria whose audit sequence is irrelevant.

It is therefore necessary to analyze the business model in which the asset to be classified is held. This relates to the investigation of the way in which financial assets held in order to collect cash flows are managed. The corporation reclassifies debt instruments only if the corresponding business model changes.

IFRS 9, *Financial Instruments*, distinguishes between three business models.

› Hold-to-collect: The objective of this business model is to hold the financial assets and generate the contractual cash flows. This model is the prevalent business model in the Continental Corporation.

› Hold-to-collect and sale: This business model aims to collect the contractual cash flows or sell the financial assets. This business model does occur – for example, in connection with notes receivable – but is fundamentally of subordinate importance in the Continental Corporation.

› Other: This business model constitutes a catch-all category. This model occurs in the corporation in connection with recognized trade accounts receivable from third parties which will probably be sold under a true sale-of-receivables factoring agreement; however, it is fundamentally of subordinate importance in the Continental Corporation.

In addition to the analysis of the business model, the contractual terms applicable on acquisition of the financial instrument must also be assessed (SPPI (solely payments of principal and interest) criterion). The SPPI criterion is met when the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement.

On the basis of these two conditions, a distinction is drawn between the following measurement categories:

› Measured at cost: The financial asset, which constitutes a debt instrument, is held within a business model whose objective is to hold assets in order to collect contractual cash flows. Furthermore, the contractual cash flows can be characterized as payments of principal and interest on the principal amount outstanding. Interest income is recognized in the financial result using the effective interest method. Gains or losses arising from derecognition are recognized in profit or loss together with the foreign-currency gains and losses. Impairment losses are likewise recognized separately in the income statement.

› Measured at fair value through other comprehensive income with reclassification (FVOCIwR): The financial asset, which constitutes a debt instrument, is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Furthermore, the contractual cash flows can be characterized as payments of principal and interest on the principal amount outstanding. Changes in the carrying amount are recognized in other comprehensive income. Income or expenses from impairment, interest income and foreign-currency gains and losses are recognized in profit or loss. The cumulative gain or loss stated in other comprehensive income is reclassified from equity to the income statement when the financial asset is derecognized. Interest income is recognized in the financial result using the effective interest method. Foreign-currency gains and losses are recognized in other income and expenses.

- Measured at fair value through profit or loss (FVPL): The financial asset, which constitutes a debt instrument, is not to be measured at cost or at fair value through other comprehensive income with reclassification (FVOCIwR), as either the SPPI criterion was not met or the "Other" business model applies. Classification to the "measured at fair value through profit or loss (FVPL)" category can also be appropriate if the fair value option is applied to debt instruments that should actually be classified as measured at cost or at fair value through other comprehensive income with reclassification (FVOCIwR). However, the Continental Corporation does not currently intend to apply the fair value option to debt instruments. The financial asset, which constitutes an equity instrument, is to be measured at fair value through profit or loss if there is a trading intention or if there is no trading intention and the fair value option is not used. Income or expenses from a financial asset measured at fair value through profit or loss are recognized in the income statement.

- Measured at fair value through other comprehensive income without reclassification (FVOCIwoR): In the case of a financial asset that constitutes an equity instrument and is not held for trading, changes in the carrying amount are recognized in other comprehensive income if the fair value option is used. The Continental Corporation regularly exercises this option. The cumulative gain or loss in other comprehensive income is not reclassified to the income statement when the financial asset is derecognized. Dividends are recognized in other income from investments.

Investments that fall within the scope of IFRS 9, *Financial Instruments*, and meet the definition of equity must generally be measured at fair value. For equity instruments that are neither held for trading nor constitute contingent consideration accounted for by the acquirer in a business combination according to IFRS 3, *Business Combinations*, the Continental Corporation regularly exercises the option at the acquisition date of recognizing changes in fair value in other comprehensive income without later reclassification. Dividends are an exception to this and continue to be recognized in profit or loss when the legal entitlement is established, unless this relates to a partial restitution of acquisition costs. Equity instruments held for trading are without exception recognized at fair value through profit or loss.

On initial recognition, the corporation measures a financial asset at fair value plus the transaction costs directly attributable to the acquisition, with the exception of financial assets measured at fair value through profit or loss, for which associated transaction costs are recognized as expense in the income statement.

Impairment is recognized using the expected loss model. The impairment model applies to financial assets measured at amortized cost or at fair value through other comprehensive income (FVOCI) (except for investments in equity instruments), contract assets that result from IFRS 15, *Revenue from Contracts with Customers*, lease receivables, loan commitments and financial guarantee contracts.

Loss allowances are measured on the basis of 12-month expected credit losses or on the basis of lifetime expected credit losses. 12-month expected credit losses result from possible default events within 12 months after the reporting date. Lifetime expected credit losses result from all possible default events over the expected life of a financial instrument.

Lifetime expected credit loss measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition, and 12-month expected credit loss measurement applies if it has not. The credit risk of a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due on the reporting date.

For trade accounts receivable and contract assets with and without significant financing components, lease payments receivable and current receivables from related parties, only lifetime expected credit loss measurement is applied. Under this approach, the lifetime expected credit losses must be recognized from the initial recognition of the receivable.

A financial asset is in default or credit-impaired if one of the following criteria is met:

- Insolvency or a similar event that indicates significant financial difficulty and a probable default of the counterparty.

- Probable debt waiver.

- A breach of contract that leads to the assumption that it is more probable that one or more receivables are not collectible.

- Other reasons in the assessment of credit management that lead to the assumption that it is more probable that the receivables are not collectible.

If there is evidence of uncollectibility, the financial asset is derecognized. If creditworthiness improves, the allowance is reversed.

Financial liabilities

Financial liabilities are recognized in the statement of financial position as at the date Continental becomes a contractual party to the financial instrument.

Financial liabilities are generally measured at amortized cost using the effective interest method. Instruments that are held for trading are classified as "financial liabilities measured at fair value through profit or loss." For financial liabilities not held for trading, the fair value option can be used. If the fair value option is used, the portion of the change in the fair value due to changes in the entity's own credit risk is recognized in other comprehensive income. The fair value option is not currently exercised in the corporation. In the consolidated financial statements of Continental AG, all non-derivative financial liabilities are measured at amortized cost, which as a rule comprises the remaining principal balance and issuing costs, net of any unamortized premium or discount. Liabilities from finance leases are shown at the present value of the remaining lease payments based on the implicit lease interest rate. Financial obligations with fixed or determinable payments that comprise neither financial liabilities nor derivative financial liabilities and are not quoted in an active market are reported in the statement of financial position under other financial liabilities in accordance with their term.

In the case of information reported in accordance with IFRS 7, *Financial Instruments: Disclosures*, classification is in line with the items disclosed in the statement of financial position and/or the measurement category used in accordance with IFRS 9.

Derivative financial instruments and hedge accounting

Derivative financial instruments are measured at fair value through profit or loss (FVPL). The fair value is generally the market or exchange price. In the absence of an active market, the fair value is determined using financial models.

Fair values of currency forwards are calculated by way of future cash flows being translated into one of the two currencies using forward rates, netted, discounted with risk-free interest rates and then translated into the functional currency of the respective subsidiary at current spot exchange rates if applicable (par method).

The value of options is determined by applying recognized option pricing models.

To calculate the fair value of interest-rate swaps and cross-currency interest-rate swaps, the future cash flows are discounted with the interest rates for the respective maturities, with primarily deposit or IBOR rates used as short-term interest rates while long-term interest rates are based on the swap rates in the respective currency. Future cash flows are forecast using interest-rate curves with an appropriate payment tenor. When discounting, currency basis spreads or, if applicable, tenor basis spreads are taken into account.

The measurement of derivative instruments takes into account the credit spread in general.

Derivative instruments are recognized at the date when the obligation to buy or sell the instrument arises.

Hedge accounting is currently applied only to hedge future cash flows using derivative instruments as hedges, provided the conditions for this are met. Continental designates the hedges in their entirety only. Continental prepares documentation on the designation of the hedges and on the documentation of the fulfillment of the conditions for the application of hedge accounting.

Changes in the fair values of derivative instruments that are designated to hedge cash flows where effectiveness is demonstrated are recognized in the cash flow hedge reserve in the difference from financial instruments in equity. If these cumulative fair value changes from inception of the hedge exceed the cumulative present value changes of the hedged items, the excess amounts are recognized directly in the income statement. The cash flow hedge reserve is reclassified to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss. If the hedged cash flows are no longer expected to occur, that amount is immediately reclassified from the reserve to profit or loss.

Hedge accounting under these separate rules is discontinued if the criteria for this are no longer met or the hedging instrument expires or is sold, terminated or exercised. In this case, the cash flow hedge reserve in place at the time of discontinuation is reclassified to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss, as long as the hedged future cash flows are still expected to occur. If they are not expected to occur, the cash flow hedge reserve is reclassified to profit or loss immediately.

The amount of the effective portion of the change in value of the hedges remaining from the hedging of foreign-currency risks from net investments in foreign operations is still recognized together with the effect from the currency translation of the net investment in the difference from currency translation in equity. The accumulated currency effects are not reclassified in profit and loss until the foreign operations are sold or liquidated.

Embedded derivatives

An embedded derivative is a component of a hybrid contract alongside a non-derivative host contract. A portion of the cash flows of the hybrid contract is therefore subject to similar variability as a separate derivative.

Non-derivative host contracts, with the exception of financial assets, are regularly inspected for embedded derivatives.

If the host contract does not fall under the scope of IFRS 9 or if the host contract is a financial liability, embedded derivatives must be separated from the host contract if the assessment finds that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms would meet the definition of a derivative and Continental does not exercise the option to measure the entire hybrid instrument at fair value through profit or loss.

If separation is appropriate, the host contract is accounted for in accordance with the relevant IFRSs. The embedded derivative is recognized at fair value through profit or loss (FVPL).

Inventories
Inventories are recognized at the lower of cost and net realizable value. Acquisition cost is generally determined using the weighted-average method. Production cost includes direct costs, production-related material costs, overheads and depreciation. Inventory risks resulting from decreased marketability or excessive storage periods are accounted for with write-downs.

Other assets
Other assets are recognized at amortized cost. Allowances are recognized as appropriate to reflect any possible risk related to recoverability.

Accounting for income taxes
Income taxes are measured using the concept of the statement of financial position liability method in accordance with IAS 12. Tax expenses and refunds that relate to income are recognized as income taxes. Late payment fines and interest arising from subsequently assessed taxes are not reported as tax expenses but as financial expenses.

Current taxes owed on income are recognized as expenses when they are incurred.

Deferred taxes include expected tax payments and refunds from temporary differences between the carrying amounts in the consolidated financial statements and the related tax bases, as well as from the utilization of loss carryforwards. No deferred tax is recognized for non-tax-deductible goodwill. The deferred tax assets and liabilities are measured at the applicable tax rates related to the period when the temporary differences are expected to reverse. Changes in tax rates are recognized once the rate has been substantially enacted. Deferred tax assets are not recognized if it is not probable that they will be realized in the future.

Income tax receivables and liabilities are recognized as current items, as they are due immediately and this due date often cannot be deferred.

Employee benefits
The retirement benefits offered by the corporation comprise both defined benefit and defined contribution plans.

Pension liabilities under defined benefit plans are actuarially measured pursuant to IAS 19, *Employee Benefits* (revised 2011), using the projected unit credit method that reflects salary, pension and employee fluctuation trends. The discount rate to determine the present value is based on long-term loans in the respective capital market. Actuarial gains and losses are recognized in other comprehensive income. Expenses from interest cost on pension liabilities and income from pension funds are reported separately in the financial result.

Accordingly, the interest effects of other long-term employee benefits are reported in the financial result. Pension liabilities for some companies of the corporation are covered by pension funds. Furthermore, plan assets comprise all assets, as well as claims from insurance contracts, that are held exclusively toward payments to those entitled to pensions and are not available to meet the claims of other creditors. Pension obligations and plan assets are reported on a net basis in the statement of financial position.

The other post-employment benefits also shown under the employee benefits relate to obligations to pay for health costs for retired workers in the U.S.A. and Canada in particular.

Defined contribution plans represent retirement benefits where the company only contributes contractually fixed amounts for current service entitlements, which are generally invested by independent, external asset managers until the date of retirement of the employee. The fixed amounts are partly dependent on the level of the employee’s own contribution. The company gives no guarantees of the value of the asset after the fixed contribution, either at the retirement date or beyond. The entitlement is therefore settled by the contributions paid in the year.

Provisions for other risks and obligations
Provisions are recognized when a legal or constructive obligation has arisen that is likely to result in a future cash outflow to third parties and the amount can be reliably determined or estimated. The provisions are recognized as at the end of the reporting period at the value at which the obligations could probably be settled or transferred to a third party. Non-current provisions such as those for litigation or environmental risks are discounted to their present value. The resulting periodic interest charge for the provisions is shown under the financial result including an effect from a change in interest.

Non-financial liabilities
Current non-financial liabilities are carried at their payable amount. Non-current non-financial liabilities are measured at amortized cost.

Share-based remuneration
Cash-settled share-based remuneration is measured at fair value using a Monte Carlo simulation. The liabilities are recognized under other financial liabilities until the end of the holding period.

Estimates
Proper and complete preparation of the consolidated financial statements requires management to make estimates and assumptions affecting the assets, liabilities and disclosures in the notes, as well as the income and expenses for the period.

The most important estimates relate to the determination of the useful lives of intangible assets and property, plant and equipment; the impairment testing of goodwill and non-current assets, in particular the underlying cash flow forecasts and discount rates; the recoverability of amounts receivable and other assets as well as income tax receivable; the financial modeling parameters for stock option plans; the recognition and measurement of liabilities and provisions, especially the actuarial parameters for pensions and other post-employment obligations; and the probabilities of claims and amounts of settlements for warranty, litigation or environmental risks.

The assumptions and estimates are based on the information currently available at the date of preparation of the consolidated financial statements. The underlying information is regularly reviewed and updated to reflect actual developments as necessary.

Consolidated statement of cash flows
The statement of cash flows shows the sources during the period that generated cash and cash equivalents as well as the application of cash and cash equivalents. This includes all cash and cash equivalents and demand deposits. Cash equivalents are short-term, highly liquid financial investments that can be readily converted into known cash amounts and are subject to an insignificant risk of changes in value.

The restrictions that may impact the availability of capital are also understood as comprising all existing restrictions on the cash and cash equivalents. In the Continental Corporation, the cash and cash equivalents are restricted with regard to pledged amounts and balances in countries with foreign-exchange restrictions or other barriers to accessing liquidity. Taxes to be paid on the transfer of cash assets from one country to another are not usually considered to represent a restriction on cash and cash equivalents.

Financial investments are considered to be cash equivalents only if they have a remaining term not exceeding three months.

Accounting policies applied until December 31, 2017

The corporation has applied IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, retrospectively, using the exemption not to restate comparative information retrospectively. The comparative information is therefore still reported in accordance with the corporation's previous accounting policies. The basis is therefore IAS 39, *Financial Instruments: Recognition and Measurement*, and its related interpretations which have been replaced by IFRS 9 and the standards IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and their related interpretations which have been replaced by IFRS 15. Following the consolidated financial statements for 2017 the previous accounting methods relevant for the comparative period are explained below.

Consolidation principles

Companies that are dormant or have only a low level of business activity and therefore no significant impact on the earnings, financial and net assets position of the Continental Corporation are not included in the consolidated financial statements. Such companies are recognized in the consolidated financial statements at cost unless there are listings for these shares on the capital markets and unless the calculation of fair value is expected to provide a significant improvement of the presentation of financial statements.

Revenue recognition

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

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

Research and development expenses

Advances and reimbursements from customers are netted against expenses at the time they are invoiced.

Financial instruments

A financial instrument in accordance with IAS 32, *Financial Instruments: Presentation*, is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include non-derivative financial instruments such as trade accounts receivable and payable, securities and financial receivables or liabilities and other financial liabilities. They also include derivative instruments that are used to hedge against risks from changes in exchange rates and interest rates.

Non-derivative financial instruments

Non-derivative financial instruments are recognized at the settlement date, i.e. the date at which the asset is delivered to or by Continental AG.

Non-derivative financial assets are classified under one of the following four categories according to the purpose for which they are held. The classification is reviewed at the end of each reporting period and affects whether the financial asset is reported as non-current or current as well as determining whether measurement is at cost or fair value.

› Changes in the fair value of financial assets at fair value through profit and loss – which are either designated as such (fair value option) on initial recognition or are classified as held for trading – are recognized immediately in the income statement. In addition, they are reported as current financial assets if they are either held for trading purposes or are expected to be realized within 12 months of the end of the reporting period. The fair value option is not applied in the Continental Corporation.

› Held-to-maturity financial assets – which have fixed or determinable payments as well as a fixed maturity and are intended to be held until that maturity, together with the ability to retain these assets until maturity – are recognized at amortized cost and reported as non-current or current financial assets in accordance with their term. Any impairment is reported in profit or loss. No financial assets are classified as held-to-maturity at present.

› Loans and receivables – which have fixed or determinable payments and are not quoted in an active market – are measured at amortized cost less any necessary impairment. They are reported in the statement of financial position in accordance with their term as non-current or current financial assets.

› Financial assets – which were categorized as available for sale – are measured at fair value and reported as non-current or current financial assets according to the expected date of sale. Unrealized gains or losses are recognized in other reserves in equity, net of tax effects, until the date of derecognition. In the event of a significant or long-lasting decline in fair value to below cost, the impairment is recognized immediately in profit or loss. Reversal of impairment losses on equity instruments is recognized outside profit or loss. Reversal of impairment losses on debt instruments is recognized in profit or loss. Unless there is a price quoted on an active market and unless the calculation of fair value is expected to provide a significant improvement of the presentation of financial statements, for example in the case of investments in unconsolidated affiliated companies or other equity investments, the assets are measured at cost.

Liabilities arising from non-derivative financial instruments may be recognized either at amortized cost or at fair value through profit and loss. In the consolidated financial statements of Continental AG, all non-derivative financial liabilities are generally measured at amortized cost, which as a rule comprises the remaining principal

balance and issuing costs, net of any unamortized premium or discount. Liabilities from finance leases are shown at the present value of the remaining lease payments based on the implicit lease interest rate. Financial obligations with fixed or determinable payments that comprise neither financial liabilities nor derivative financial liabilities and are not quoted in an active market are reported in the statement of financial position under other financial liabilities in accordance with their term.

In the case of information reported in accordance with IFRS 7, classification is in line with the items disclosed in the statement of financial position and/or the measurement category used in accordance with IAS 39.

Hybrid financial instruments

Financial instruments that have both a debt and an equity component are classified and measured separately by those components. Instruments under this heading primarily include bonds with warrants and convertible bonds. In the case of convertible bonds, the fair value of the share conversion rights is recognized separately in capital reserves at the date the bond is issued and therefore deducted from the liability incurred by the bond. Fair values of conversion rights from bonds with below-market interest rates are calculated based on the present value of the difference between the coupon rate and the market rate of interest. The interest expense for the debt component is calculated for the term of the bond based on the market interest rate at the date of issue for a comparable bond without conversion rights. The difference between the deemed interest and the coupon rate increases the carrying amount of the bond indebtedness. In the event of maturity or conversion, the equity component previously recognized in capital reserves at the date of issue is offset against the accumulated retained earnings in accordance with the option permitted by IAS 32.

Derivative instruments

Derivative instruments are only used to hedge statement of financial position items or forecast cash flows, and are measured at their fair values. The fair value is generally the market or exchange price. In the absence of an active market, the fair value is determined using financial models, for example by discounting expected future cash flows at the market rate of interest or by applying recognized option pricing models. Derivative instruments are recognized at the date when the obligation to buy or sell the instrument arises.

Changes in the fair values of derivative instruments used for fair value hedging purposes to offset fluctuations in the market value of recognized assets or liabilities are charged to income together with the changes in value of the hedged item. Changes in the fair values of derivative instruments used to hedge future cash flows where effectiveness is demonstrated are recognized in the difference from financial instruments in equity until the associated hedged transaction is settled.

In the hedging of foreign-currency risks from net investments in foreign operations, the effective portion of the change in value of the hedges together with the effect from the currency translation of the net investment is recognized in the difference from currency translation in equity. The accumulated currency effects are not reclassified in profit and loss until the foreign operations are sold or liquidated.

If the criteria for hedge accounting are not met or the hedge becomes ineffective, the changes in fair value of the specific derivative instrument are recognized in net income as incurred, independently of the hedged item.

A sensitivity analysis was performed to prospectively measure effectiveness. Effectiveness was demonstrated retrospectively using the dollar offset method by comparing the changes in the value of the hedging instruments with the changes in the value of the hedged transactions. If the results of retrospective effectiveness testing fell within a range of 80% to 125%, the hedges used by the corporation were considered highly effective.

Embedded derivatives

Non-derivative host contracts are regularly inspected for embedded derivatives, for example, contractual payment terms neither in the functional currency of one of the contractual partners nor in a typical trading currency. Embedded derivatives must be separated from the host contract if the assessment finds that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. Embedded derivatives to be separated are measured at fair value and corresponding changes in value are charged to income.

Receivables

Receivables are carried at their nominal value. Valuation allowances on special items are recognized in specific cases where default is known or based on experience. Default risks leading to lower payment inflows usually manifest themselves in financial difficulties, non-fulfillment, probable insolvency or breach of contract on the part of the customer.

Continental sells some of its trade accounts receivable under sale-of-receivables programs with banks. Receivables are recognized in the statement of financial position when the risks and rewards, in particular credit and default risk, have not been essentially transferred. The repayment obligations from these sales are, as a rule, then shown as short-term financial liabilities.

3. New Accounting Pronouncements

In accordance with EU Regulation (EC) No. 1606/2002 in conjunction with Section 315e (1) of the German Commercial Code *(Handelsgesetzbuch – HGB)*, Continental AG has prepared its consolidated financial statements in compliance with the IFRS as adopted by the European Union under the endorsement procedure. Thus, IFRS are only required to be applied following endorsement of a new standard by the European Union.

The following endorsed standards, interpretations issued in relation to published standards and amendments that were applicable to the consolidated financial statements of Continental AG became effective in 2018 and have been adopted accordingly:
The amendments to IAS 40, *Investment Property (Transfers of Investment Property)*, clarify that a transfer into or out of investment property should be made only when there has been a change in use of the property. A change in use occurs when the property meets or ceases to meet the definition of investment property, and there is evidence of the change in use. The amendments clarify that the list of evidence in the standard is a non-exhaustive list of examples. The amendments are required to be applied for annual periods beginning on or after January 1, 2018. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The amendments to IFRS 2, *Share-based Payment (Classification and Measurement of Share-based Payment Transactions)*, address the measurement for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity settled. Furthermore, the amendments introduce an exemption for cases in which an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment. The employer has to pay that amount to the tax authority. The amendments clarify that those transactions would be classified as equity-settled in its entirety if it would have been so classified had it not included the net settlement feature. The amendments are required to be applied for annual periods beginning on or after January 1, 2018. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The amendments to IFRS 4, *Insurance Contracts (Applying IFRS 9, Financial Instruments with IFRS 4, Insurance Contracts)*, addresses the concerns about the different effective dates of IFRS 9 and the new insurance contract standard. The amendments introduce two possible optional solutions: the temporary exemption from IFRS 9 in limited circumstances and the overlay approach. The latter permits insurers to reclassify from profit or loss to other comprehensive income any changes in the fair value of financial assets held in respect of an activity that is connected with contracts within the scope of IFRS 4, if these changes are recognized in profit or loss under IFRS 9 but not under IAS 39. With respect to the temporary exemption from IFRS 9, the amendment is effective for annual periods beginning on or after January 1, 2018. Both approaches are to be applied at the latest as of the effective date of the new standard for insurance contracts. The amendments had no effect on the consolidated financial statements of Continental AG.

IFRS 9, *Financial Instruments*, replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 includes new requirements on the classification and measurement of financial instruments, especially financial assets, based on the business model in which assets are managed and on their cash flow characteristics. IFRS 9 supersedes the present categories of IAS 39 for financial assets (*held to maturity, loans and receivables*, *available for sale* and *held for trading*) by the measurement categories at *amortised cost*, *at fair value through profit or loss (FVTPL)* and *at fair value through other comprehensive income (FVOCI)*. In the last measurement category, there are differences regarding the reclassification of other comprehensive income, which depend on the financial instrument. Derivative instruments embedded in financial assets are not accounted for separately anymore under IFRS 9. Instead, it will be assessed for classification as whole. The existing requirements of IAS 39 regarding the classification of financial liabilities are largely adopted by IFRS 9. In contrast to IAS 39 with application of the fair value option under IFRS 9, the portion of the change in the fair value due to changes in the entity's own credit risk should be presented in other comprehensive income. For calculating impairment the standard replaces the incurred loss model with an expected credit loss model. The new impairment model will apply to financial assets measured at amortized cost or at fair value through other comprehensive income (except for investments in equity instruments), contract assets that result from IFRS 15, *Revenue from Contracts with Customers*, lease receivables, loan commitments and financial guarantee contracts. Under IFRS 9, loss allowances will be measured on the basis of 12-month expected credit losses or on the basis of lifetime expected credit losses. 12-month expected credit losses result from possible default events within 12 months after the reporting date. Lifetime expected credit losses result from all possible default events over the expected life of a financial instrument. Lifetime expected credit loss measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition, and 12-month expected credit loss measurement applies if it has not. There are exceptions for trade receivables, contract assets according to IFRS 15 and lease receivables. For these items the lifetime expected credit loss measurement has to be applied (trade receivables and contract assets according to IFRS 15 without a significant financing component) or may be applied (trade receivables and contract assets according to IFRS 15 with a significant financing component and lease receivables). The regulation of IFRS 9 introduces a new (general) hedge accounting model with the aim of aligning risk management more closely with accounting. IFRS 9 includes new requirements regarding rebalancing of hedge relationships and prohibits voluntary discontinuations of hedge accounting. Furthermore, in the future it is possible that additional risk management strategies, which involve hedging a risk component (other than foreign-currency risk) of a non-financial item, will likely qualify for hedge accounting. With the application of IFRS 9, an entity may also occasionally elect at inception of the hedging relationship that forward points and the cross-currency basis spread of the hedging instrument can be separately accounted for as a cost of hedging. IFRS 9 introduces new presentation requirements and new disclosures, especially about hedge accounting, credit risk and expected credit losses. IFRS 9 and the

consequential amendments to other standards and interpretations (in particular, IFRS 7, *Disclosures*) are required to be applied for annual periods beginning on or after January 1, 2018. The standard and the consequential amendments had no significant effect on the classification and measurement of the financial assets and financial liabilities of the corporation and the hedge accounting. However, the new impairment requirements had an effect on the consolidated financial statements of Continental AG.

IFRS 15, *Revenue from Contracts with Customers*, replaces the previous revenue recognition guidance and supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC 31, *Revenue – Barter Transactions Involving Advertising Services*. In accordance with IFRS 15, the amount is to be recognized as revenue from contracts with customers, which is received for the transfer of promised goods or services to customers in exchange for those goods or services. The relevant point in time or period of time is the transfer of control of the goods or services (control approach). To determine when to recognize revenue and at what amount, a five-step model has to be applied in accordance with the core principle. The standard and the consequential amendments to other standards and interpretations are required to be applied for annual periods beginning on or after January 1, 2018. The standard and the consequential amendments had no significant effect on the consolidated financial statements of Continental AG.

With the clarifications to IFRS 15, *Revenue from Contracts with Customers*, the IASB makes targeted amendments to IFRS 15 with respect to the topics – identifying performance obligations, principal versus agent considerations and licensing. The clarifications are required to be applied for annual periods beginning on or after January 1, 2018. The clarifications had no significant effect on the consolidated financial statements of Continental AG.

IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, addresses the question of how to determine the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The interpretation clarifies that for the purpose of determining the exchange rate the date of transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The interpretation is required to be applied for annual periods beginning on or after January 1, 2018. The interpretation had no significant effect on the consolidated financial statements of Continental AG.

Under the IASB’s annual improvements project, *Improvements to IFRSs, December 2016, Cycle 2014–2016*, the following amendments are effective:

- The amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards (Deletion of short-term exemptions for first-time adopters)*, delete some of the short-term exemptions from IFRS that are not relevant anymore through the passage of time.

- The amendments to IAS 28, *Investment in Associates and Joint Ventures (Measuring an associate or joint venture at fair value)*, address the question whether an entity has an investment-by-investment choice for measuring investments in an associate or a joint venture at fair value through profit or loss. The option is applicable for investments in associates or joint ventures that are held by an entity that is a venture capital organization or a mutual fund, unit trust or similar entities including investment-linked insurance funds. The amendments clarify that an entity shall make the election separately for each associate or joint venture at initial recognition of the associate or joint venture. Furthermore, the amendments deal with the accounting for cases in which an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity. The election to retain fair value measurement applied by that investment entity associate or joint venture to the investment entity associate’s or joint venture’s interests in subsidiaries is made separately for each investment entity associate or joint venture at the later of the date on which the investment entity associate or joint venture is initially recognized, the associate or joint venture becomes an investment entity, or the investment entity associate or joint venture first become a parent.

The amendments are required to be applied for annual periods beginning on or after January 1, 2018. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The following standards, interpretations issued in relation to published standards and amendments have already been endorsed by the EU but will not take effect until a later date:
The amendments to IAS 28, *Investments in Associates and Joint Ventures (Long-term Interests in Associates and Joint Ventures)*, clarify that IFRS 9, *Financial Instruments*, applies to an entity’s long-term interest in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the entity’s net investment in an associate or joint venture. The amendments clarify that an entity has to apply the IFRS 9 requirements before applying the loss allocation and impairment requirements in IAS 28. Furthermore, in applying IFRS 9, an entity does not take account of any adjustments to the carrying amount of long-term interests that result from the application of IAS 28. Planned as proposed amendments to the IASB’s annual improvements project, *Improvements to IFRSs, December 2017, Cycle 2015–2017*, it was finally decided to issue these amendments to IAS 28 separately. The amendments are required to be applied for annual periods beginning on or after January 1, 2019. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 9, *Financial Instruments (Prepayment Features with Negative Compensation)*, state that particular financial assets with prepayment features that may result in reasonable negative compensation for the early termination of the contract are eligible to be measured at amortized cost or at fair value through other comprehensive income. Regarding the accounting for a modification or exchange of a financial liability measured at amortized costs that does not result in the derecognition of the financial liability, the amendments clarify in the basis for conclusion that any adjustment to the amortized cost should be recognized in profit or loss at the date of the modification or exchange. The amendments are required to be applied for annual periods beginning on or after January 1, 2019. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRS 16, *Leases,* replaces the existing guidance for the accounting of leases and supersedes IAS 17, *Leases;* IFRIC 4, *Determining Whether an Arrangement Contains a Lease*; SIC-15, *Operating Leases – Incentives*; and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for the lessee and the lessor. IFRS 16 includes significant changes to lessee accounting with the removal of the distinction between finance lease and operating lease and the general recognition of all leases in the statement of financial position. In accordance with IFRS 16, the lessee shall recognize a right-of-use asset and a corresponding lease liability, which displays the obligation to lease payment. IFRS 16 allows exceptions for short-term leases and leases for which the underlying assets are of low value. Continental will apply these exceptions. Regarding the lessor accounting, the standard maintains the requirements of IAS 17. Accordingly, a lessor will continue to classify its leases as finance or operating leases. The standard and the consequential amendments to other standards shall be applied for annual periods beginning on or after January 1, 2019. When adapting to the new lease standard, the company can select either the full retrospective approach or the modified retrospective approach including optional practical expedients. Continental AG will select the modified retrospective approach as the transition method for initially applying IFRS 16 as of January 1, 2019. It is expected that the standard and the consequential amendments to other standards will have a significant effect on the future consolidated financial statements of Continental AG. In the analysis to determine the effects on its consolidated financial statements the most significant impact that has been identified is that Continental AG as lessor will account for new assets and liabilities based on operating leases of administration and production buildings as well as warehouses. To a small extent, Continental as lessor will account for assets and liabilities for operating leases of other facilities, operating and office equipment. Moreover, there will be impacts on the consolidated income statement due to the substitution of the straight-line expenses from operating leases with the depreciation charges of the right-of-use assets and the interest expenses resulting from the measurement of lease liabilities. As a result, a positive effect on EBIT at the expense of the financial result is expected. The first-time adoption of IFRS 16 is expected to result in a significant effect. Initial recognition of the right-of-use assets from leases and the corresponding lease liabilities will result in quantitative effects on the net assets position of around €1.8 billion.

IFRIC 23, *Uncertainty over Income Tax Treatments*, clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. According to IFRIC 23, uncertain tax treatments shall be considered separately or together with one or more other uncertain tax treatments depending on which approach better predicts the resolution of the uncertainty. For the assessment, it shall be assumed that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. Depending on which method the entity expects to better predict the resolution of the uncertainty, the most likely amount or the expected value can be used to reflect the effect of uncertainty for each uncertain tax treatment. If an uncertain tax treatment affects current tax and deferred tax, consistent judgments and estimates shall be made for both current and deferred tax. Furthermore, the interpretation contains a guideline for the consideration of changes in facts and circumstances and refers to existing disclosure requirements for uncertain tax positions. The interpretation and the consequential amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, are required to be applied for annual periods beginning on or after January 1, 2019. The interpretation and the consequential amendment are not expected to have a significant effect on the future consolidated financial statements of Continental AG.

The following standards, interpretations issued in relation to published standards and amendments are not yet endorsed by the EU and will become effective at a later date:

The amendments to IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Material)*, clarify the definition of materiality and standardize it in all standards and the Conceptual Framework of the IFRS. The amendments and the consequential amendments to other IFRS standards and publications are required to be applied for annual periods beginning on or after January 1, 2020. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IAS 19, *Employee Benefits (Plan Amendment, Curtailment or Settlement)*, clarify the accounting for plan amendments, curtailments and settlements. When there is a plan amendment, curtailment or settlement, the net defined benefit liability (asset) shall be remeasured using the current fair value of plan assets and current actuarial assumptions in order to determine past service cost or a gain or loss on settlement. In such cases, the amendments specify that current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment and settlement shall be determined using the updated actuarial assumptions as well. The net interest for the remainder of the annual reporting period after the plan amendment, curtailment and settlement shall be determined on the basis of the remeasured net defined benefit liability (asset). The amendments are required to be applied for annual periods beginning on or after January 1, 2019. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 3, *Business Combinations (Definition of a Business)*, clarify the definition of a business with the objective to identify uniquely whether a transaction should be accounted for as a business combination or as an asset acquisition. An acquired set of activities and assets have to include an input and a substantive process that together significantly contribute to the ability to create outputs in order to be considered a business. The amendments add guidance and illustrative examples to assess whether a substantive process has been acquired and narrow the definition of business and outputs by removing reference to an ability to reduce costs. An assessment whether market participants are capable of replacing missing elements or integrating the acquired activities and assets is no longer necessary. Furthermore, an optional concentration test was added to permit a simplified assessment of whether an acquired set of activities and assets is not a business. Under this optional test where substantially all of the fair values of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. The amendments are required to be applied to acquisitions for which the acquisition date is on or after the beginning of the first annual reporting periods beginning on or after January 1, 2020. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 10, *Consolidated Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)*, eliminate an inconsistency between both standards. The amendments clarify that the accounting treatment for sales or contribution of assets between an investor and its associates or joint venture depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a business in accordance with IFRS 3, *Business Combinations*. In case the non-monetary assets constitute a business, full gain or loss will be recognized by the investor. If the definition of a business is not met, the gain or loss is recognized by the investor to the extent of the other investor's interests. With the amendments to IFRS 10 and IAS 28, *Effective Date of Amendments to IFRS 10 and IAS 28*, the IASB has decided to defer indefinitely the effective date of the amendments. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRS 17, *Insurance Contracts*, replaces IFRS 4, *Insurance Contracts*, and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The standard and the consequential amendments to other standards are required to be applied for annual periods beginning on or after January 1, 2021. The standard and the consequential amendments to other standards are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

Under the IASB's annual improvements project, *Improvements to IFRSs, December 2017, Cycle 2015–2017*, the following amendments will become effective at a later date:

- The amendments to IFRS 3, *Business Combinations (Previously held interest in a joint operation)*, clarify that, if control of a business that is a joint operation is obtained, the previously held interest in a joint operation is remeasured. Such a transaction is a business combination achieved in stages. In this context IFRS 11, *Joint Arrangements*, was also amended to make clear that previously held interests in the joint operation are not remeasured in case an entity obtains joint control of a business that is a joint operation. This transaction is similar to an investment in an associate becoming an investment in a joint venture and vice versa.

- The amendments to IAS 12, *Income Taxes (Income tax consequences of payments on financial instruments classified as equity)*, specify that income tax consequences of dividends on financial instruments classified as equity should be recognized according to where the past transactions or events that generate distributable profits were recognized originally. These requirements apply to all income tax consequences of dividends. In the context of the amendments to IAS 12, the basis for conclusion on IAS 32, *Financial Instruments: Presentation, was extended.*

- The amendments to IAS 23, *Borrowing Costs (Borrowing costs eligible for capitalization)*, clarify that specific borrowings that remain outstanding after the related qualifying asset is ready for its intended use or sale become part of the funds an entity borrows generally. Thus, these borrowings are included in the calculation of the capitalization rate for qualifying assets for which no specific funds were borrowed.

The amendments are required to be applied for annual periods beginning on or after January 1, 2019. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The *Amendments to References to the Conceptual Framework in IFRS Standards*, set out amendments to IFRS Standards, the accompanying documents and IFRS practice statements to reflect the issue of the revised Conceptual Framework (2018). The amendments are required to be applied for annual periods beginning on or after January 1, 2020. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

4. Companies Consolidated and Information on Subsidiaries and Investments

Companies consolidated
In addition to the parent company, the consolidated financial statements include 572 (PY: 527) domestic and foreign companies that Continental Aktiengesellschaft incorporates according to the regulations of IFRS 10 or that are classified as joint arrangements or associated companies. Of these, 442 (PY: 412) are fully consolidated and 130 (PY: 115) are accounted for using the equity method.

The number of consolidated companies has increased by a total of 45 since the previous year. 38 companies were formed, 18 were acquired and three previously unconsolidated entities were included in consolidation for the first time. Six structured entities were also fully consolidated according to IFRS 10. Nine companies were liquidated and four were sold. In addition, the number of companies consolidated was reduced by seven as a result of mergers.

The additions to the scope of consolidation in 2018 resulted mainly from companies newly founded for the corporate restructuring.

A total of 35 (PY: 45) companies whose assets and liabilities, expenses and income – individually and combined – are not material for the earnings, financial and net assets position of the corporation, are not included in consolidation. 34 (PY: 44) of these are affiliated companies, three (PY: three) of which are currently inactive. As in the previous year, one further company not included in consolidation is an associated company. This unit is active.

Information on subsidiaries and investments
As at December 31, 2018, non-controlling interests were not of significance to the corporation. There are no significant restrictions in terms of access to or the use of assets of the corporation due to statutory, contractual or regulatory restrictions or property rights of non-controlling interests.

Noisetier SAS, Paris, France; Continental Teves Taiwan Co., Ltd., Tainan, Taiwan; and e.solutions GmbH, Ingolstadt, Germany, each of which with a 51% share of voting rights, and Carrel Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz, Germany, with a share of voting rights of 94%, are not fully consolidated as, under the companies' statutes, these interests are not enough to direct the relevant activities of these investments.

EasyMile SAS, Toulouse, France, with a 13% share of voting rights, is classified as an associated company, as significant influence can be exerted on the basis of the company's Articles of Incorporation. Continental AG consolidates 18 (PY: 12) structured entities. These structured entities are characterized, among other things, by limited activities and a narrowly defined business purpose. Continental holds no voting rights or investments in the fully consolidated structured entities. However, Continental directs the business activities of these entities on the basis of contractual rights. The shareholders therefore have no influence. Furthermore, Continental is also exposed to variable returns from these entities and can influence these by directing business activities. There are no significant shares or rights in non-consolidated structured entities.

Further information on equity investments and an overview of the German corporations and partnerships that utilized the exemption provisions of Sections 264 (3) and 264b of the German Commercial Code (*Handelsgesetzbuch – HGB*) can be found in Note 40.

5. Acquisition and Disposal of Companies and Business Operations

Acquisition of companies and business operations
On November 1, 2018, Conti Trade Australia Pty Ltd, Bundoora, Australia, acquired 100% of the shares in Tyre and Auto Pty Ltd, Melbourne, Australia. Tyre and Auto Pty Ltd is a leading tire dealer and provider of automotive and repair services in Australia. In the 2017 fiscal year, it generated sales of AUD 323.9 million (€219.8 million) with over 1,200 employees at 258 locations in Australia. The purchase price for Tyre and Auto Pty Ltd is AUD 357.5 million (€223.7 million) and has been paid in cash in the amount of AUD 350 million (€219.0 million). The remaining amount is recorded as a purchase price liability of AUD 7.5 million (€4.7 million). The total incidental acquisition costs incurred in the amount of AUD 2.6 million (€1.6 million) were recognized as other expenses in fiscal 2018. The provisional purchase price allocation resulted in goodwill of €180.5 million and intangible assets of €45.0 million for the Tire segment. With this acquisition, the Tire segment intends to tap new sales markets in Australia. If the transaction had already been completed on January 1, 2018, net income after tax would have been €4.8 million lower and sales would have been up by €178.6 million. The transaction was closed on November 1, 2018. Since then, Tyre and Auto Pty Ltd has generated sales of €37.1 million and, taking into account the effects of purchase price allocation, contributed net income after tax of €5.2 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2018.

Two asset deals took place in the Tire segment. €2.7 million of the purchase prices totaling €2.9 million was paid in cash. The remaining amount is recorded as a purchase price liability of €0.2 million. The purchase price allocations resulted in intangible assets of €2.1 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2018.

Another share deal took place in the Tire segment. The purchase price of €10.7 million was paid in cash. The purchase price allocation resulted in goodwill of €6.2 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2018.

One asset deal took place in the Interior segment. The purchase price of €0.0 million was paid in cash. The purchase price allocation resulted in a bargain purchase effect of €2.9 million, which was recognized in profit or loss under other income. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2018.

In the ContiTech segment, there was an acquisition of remaining shares for a purchase price of €2.6 million. The resulting difference of €2.5 million between the purchase price and the carrying amount of the acquired shares was recognized in other comprehensive income.

One share deal took place in the Chassis & Safety segment. The purchase price of €3.5 million was fully paid in cash. The provisional purchase price allocation resulted in goodwill of €3.1 million and intangible assets of €0.2 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2018.

Assets and liabilities that were part of the aforementioned acquisitions and were included in the consolidated statement of financial position for the first time were carried in the following amounts:

Acquired net assets in € millions	Fair value at date of first-time consolidation
Other intangible assets[1]	47.4
Property, plant and equipment	23.1
Inventories	13.9
Trade accounts receivable	10.9
Short-term other assets	1.0
Income tax receivables	0.4
Short-term derivative instruments and interest-bearing investments	0.1
Cash and cash equivalents	1.9
Long-term employee benefits	–0.9
Deferred tax liabilities	–4.9
Long-term provisions for other risks and obligations	–4.2
Short-term employee benefits	–9.0
Trade accounts payable	–17.7
Short-term contract liabilities	–1.0
Income tax payables	–0.1
Short-term provisions for other risks and obligations	–1.6
Short-term indebtedness	–2.2
Short-term other liabilities	–3.2
Purchased net assets	**53.9**
Purchase price	240.8
Bargain purchase effect	–2.9
Goodwill	**189.8**

1 This includes €0.4 million for purchased software.

In the Interior segment, OSRAM CONTINENTAL GmbH, Munich, Germany, commenced global operations on July 2, 2018, following the successful conclusion of all negotiations and the granting of the required merger control authorizations. OSRAM CONTINENTAL GmbH is an associate of Continental in which Continental Automotive GmbH, Hanover, Germany, and OSRAM GmbH, Munich, Germany, each hold a 50% stake. Continental accounts for this shareholding using the equity method. Continental contributed net assets, including intangible assets, with a value of €394.7 million to OSRAM CONTINENTAL GmbH. Continental generated a one-off gain of €183.7 million from this contribution. In addition, Continental received compensation payments of €37.5 million from OSRAM GmbH in this context.

Disposal of companies and business operations

In the Interior segment, a sub-activity of the Commercial Vehicles & Aftermarket business unit was disposed of. This transaction resulted in expense of €28.9 million.

In the ContiTech segment, there was income of €0.4 million from the disposal of a company.

Notes to the Consolidated Statement of Income

6. Revenue from Contracts with Customers

In addition to the comments in Note 2 (General Information and Accounting Principles) and Note 3 (New Accounting Principles), the disclosure requirements that arise in relation to IFRS 15, *Revenue from Contracts with Customers*, are grouped together in this Note.

Information on the transition to IFRS 15 and its first-time adoption
IFRS 15 was first applied in the Continental Corporation as at January 1, 2018. As the transition method, the effects of the first-time adoption of IFRS 15 starting from January 1, 2018, on contracts for which the performance obligations have not yet been satisfied were recorded as a cumulative effect in the opening balance sheet as at the same date. As a practical expedient for the transition to IFRS 15, the corporation applied IFRS 15.C5 (c), under which the transaction price from fiscal 2017 – which is attributable to performance obligations not yet satisfied – is not required to be disclosed. With the clarifications to IFRS 15, *Revenue from Contracts with Customers*, the IASB made targeted amendments to IFRS 15 with respect to the following topics: identifying performance obligations, principal versus agent considerations, and licensing. The clarifications were likewise required to be applied for annual periods beginning on or after January 1, 2018.

The first-time adoption of IFRS 15, *Revenue from Contracts with Customers*, resulted in the following effects on the earnings, financial and net assets position:

- Due to the application of the modified retrospective approach in accordance with IFRS 15.C3 (b), the cumulative effect of the first-time adoption of IFRS 15 in the amount of €30.3 million before taxes (€21.9 million after taxes) was recognized as an increase in the opening carrying amount of the retained earnings as of the date of the first-time adoption. The values of comparative periods are based on the accounting principles of IAS 18, *Revenue*, and IAS 11, *Construction Contracts*, and are shown unadjusted.

If IFRS 15 had not been applied, the application of the former accounting methods would have had the following effects in the current reporting period:

- Net income would have amounted to €2,871.6 million (€2,958.3 million with IFRS 15 applied).
- Sales would have amounted to €44,374.9 million (€44,404.4 million with IFRS 15 applied) and the cost of sales would have come to €33,288.1 million (€33,299.5 million with IFRS 15 applied).
- Research and development expenses (net) would have amounted to €3,209.0 million. With IFRS 15 applied, research and development expenses amounted to €4,280.2 million. These figures include the capitalization of development costs in inventories in the amount of €105.0 million. By contrast, other income would have totaled €732.3 million (€1,803.4 million with IFRS 15 applied). Information on the changes in accounting is provided later in this Note in the section on “Material changes in accounting policies due to IFRS 15” and in the following comments.
- Income tax expense would have amounted to €855.2 million (€891.6 million with IFRS 15 applied).
- Not taking into account contract assets, trade accounts receivable would have been reported in the amount of €7,642.1 million (€7,631.9 million with IFRS 15 applied) and inventories, not including the capitalization of development costs, would have been reported in the amount of €4,424.2 million (€4,521.1 million with IFRS 15 applied). In connection with the changes in accounting, contract assets of €67.5 million are reported as at the end of the reporting period. These are chiefly attributable firstly to the recognition of project business – please refer to the following section “Information on revenues in smaller business areas” in this regard. Secondly, there were reclassifications from trade accounts receivable and inventories due to the application of IFRS 15.
- Contract liabilities of €161.2 million would have been recognized under other liabilities. Overall, this would therefore have resulted in other liabilities of €741.2 million (€580.0 million with IFRS 15 applied). Information on the changes in accounting is provided later in this Note in the section “Information on revenues in smaller business areas.”

Consolidated equity would have amounted to €18,224.9 million if IFRS 15 had not been applied (€18,333.3 million with IFRS 15 applied).

Revenue in the Continental Corporation

Revenue from contracts with customers and revenue from other sources are shown in the two tables below.

€ millions	2018
Sales	44,404.4
Other revenues from research and development	1,071.2
Other revenues	63.0
Revenues from contracts with customers	**45,538.6**
Other ancillary business	111.9
Governmental grants	64.4
Gains from sale of a company	49.2
Sale of fixed assets	29.1
Sale of energy and scrap	15.1
Others	12.8
Revenues from other sources	**282.5**
Total revenues	**45,821.1**

Sales revenue from contracts with customers from January 1 to December 31, 2018

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Germany	1,905.6	1,447.2	2,647.4	1,639.3	1,371.9	-184.6	8,826.8
Europe excluding Germany	2,113.7	2,120.8	2,549.5	4,690.6	1,637.3	-65.8	13,046.1
North America	2,261.7	1,809.6	2,214.6	2,953.5	1,780.3	-44.6	10,975.1
Asia	3,165.9	2,248.6	2,015.0	1,332.6	1,154.0	-27.4	9,888.7
Other countries	141.1	114.8	280.7	736.2	401.2	-6.3	1,667.7
Sales by region	**9,588.0**	**7,741.0**	**9,707.2**	**11,352.2**	**6,344.7**	**-328.7**	**44,404.4**
Automotive original equipment business	9,438.6	7,656.8	8,767.5	3,188.0	3,219.5	-255.4	32,015.0
Industrial/replacement business	149.4	84.2	939.7	8,164.2	3,125.2	-73.3	12,389.4
Sales by customer type	**9,588.0**	**7,741.0**	**9,707.2**	**11,352.2**	**6,344.7**	**-328.7**	**44,404.4**

Revenue from research and development is presented in the section on research and development expenses in the notes to the consolidated financial statements.

Material changes in accounting policies due to IFRS 15

There were material changes in accounting due to IFRS 15 with regard to revenue from research and development, which is no longer recognized together with the corresponding costs in fiscal 2018 but instead is reported under other income. In addition, the costs associated with pre-agreed customer refunds are recognized as assets in inventories. Furthermore, from fiscal 2018, significant amounts from the "other liabilities" item are also reported as contract liabilities. With regard to the associated amounts, please refer to the above section "Information on the transition to IFRS 15" and the following section "Information on contract assets and contract liabilities" in this Note.

In smaller business areas, revenue recognition over time is also applied, leading to an earlier recognition of sales and to contract assets. However, this change is not material for the Continental Corporation. A description can be found in the section "Description of revenues in smaller business areas."

There are no material changes to the previous accounting in volume production business with automobile manufacturers in the Automotive Group and the ContiTech segment. The same applies to business in the Tire segment, industrial business in the ContiTech segment, and other retail and replacement parts business, as most services in these areas are mostly recognized at a point in time. Please refer to the descriptions of the corresponding sales revenues directly below.

Until the end of fiscal 2017, the IFRS standards IAS 18, IAS 11 and the other applicable pronouncements were applied in the context of revenue recognition. In line with these provisions, Continental recognized revenue for product sales and services when there was

proof or an agreement to the effect that delivery had been made or the services performed and that the risks had been transferred to the customer. Revenues from made-to-order production were recognized using the percentage-of-completion method. The ratio of costs already incurred to the estimated total costs associated with the contract served as the basis of calculation. The percentage-of-completion method was of immaterial to the Continental Corporation.

Multi-component contracts that contain distinct performance obligations with different timing of revenue recognition are also not currently material in the Continental Corporation.

Description of sales revenues in automotive original equipment business

The type of performance obligations to customers in automotive original equipment business relates to the diverse and predominantly customer-specific products of the Automotive Group, the ContiTech segment and the original equipment business of the Tire segment; please also refer to the descriptions of the divisions in the Corporate Management Report. Invoices are generally prepared once a month, while the payment terms average 60 days and differ mostly on a regional basis only. Payments are made by bank transfer in the vast majority of cases and no significant discounts on the invoice amount are granted; however, customer bonuses and other price reductions are included in the transaction price as variable price components in line with expectations. The customers do not usually make any significant advance payments. Revenue is almost always recognized over time using an output-based measurement method, and sales revenues are measured based on the products that leave the production plant, as the products are produced and delivered “just in time.” There are no significant obligations from the right of customers to return products, or from reimbursements to customers or similar obligations, or from warranty commitments that include a service component.

Description of sales revenues in industrial and replacement business

The type of performance obligations to customers in industrial and replacement business relates to the replacement tire and retail business of the Tire segment, the industrial and retail business of the ContiTech segment, and the replacement parts and retail business of the Automotive Group; please also refer to the descriptions of the divisions in the Corporate Management Report. Invoices are generally prepared once a month, while the payment terms average 60 days and differ mostly depending on the region and/or product group. Payments are made by bank transfer in the vast majority of cases, with the exception of business with end customers and consumers, who often pay in cash. No significant discounts on the invoice amount are granted; however, customer bonuses and other price reductions are included in the transaction price as variable price components in line with expectations. The customers do not usually make any significant advance payments. Revenue is recognized at the point in time when control is transferred to the customer, also taking account of the agreed incoterms. There are no significant obligations from the right of customers to return products, or from reimbursements to customers or similar obligations, or from warranty commitments that include a service component.

Description of revenues in smaller business areas

Revenues in smaller business areas are included in the sales of the automotive original equipment business, in the sales of the industrial and replacement business, and in other revenues. On the one hand, services are provided and, on the other, project business is conducted in which developments for customers are made, goods produced or services provided over a medium-term or longer period. Except in the case of revenues from research and development, as also shown above in the section on significant changes in accounting, these smaller business areas are only of minor significance for Continental. For all of these revenues, there are no significant obligations from the right of customers to return products, or from reimbursements to customers or similar obligations, or from warranty commitments that include a service component.

The largest component of these revenues relates to revenues from research and development, which are recognized at a point in time, either when the entire development is completed or when identifiable milestones within a development are reached. Invoices are generally prepared after completion – of an entire development or a milestone – and acceptance by the customer. Payments are made by bank transfer in the vast majority of cases. No significant discounts on the invoice amount are granted. The customers do not usually make any significant advance payments.

In addition and in smaller amounts, services that are performed alongside the main business lead to revenue recognition over time. Both input- and output-based measurement methods are used and sales are measured either based on the hours or days worked or the costs incurred (input), or based on the goods or services provided (output). Invoices are generally prepared at least once a month and payments are made by bank transfer in the vast majority of cases. No significant discounts on the invoice amount are granted. The customers do not usually make any significant advance payments.

In addition, project business is conducted, in which generally customer-specific goods or services are produced or provided for customers over a medium-term or longer period. Revenue from this is likewise recognized over time and sales are mostly measured using input-based measurement methods, taking account of the costs incurred. Invoices are generally issued as contractually agreed. Advance payments averaging 30% are usually made by the customers before the start of a project. Payments are made by bank transfer in the vast majority of cases. No significant discounts on the invoice amount are granted.

Information on contract assets and contract liabilities
Contract assets primarily arise in the project business described above from customer-specific goods or services for customers, but are only of minor significance in the Continental Corporation. Because in these cases the goods or services are provided over a medium-term or longer period in which goods or services have already been provided by Continental but there is not yet an unconditional right against the customer – i.e. a receivable – contract assets must be recognized. The right – or part of the right – to consideration from the customer is often only unconditional once the provision of the services has been completed and can then be recognized as a receivable and invoiced in full. The associated payments are generally made on the basis of actual invoicing. The recognition of receivables and the receipt of payments reduce the associated contract assets.

The table below shows the contract assets from contracts with customers:

€ millions	Dec. 31, 2018	Jan. 1, 2018
Contract assets	67.5	19.4

Contract liabilities include mainly advance payments by customers for deliveries of goods and for services to be performed. In the case of these advance payments by customers for deliveries of goods and for services to be performed, for which contract liabilities are recognized, the customer has already paid the consideration – or part of the consideration – but Continental has generally not yet satisfied its performance obligation, or has done so only to a limited extent. The provision of the corresponding services to the customers by Continental in these cases reduces the level of the associated contract liabilities.

The table below shows the contract liabilities from contracts with customers:

€ millions	Dec. 31, 2018	Jan. 1, 2018
Advance payments by customers for deliveries of goods and for services to be performed	161.2	113.5
Total contract assets	**161.2**	**113.5**

Of the contract liabilities of €113.5 million accounted for at the beginning of the year, €109.2 million was recognized as revenues in the reporting year. As a result of performance obligations satisfied in previous years, no material revenue – for example, due to changes in the transaction price – was recognized in the reporting year.

Transaction price for performance obligations not yet satisfied
The table below shows the aggregated, anticipated amounts of transaction prices for performance obligations not yet satisfied or only partly satisfied from contracts as defined in IFRS 15 with a term of more than one year.

€ millions	2019	2020 onward
Revenues from research and development	148.8	301.9
Other revenues	117.0	16.4
Total	**265.8**	**318.3**

The amounts relate chiefly to future revenues from research and development and the revenues are expected to be recognized within the periods shown. For contracts as defined in IFRS 15 with a term of less than one year, the practical expedient under IFRS 15.121 (a) is applied and no amounts are shown.

Use of other practical expedients
For contracts for which the time interval between the provision of the service by Continental and the expected payment by the customer comes to more than one year as at the start of the contract, the practical expedient from IFRS 15.63 is applied and the transaction price is not adjusted for any significant financing components contained.

7. Research and Development Expenses

The expenses and revenue from research and development are shown in the two tables below.

€ millions	2018					
	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Continental Corporation
Research and development expenses	-1,399.0	-1,084.1	-1,314.0	-299.4	-183.7	-4,280.2
Revenues from research and development	375.8	411.5	249.3	—	34.6	1,071.2
Research and development expenses (net)	**-1,023.2**	**-672.6**	**-1,064.7**	**-299.4**	**-149.1**	**-3,209.0**

€ millions	2017					
	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Continental Corporation
Research and development expenses	-1,236.3	-1,064.4	-1,323.4	-289.8	-172.6	-4,086.5
Revenues from research and development	322.5	365.4	260.7	—	34.2	982.8
Research and development expenses (net)	**-913.8**	**-699.0**	**-1,062.7**	**-289.8**	**-138.4**	**-3,103.7**

8. Other Income and Expenses

€ millions	2018	2017
Other income	1,803.4	584.5
Other expenses	-1,027.5	-796.6
Other income and expenses	**775.9**	**-212.1**

Other income

€ millions	2018	2017
Income from research and development	1,071.2	–
Income from the disposal of companies and business operations	187.1	14.4
Compensation from customers and suppliers	90.2	31.9
Income from the reversal of provisions	83.5	194.6
Income from the reimbursement of customer tooling expenses	63.0	81.2
Income from the reversal of impairment on financial assets and contract assets[1]	29.8	25.0
Income from the disposal of property, plant and equipment	29.1	28.1
Income from the reversal of provisions for litigation and environmental risks	26.6	29.7
Income from the reversal of provisions for severance payments	8.5	2.5
Bargain purchase effect	2.9	–
Reversal of impairment losses on property, plant and equipment	2.8	5.9
Miscellaneous	208.7	171.2
Other income	**1,803.4**	**584.5**

1 The previous year's figure shows the reversal of allowances on receivables in accordance with IAS 39.

Other income increased by €1,218.9 million to €1,803.4 million (PY: €584.5 million) in the reporting period.

Income from research and development in the amount of €1,071.2 million (PY: –) is attributable to the first-time adoption of IFRS 15. For more information, please see Note 6.

Disposals of companies and business operations resulted in income of €187.1 million (PY: €14.4 million) in 2018.

Compensation for claims against customers and suppliers resulted in income totaling €90.2 million (PY: €31.9 million) in the reporting period.

The reversal of specific warranty provisions and provisions for restructuring measures resulted in income of €83.5 million (PY: €194.6 million) in the reporting period.

Reimbursements for customer tooling resulted in income of €63.0 million (PY: €81.2 million) in 2018.

The income from the reversal of allowances on receivables was €29.8 million (PY: €25.0 million).

Income of €29.1 million (PY: €28.1 million) was generated from the disposal of property, plant and equipment in the period under review.

The reversal of provisions for litigation and environmental risks resulted in income totaling €26.6 million (PY: €29.7 million).

Income of €8.5 million (PY: €2.5 million) arose from the reversal of provisions for severance payments in 2018.

An acquisition in the reporting period resulted in a bargain purchase effect of €2.9 million (PY: –).

Reversal of impairment losses on property, plant and equipment resulted in total income of €2.8 million (PY: €5.9 million).

The "Miscellaneous" item includes proceeds from license agreements and income from insurance compensation due to damage to property, plant and equipment caused by force majeure. In addition, government grants amounting to €8.7 million (PY: €12.9 million) that were not intended for investments in non-current assets were received and recognized in profit or loss in the "Miscellaneous" item.

Other expenses

€ millions	2018	2017
Additions to specific warranty provisions and provisions for restructuring measures	348.4	326.0
Additions to provisions for litigation and environmental risks	91.6	101.8
Expenses from currency translation	86.7	29.7
Compensation to customers and suppliers	71.8	4.3
Expenses from severance payments	63.9	51.2
Expenses from impairment on financial assets and contract assets[1]	41.6	38.5
Expenses from customer tooling	38.8	59.2
Losses on the disposal of companies and business operations	28.9	2.0
Impairment on property, plant and equipment, and intangible assets	23.5	23.1
Losses on the disposal of property, plant and equipment, and from scrapping	22.2	14.1
Incidental acquisition costs from acquisitions of companies and business operations	2.0	3.3
Impairment on goodwill	–	23.0
Miscellaneous	208.1	120.4
Other expenses	**1,027.5**	**796.6**

1 The previous year's figure shows the expenses resulting from valuation allowances on receivables in accordance with IAS 39.

Other expenses increased by €230.9 million to €1,027.5 million (PY: €796.6 million) in the reporting period.

Additions to specific warranty provisions and provisions for restructuring measures resulted in expenses totaling €348.4 million (PY: €326.0 million).

In connection with provisions for litigation and environmental risks, there were expenses of €91.6 million (PY: €101.8 million).

In the year under review, expenses of €86.7 million (PY: €29.7 million) were incurred as a result of currency translations from operating receivables and liabilities in foreign currencies not classified as indebtedness.

Compensation for customer and supplier claims that are not warranties resulted in expenses of €71.8 million (PY: €4.3 million) in the reporting period.

Personnel adjustments not related to restructuring led to expenses from severance payments of €63.9 million (PY: €51.2 million).

The expenses resulting from valuation allowances for doubtful accounts were €41.6 million (PY: €38.5 million).

Expenses from customer tooling of €38.8 million (PY: €59.2 million) arose in 2018.

Disposals of companies and business operations resulted in losses of €28.9 million (PY: €2.0 million).

Impairment on property, plant and equipment, and intangible assets amounted to €23.5 million (PY: €23.1 million) in the reporting period.

Losses of €22.2 million (PY: €14.1 million) arose from the disposal of property, plant and equipment, and from scrapping activities in 2018.

Incidental acquisition costs of €2.0 million (PY: €3.3 million) were incurred for the acquisition of companies and business operations.

In the Interior segment, goodwill totaling €23.0 million that arose in the previous year in connection with the expansion of our mobility-services activities in the Intelligent Transportation Systems business unit was impaired, outside the scope of the annual impairment test.

The "Miscellaneous" item also includes expenses from other taxes and losses due to force majeure.

9. Personnel Expenses

The following total personnel expenses are included in function costs in the income statement:

€ millions	2018	2017
Wages and salaries	9,074.4	8,641.2
Social security contributions	1,704.5	1,685.4
Pension and post-employment benefit costs	346.4	360.7
Personnel expenses	**11,125.3**	**10,687.3**

Compared to the 2017 reporting year, personnel expenses rose by €438.0 million to €11,125.3 million (PY: €10,687.3 million). This rise is due in particular to global recruitment activities.

The average number of employees in 2018 was 242,797 (PY: 230,656). As at the end of the year, there were 243,226 (PY: 235,473) employees in the Continental Corporation. Please also see the comments in the Management Report.

10. Income from Investments

€ millions	2018	2017
Income from equity-accounted investees	69.6	76.8
Other income from investments	0.8	0.5
Income from investments	**70.4**	**77.3**

Net investment income includes, in particular, the share of earnings of companies accounted for using the equity method in the amount of €69.6 million (PY: €76.8 million).

11. Financial Result

€ millions	2018	2017
Interest and similar income	58.3	26.6
Expected income from long-term employee benefits and from pension funds	64.6	67.8
Interest income	**122.9**	**94.4**
Interest and similar expenses	-124.4	-123.3
Finance lease expenses	-0.8	-1.1
Interest expense for long-term provisions and liabilities	-5.1	-5.6
Interest expense from long-term employee benefits	-145.9	-151.5
Interest expense	**-276.2**	**-281.5**
Effects from currency translation	**-30.4**	**-138.8**
Effects from changes in the fair value of derivative instruments	5.9	38.4
Other valuation effects	0.0	1.8
Effects from changes in the fair value of derivative instruments, and other valuation effects	**5.9**	**40.2**
Financial result	**-177.8**	**-285.7**

The negative financial result improved by €107.9 million year-on-year to €177.8 million (PY: €285.7 million) in 2018. This was primarily attributable to interest and similar income as well as the sum of the effects from changes in the fair value of derivative instruments and from currency translation.

Interest income in 2018 rose by €28.5 million year-on-year to €122.9 million (PY: €94.4 million). This was mainly due to the fact that, from the reporting year onward, interest income in connection with income tax liabilities, which was previously reported in income tax expense, is also reported in the financial result. Expected income from long-term employee benefits and pension funds totaled €64.6 million in 2018 (PY: €67.8 million). This does not include the interest income from the plan assets of the pension contribution funds.

Interest expense totaled €276.2 million in 2018 and was thus €5.3 million lower than the previous year's figure of €281.5 million. At €130.3 million, interest expense resulting from bank borrowings, capital market transactions and other financing instruments was €0.3 million higher than the prior-year figure of €130.0 million. The major portion related to expense of €54.6 million (PY: €70.7 million) from the bonds issued by Continental AG and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A. The year-on-year decline in this expense was attributable mainly to the repayment of the €750.0 million euro bond from Continental AG on July 16, 2018. The five-year bond bore interest at a rate of 3.0% p.a. The interest expense from long-term employee benefits totaled €145.9 million (PY: €151.5 million) in 2018. This does not include the interest expense from the defined benefit obligations of the pension contribution funds. In addition, from the reporting year onward, interest expense in connection with income tax liabilities, which was previously reported under income tax expense, is also reported in the financial result.

The effects from currency translation resulted in a negative contribution to earnings of €30.4 million (PY: €138.8 million) in 2018. This was countered by effects from changes in the fair value of derivative instruments, and other valuation effects, which resulted in earnings of €5.9 million (PY: €40.2 million) in 2018. Other valuation effects accounted for €0.0 million (PY: €1.8 million) of this. Taking into account the sum of the effects from currency translation and changes in the fair value of derivative instruments, earnings in 2018 were negatively impacted by €24.5 million (PY: €100.4 million). This was attributable mainly to the development of the Brazilian real in relation to the euro and the U.S. dollar. In the previous year, by contrast, the effects were primarily attributable to the development of the Mexican peso in relation to the U.S. dollar and of the Brazilian real in relation to the euro.

12. Income Tax Expense

The domestic and foreign income tax expense of the corporation is as follows:

€ millions	**2018**	2017
Current taxes (domestic)	-86.2	-335.5
Current taxes (foreign)	-757.0	-852.4
Deferred taxes (domestic)	-44.1	46.6
Deferred taxes (foreign)	-4.3	-86.2
Income tax expense	**-891.6**	**-1,227.5**

The following table shows the reconciliation of the expected tax expense to the reported tax expense:

€ millions	2018	2017
Earnings before tax	**3,849.9**	**4,275.8**
Expected tax expense at the domestic tax rate	-1,178.1	-1,308.4
Foreign tax rate differences	277.5	253.3
Non-deductible expenses and non-imputable withholding taxes	-146.1	-171.7
Incentives and tax holidays	134.6	133.5
Taxes for previous years	100.0	-59.7
Non-recognition of deferred tax assets unlikely to be realized	-79.6	-91.0
Change in permanent differences	-28.6	5.5
Realization of previously non-recognized deferred taxes	27.0	11.3
Tax effect from equity-accounted investees	16.0	22.5
Local income tax with different tax base	-12.3	-19.5
Effects from changes in enacted tax rate	-6.9	5.1
Other[1]	4.9	-8.4
Income tax expense	**-891.6**	**-1,227.5**
Effective tax rate in %	**23.2**	**28.7**

1 The previous year's figures have been adjusted in line with the structure in 2018.

The average domestic tax rate in 2018 was 30.6% (PY: 30.6%). This takes into account a corporate tax rate of 15.0% (PY: 15.0%), a solidarity surcharge of 5.5% (PY: 5.5%) and a trade tax rate of 14.8% (PY: 14.8%).

The reduction in the tax expense from the difference in foreign tax rates primarily reflects the volume of activities in Eastern Europe and Asia.

As in the previous year, foreign tax rate differences, incentives and tax holidays had positive effects in the year under review. The tax rate was negatively impacted by non-cash allowances on deferred tax assets totaling €79.6 million (PY: €91.0 million), of which €16.4 million (PY: €40.2 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. The tax rate in fiscal 2018 was also impacted positively by the effects of U.S. tax reform and influenced by tax refunds for previous years as a result of a supreme court ruling in Germany. Please see Note 18.

The tax effects from government incentives and tax holidays increased in comparison to the previous year. In addition to the ongoing utilization of incentives in Europe and Asia as in the previous year, the utilization of government incentives in the U.S.A. had a further positive impact in the reporting year. In the year under review, local income taxes of €12.3 million (PY: €19.5 million) were incurred with a different tax base, mainly in Hungary and the U.S.A.

The result of equity-accounted investees included in net income resulted in tax income of €16.0 million (PY: €22.5 million) in the year under review.

The effects of the change in tax rate relate to the remeasurement of deferred tax assets and liabilities due to changes in the law already taking effect with regard to future applicable tax rates.

The following table shows the total income tax expense, also including the items reported under reserves recognized directly in equity:

€ millions	Dec. 31, 2018	Dec. 31, 2017
Income tax expense (acc. to Consolidated Statement of Income)	**–891.6**	**–1,227.5**
Tax income on other comprehensive income	33.4	–114.0
Remeasurement of defined benefit plans	30.7	–92.9
Investment in equity-accounted investees	0.0	0.1
Currency translation	2.2	–21.6
Cash flow hedges	0.5	0.4
Total income tax expense	**–858.2**	**–1,341.5**

Notes to the Consolidated Statement of Financial Position

13. Goodwill and Other Intangible Assets

€ millions	Goodwill	Capitalized development expenses	Other intangible assets	Advances to suppliers	Total other intangible assets
As at January 1, 2017					
Cost	**9,429.1**	310.1	2,446.1	19.8	**2,776.0**
Accumulated amortization	**-2,571.8**	-102.0	-1,159.9	–	**-1,261.9**
Book value	**6,857.3**	**208.1**	**1,286.2**	**19.8**	**1,514.1**
Net change in 2017					
Book value	**6,857.3**	208.1	1,286.2	19.8	**1,514.1**
Exchange-rate changes	**-123.4**	-3.3	-95.2	-0.2	**-98.7**
Additions	**–**	92.1	51.7	13.0	**156.8**
Additions from the first-time consolidation of subsidiaries[1]	**299.2**	–	359.3	–	**359.3**
Reclassification to assets held for sale	**–**	–	-0.1	–	**-0.1**
Transfers	**–**	–	15.2	-15.2	**–**
Disposals	**–**	–	-1.7	-0.1	**-1.8**
Amortization	**–**	-74.5	-247.8	–	**-322.3**
Impairment	**-23.0**	–	0.0	–	**0.0**
Book value	**7,010.1**	**222.4**	**1,367.6**	**17.3**	**1,607.3**
As at December 31, 2017					
Cost	**9,597.7**	393.5	2,705.7	17.3	**3,116.5**
Accumulated amortization	**-2,587.6**	-171.1	-1,338.1	–	**-1,509.2**
Book value	**7,010.1**	**222.4**	**1,367.6**	**17.3**	**1,607.3**
Net change in 2018					
Book value	**7,010.1**	222.4	1,367.6	17.3	**1,607.3**
Exchange-rate changes	**33.5**	1.2	17.2	1.2	**19.6**
Additions	**–**	157.9	54.5	19.4	**231.8**
Additions from the first-time consolidation of subsidiaries	**189.8**	–	47.4	–	**47.4**
Amounts disposed of through disposal of subsidiaries	**–**	–	0.0	–	**0.0**
Transfers	**–**	–	7.5	-7.8	**-0.3**
Disposals	**–**	–	-0.2	-0.3	**-0.5**
Amortization	**–**	-90.0	-249.0	–	**-339.0**
Impairment	**–**	–	0.0	–	**0.0**
Book value	**7,233.4**	**291.5**	**1,245.0**	**29.8**	**1,566.3**
As at December 31, 2018					
Cost	**9,823.5**	552.1	2,818.5	29.8	**3,400.4**
Accumulated amortization	**-2,590.1**	-260.6	-1,573.5	–	**-1,834.1**
Book value	**7,233.4**	**291.5**	**1,245.0**	**29.8**	**1,566.3**

1 Including subsequent adjustment from purchase price allocations. Included in the additions from the first-time consolidation of subsidiaries are additions from other intangible assets in the amount of €1.4 million from a previously unconsolidated entity that was included in the consolidation for the first time.

Acquisitions of companies in 2018 resulted in an addition to goodwill totaling €189.8 million (PY: €299.2 million). The carrying amount of goodwill relates principally to the acquisitions of Siemens VDO (2007), Continental Teves (1998), the automotive electronics business from Motorola (2006), Elektrobit Automotive (2015), Veyance Technologies (2015) and Continental Temic (2001).

The table below shows the goodwill of each cash-generating unit, in line with the current organizational structure in the respective fiscal year:

	Goodwill		
€ millions	**Dec. 31, 2018**		Dec. 31, 2017
Vehicle Dynamics	1,259.1	Vehicle Dynamics	1,254.4
Hydraulic Brake Systems	409.0	Hydraulic Brake Systems	405.4
Passive Safety & Sensorics	592.1	Passive Safety & Sensorics	591.1
Advanced Driver Assistance Systems	366.9	Advanced Driver Assistance Systems	362.8
Continental Engineering Services	16.9	Continental Engineering Services	17.0
Chassis & Safety	**2,644.0**	**Chassis & Safety**	**2,630.7**
Engine Systems	455.3	Engine Systems	451.3
Fuel & Exhaust Management	78.4	Fuel & Exhaust Management	78.5
Sensors & Actuators	209.4	Sensors & Actuators	207.3
Transmission	250.7	Transmission	249.2
Powertrain	**993.8**	**Powertrain**	**986.3**
Instrumentation & Driver HMI	767.5	Instrumentation & Driver HMI	773.0
Infotainment & Connectivity	567.3	Infotainment & Connectivity	563.8
Body & Security	716.6	Body & Security	712.2
Commercial Vehicles & Aftermarket	658.3	Commercial Vehicles & Aftermarket	652.4
Interior	**2,709.7**	**Interior**	**2,701.4**
Passenger and Light Truck Tire Original Equipment	2.0	Passenger and Light Truck Tire Original Equipment	2.0
Passenger and Light Truck Tire Replacement Business, EMEA	139.8	Passenger and Light Truck Tire Replacement Business, EMEA	133.6
Passenger and Light Truck Tire Replacement Business, APAC	180.5	Passenger and Light Truck Tire Replacement Business, APAC	–
Passenger and Light Truck Tire Replacement Business, The Americas	16.6	Passenger and Light Truck Tire Replacement Business, The Americas	15.9
Commercial Vehicles Tires	53.3	Commercial Vehicles Tires	53.7
Tires	**392.2**	**Tires**	**205.2**
Air Spring Systems	22.7	Air Spring Systems	23.1
Benecke-Hornschuch Surface Group	116.7	Benecke-Hornschuch Surface Group	102.2
Special Technologies and Solutions	4.2	Compounding Technology[1]	1.8
Conveyor Belt Group	110.4	Conveyor Belt Group	109.8
		Elastomer Coatings[2]	14.2
Mobile Fluid Systems	50.1	Mobile Fluid Systems	49.4
Industrial Fluid Solutions	144.9	Industrial Fluid Solutions	140.0
Power Transmission Group	44.1	Power Transmission Group	43.0
Vibration Control	0.6	Vibration Control	0.6
		CT Other[1]	2.4
ContiTech	**493.7**	**ContiTech**	**486.5**
Continental Corporation	**7,233.4**	**Continental Corporation**	**7,010.1**

1 Since January 2018: Special Technologies and Solutions.
2 Since January 2018: Part of Benecke-Hornschuch Surface Group.

The additions to purchased intangible assets from consolidation changes are attributable primarily to customer relationships and know-how. Other additions related mainly to software in the amount of €51.4 million (PY: €42.3 million). Under IAS 38, €158.0 million (PY: €92.1 million) of the total development costs incurred in 2018 qualified for recognition as an asset.

Amortization of other intangible assets amounted to €339.0 million (PY: €322.3 million). Of this, €271.2 million (PY: €257.9 million) is included in the consolidated statement of income under the cost of sales and €67.8 million (PY: €64.4 million) under administrative expenses.

The other intangible assets include carrying amounts adjusted for translation-related exchange-rate effects and not subject to amortization in the amount of €112.2 million (PY: €112.2 million).

These relate in particular to the VDO brand name in the amount of €71.2 million, the Elektrobit brand name in the amount of €30.4 million, the Phoenix brand name in the amount of €4.2 million and the Matador brand name in the amount of €3.2 million. The purchased intangible assets also include the carrying amounts of software amounting to €102.7 million (PY: €114.4 million), which are amortized on a straight-line basis as scheduled.

14. Property, Plant and Equipment

The additions to property, plant and equipment from changes in the scope of consolidation in the amount of €23.1 million essentially resulted from the acquisition of Tyre and Auto Pty Ltd, Melbourne, Australia. Please see Note 5.

Investments in the Chassis & Safety segment focused on both increasing production capacity in Europe and expanding the locations in Asia and North America. Production capacity was hereby increased for all business units. Important additions related to the creation of new production facilities for electronic brake systems.

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

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

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

Investments in the ContiTech segment focused on the expansion of production facilities at the German locations and in China, the U.S.A., Hungary, Mexico and Romania. Production capacity for the Mobile Fluid Systems, Benecke-Hornschuch Surface Group and Power Transmission Group business units was expanded in particular. Furthermore, investments were made in all business units to rationalize existing production processes. Please see Note 8 for information on impairment and reversal of impairment losses.

Government investment grants of €84.6 million (PY: €37.5 million) were deducted directly from cost, primarily for the plant in Clinton, Mississippi, U.S.A.

As in the previous year, no borrowing costs were capitalized when applying IAS 23.

Please see Note 24 for information on reclassifications during the period to assets held for sale.

Property, plant and equipment includes buildings, technical equipment and other facilities assigned to the corporation as the beneficial owner on the basis of the lease agreement. These relate primarily to administration and manufacturing buildings. The leases have an average term of up to 19 years for buildings and five to ten years for technical equipment. The effective interest rate of the main leases is between 2.0% and 5.4% (PY: 2.7% and 9.8%). Some of the main leases include prolongation or purchase options.

There are restrictions on title and property, plant and equipment pledged as security for liabilities in the amount of €13.5 million (PY: €14.1 million).

€ millions	Land, land rights and buildings[1]	Technical equipment and machinery	Other equipment, factory and office equipment	Advances to suppliers and assets under construction	**Total**
As at January 1, 2017					
Cost	4,546.2	16,376.7	2,613.7	1,720.8	**25,257.4**
Accumulated depreciation	-1,790.5	-11,009.1	-1,911.7	-8.0	**-14,719.3**
Book value	**2,755.7**	**5,367.6**	**702.0**	**1,712.8**	**10,538.1**
thereof finance leases	17.3	1.6	0.1	—	**19.0**
Net change in 2017					
Book value	2,755.7	5,367.6	702.0	1,712.8	**10,538.1**
Exchange-rate changes	-112.3	-221.7	-24.6	-80.2	**-438.8**
Additions	153.1	929.8	179.8	1,536.4	**2,799.1**
Additions from the first-time consolidation of subsidiaries[3]	43.2	65.5	9.5	11.7	**129.9**
Amounts disposed of through disposal of subsidiaries	—	-0.1	-0.2	—	**-0.3**
Reclassification to/from assets held for sale	-13.3	-0.4	—	—	**-13.7**
Transfers	160.1	924.4	116.2	-1,201.6	**-0.9**
Disposals	-2.7	-32.3	-2.7	-1.8	**-39.5**
Depreciation	-182.4	-1,327.5	-244.7	—	**-1,754.6**
Impairment[2]	5.0	-18.6	-0.8	-2.8	**-17.2**
Book value	**2,806.4**	**5,686.7**	**734.5**	**1,974.5**	**11,202.1**
As at December 31, 2017					
Cost	4,701.4	17,266.2	2,727.5	1,984.2	**26,679.3**
Accumulated depreciation	-1,895.0	-11,579.5	-1,993.0	-9.7	**-15,477.2**
Book value	**2,806.4**	**5,686.7**	**734.5**	**1,974.5**	**11,202.1**
thereof finance leases	20.2	0.6	0.0	—	**20.8**
Net change in 2018					
Book value	2,806.4	5,686.7	734.5	1,974.5	**11,202.1**
Exchange-rate changes	-7.0	14.0	-0.2	16.8	**23.6**
Additions	120.4	866.9	186.6	1,879.7	**3,053.6**
Additions from the first-time consolidation of subsidiaries[4]	5.8	12.1	5.2	0.4	**23.5**
Amounts disposed of through disposal of subsidiaries	-8.2	-3.3	-1.6	-0.4	**-13.5**
Reclassification to/from assets held for sale	—	—	—	—	**—**
Transfers	146.5	1,046.9	124.1	-1,318.1	**-0.6**
Disposals	-2.1	-38.0	-3.1	-1.4	**-44.6**
Depreciation	-186.5	-1,405.1	-256.3	—	**-1,847.9**
Impairment[2]	-0.4	-19.0	-0.9	-0.4	**-20.7**
Book value	**2,874.9**	**6,161.2**	**788.3**	**2,551.1**	**12,375.5**
As at December 31, 2018					
Cost	4,948.9	18,770.5	2,970.3	2,561.3	**29,251.0**
Accumulated depreciation	-2,074.0	-12,609.3	-2,182.0	-10.2	**-16,875.5**
Book value	**2,874.9**	**6,161.2**	**788.3**	**2,551.1**	**12,375.5**
thereof finance leases	8.8	0.5	1.0		**10.3**

1 Investment property is shown separately in Note 15.
2 Impairment also includes necessary reversal of impairment losses.
3 Included in the additions from the first-time consolidation of subsidiaries are additions from property, plant and equipment in the amount of €0.8 million from a previously unconsolidated entity that was included in the consolidation for the first time.
4 Included in the additions from the first-time consolidation of subsidiaries are additions from property, plant and equipment in the amount of €0.4 million from a previously unconsolidated entity that was included in the consolidation for the first time.

15. Investment Property

€ millions	2018	2017
Cost as at January 1	20.7	20.2
Accumulated depreciation as at January 1	-10.2	-9.9
Net change		
Book value as at January 1	**10.5**	**10.3**
Exchange-rate changes	0.1	-0.2
Reclassifications	1.7	0.7
Depreciation	-0.3	-0.3
Book value as at December 31	**12.0**	**10.5**
Cost as at December 31	22.3	20.7
Accumulated depreciation as at December 31	-10.3	-10.2

The fair value – determined using the gross rental method – of land and buildings accounted for as investment property as at December 31, 2018, amounted to €16.3 million (PY: €16.0 million). Rental income in 2018 amounted to €3.3 million (PY: €2.7 million), while associated maintenance costs of €1.4 million (PY: €1.2 million) were incurred.

16. Investments in Equity-Accounted Investees

€ millions	2018	2017
As at January 1	**414.8**	**384.8**
Additions	215.2	7.6
Changes in the consolidation method, and transfers	-1.2	-7.6
Share of income	69.6	76.8
Dividends received	-44.2	-40.2
Changes in other comprehensive income	-9.8	-3.8
Exchange-rate changes	0.5	-2.8
As at December 31	**644.9**	**414.8**

Investments in equity-accounted investees include carrying amounts of joint ventures in the amount of €273.5 million (PY: €260.4 million) and of associates in the amount of €371.4 million (PY: €154.4 million).

A significant joint venture of the Tire segment in the Passenger and Light Truck Tire Original Equipment business unit is MC Projects B.V., Maastricht, Netherlands, plus its subsidiaries. The company is jointly controlled by Continental Global Holding Netherlands B.V., Maastricht, Netherlands, and Compagnie Financière Michelin SCmA, Granges-Paccot, Switzerland, which each hold 50% of the voting rights; and essentially operates in the field of delivering tire-wheel assemblies for automotive manufacturers. Michelin contributed the rights to the Uniroyal brand for Europe to the joint venture. MC Projects B.V. licenses these rights to Continental.

The following shares were held in significant joint ventures in the Automotive Group:

- Continental AG, Hanover, holds 49% of the voting rights in Shanghai Automotive Brake Systems Co., Ltd., Shanghai, China, which is jointly controlled with Huayu Automotive Systems Co., Ltd., Shanghai, China. The key business purpose of the company is the production of hydraulic braking systems for the Chinese market; it is assigned to the Hydraulic Brake Systems and Vehicle Dynamics business units.
- SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany, is jointly controlled by Continental Automotive GmbH, Hanover, Germany, and Faurecia Automotive GmbH, Stadthagen, Germany. Both shareholders hold 50% of the voting rights. The object of

the company and its subsidiaries is essentially the development, assembly and distribution of cockpits and other modules for the automotive industry. The company therefore belongs to the Instrumentation & Driver HMI business unit.

The figures taken from the last two available sets of IFRS annual financial statements (2017 and 2016) for the main joint ventures above are as follows. Amounts are stated at 100%. Furthermore, the pro rata net assets have been reconciled to the respective carrying amount. All shares are accounted for using the equity method.

	MC Projects B.V.		**Shanghai Automotive Brake Systems Co., Ltd.**		**SAS Autosystemtechnik GmbH & Co. KG**	
€ millions	2017	2016	2017	2016	2017	2016
Dividends received	5.0	6.0	21.0	18.3	10.0	15.0
Current assets	180.1	166.7	316.4	308.6	406.3	393.7
thereof cash and cash equivalents	37.5	39.6	59.2	64.3	72.9	127.8
Non-current assets	94.7	77.6	105.4	105.1	131.0	89.3
Total assets	274.8	244.3	421.8	413.7	537.4	483.0
Current liabilities	122.6	109.9	220.8	209.3	410.7	368.5
thereof other short-term financial liabilities	0.0	0.0	–	–	0.0	0.6
Non-current liabilities	7.4	5.9	14.1	20.2	5.7	4.6
thereof long-term financial liabilities	1.3	1.3	–	–	–	–
Total liabilities	129.9	115.8	234.8	229.5	416.4	373.1
Sales	170.3	153.5	591.6	527.6	3,169.5	3,315.6
Interest income	0.1	0.2	0.9	1.2	0.4	0.5
Interest expense	0.3	0.5	–	–	0.1	0.3
Depreciation and amortization	10.8	9.9	14.3	13.0	18.5	19.7
Earnings from continued operations	25.7	23.6	57.2	50.7	37.0	34.0
Other comprehensive income	0.7	-0.5	–	–	-5.9	-2.3
Income tax expense	7.3	9.1	8.9	7.7	11.2	10.5
Earnings after tax	26.4	23.0	57.2	50.7	31.1	31.7
Net assets	144.9	128.5	187.0	184.2	121.0	109.9
Share of net assets	72.4	64.3	91.6	90.3	60.5	55.0
Goodwill	–	–	10.6	10.6	20.3	20.3
Exchange-rate changes	–	–	-5.0	-10.7	–	–
Change in other comprehensive income for the prior year	–	–	–	3.0	3.0	1.1
Share earnings for prior years	-4.8	-6.5	0.0	0.0		–
Carrying amount	67.6	57.8	97.3	93.2	83.7	76.3

IAV GmbH Ingenieurgesellschaft Auto und Verkehr, Berlin, Germany, is a material associate. Continental Automotive GmbH, Hanover, Germany, holds 20% of the shares and voting rights. The company, together with its subsidiaries, essentially performs development services for the automotive industry and is assigned to the Engine Systems business unit.

OSRAM CONTINENTAL GmbH, Munich, Germany, along with its subsidiaries was founded in the reporting year and is a material associate of Continental in the Interior segment. Continental Automotive GmbH, Hanover, Germany, and OSRAM GmbH, Munich, Germany, each hold a 50% stake in it. The company operates in the field of lights, light control and electronics.

The figures taken from the last two available sets of IFRS annual financial statements for IAV GmbH Ingenieurgesellschaft Auto und Verkehr, Berlin, Germany, (2016 and 2017) and for OSRAM CONTINENTAL GmbH, Munich, Germany, (2018) are as follows. Amounts are stated at 100%. Furthermore, the pro rata net assets have been reconciled to the respective carrying amount, which is accounted for using the equity method.

	IAV GmbH Ingenieurgesellschaft Auto und Verkehr		OSRAM CONTINENTAL GmbH
€ millions	2017	2016	2018
Dividends received	0.2	0.2	–
Current assets	281.9	289.6	108.5
Non-current assets	239.4	230.0	211.0
Total assets	521.3	519.6	319.5
Current liabilities	226.3	213.7	106.9
Non-current liabilities	71.9	94.7	3.6
Total liabilities	298.1	308.4	110.5
Sales	798.1	734.1	130.6
Earnings from continued operations	14.7	20.6	-10.1
Other comprehensive income	-2.0	0.3	-10.5
Earnings after tax	12.7	20.9	-20.6
Net assets	223.2	211.2	209.0
Share of net assets	44.6	42.2	104.5
Goodwill	12.7	12.7	256.5
Elimination of non-realized gains from downstream sales			-186.0
Change in other comprehensive income for the prior year	0.4	-0.1	
Other adjustments	1.0	-0.8	5.5
Carrying amount	58.9	54.3	180.5

The financial information results from sample accounting for the associated company, in which all hidden reserves of the contributed and sold net assets of OSRAM AG, Munich, Germany, and Continental AG, Hanover, Germany, were disclosed.

The financial information relates to the period from the date of the investment in the associated company, July 2, 2018, to December 31, 2018.

The figures taken from the last two available sets of annual financial statements (2017 and 2016) for the joint ventures and associates that are not material to the corporation are summarized as follows. Amounts are stated in line with the investment ratio.

€ millions	Associates		Joint ventures	
	2017	2016	2017	2016
Earnings from continued operations	14.4	13.2	-6.4	-4.1
Earnings after tax	**14.4**	**13.2**	**-6.4**	**-4.1**

17. Other Investments

€ millions	Dec. 31, 2018	Dec. 31, 2017
Investments in unconsolidated affiliated companies	9.5	14.3
Other participations	183.4	36.7
Other investments	**192.9**	**51.0**

Other investments are accounted for at fair value. Changes are recognized in other comprehensive income. The amount recognized in other comprehensive income from changes in fair value came to -€3.9 million in the reporting year (PY: –).

With regard to the year-on-year change in the carrying amount, €149.7 million (PY: €9.3 million) results from additions, €4.5 million (PY: €0.7 million) from disposals, -€3.9 million (PY: –) from changes in fair value and €0.6 million (PY: -€0.7 million) from exchange-rate effects.

Dividends received from other investments amounted to €0.8 million in the reporting year (PY: €0.5 million).

There is currently no intention to sell any of the other investments.

18. Deferred Taxes

Deferred tax assets and liabilities are composed of the following items:

€ millions	Dec. 31, 2018		Dec. 31, 2017	
	Assets	**Liabilities**	Assets	Liabilities
Other intangible assets and goodwill	–	475.5	–	397.1
Property, plant and equipment	206.5	266.6	190.4	261.2
Inventories	302.4	85.8	310.0	81.5
Other assets	229.0	280.3	215.7	257.5
Employee benefits less defined benefit assets	961.8	13.7	947.3	6.6
Provisions for other risks and obligations	142.7	14.1	137.7	9.9
Indebtedness and other financial liabilities	214.7	22.3	215.5	32.3
Other differences	209.8	196.6	193.9	213.9
Allowable tax credits	19.3	–	18.0	–
Tax losses carried forward and limitation of interest deduction	217.4	–	200.2	–
Offsetting (IAS 12.74)	-1,039.2	-1,039.2	-911.5	-911.5
Amount recognized in statement of financial position	**1,464.4**	**315.7**	**1,517.2**	**348.5**
Net deferred taxes	**1,148.7**	**–**	**1,168.7**	**–**

Deferred taxes are measured in accordance with IAS 12 at the tax rate applicable for the periods in which they are expected to be realized. Since 2008, there has been a limit on the deductible interest that can be carried forward in Germany; the amount deductible under tax law is limited to 30% of taxable income before depreciation, amortization and interest.

In particular, the development of deferred taxes was influenced by various acquisitions and by the change in actuarial gains and losses from pensions and similar obligations in the year under review. Please see Notes 5 and 26.

Deferred tax assets were down €52.8 million to €1,464.4 million (PY: €1,517.2 million). This was chiefly due to an increase in net deferred taxes of €127.7 million, which was partly offset by a €17.2 million increase in tax losses and interest carried forward and a €16.1 million increase in deferred taxes from property, plant and equipment. Deferred tax liabilities declined by €32.8 million year-on-year to €315.7 million (PY: decline of €23.0 million). This change particularly resulted from offsetting deferred taxes against a counteracting effect from deferred taxes on other intangible assets and goodwill.

As at December 31, 2018, the corporate tax losses, in Germany and abroad, carried forward amounted to €2,647.2 million (PY: €2,294.1 million). The majority of the corporation's tax losses carried forward relates to foreign subsidiaries and is mostly limited in terms of the time period for which they can be carried forward.

Deferred tax assets were not recognized in relation to the following items because it is currently not deemed sufficiently likely that they will be utilized.

€ millions	**Dec. 31, 2018**	Dec. 31, 2017
Temporary differences	56.5	54.2
Tax losses carried forward and limitation of interest deduction	388.1	362.0
Allowable tax credits	49.1	46.1
Total unrecognized deferred tax assets	**493.7**	**462.3**

As at December 31, 2018, some corporation companies and tax groups that reported a loss recognized total deferred tax assets of €48.2 million (PY: €69.0 million), which arose from current losses, tax losses carried forward and a surplus of deferred tax assets. Given that future taxable income is expected, it is sufficiently probable that these deferred tax assets can be realized.

The temporary differences from retained earnings of foreign companies amount to a total of €639.1 million (PY: €587.2 million). Deferred tax liabilities were not taken into account, since remittance to the parent company is not planned in the short or medium term.

The measurement differences from assets or liabilities held for sale are included in the "Other assets" and "Other differences" items.

19. Other Financial Assets

	Dec. 31, 2018		Dec. 31, 2017	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Amounts receivable from related parties	226.3	1.4	176.4	1.8
Loans to third parties	–	76.5	–	60.5
Amounts receivable from employees	19.1	–	19.7	–
Other amounts receivable	75.3	3.5	100.9	6.5
Other financial assets[1]	**320.7**	**81.4**	**297.0**	**68.8**

1 Starting from the 2018 reporting year, deferred costs from the sale of customer tooling are no longer included in order to make the presentation of other financial assets more transparent. The figures as at December 31, 2017, have been adjusted accordingly.

The receivables from related parties were mainly attributable to receivables from operating service business with equity-accounted investees and shareholders, as well as loans to associates.

Loans to third parties mainly related to tenants' loans for individual properties and loans to customers with various maturities.

Receivables from employees related mainly to preliminary payments for hourly wages and for other advances.

In particular, other financial receivables include investment subsidies for research and development expenses not yet utilized and amounts receivable from suppliers. The carrying amounts of the other financial assets are essentially their fair values.

Please see Note 30 for information on the default risks in relation to other financial assets.

20. Other Assets

	Dec. 31, 2018		Dec. 31, 2017	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Trade accounts receivable from the sale of customer tools	241.5	–	232.4	–
Tax refund claims (incl. VAT and other taxes)	453.3	–	530.8	–
Prepaid expenses	191.9	–	199.4	–
Miscellaneous	237.5	27.6	224.2	27.3
Other assets[1]	**1,124.2**	**27.6**	**1,186.8**	**27.3**

1 Starting from the 2018 reporting year, deferred costs from the sale of customer tooling are included in order to make the presentation of other assets more transparent. The figures as at December 31, 2017, have been adjusted accordingly.

The tax refund claims primarily resulted from VAT receivables from the purchase of production materials.

The receivables from the sale of customer tooling related to costs that have not yet been invoiced. The year-on-year increase of €9.1 million mainly resulted from the Rubber Group.

In particular, prepaid expenses include rent and maintenance services paid for in advance and license fees.

Among other things, the “Miscellaneous” item includes other deferred or advanced costs.

Impairment totaling €12.5 million (PY: €15.5 million) was recognized for the probable default risk on other assets. Income of €3.0 million (PY: expense of €8.3 million) arose in the reporting period.

21. Inventories

€ millions	**Dec. 31, 2018**	Dec. 31, 2017
Raw materials and supplies	1,528.3	1,415.4
Work in progress	712.1	563.2
Finished goods and merchandise	2,280.7	2,149.6
Inventories	**4,521.1**	**4,128.2**

Write-downs recognized on inventories increased by €15.3 million to €450.5 million (PY: €435.2 million).

22. Trade Accounts Receivable

€ millions	Dec. 31, 2018	Dec. 31, 2017
Trade accounts receivable	7,736.0	7,779.7
Allowances for doubtful accounts	-104.1	-110.4
Trade accounts receivable	**7,631.9**	**7,669.3**

The carrying amounts of the trade accounts receivable, net of allowances for doubtful accounts, are their fair values. Please see Note 30 for information on the default risks in relation to trade accounts receivable.

The Continental Corporation uses several programs for the sale of receivables. When the risks and rewards of receivables, in particular credit and default risks, have mostly not been transferred, the receivables are still recognized as assets in the statement of financial position.

Under the existing sale-of-receivables programs, the contractual rights to the receipt of payment inflows have been assigned to the corresponding contractual parties. The transferred receivables have short remaining terms. As a rule, therefore, the carrying amounts as at the reporting date in the amount of €745.5 million (PY: €1,799.2 million) are approximately equivalent to their fair value. The respective liabilities with a carrying amount of €469.2 million (PY: €513.7 million) represent the liquidation proceeds from the sale of the receivables. As in the previous year, this was approximately equivalent to their fair value. The committed financing volume under these sale-of-receivables programs amounts to €665.0 million (PY: €894.5 million).

23. Cash and Cash Equivalents

Cash and cash equivalents include all liquid funds and demand deposits. Cash equivalents are short-term, highly liquid financial investments that can be readily converted into known cash amounts and are subject to an insignificant risk of changes in value. As at the reporting date, cash and cash equivalents amounted to €2,761.4 million (PY: €1,881.5 million). Of that, €2,587.7 million (PY: €1,726.7 million) was unrestricted.

For information on the interest-rate risk and the sensitivity analysis for financial assets and liabilities, please see Note 30.

24. Assets Held for Sale

€ millions	Dec. 31, 2018	Dec. 31, 2017
Individual assets held for sale	–	13.5
Assets of a disposal group	–	–
Assets held for sale	**–**	**13.5**

There were no assets held for sale as at the end of the reporting period. In the previous year, the assets held for sale had mainly included assets from the plant closure in Melbourne, Australia, of €11.4 million.

25. Equity

Number of shares outstanding	2018	2017
As at January 1	**200,005,983**	**200,005,983**
Change in the period	–	–
As at December 31	**200,005,983**	**200,005,983**

The subscribed capital of Continental AG was unchanged year-on-year. At the end of the reporting period it amounted to €512,015,316.48 and was composed of 200,005,983 no-par-value shares with a notional value of €2.56 per share.

Under the German Stock Corporation Act *(Aktiengesetz – AktG)*, the dividends distributable to the shareholders are based solely on Continental AG's retained earnings as at December 31, 2018, of €1,758.5 million (PY: €1,470.4 million), as reported in the annual financial statements prepared in accordance with the German Commercial Code. The Supervisory Board and the Executive Board will propose to the Annual Shareholders' Meeting the distribution of a dividend of €4.75 per share. With 200,005,983 no-par-value shares entitled to dividends, the total distribution thus amounts to €950,028,419.25. The remaining amount is to be carried forward to new account.

26. Employee Benefits

The following table outlines the employee benefits:

	Dec. 31, 2018		Dec. 31, 2017	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	–	3,896.0	–	3,847.8
Provisions for other post-employment benefits	–	194.9	–	209.3
Provisions for similar obligations	2.4	49.4	1.6	45.9
Other employee benefits	–	240.8	–	266.3
Liabilities for workers' compensation	40.9	25.9	41.1	24.8
Liabilities for payroll and personnel-related costs	967.7	–	1,025.3	–
Termination benefits	50.5	–	44.7	–
Liabilities for social security	183.2	–	177.1	–
Liabilities for vacation	209.5	–	200.8	–
Employee benefits	**1,454.2**	**4,407.0**	**1,490.6**	**4,394.1**
Defined benefit assets (difference between pension obligations and related funds)		**27.8**		**16.0**

Long-term employee benefits

Pension plans

In addition to statutory pension insurance, the majority of employees are also entitled to defined benefit or defined contribution plans after the end of their employment.

Our pension strategy is focusing on switching from defined benefit to defined contribution plans in order to offer both employees and the company a sustainable and readily understandable pension system. Many defined benefit plans were closed for new employees or future service and replaced by defined contribution plans.

In countries in which defined contribution plans are not possible for legal or economic reasons, defined benefit plans were optimized or changed to minimize the associated risks of longevity, inflation and salary increases.

Defined benefit plans

Defined benefit plans include pension plans, termination indemnities regardless of the reason for the end of employment and other post-employment benefits. As a result of the significant increase in the number of employees in recent years and the high level of acquisition activity, pension obligations essentially relate to active employees. The defined benefit pension plans cover 164,490 beneficiaries, including 121,392 active employees, 16,822 former employees with vested benefits, and 26,276 retirees and surviving dependents. The pension obligations are concentrated in four countries: Germany, the U.S.A., the U.K. and Canada, which account for more than 90% of total pension obligations.

The weighted average term of the defined benefit pension obligations is around 19 years. This term is based on the present value of the obligations.

Germany

In Germany, Continental provides pension benefits through the cash balance plan, prior commitments and deferred compensation.

The retirement plan regulation applicable to active members is based primarily on the cash balance plan and thus on benefit modules. When the insured event occurs, the retirement plan assets are paid out as a lump-sum benefit, in installments or as a pension, depending on the amount of the retirement plan assets. There are no material minimum guarantees in relation to a particular amount of retirement benefits.

Pension plans transferred to or assumed by Continental in the context of acquisitions (Siemens VDO, Temic, Teves, Phoenix) were included in the cash balance plans. For the main German companies, the cash balance plan is partly covered by funds in contractual trust arrangements (CTAs). In Germany, there are no legal or regulatory minimum allocation obligations.

The CTAs are legally independent from the company and manage the plan assets as trustees in accordance with the respective CTAs.

Some prior commitments were granted through two legally independent pension contribution funds. Pensionskasse für Angestellte der Continental Aktiengesellschaft VVaG and Pensionskasse von 1925 der Phoenix AG VVaG have been closed since March 1, 1984 and July 1, 1983, respectively. The pension contribution funds are smaller associations within the meaning of Section 53 of the German Insurance Supervision Act *(Versicherungsaufsichtsgesetz – VAG)* and are subject to the supervision of the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht). The investment regulations are in accordance with the legal requirements and risk structure of the obligations. The pension contribution funds have tariffs with an interest rate of 2.6%. Under the German Company Pensions Law *(Betriebsrentengesetz – BetrAVG)*, Continental is ultimately liable for the implementation path of the pension contribution fund. In accordance with IAS 19, the pension obligations covered by the pension contribution fund are therefore defined benefit pension plans. The pension contribution funds met their minimum net funding requirement as at December 31, 2018. However, given that only the plan members are entitled to the assets and amounts generated, the benefit obligations are recognized in the same amount as the existing assets at fair value.

Continental also supports private contribution through deferred compensation schemes.

Deferred compensation is essentially offered through a fully funded multi-employer plan (Höchster Pensionskasse VVaG) for contributions up to 4% of the assessment ceiling in social security. The pension contribution fund ensures guaranteed minimum interest for which Continental is ultimately liable under the German Company Pensions Law. The company is not liable for guarantees to employees of other companies. As Höchster Pensionskasse VVaG is a combined defined benefit plan for several companies and Continental has no right to the information required for accounting for this defined benefit plan, this plan is recognized as a defined contribution plan.

Entitled employees can use the cash balance plan for deferred compensation contributions above the 4% assessment ceiling. This share is funded by insurance annuity contracts.

U.S.A.

Owing to its acquisition history, Continental has various defined benefit plans in the U.S.A., which were closed to new entrants and frozen to accretion of further benefits in a period from April 1, 2005, to December 31, 2011. Acquisitions in the previous year also included an open defined benefit plan for unionized employees.

The closed defined benefit plans are commitments on the basis of the average final salary for employees of the Automotive and Tire segments and cash balance commitments for former Siemens VDO employees. The defined benefit plans for unionized and non-unionized employees are based on a pension multiplier per year of service.

Closed defined benefit plans were replaced by defined contribution plans. Defined contribution plans apply to the majority of active employees in the U.S.A.

The plan assets of the defined benefit plans are managed in a master trust. Investment supervision was delegated to the Pension Committee, a body appointed within the corporation. The legal and regulatory framework for the plans is based on the U.S. Employee Retirement Income Security Act (ERISA). The valuation of the financing level is required on the basis of this law. The interest rate used for this calculation is the average rate over a period of 25 years and therefore currently higher than the interest rate used to discount obligations under IAS 19. The statutory valuation therefore gives rise to a lower obligation than that in line with IAS 19. There is a regulatory requirement to ensure minimum funding of 80% in the defined benefit plans to prevent benefit curtailments.

In 2018, an extraordinary allocation to the U.S. pension plans of U.S. $245.5 million was made and the investment strategy was modified. The share of equities was reduced, while the share of fixed-income securities was increased.

United Kingdom

Continental maintains four defined benefit plans as a result of its history of acquisitions in the United Kingdom. All plans are commitments on the basis of the average or final salary. The four plans were closed to new employees in the period between April 1, 2002, and November 30, 2004. Continental offers defined contribution plans for all employees who have joined the company since that time.

As at April 5, 2016, the Continental Group Pension and Life Assurance Scheme was frozen to accretion of further benefits. It was replaced by a defined contribution plan as at April 6, 2016.

As at July 31, 2017, the Mannesmann UK Pension Scheme was frozen to accretion of further benefits. It was replaced by a defined contribution plan as at August 1, 2017.

Our pension strategy in the U.K. focuses on reducing risks and includes the option of partially or completely funding by purchasing annuities.

The funding conditions are defined by the U.K. Pensions Regulator and the corresponding laws and regulations. The defined benefit plans are managed by trust companies. The boards of trustees of these companies have an obligation solely to the good of the beneficiaries on the basis of the trust agreement and the law.

The necessary funding is determined every three years through technical valuations in line with local provisions. The obligations are measured using a discount rate based on government bonds and other conservatively selected actuarial assumptions. Compared to IAS 19, which derives the discount rate from senior corporate bonds, this usually results in a higher obligation. Three of the four defined benefit plans had a funding deficit on the basis of the most recent technical valuation. The trustees and the company have agreed on a recovery plan that provides for additional temporary annual payments. The valuation process must be completed within 15 months of the valuation date. The technical valuations were completed in 2016 for two plans and in 2017 for the other two plans.

The most recent technical valuations of the four defined benefit pension plans took place with their valuation dates between December 2014 and March 2016 and led to the following result:

- Continental Teves UK Employee Benefit Scheme (assessment as at December 31, 2014): As part of the assessment, an agreement on a minimum annual endowment of GBP 1.4 million over a period of five years was resolved.
- Continental Group Pension and Life Assurance Scheme (assessment as at April 5, 2015): As part of the assessment and in connection with the pension plan being frozen to accretion of further benefits, a one-time contribution of GBP 15.0 million was made in 2016 and an agreement was concluded to enable the pension plan to fund a full buyout by purchasing annuities in the next five years.
- Mannesmann UK Pension Scheme (assessment as at March 31, 2016): As part of the assessment, an agreement was resolved on a minimum monthly endowment of GBP 75,000 for the period from October 1, 2017, to September 30, 2019, and on a minimum monthly endowment of GBP 100,000 for the period from October 1, 2019, to May 31, 2025.
- Phoenix Dunlop Oil & Marine Pension Scheme (assessment as at December 31, 2015): As part of the assessment, an agreement was resolved on a minimum annual endowment of GBP 2.2 million and an annual adjustment of 3.5% over a period of four years. Thereafter, there will be an annual payment of GBP 1.4 million and an annual adjustment of 3.5% over a period of another three years.

Canada

Continental maintains various defined benefit plans as a result of its history of acquisitions. The pension plans are based mainly on a pension multiplier per year of service. In 2017, three plans (Bowmanville, Collingwood and Owen Sound) were fully funded by the purchase of annuities, so there are no longer any pension obligations from these plans for Continental companies.

Fluctuations in the amount of the pension obligation resulting from exchange-rate effects are subject to the same risks as overall business development. These fluctuations relate mainly to the currencies of the U.S.A., Canada and the U.K. and have no material impact on Continental. For information on the effects of interest-rate risks and longevity risk on the pension obligations, please refer to the sensitivities described later on in this section.

The pension obligations for Germany, the U.S.A., Canada, the U.K. and other countries, as well as the amounts for the Continental Corporation as a whole, are shown in the following tables.

The reconciliation of the changes in the defined benefit obligations from the beginning to the end of the year is as follows:

	2018						2017					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Defined benefit obligations as at January 1	**4,518.5**	**1,067.0**	**110.7**	**386.4**	**297.1**	**6,379.7**	**4,416.5**	**1,247.0**	**151.3**	**402.2**	**311.7**	**6,528.7**
Exchange-rate differences	–	46.8	-3.9	-4.3	1.3	**39.9**	–	-147.3	-7.5	-13.7	-7.9	-176.4
Current service cost	198.8	5.2	1.6	2.1	22.9	**230.6**	223.2	5.5	1.5	2.5	24.2	256.9
Service cost from plan amendments	–	–	–	3.0	3.1	**6.1**	–	–	–	–	0.0	0.0
Curtailments/settlements	–	–	–	–	-0.3	**-0.3**	–	-4.8	1.6	-0.1	-1.8	-5.1
Interest on defined benefit obligations	83.1	39.0	3.6	9.3	9.5	**144.5**	77.2	48.0	5.4	10.0	7.7	148.3
Actuarial gains/losses from changes in demographic assumptions	39.2	-3.5	0.6	-2.4	0.9	**34.8**	20.5	5.8	–	-11.3	-0.9	14.1
Actuarial gains/losses from changes in financial assumptions	0.0	-74.8	-3.0	-23.8	2.0	**-99.6**	-89.2	74.3	7.0	10.5	-27.2	-24.6
Actuarial gains/losses from experience adjustments	42.7	11.7	1.3	1.1	5.6	**62.4**	-44.9	13.8	-0.6	-0.7	3.8	-28.6
Net changes in the scope of consolidation	–	–	–	–	–	**0.0**	12.2	–	–	–	0.2	12.4
Employee contributions	–	–	0.3	0.2	-0.3	**0.2**	–	–	0.3	0.2	0.2	0.7
Other changes	–	–	–	-0.4	-1.2	**-1.6**	–	–	–	-0.5	0.1	-0.4
Benefit payments	-100.5	-60.0	-4.8	-15.5	-20.6	**-201.4**	-97.0	-175.3	-48.3	-12.7	-13.0	-346.3
Defined benefit obligations as at December 31	**4,781.8**	**1,031.4**	**106.4**	**355.7**	**320.0**	**6,595.3**	**4,518.5**	**1,067.0**	**110.7**	**386.4**	**297.1**	**6,379.7**

The reconciliation of the changes in the fund assets from the beginning to the end of the year is as follows:

	2018						2017					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Fair value of fund assets as at January 1	**1,189.0**	**746.6**	**90.7**	**378.5**	**144.3**	**2,549.1**	**1,123.0**	**904.4**	**133.9**	**391.5**	**131.6**	**2,684.4**
Exchange-rate differences	–	39.2	-3.3	-4.5	0.6	**32.0**	–	-105.2	-6.3	-13.4	-4.2	-129.1
Interest income from pension funds	15.9	30.7	3.0	9.4	5.0	**64.0**	29.8	34.5	4.9	10.1	3.7	83.0
Actuarial gains/losses from fund assets	-32.5	-52.2	0.6	-17.4	-3.0	**-104.5**	15.9	71.7	-0.5	-15.4	5.5	77.2
Employer contributions	46.5	222.7	2.3	18.8	18.8	**309.1**	45.7	17.8	7.2	18.7	16.0	105.4
Employee contributions	–	0.0	0.3	0.2	0.2	**0.7**	–	–	0.3	0.2	0.2	0.7
Net changes in the scope of consolidation	–	–	–	–	–	**0.0**	–	–	–	–	–	–
Other changes	–	-1.3	-0.4	-0.5	-0.1	**-2.3**	-2.2	-1.3	-0.5	-0.5	-0.2	-4.7
Benefit payments	-23.7	-60.0	-4.8	-15.5	-15.6	**-119.6**	-23.2	-175.3	-48.3	-12.7	-8.3	-267.8
Fair value of fund assets as at December 31	**1,195.2**	**925.7**	**88.4**	**369.0**	**150.2**	**2,728.5**	**1,189.0**	**746.6**	**90.7**	**378.5**	**144.3**	**2,549.1**

The carrying amount of pension provisions fell by €36.4 million as compared to the previous year. This was due mainly to the increase in plan assets as a result of a one-off allocation in the U.S.A. and to currency translation effects. The positive balance from pension valuation increased by €11.8 million year-on-year. This was due chiefly to the increase in plan assets in the U.K. as a result of currency translation effects.

€6,488.8 million (PY: €6,262.5 million) of the defined benefit obligations as at December 31, 2018, related to plans that are fully or partially funded, and €106.5 million (PY: €117.2 million) related to plans that are unfunded.

The €215.6 million increase in the defined benefit obligation as compared to December 31, 2017, resulted in particular from currency translation effects in the U.S.A. and from plan settlements already completed in the previous year and the resulting lower pension payments in the U.S.A.

The plan assets in Germany include the CTA assets amounting to €838.1 million (PY: €815.2 million), pension contribution fund assets of €242.7 million (PY: €264.0 million), insurance annuity contracts amounting to €114.0 million (PY: €109.5 million) and further plan assets of €0.4 million (PY: €0.3 million).

In the year under review, fund assets increased by €179.4 million to €2,728.5 million. Owing to the change in U.S. tax laws, it was possible for the corporation to fund most of the plan assets for pensions in the U.S.A. while benefiting from tax breaks. On July 11, 2018, €209.2 million was transferred to the corresponding plan assets.

Actuarial gains and losses on fund assets in Germany resulted from actuarial losses of €32.5 million (PY: income of €15.9 million) from the CTA.

In the Continental Corporation, there are pension contribution funds for previously defined contributions in Germany that have been closed to new entrants since July 1, 1983, and March 1, 1984, respectively. As at December 31, 2018, the minimum net funding requirement was exceeded; Continental AG has no requirement to make additional contributions. The pension fund assets had a fair value of €242.7 million as at December 31, 2018 (PY: €264.0 million). The pension contribution funds have tariffs with an interest rate of 2.6%, for which Continental AG is ultimately liable under the German Company Pensions Law. Under this law, the pension obligations constitute a defined benefit pension plan, which is why this plan must be reported in line with the development of pension provisions. However, given that only the plan members are entitled to the assets and income generated, the benefit obligations are recognized in the same amount as the existing assets at fair value.

The following table shows the reconciliation of the funded status to the amounts contained in the statement of financial position:

	Dec. 31, 2018						Dec. 31, 2017					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Funded status[1]	**-3,586.6**	**-105.7**	**-18.0**	**13.3**	**-169.8**	**-3,866.8**	**-3,329.5**	**-320.4**	**-20.0**	**-7.9**	**-152.8**	**-3,830.6**
Asset ceiling	–	–	-0.4	–	-1.0	**-1.4**	–	–	0.0	–	-1.2	-1.2
Carrying amount	**-3,586.6**	**-105.7**	**-18.4**	**13.3**	**-170.8**	**-3,868.2**	**-3,329.5**	**-320.4**	**-20.0**	**-7.9**	**-154.0**	**-3,831.8**

1 Difference between fund assets and defined benefit obligations.

The carrying amount comprises the following items of the statement of financial position:

	Dec. 31, 2018						Dec. 31, 2017					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Defined benefit assets	–	–	1.4	23.9	2.5	**27.8**	–	–	1.1	11.7	3.2	16.0
Pension provisions	-3,586.6	-105.7	-19.8	-10.6	-173.3	**-3,896.0**	-3,329.5	-320.4	-21.1	-19.6	-157.2	-3,847.8
Carrying amount	**-3,586.6**	**-105.7**	**-18.4**	**13.3**	**-170.8**	**-3,868.2**	**-3,329.5**	**-320.4**	**-20.0**	**-7.9**	**-154.0**	**-3,831.8**

The assumptions used to measure the pension obligations – in particular, the discount factors for determining the interest on expected pension obligations and the expected return on fund assets, as well as the long-term salary growth rates and the long-term pension trend – are specified for each country.

In the principal pension plans, the following weighted-average valuation factors as at December 31 of the year have been used:

	2018					2017				
%	**Germany[1]**	**U.S.A.**	**CAN**	**U.K.**	**Other**	Germany[1]	U.S.A.	CAN	U.K.	Other
Discount rate	1.90	4.35	3.60	2.80	3.41	1.90	3.70	3.40	2.45	3.17
Long-term salary growth rate	3.00	0.00	2.86	3.79	3.30	3.00	0.00	2.85	3.80	3.49

1 Not including the pension contribution funds.

Another parameter for measuring the pension obligation is the long-term pension trend. The following weighted average long-term pension trend was used as at December 31, 2018, for the key countries: Germany 1.75% (PY: 1.75%), Canada 1.6% (PY: 1.6%) and the United Kingdom 3.8% (PY: 3.4%). For the U.S.A., the long-term pension trend does not constitute a significant measurement parameter.

Net pension cost can be summarized as follows:

	2018						2017					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Current service cost	198.8	5.2	1.6	2.1	22.9	**230.6**	223.2	5.5	1.5	2.5	24.2	256.9
Service cost from plan amendments	–	–	–	3.0	3.1	**6.1**	–	–	–	–	0.0	0.0
Curtailments/settlements	–	–	–	–	-0.3	**-0.3**	–	-4.8	1.6	-0.1	-1.8	-5.1
Interest on defined benefit obligations	83.1	39.0	3.6	9.3	9.5	**144.5**	77.2	48.0	5.4	10.0	7.7	148.3
Expected return on the pension funds	-15.9	-30.7	-3.0	-9.4	-5.0	**-64.0**	-29.8	-34.5	-4.9	-10.1	-3.7	-83.0
Effect of change of asset ceiling	–	–	–	–	0.1	**0.1**	–	–	0.1	–	0.2	0.3
Other pension income and expenses		1.2	0.3	–	-0.3	**1.2**	–	1.2	0.5	–	-0.1	1.6
Net pension cost	**266.0**	**14.7**	**2.5**	**5.0**	**30.0**	**318.2**	**270.6**	**15.4**	**4.2**	**2.3**	**26.5**	**319.0**

These were no special effects in the development of net pension cost in the reporting year. Curtailments and settlements in the previous year related in particular to settlements in the U.S.A. and the resulting reduction in the defined benefit pension obligation.

The table below shows the reconciliation of changes in actuarial gains and losses at the start and end of the reporting year:

	2018						2017					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Actuarial gains/losses as at Jan. 1	**-1,859.8**	**-305.8**	**-12.6**	**-99.0**	**-63.4**	**-2,340.6**	**-1,989.3**	**-283.6**	**-7.6**	**-85.1**	**-93.4**	**-2,459.0**
Actuarial gains/losses from defined benefit obligations	-81.9	66.6	1.1	25.1	-8.5	**2.4**	113.6	-93.9	-6.4	1.5	24.3	39.1
Actuarial gains/losses from fund assets	-32.5	-52.2	0.6	-17.4	-3.0	**-104.5**	15.9	71.7	-0.5	-15.4	5.5	77.2
Actuarial gains/losses from asset ceiling	—	0.0	-0.4	—	0.2	**-0.2**	—	—	1.9	—	0.2	2.1
Actuarial gains/losses as at Dec. 31	**-1,974.2**	**-291.4**	**-11.3**	**-91.3**	**-74.7**	**-2,442.9**	**-1,859.8**	**-305.8**	**-12.6**	**-99.0**	**-63.4**	**-2,340.6**

Actuarial gains and losses arise from increases or decreases in the present value of the defined benefit obligation due to changes in the actuarial assumptions made. On the one hand, the increase in the discount rate in the U.S.A., Canada and the U.K. in the 2018 reporting period as compared to 2017 resulted in actuarial gains in these countries. On the other hand, these gains were offset by the change in the Heubeck mortality tables from 2005 G to 2018 G due to changes in demographic assumptions in Germany and the resulting actuarial losses. By contrast, the actuarial gains incurred in the 2017 reporting period from changes in financial assumptions were due to an increase in the discount rate compared to 2016.

If the other assumptions remained constant, the changes in individual key actuarial assumptions that could reasonably have been possible at the reporting date would have impacted the defined benefit obligation by the following amounts. Although the analysis does not take account of the complete allocation of the cash flows expected under the plan, it provides an approximation of the sensitivity of the assumptions shown.

If the other assumptions are maintained, a one-half percentage point increase or decrease in the discount rate used to discount pension obligations would have had the following impact on the pension obligations as at the end of the reporting period:

	Dec. 31, 2018					Dec. 31, 2017				
€ millions	**Germany[1]**	**U.S.A.**	**CAN**	**U.K.**	**Other**	Germany[1]	U.S.A.	CAN	U.K.	Other
0.5% increase										
Effects on service and interest cost	-17.0	-1.8	-0.1	0.7	-0.5	-14.9	-1.8	-0.2	0.3	-0.5
Effects on benefit obligations	-435.7	-53.3	-7.1	-31.1	-16.8	-407.7	-59.2	-7.8	-21.8	-15.7
0.5% decrease										
Effects on service and interest cost	19.7	1.5	0.1	-0.7	0.5	17.0	1.5	0.1	-0.3	0.8
Effects on benefit obligations	508.4	58.5	8.0	32.9	18.5	475.5	65.4	8.7	24.9	17.2

1 Not including the pension contribution funds.

A one-half percentage point increase or decrease in the long-term salary growth rate would have had the following impact on the pension obligations as at the end of the reporting period:

	Dec. 31, 2018				Dec. 31, 2017			
€ millions	**Germany**	**U.S.A.[1]**	**CAN**	**U.K.**	Germany	U.S.A.[1]	CAN	U.K.
0.5% increase								
Effects on benefit obligations	5.8	–	0.8	2.3	6.8	–	0.8	2.3
0.5% decrease								
Effects on benefit obligations	-5.5	–	-0.7	-2.2	-6.2	–	-0.7	-2.2

1 Any change in the long-term salary growth rate would have no effect on the value of the benefit obligations.

A one-half percentage point increase or decrease in the long-term pension trend would have had the following impact on the pension obligations as at the end of the reporting period:

	Dec. 31, 2018				Dec. 31, 2017			
€ millions	**Germany**	**U.S.A.[1]**	**CAN**	**U.K.**	Germany	U.S.A.[1]	CAN	U.K.
0.5% increase								
Effects on benefit obligations	166.9	–	3.8	22.4	162.2	–	3.8	24.4
0.5% decrease								
Effects on benefit obligations	-151.5	–	-3.4	-21.0	-147.2	–	-3.5	-22.9

1 Any change in the long-term pension trend would have no effect on the value of the benefit obligations.

Changes in the discount rate and the salary and pension trends do not have a linear effect on the defined benefit obligations (DBO) owing to the financial models used (particularly due to the compounding of interest rates). For this reason, the net periodic pension cost derived from the pension obligations does not change by the same amount as a result of an increase or decrease in the actuarial assumptions.

In addition to the aforementioned sensitivities, the impact of a one-year-longer life expectancy on the value of benefit obligations was computed for the key countries. A one-year increase in life expectancy would lead to a €215.4 million (PY: €206.1 million) increase in the value of the benefit obligations, and that figure would be broken down as follows: Germany €173.3 million (PY: €160.9 million), U.S.A. €27.2 million (PY: €28.8 million), U.K. €12.3 million (PY: €13.8 million) and Canada €2.6 million (PY: €2.6 million). In Germany, increased payments in the form of pensions rather than capital were assumed in the actuarial valuation, which has the effect of increasing the benefit obligations. For the calculation of pension obligations for domestic plans, life expectancy is based on the 2018 G mortality tables by Prof. Klaus Heubeck. For foreign pension plans, comparable criteria are used for the respective country.

Pension funds

The structure of the corporation's plan assets is reviewed by the investment committees on an ongoing basis taking into account the forecast pension obligations. In doing so, the investment committees regularly review the investment decisions taken, the underlying expected returns of the individual asset classes reflecting empirical values and the selection of the external fund managers.

The portfolio structures of the pension funds at the measurement date for the fiscal years 2018 and 2017 are as follows:

%	2018					2017				
Asset class	**Germany[1]**	**U.S.A.**	**CAN**	**U.K.**	**Other**	Germany[1]	U.S.A.	CAN	U.K.	Other
Equity instruments	2	20	51	7	9	1	54	55	17	11
Debt securities	54	79	48	44	76	60	45	43	43	72
Real estate	15	–	–	1	1	7	–	–	1	2
Absolute return[2]	18	1	1	23	2	16	–	–	17	14
Cash, cash equivalents and other[3]	11	–	–	3	12	16	1	2	1	1
Annuities[3]	–	–	–	22	–	–	–	–	21	–
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

1 The portfolio structure of the fund assets in Germany excludes the pension contribution funds whose assets are invested mainly in fixed-income securities and shares.
2 This refers to investment products that aim to achieve a positive return regardless of market fluctuations.
3 Annuities are insurance contracts that guarantee pension payments.

The following table shows the cash contributions made by the company to the pension funds for 2018 and 2017 as well as the expected contributions for 2019:

€ millions	2019 (expected)	**2018**	2017
Germany	41.4	46.5	45.7
U.S.A.	12.4	222.7	17.8
CAN	2.2	2.3	7.2
U.K.	18.8	18.8	18.7
Other	18.2	18.8	16.0
Total	**93.0**	**309.1**	**105.4**

The following overview contains the pension benefit payments made in the reporting year and the previous year, as well as the undiscounted, expected pension benefit payments for the next 10 years:

€ millions	Germany	U.S.A.	CAN	U.K.	Other	**Total**
Benefits paid						
2017	97.0	175.3	48.3	12.7	13.0	**346.3**
2018	100.5	60.0	4.8	15.5	15.6	**196.4**
Benefit payments as expected						
2019	123.5	65.1	5.0	9.4	13.8	**216.8**
2020	118.9	65.1	5.2	9.9	14.8	**213.9**
2021	126.7	66.4	5.1	10.9	15.5	**224.6**
2022	134.9	66.8	5.3	11.0	19.9	**237.9**
2023	138.6	66.9	5.8	11.9	20.0	**243.2**
Total of years 2024 to 2028	814.4	335.0	30.9	71.1	132.3	**1,383.7**

The pension payments from 2017 onwards relate to lump-sum amounts in connection with fixed service cost benefit plans, as well as annual pension benefits. Furthermore, the earliest eligible date for retirement has been assumed when determining future pension payments. The actual retirement date could occur later. Therefore the actual payments in future years for present plan members could be lower than the amounts assumed.

For the current and four preceding reporting periods, the amounts of the defined benefit obligations, fund assets, funded status, as well as the experience adjustments to plan liabilities and to plan assets are as follows:

€ millions	2018	2017	2016	2015	2014
Defined benefit obligations	6,595.3	6,379.7	6,528.7	5,807.4	5,265.6
Fund assets	2,728.5	2,549.1	2,684.4	2,571.9	2,035.7
Funded status	–3,866.8	–3,830.6	–3,844.3	–3,235.5	–3,229.9
Experience adjustments to plan liabilities	-2.4	-39.1	596.3	51.9	981.6
Experience adjustments to plan assets	-104.5	77.2	65.4	-21.6	55.5

Other post-employment benefits

Certain subsidiaries – primarily in the U.S.A. and Canada – grant eligible employees healthcare and life insurance on retirement if they have fulfilled certain conditions relating to age and years of service. The amount and entitlement can be altered. Certain retirement benefits, in particular for pensions and healthcare costs, are provided in the U.S.A. for hourly paid workers at unionized tire plants under the terms of collective pay agreements. No separate fund assets have been set up for these obligations.

The weighted average term of the defined benefit pension obligation is 10 years. This term is based on the present value of the obligation.

The reconciliation of the changes in the defined benefit obligations and the financing status from the beginning to the end of the year is as follows:

€ millions	2018	2017
Defined benefit obligations as at January 1	**209.3**	**232.6**
Exchange-rate differences	5.7	-25.1
Current service cost	1.3	1.4
Service cost from plan amendments	0.1	—
Curtailments/settlements	0.4	-0.1
Interest on healthcare and life insurance benefit obligations	7.5	8.9
Actuarial gains/losses from changes in demographic assumptions	-2.7	-1.6
Actuarial gains/losses from changes in financial assumptions	-10.6	10.7
Actuarial gains/losses from experience adjustments	-2.3	-2.8
Net changes in the scope of consolidation	—	—
Benefit payments	-13.8	-14.7
Defined benefit obligations/net amount recognized as at December 31	**194.9**	**209.3**

The assumptions used for the discount rate and cost increases to calculate the healthcare and life insurance benefits vary according to conditions in the U.S.A. and Canada. The following weighted average valuation factors as at December 31 of the year have been used:

%	2018	2017
Discount rate	4.24	3.71
Rate of increase in healthcare and life insurance benefits in the following year	4.94	4.77
Long-term rate of increase in healthcare and life insurance benefits	3.78	3.77

The net cost of healthcare and life insurance benefit obligations can be broken down as follows:

€ millions	2018	2017
Current service cost	1.3	1.4
Service cost from plan amendments	0.1	–
Curtailments/settlements	0.4	-0.1
Interest on healthcare and life insurance benefit obligations	7.5	8.9
Net loss/income	**9.3**	**10.2**

If the other assumptions remained constant, the changes in individual key actuarial assumptions that could reasonably have been possible at the reporting date would have impacted the defined benefit obligation by the following amounts. Although the analysis does not take account of the complete allocation of the cash flows expected under the plan, it provides an approximation of the sensitivity of the assumptions shown.

The following table shows the effects of a 0.5% increase or decrease in the cost trend for healthcare and life insurance obligations:

€ millions	2018	2017
0.5% increase		
Effects on service and interest cost	0.1	0.1
Effects on benefit obligations	2.2	2.6
0.5% decrease		
Effects on service and interest cost	-0.1	-0.1
Effects on benefit obligations	-2.0	-2.4

A one-half percentage point increase or decrease in the discount rate specified above for calculating the net cost of healthcare and life insurance benefit obligations would have had the following effect on net cost:

€ millions	2018	2017
0.5% increase		
Effects on service and interest cost	0.5	0.5
Effects on benefit obligations	-8.8	-10.2
0.5% decrease		
Effects on service and interest cost	-0.5	-0.5
Effects on benefit obligations	9.7	11.3

The following table shows the payments made for other post-employment benefits in the reporting year and the previous year, as well as the undiscounted, expected benefit payments for the next 10 years:

€ millions	
Benefits paid	
2017	14.7
2018	13.8
Benefit payments as expected	
2019	15.0
2020	15.1
2021	15.1
2022	15.1
2023	15.1
Total of years 2024 to 2028	74.6

The amounts for the defined benefit obligations, funded status and experience adjustments to plan liabilities for the current and four preceding reporting periods are as follows:

€ millions	**2018**	2017	2016	2015	2014
Defined benefit obligations	194.9	209.3	232.6	229.9	212.0
Funded status	–194.9	–209.3	–232.6	–229.9	–212.0
Experience adjustments to plan liabilities	–15.6	6.3	–2.1	–22.2	21.2

Provisions for obligations similar to pensions

Some companies of the corporation have made commitments to employees for a fixed percentage of the employees' compensation. These entitlements are paid out when the employment relationship is terminated. In the year under review, expenses from these obligations amounted to €3.7 million (PY: €1.3 million).

Defined contribution pension plans

The Continental Corporation offers its employees pension plans in the form of defined contribution plans, particularly in the U.S.A., the U.K., Japan and China. Not including social security contributions, expenses from defined contribution pension plans amounted to €80.1 million (PY: €86.6 million) in the fiscal year. This year-on-year decline was due mainly to the development of the U.S. stock market.

Other employee benefits

Other employee benefits include provisions for partial early retirement programs and anniversary and other long-service benefits. The provisions for partial early retirement are calculated using a discount rate of 1.05% (PY: 0.98%). Provisions for anniversary and other long-service benefits were calculated using a discount rate of 1.9% (PY: 1.9%). In accordance with the option under IAS 19, the interest component is reported in the financial result.

Long-term incentive plans (LTI plans)

Liabilities for payroll and personnel-related costs also include long-term incentive (LTI) plans as well as the amounts of variable remuneration converted into virtual shares of Continental AG for members of the Executive Board (performance bonus, deferral).

All LTI plans up to 2013 are classified and assessed as "other long-term employee benefits" under IAS 19. The LTI plans for the years starting from 2014 and the deferral are classified as cash-settled share-based remuneration; hence they are recognized at fair value in accordance with IFRS 2.

Income from the reversal of provisions from LTI plans, amounting to €21.9 million (PY: expenses from LTI plans of €45.5 million), was recognized in the respective function costs.

- **2013 LTI plan:** In 2013, the 2013/17 tranche, with a term of four years, was issued to the senior executives of the Continental Corporation and the members of the Executive Board. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2013/17 tranche was resolved on June 24, 2013, by the Executive Board for senior executives and on September 25, 2013, by the Supervisory Board for the members of the Executive Board.

- For each beneficiary of the 2013/17 LTI tranche, the Executive Board of Continental AG specifies the amount of a target bonus in euros to be paid out upon 100% target achievement. The actual LTI bonus paid out on expiry of the LTI tranche depends on the degree of target achievement, which can lie between 0% (no payment) and 300% (maximum payment). The degree of achievement of two target criteria is decisive for the payment and amount of the LTI bonus. The first target criterion consists of the weighted average of the Continental Value Contribution (CVC) of the Continental Corporation over a period of four fiscal years, starting from the fiscal year in which the LTI tranche is issued. The weighted average in terms of the LTI is calculated by adding together 10% of the CVC of the first fiscal year of the LTI tranche, 20% of the CVC of the second fiscal year of the LTI tranche, 30% of the CVC of the third fiscal year of the LTI tranche and 40% of the CVC of the fourth fiscal year of the LTI tranche. The second target criterion comprises the ratio of free cash flow in the Continental Corporation to consolidated sales. The key variable for measuring this target criterion is based on the last full fiscal year prior to expiry of the LTI tranche. The degree of target achievement for both target criteria can lie between 0% and 300%. The key variables for determining the degree of target achievement are defined for each target criterion upon issue of an LTI tranche. The ultimate degree of target achievement used to calculate the LTI bonus to be paid out is determined through the addition of the two equally weighted target criteria. The basis for calculating the LTI bonus comprises the individual bonus amount in the event of 100% target achievement promised upon issue of an LTI tranche. The LTI bonus is paid as a gross one-off payment normally at the end of the second full calendar month following expiry of the LTI tranche at the latest but not before the end of July.

- After the expiry of the 2013/17 LTI tranche in June 2017, the bonus was paid out in August 2017.

- **2014 to 2018 LTI plan:** Since 2014, senior executives of the Continental Corporation and members of the Executive Board have been granted a new bonus, the basic structure of which has been altered. This bonus is intended to allow for participation in the long-term, sustainable increase in the corporation's value and profitability. The LTI bonus still depends on job grade and degree of target achievement and is issued in annual tranches.

- The term of the 2014/17 tranche, which was resolved on March 12, 2014, by the Supervisory Board for the members of the Executive Board and on June 23, 2014, by the Executive Board for senior executives, begins retroactively as at January 1, 2014, and is four years. After the expiry of the 2014/17 LTI tranche in December 2017, the bonus was paid out in July 2018.

- The term of the 2015/18 tranche, which was resolved on March 18, 2015, by the Supervisory Board for the members of the Executive Board and on June 4, 2015, by the Executive Board for senior executives, begins retroactively as at January 1, 2015, and is four years.

- The term of the 2016/19 tranche, which was resolved on March 18, 2016, by the Supervisory Board for the members of the Executive Board and on April 21, 2016, by the Executive Board for senior executives, begins retroactively as at January 1, 2016, and is four years.

- The term of the 2017/20 tranche, which was resolved on January 27, 2017, by the Supervisory Board for the members of the Executive Board and on June 2, 2017, by the Executive Board for senior executives, begins retroactively as at January 1, 2017, and is four years.

- The term of the 2018/21 tranche, which was resolved on March 13, 2018, by the Supervisory Board for the members of the Executive Board and on May 28, 2018, by the Executive Board for senior executives, begins retroactively as at January 1, 2018, and is four years.

For each beneficiary of an LTI tranche, the Supervisory Board (for the members of the Executive Board) or the Executive Board (for senior executives) of Continental AG specifies the amount of a target bonus in euros to be paid out upon 100% target achievement. The actual LTI bonus paid out on expiry of the LTI tranche depends on the degree of target achievement. The LTI bonus can range between 0% (no payment) and 200% (maximum payment).

The degree of achievement of two target criteria is decisive for the payment and amount of the LTI bonus. The first target criterion is the equally weighted average of the Continental Value Contribution (CVC) of the Continental Corporation over a period of four fiscal years, starting from the fiscal year in which the LTI tranche is issued. The equally weighted average is calculated by adding together 25% of the CVC of the four fiscal years of the term of the LTI tranche. The second target criterion is the total shareholder return (TSR) on Continental shares as at the end of the term in relation to the beginning of the LTI tranche. The share price used in calculating the TSR is the arithmetic mean of closing prices in XETRA trading on the Frankfurt Stock Exchange (or a successor system) on the trading days in the three months from October to December before the issue and expiry of the LTI tranche. In addition, all dividends paid during the term of the LTI tranche are taken into account for the TSR.

The scale for determining the degree of target achievement is defined by the Supervisory Board or the Executive Board when the respective LTI tranche is issued. These key data are identical for the members of the Executive Board and senior executives. The degree of target achievement for the first target criterion can lie between 0% and 200%. Target achievement is calculated on a straight-line basis between 0% and the maximum level. There is no cap for the second target criterion. The ultimate degree of target achievement used to calculate the LTI bonus to be paid out is determined by multiplying the two target criteria. The LTI bonus to be paid out is determined by multiplying the degree of target achievement by the target bonus. The total maximum achievable LTI bonus is 200% of the target bonus.

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

The following TSR parameters were used as at the measurement date of December 31, 2018:

- Constant zero rates as at the measurement date of December 31, 2018:
  2015 LTI plan: -0.81% as at the due date and -0.71% as at the expected payment date;
  2016 LTI plan: -0.70% as at the due date and -0.68% as at the expected payment date;
  2017 LTI plan: -0.65% as at the due date and -0.59% as at the expected payment date;
  2018 LTI plan: -0.55% as at the due date and -0.48% as at the expected payment date.

- Interest rate based on the yield curve for government bonds.

- Dividend payments as the arithmetic mean based on publicly available estimates for the years 2019 to 2021; the Continental AG dividend amounted to €4.50 per share in 2018.

- Historic volatilities on the basis of daily XETRA closing rates for Continental shares based on the respective remaining term for virtual shares. The volatility for the 2015 LTI plan is 30.56%, for the 2016 LTI plan 30.03%, for the 2017 LTI plan 24.30% and for the 2018 LTI plan 25.90%.

- The fair values of the tranches developed as follows:
  2015 LTI plan: €19.2 million (PY: €36.3 million), the vesting level is 100%;
  2016 LTI plan: €8.5 million (PY: €27.6 million), the vesting level is 75%;
  2017 LTI plan: €6.7 million (PY €37.2 million), the vesting level is 50%;
  2018 LTI plan: €2.1 million, the vesting level is 25%.

  The reduced liabilities for payroll and personnel-related costs for LTI resulted in income of €8.0 million for the 2015 LTI plan (PY: expenses of €11.5 million), €7.4 million for the 2016 LTI plan (PY: expenses of €7.2 million), €5.9 million for the 2017 LTI plan (PY: expenses of €9.3 million) and expenses of €0.5 million for the 2018 LTI plan in the period under review.

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

- Income from the reversal of provisions from virtual shares, amounting to €7.7 million (PY: expenses from virtual shares of €3.6 million), were recognized in the respective function costs.

The following parameters were used as at the measurement date of December 31, 2018:

- Constant zero rates as at the measurement date of December 31, 2018:
  2015 tranche: -0.73% as at the due date and as at the expected payment date;
  2016 tranche: -0.69% as at the due date and as at the expected payment date;
  2017 tranche: -0.62% as at the due date and as at the expected payment date.

- Interest rate based on the yield curve for government bonds.

- Dividend payments as the arithmetic mean based on publicly available estimates for 2019 and 2020; the Continental AG dividend amounted to €4.50 per share in 2018, and Continental AG distributed a dividend of €4.25 per share in 2017.

- Historic volatilities on the basis of daily XETRA closing rates for Continental shares based on the respective remaining term for virtual shares. The volatility for the 2015 tranche is 33.10%, for the 2016 tranche 27.20% and for the 2017 tranche 23.84%.

As at December 31, 2018, commitments with a fair value of €8.5 million (PY: €14.8 million) are attributable to Executive Board members active at the end of the reporting period; this is equivalent to 63,266 virtual shares (PY: 63,617 virtual shares).

Short-term employee benefits

Liabilities for payroll and personnel-related costs

The Continental value sharing bonus is a program that allows Continental employees to share in net income. The amount of profits shared is calculated on the basis of key internal figures. A provision of €153.1 million (PY: €184.2 million) was recognized in liabilities for staff costs for the period under review.

27. Provisions for Other Risks and Obligations

	Dec. 31, 2018		Dec. 31, 2017	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Restructuring provisions	23.8	8.6	17.2	8.4
Litigation and environmental risks	104.4	117.6	182.9	94.0
Warranties	619.8	–	526.1	–
Other provisions	318.1	37.5	216.8	37.2
Provisions for other risks and obligations	**1,066.1**	**163.7**	**943.0**	**139.6**

The provisions for other risks developed as follows:

€ millions	Restructuring provisions	Litigation and environmental risks	Warranties	Other provisions
As at Jan. 1, 2018	**25.6**	**276.9**	**526.1**	**254.0**
Additions	18.3	91.6	554.2	186.1
Utilizations	-10.9	-126.4	-329.5	-94.5
Reclassifications	–	–	–	111.0
Net changes in the scope of consolidation	–	–	0.0	5.8
Reversals	-0.3	-26.6	-132.9	-108.4
Interest	0.0	1.4	–	0.1
Exchange-rate changes	-0.3	5.1	1.9	1.5
As at Dec. 31, 2018	**32.4**	**222.0**	**619.8**	**355.6**

The utilization of restructuring provisions relates primarily to the implementation of the restructuring measures resolved in previous years at the German locations in Limbach and Dortmund.

The addition to restructuring provisions resulted from the restructuring measures at the German locations in Gifhorn and Roding.

As in the previous year, the additions to the provisions for litigation and environmental risks relate in particular to product liability risks from the tire activities in the U.S.A. Please see Note 34.

Utilization mainly includes the product liability risks from tire activities mentioned above and the payment of fines to the European Commission and the Korean Fair Trade Commission (KFTC). Please see Note 34.

The changes in provisions for warranties include utilization of €329.5 million (PY: €518.6 million) and reversals of €132.9 million (PY: €235.2 million), which are offset by additions of €554.2 million (PY: €546.5 million), especially for specific individual cases within the Automotive Group.

The other provisions also include provisions for risks from operations, such as those in connection with compensation from customer and supplier claims that are not warranties. They also include provisions for tire-recycling obligations and, from the reporting year onward, provisions for possible interest payments on income tax liabilities.

28. Income Tax Liabilities

Income tax liabilities developed as follows:

€ millions	2018	2017
As at January 1	**889.7**	**783.6**
Additions	653.5	733.5
Utilizations and advance payments for the current fiscal year	-664.8	-567.1
Reversals	-19.3	-49.7
Additions from the first-time consolidation of subsidiaries	-110.8	2.5
Exchange-rate changes	2.4	-13.1
As at December 31	**750.7**	**889.7**

When reconciling the income tax liabilities with the income taxes paid in the statement of cash flows, the cash changes in income tax receivables must be included in addition to the utilizations and current advance payments shown here.

Starting from the year under review, liabilities from interest payments on income taxes are reported under other provisions.

29. Indebtedness and Additional Notes on the Statement of Cash Flows

	Dec. 31, 2018			Dec. 31, 2017		
€ millions	Total	Short-term	Long-term	Total	Short-term	Long-term
Bonds	**1,895.2**	499.9	1,395.3	2,639.4	748.5	1,890.9
Bank loans and overdrafts[1]	**1,239.0**	1,223.7	15.3	859.7	757.6	102.1
Derivative instruments	**8.2**	8.1	0.1	16.9	16.9	0.0
Finance lease liabilities	**12.3**	2.4	9.9	16.4	4.2	12.2
Liabilities from sale-of-receivables programs	**469.2**	469.2	–	513.7	513.7	–
Other indebtedness[2]	**983.0**	954.6	28.4	43.9	31.3	12.6
Indebtedness	**4,606.9**	**3,157.9**	**1,449.0**	**4,090.0**	**2,072.2**	**2,017.8**

1 Thereof €13.5 million (PY: €13.9 million) secured by land charges, mortgages and similar securities.
2 Other indebtedness in 2018 included a carrying amount of €814.5 million (PY: €12.6 million) from commercial paper issuances.

Continental's key bond issues

€ millions Issuer/type	Amount of issue Dec. 31, 2018	Carrying amount Dec. 31, 2018	Stock market value Dec. 31, 2018	Amount of issue Dec. 31, 2017	Carrying amount Dec. 31, 2017	Stock market value Dec. 31, 2017	Coupon p.a.	Issue/maturity and fixed interest until	Issue price
CAG euro bond	–	–	–	750.0	748.5	763.3	3.000%	2013/07.2018	98.950%
CRoA euro bond	500.0	499.9	500.4	500.0	498.9	503.9	0.500%	2015/02.2019	99.739%
CAG euro bond	600.0	598.1	600.2	600.0	596.3	601.4	0.000%	2016/02.2020	99.410%
CAG euro bond	750.0	747.2	787.4	750.0	745.7	812.0	3.125%	2013/09.2020	99.228%
Total	**1,850.0**	**1,845.2**	**1,888.0**	**2,600.0**	**2,589.4**	**2,680.6**			

Abbreviations

- CAG, Continental Aktiengesellschaft, Hanover
- CRoA, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.

The carrying amount of the bonds fell by €744.2 million from €2,639.4 million in the previous year to €1,895.2 million as at the end of fiscal 2018. This decline is attributable to the repayment of the €750.0 million euro bond from Continental AG. The five-year bond bore interest at a rate of 3.0% p.a. and was redeemed at a rate of 100.00% at its maturity on July 16, 2018.

Cross-currency interest-rate swaps were concluded for the euro bond with a nominal volume of €500.0 million issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in November 2015. These swaps are used to hedge against the currency risks arising from the bond's denomination in euros, on the one hand, and involve exchanging the euro-based fixed interest rate of 0.5% p.a. for a U.S.-dollar-based fixed interest rate averaging 2.365% p.a., on the other (please see Note 30 for further information on the accounting for the cross-currency interest-rate swaps).

The carrying amount of the bonds also includes a private placement issued by Continental AG at 100.0% at the end of August 2013 with a volume of €50.0 million, an interest rate of 3.9% p.a. and a term of 12 years.

Credit lines and available financing from banks

Bank loans and overdrafts amounted to €1,239.0 million (PY: €859.7 million) as at December 31, 2018, and were therefore up €379.3 million on the previous year's level. On December 31, 2018, there were credit lines and available financing from banks in the amount of €4,799.5 million (PY: €4,556.5 million). A nominal amount of €3,504.1 million of this had not been utilized as at the end of the reporting period (PY: €3,686.8 million). As in the previous year, €3,000.0 million of this relates to the revolving tranche of the syndicated loan, which had been utilized in the amount of €157.2 million (PY: –) as at December 31, 2018. In the year under review, the Continental Corporation utilized its commercial paper programs, its sale-of-receivables programs and its various bank lines to meet short-term credit requirements. In the second half of 2018, the existing commercial paper programs were supplemented with an additional U.S. $500.0 million commercial paper program in the U.S.A.

The syndicated loan comprises a revolving tranche of €3,000.0 million. This credit line is available to Continental until April 2021. This tranche can be utilized both in euros and in other currencies on the basis of variable interest rates. Depending on the currency, interest is accrued at either the Euribor rate or the corresponding Libor rate plus a margin in each case.

Besides the syndicated loan, the major portion of the credit lines and available financing from banks related, as in the previous year, to predominantly floating-rate short-term borrowings.

As in the previous year, the agreed financial covenants were also complied with as at the end of the respective quarter in 2018. Please see Note 30 for the maturity structure of indebtedness.

Finance lease liabilities

The future payment obligations resulting from finance leases are shown in the table below:

Dec. 31, 2018/€ millions	2019	2020	2021	2022	2023	from 2024	**Total**
Minimum lease payments	2.7	2.6	2.6	2.4	1.6	1.3	**13.2**
Interest component	0.3	0.2	0.2	0.1	0.0	0.1	**0.9**
Finance lease liabilities	**2.4**	**2.4**	**2.4**	**2.3**	**1.6**	**1.2**	**12.3**

Dec. 31, 2017/€ millions	2018	2019	2020	2021	2022	from 2023	**Total**
Minimum lease payments	4.8	2.9	2.5	2.5	2.3	3.0	**18.0**
Interest component	0.6	0.3	0.2	0.2	0.1	0.2	**1.6**
Finance lease liabilities	**4.2**	**2.6**	**2.3**	**2.3**	**2.2**	**2.8**	**16.4**

The fair value of the lease liabilities is €12.3 million (PY: €16.6 million). The effective interest rate of the main leases is between 2.0% and 5.4% (PY: between 2.7% and 9.8%).

Additional notes on the statement of cash flows

The following table showing the (net) change in short-term and long-term indebtedness provides additional information on the consolidated statement of cash flows:

		Cash	Non-cash					
€ millions	Dec. 31, 2018		Exchange-rate changes	Reclassifications	Changes in fair value	Changes in the scope of consolidation	Other	Dec. 31, 2017
Change in derivative instruments and interest-bearing investments	184.2	33.4	–0.2	—	–10.0	0.1	0.0	160.9
Change in short-term indebtedness	–3,157.9	–487.1	–3.6	–582.3	–8.3	–2.2	–2.2	–2,072.2
Change in long-term indebtedness	–1,449.0	–13.9	1.1	585.9	–0.1	—	–4.2	–2,017.8

30. Financial Instruments

Information on the first-time adoption of IFRS 9
The first-time adoption of IFRS 9, *Financial Instruments*, resulted in the following effects on the earnings, financial and net assets position:

- In this context, Continental uses the modified retrospective approach. The cumulative effect of the first-time adoption of IFRS 9 in the amount of €10.9 million before taxes (€8.9 million after taxes) as of the date of first-time adoption was recognized as an increase in the opening carrying amount of retained earnings. The cumulative effect resulted from the following matters:

  - The cumulated gains of €3.4 million (including related deferred tax effects) in other comprehensive income from the previous measurement category "available-for-sale financial assets" were reclassified to retained earnings.

  - In cash and cash equivalents, there was an effect of -€0.1 million from financial instruments that were measured at amortized cost in accordance with IAS 39 and are classified as FVPL (fair value through profit and loss) in accordance with IFRS 9.

  - Impairment on financial instruments decreased by a total of €7.6 million before taxes. This was firstly due to the increase in impairment as a result of the impairment model implemented in accordance with IFRS 9, which takes account of expected losses. Secondly, impairment that had been recognized as at December 31, 2017, on the basis of portfolio valuation allowances using experience-based values in accordance with IAS 39 was derecognized.

The new regulations for hedge accounting in accordance with IFRS 9, which are generally to be applied prospectively, were applied to the cash flow hedges in place as at December 31, 2017, in accordance with IAS 39. There was no accounting effect as at the transition date on January 1, 2018. For more information, please refer to the detailed disclosures on hedge accounting under Financial Foreign-Currency Risks (Cash Flow Hedges) in this section.

As at January 1, 2018, the Continental Corporation measured other investments at FVOCIwoR (fair value through other comprehensive income without reclassification) and classified them accordingly, as these investments are held over a long term for strategic purposes. In 2017, other investments were classified as AfS (available for sale).

The values of comparative periods are based on the accounting principles of IAS 39, *Financial Instruments: Recognition and Measurement*, and are shown unadjusted.

Classification of financial assets and financial liabilities at the date of transition to IFRS 9

The table below shows the original measurement categories according to IAS 39 and the new measurement categories according to IFRS 9 for each adjusted class of financial assets and liabilities as at January 1, 2018, in € million.

Classification in acc. with IAS 39	Classification in acc. with IFRS 39	Measurement category in acc. with IAS 39	Carrying amount in acc. with IAS 39	Measurement category in acc. with IFRS 9	Carrying amount in acc. with IFRS 9
Financial assets	**Financial assets**				
Other investments	Other investments	AfS	51.0	FVOCIwoR	51.0
Derivative instruments and interest-bearing investments	Derivative instruments and interest-bearing investments				
Derivative instruments accounted for as effective hedging instruments	Derivative instruments accounted for as effective hedging instruments	n. a.	51.5	n. a.	51.5
Derivative instruments not accounted for as effective hedging instruments	Derivative instruments not accounted for as effective hedging instruments	HfT	18.5	FVPL	18.5
Available-for-sale financial assets	Debt instruments measured at fair value through profit and loss	AfS	37.8	FVPL	37.8
Other receivables with a financing character	Debt instruments measured at amortized cost	LaR	53.1	At cost	53.1
Trade accounts receivable	Trade accounts receivable				
Trade accounts receivable	Trade accounts receivable measured at amortized cost	LaR	7,469.4	At cost	7,473.3
Trade accounts receivable	Bank drafts	LaR	193.2	FVOCIwR	193.2
Trade accounts receivable	Trade accounts receivable measured at fair value through profit and loss	LaR	6.7	FVPL	6.7
Other financial assets[1]	Other financial assets[1]	LaR	365.8	At cost	365.7
Cash and cash equivalents	Cash and cash equivalents				
Cash and cash equivalents	Cash and cash equivalents measured at amortized cost	LaR	1,682.1	At cost	1,618.0
Available-for-sale financial assets	Cash and cash equivalents measured at fair value through profit and loss	AfS	199.4	FVPL	263.6
Financial liabilities	**Financial liabilities**				
Derivative instruments not accounted for as effective hedging instruments	Derivative instruments not accounted for as effective hedging instruments	HfT	16.9	FVPL	16.9

1 Starting from the 2018 reporting year, deferred costs from the sale of customer tooling are no longer included in order to make the presentation of other financial assets more transparent.

Abbreviations

- AfS: available for sale
- At cost: measured at amortized cost
- FVOCIwR: fair value through other comprehensive income with reclassification
- FVOCIwoR: fair value through other comprehensive income without reclassification
- FVPL: fair value through profit and loss
- HfT: held for trading
- LaR: loans and receivables
- OL: other liability, financial liabilities measured at amortized cost
- n. a.: not applicable, not assigned to any measurement category

Information on the annual financial statements
The tables below show the carrying amounts and fair values of financial assets and liabilities, whereby non-current and current items are presented together. In addition, the relevant measurement categories are shown according to IFRS 9 and the levels of the fair value hierarchy relevant for calculating fair value according to IFRS 13, *Fair Value Measurement*. The structure of the table for the previous year was adapted to the new format.

€ millions	Measurement category in acc. with IFRS 9	**Carrying amount Dec. 31, 2018**	**Fair value as at Dec. 31, 2018**	thereof Level 1	thereof Level 2	thereof Level 3
Other investments	FVOCIwoR	192.9	192.9	–	–	192.9
Derivative instruments and interest-bearing investments						
Derivative instruments accounted for as effective hedging instruments	n. a.	28.2	28.2	–	28.2	–
Derivative instruments not accounted for as effective hedging instruments[1]	FVPL	15.1	15.1	–	15.1	–
Debt instruments	FVPL	29.4	29.4	19.6	9.8	–
Debt instruments	At cost	111.5	111.5	–	–	–
Trade accounts receivable						
Trade accounts receivable	At cost	7,516.1	7,516.1	–	–	–
Bank drafts	FVOCIwR	114.9	114.9	–	114.9	–
Trade accounts receivable	FVPL	0.9	0.9	–	0.9	–
Other financial assets						
Other financial assets	FVPL	0.9	0.9	–	0.9	–
Miscellaneous financial assets[2]	At cost	401.2	401.2	–	–	–
Cash and cash equivalents						
Cash and cash equivalents	At cost	2,201.0	2,201.0	–	–	–
Cash and cash equivalents	FVPL	560.4	560.4	458.8	101.6	–
Financial assets		**11,172.5**	**11,172.5**	**478.4**	**271.4**	**192.9**
Indebtedness						
Derivative instruments not accounted for as effective hedging instruments[1]	FVPL	8.2	8.2	–	8.2	–
Finance lease liabilities	n. a.	12.3	12.3	–	12.3	–
Other indebtedness	At cost	4,586.4	4,638.5	1,888.0	283.0	–
Trade accounts payable	At cost	7,293.0	7,293.0	–	–	–
Other financial liabilities						
Liabilities to related parties from finance leases	n. a.	6.9	6.5	–	6.5	–
Miscellaneous financial liabilities	At cost	1,306.7	1,306.7	–	1.6	–
Financial liabilities		**13,213.5**	**13,265.2**	**1,888.0**	**311.6**	**–**
Aggregated according to categories as defined in IFRS 9:						
Financial assets (FVOCIwR)		114.9				
Financial assets (FVOCIwoR)		192.9				
Financial assets (FVPL)		606.7				
Financial assets (at cost)		10,229.8				
Financial liabilities (FVPL)		8.2				
Financial liabilities (at cost)		13,186.1				

1 Including positive fair values of €0.0 million and negative fair values of €0.1 million for long-term embedded derivatives.
2 Starting from the 2018 reporting year, deferred costs from the sale of customer tooling are no longer included in order to make the presentation of other financial assets more transparent.

€ millions	Measurement category in acc. with IAS 39	Carrying amount as at Dec. 31, 2017	Fair value as at Dec. 31, 2017	thereof Level 1	thereof Level 2
Other investments	AfS	51.0	51.0	–	–
Derivative instruments and interest-bearing investments					
Derivative instruments accounted for as effective hedging instruments	n. a.	51.5	51.5	–	51.5
Derivative instruments not accounted for as effective hedging instruments[1]	HfT	18.5	18.5	–	18.5
Available-for-sale financial assets	AfS	37.8	37.8	28.3	9.5
Other receivables with a financing character	LaR	53.1	53.1	–	–
Trade accounts receivable	LaR	7,669.3	7,669.3	–	–
Other financial assets[2]	LaR	365.8	365.8	–	–
Cash and cash equivalents					
Cash and cash equivalents	LaR	1,682.1	1,682.1	–	–
Available-for-sale financial assets	AfS	199.4	199.4	199.4	–
Financial assets		**10,128.5**	**10,128.5**	**227.7**	**79.5**
Indebtedness					
Derivative instruments not accounted for as effective hedging instruments[1]	HfT	16.9	16.9	–	16.9
Finance lease liabilities	n. a.	16.4	16.6	–	16.6
Other indebtedness	OL	4,056.7	4,155.3	2,680.6	298.9
Trade accounts payable	OL	6,798.5	6,798.5	–	–
Other financial liabilities					
Other indebtedness	n. a.	7.3	7.1	–	7.1
Miscellaneous financial liabilities	OL	1,305.6	1,305.5	–	4.9
Financial liabilities		**12,201.4**	**12,299.9**	**2,680.6**	**344.4**
Aggregated according to categories as defined in IAS 39:					
Financial assets held for trading (HfT)		18.5			
Loans and receivables (LaR)		9,770.3			
Available-for-sale financial assets (AfS)		288.2			
Financial liabilities held for trading (HfT)		16.9			
Financial liabilities measured at amortized cost (OL)		12,160.8			

1 Including positive fair values of €0.1 million and negative fair values of €0.0 million for long-term embedded derivatives.
2 Starting from the 2018 reporting year, deferred costs from the sale of customer tooling are no longer included in order to make the presentation of other financial assets more transparent. The figures as at December 31, 2017, have been adjusted accordingly.

Levels of the fair value hierarchy according to IFRS 13:
- Level 1: quoted prices on the active market for identical instruments
- Level 2: quoted prices on the active market for a similar instrument or a measurement method for which all major input factors are based on observable market data
- Level 3: measurement method for which the major input factors are not based on observable market data

For other investments for which there are no quoted prices on the active market for identical instruments (level 1) or for a similar instrument, or for which there is no applicable measurement method in which all major input factors are based on observable market data (level 2), the fair value is calculated with a measurement method for which the major input factors are not based on observable market data (level 3). The measurement is performed according to the measurement method that is deemed appropriate in each case. For the majority of level 3 instruments, the costs are the best estimate. The fair value of other investments is monitored centrally and checked for valuation adjustment using one of the key input factors that is not based on observable market data. There are no indications that non-observable market data has a significant impact on the fair value of other investments.

Derivative instruments that meet the requirements of hedge accounting and finance lease liabilities are not allocated to any IFRS 9 (previous year: IAS 39) measurement category, since they are excluded from the individual measurement categories.

In 2017, derivative instruments for which effective hedge accounting is not applied were classified as financial assets or liabilities held for trading.

Finance lease liabilities are not assigned to a measurement category as they are accounted for under IAS 17.

The accounting policies applied are described in the notes to the consolidated financial statements under General Information and Accounting Principles (Note 2).

Trade accounts receivable and payable, other receivables with a financing character, other financial assets and liabilities, and cash and cash equivalents generally have short remaining maturities. As a result, the carrying amounts as at the end of the reporting period are, as a rule, approximately their fair values and are not shown in the fair value hierarchy in the table. The fair values of other indebtedness, other financial liabilities and finance lease liabilities were determined by discounting all future cash flows at the applicable interest rates for the corresponding residual maturities, taking into account a company-specific credit spread, provided their carrying amounts as at the reporting date are not approximately equivalent to their fair values.

The corporation recognizes possible reclassifications between the different levels of the fair value hierarchy as at the end of the reporting period in which a change occurred. In 2018, as in the previous year, there were no transfers between the different levels of the fair value hierarchy.

The following income and expenses from financial instruments were recognized in the consolidated statement of income:

	Net gains and losses from interest		Other net gains and losses		Total net gains and losses	
€ millions	**2018**	2017	**2018**	2017	**2018**	2017
Loans and receivables	–	26.4	–	-64.1	–	-37.7
Financial assets (at cost)	28.0	–	26.1	–	54.1	–
Financial assets and liabilities (FVPL)	8.6	–	14.2	–	22.8	–
Available-for-sale financial assets (AfS)	–	0.1	–	1.8	–	1.9
Financial assets and financial liabilities held for trading (HfT)	–	–	–	38.3	–	38.3
Financial assets (FVOCI)	-1.9	–	0.8	–	-1.1	–
Financial liabilities (2018: at cost; 2017 OL)	-108.7	-123.3	-62.7	56.7	-171.4	-66.6

Interest income and expense from financial instruments is reported in the financial result (see Note 11).

Dividend income from financial assets measured at fair value with changes in value under other comprehensive income is explained under Income from Investments (Note 10).

The changes in value of available-for-sale financial assets that were recognized directly in equity in accordance with IAS 39 in the previous year amounted to €3.7 million; in addition, a sum of €1.8 million was recognized in profit or loss.

Collateral

As at December 31, 2018, a total of €762.5 million (PY: €1,896.6 million) of financial assets had been pledged as collateral. In the year under review, as in the previous year, collateral mainly consisted of trade accounts receivable; the remainder related to pledged cash or other financial assets.

Risk management of financial instruments

Due to its international business activities and the resulting financing requirements, the Continental Corporation is exposed to default risks, risks from changes in exchanges rates and variable interest rates, and liquidity risk. The management of these risks is described in the following sections.

In addition, hedging instruments are used in the corporation. Their use is covered by corporate-wide policies, adherence to which is regularly reviewed by internal auditors. Internal settlement risks are minimized through the clear segregation of functional areas.

Further information about the risks presented below and about risk management can be found in the Report on Risks and Opportunities section of the Corporate Management Report.

1. Default risk

Default risks from trade accounts receivable, contract assets or other financial assets include the risk that receivables will be collected late or not at all if a customer or another contractual party does not fulfill its contractual obligations.

The total of the positive carrying amounts is equivalent to the maximum default risk of the Continental Corporation from financial assets.

Default risk is influenced mainly by characteristics of the customers and the sector and is therefore analyzed and monitored by central and local credit managers. The responsibilities of the credit management function also include pooled receivables risk management. Contractual partners' creditworthiness and payment history are analyzed on a regular basis.

Default risk for non-derivative financial receivables is also limited by ensuring that agreements are entered into with partners with proven creditworthiness only or that collateral is provided or, in individual cases, trade credit insurance is agreed. As in the previous year, the corporation held no collateral as at December 31, 2018. There are therefore no trade accounts receivable or contract assets for which an impairment loss was not recognized due to collateral held.

However, default risk cannot be excluded with absolute certainty, and any remaining risk is addressed by recognizing expected credit losses for identified individual risks and on the basis of experience, taking account of any relevant future components.

Financial assets that are neither past due nor impaired accordingly have a prime credit rating. Default risks are calculated on the basis of corporation-wide standards. The methods for calculating valuation allowances are described in the notes to the consolidated financial statements under General Information and Accounting Principles (Note 2).

Trade accounts receivable and contract assets

If the creditworthiness of receivables is impaired, corresponding expenses are recognized in an allowance account.

Lifetime expected credit losses are largely calculated using estimates and assessments based on the creditworthiness of the respective customer, current economic developments and the analysis of historical losses on receivables. The creditworthiness of a customer is assessed on the basis of its payment history and its ability to make payments. It is regularly reviewed whether there is a need to take account of any risks in connection with different customer groups, sectors or countries. No such allocation of default risk was required in 2018.

Continental calculates the default rates for lifetime expected credit losses based on a three-year average, taking account of the historical defaults allocated to the different periods past due, and generally also taking account of a forward-looking component. This includes macroeconomic information such as country risks and economic developments. Trade accounts receivable and contract assets whose creditworthiness is already impaired are not taken into account when calculating lifetime expected credit losses. There were no significant effects on expected credit losses from the modification of cash flows.

The table below shows the gross carrying amounts as at December 31, 2018, for trade accounts receivable and contract assets whose creditworthiness was not impaired[1]:

€ millions	**Dec. 31, 2018**	Jan. 1, 2018
not overdue	6,895.4	6,773.3
0-29 days	434.1	319.4
30–59 days	126.8	86.9
60–89 days	37.5	36.0
90–119 days	36.0	30.5
120 days or more	110.1	124.1
As at December 31/January 1	**7,639.9**	**7,370.2**

1 The difference of €163.6 million (January 1, 2018: €428.9 million) from the tables in Notes 6 and 22 results from trade accounts receivable and contract assets whose creditworthiness was impaired.

In the year under review, lifetime expected credit losses and valuation allowances for trade accounts receivable and contract assets whose creditworthiness was impaired developed as follows:

€ millions	2018	2017[1]
As at January 1 in acc. with IAS 39	110.4	112.4
Adjustment due to the first-time adoption of IFRS 9	–7.6	–
As at January 1 in acc. with IFRS 9	**102.8**	**–**
Additions	40.5	38.5
Utilizations	–13.3	–12.0
Reversals	–23.7	–25.0
Amounts disposed of through disposal of subsidiaries	–0.1	–0.3
Exchange-rate changes	–2.1	–3.2
As at December 31	**104.1**	**110.4**

1 The previous year's figures include valuation allowances in accordance with IAS 39.

As at December 31, 2018, valuation allowances for trade accounts receivable whose creditworthiness was impaired amounted to €90.9 million.

Of the impaired receivables written down in the reporting period, €0.8 million is still subject to enforcement measures.

Other financial assets

Valuation allowances equivalent to the gross carrying amount totaling €7.4 million were recognized for other financial assets whose creditworthiness was impaired. On January 1, 2018, the valuation allowance amounted to €12.5 million. The difference in comparison to December 31, 2017, is due to the fact that deferred costs from the sale of customer tooling are no longer included in other financial assets in order to increase transparency.

Other 12-month and lifetime expected credit losses on other financial assets are not of significance.

Of the impaired other financial assets written down in the reporting period, €1.0 million is still subject to enforcement measures.

Cash and cash equivalents, derivative instruments and interest-bearing investments

In order to minimize the default risk for cash and cash equivalents, derivative instruments and interest-bearing investments, Continental generally uses banks that it has classified as core banks on the basis of defined criteria. These banks have at least one investment-grade credit rating from one of the global rating agencies. The default risk can therefore be considered very low. The creditworthiness of the core banks – and of other banks and business partners with which investments are made, loans are granted or derivative instruments are traded in derogation from the core bank principle for operational or regulatory reasons – is continuously monitored by tracking not only their credit ratings but also particularly the premiums for insuring against credit risks (credit default swap, CDS). In addition, Continental sets investment limits for each bank and trading limits for derivative instruments. The amount of these limits is based on the creditworthiness of the respective bank. Compliance with these limits is continuously monitored. The expected credit losses from cash and cash equivalents and other interest-bearing investments measured at amortized cost are not significant.

2. Currency management

The international nature of the corporation's business activities results in deliveries and payments in various currencies. Currency-exchange fluctuations involve the risk of losses because assets denominated in currencies with a falling exchange rate lose value, while liabilities denominated in currencies with a rising exchange rate become more expensive. For hedging, it is allowed to use only derivative instruments that have been defined in corporate-wide policies and can be reported and measured in the risk management system. It is generally not permitted to use financial instruments that do not meet these criteria.

Operational foreign-currency risk

In operational currency management, actual and expected foreign-currency cash flows are combined as operational foreign-exchange exposures in the form of net cash flows for each transaction currency on a rolling 12-month basis. These cash flows arise mainly from receipts and payments from external and intra-corporate transactions by the corporation's subsidiaries worldwide. A natural hedge approach for reducing currency risks has been pursued for several years, meaning that the difference between receipts and payments in any currency is kept as low as possible. Exchange-rate developments are also monitored, analyzed and forecast. Based on the operational foreign-exchange exposure and constantly updated exchange-rate forecasts, the interest-rate and currency committee, which convenes weekly, agrees on the hedging measures to be implemented in individual cases by concluding derivative instruments, particularly currency forwards, currency swaps and currency options with a term of up to 12 months. Their amount must not exceed 30% of the 12-month exposure per currency without Executive Board permission. In addition, further risk limits for open derivative positions are set, which considerably reduce the risks from hedging activities. Hedge accounting was not used in the reporting

year or in the previous year for hedges concluded in this way. As in the previous year, there were no derivative instruments for hedging against operational foreign-currency risks as at December 31, 2018.

As at December 31, 2018, the net exposure from financial instruments that are denominated in a currency other than the functional currency of the respective subsidiary and are not allocated to net indebtedness existed in the major currencies of the euro in the amount of -€211.6 million (PY: -€198.2 million) and the U.S. dollar in the amount of -€525.4 million (PY: -€476.0 million).

Financial foreign-currency risks

In addition to operational foreign-currency risk, currency risks also result from the corporation's external and internal net indebtedness that is denominated in a currency other than the functional currency of the respective subsidiary. The quantity of these instruments is regularly summarized in the form of a financial foreign-currency exposure for each transaction currency. As at December 31, 2018, the net exposure in the major currencies amounted to -€1,297.8 million (PY: -€987.8 million) for the euro and €423.7 million (PY: €620.0 million) for the U.S. dollar. These currency risks are generally hedged against through the use of derivative instruments, particularly currency forwards, currency swaps and cross-currency interest-rate swaps. The corporation's net foreign investments are, as a rule, not hedged against exchange-rate fluctuations. In the case of highly effective, longer-term and significant hedges, Continental usually applies hedge accounting. The hedged transactions are not divided into their risk components.

Hedging against financial foreign-currency risks without using hedge accounting

As at December 31, 2018, there are derivative instruments for hedging against financial foreign-currency risks from intra-corporate receivables and liabilities. Hedge accounting is not used for these instruments. As at December 31, 2018, they are reported in the statement of financial position under the item "Short-term derivative instruments and interest-bearing investments" in the amount of €15.1 million (PY: €18.4 million) and under the item "Short-term financial liabilities" in the amount of €8.1 million (PY: €16.9 million) and are assigned to the measurement category FVPL. Their nominal volume comes to €940.4 million as at December 31, 2018 (PY: €1,452.8 million).

Hedging against financial foreign-currency risks (net investment hedge)

In the previous year, the Continental Corporation designated currency swaps as hedging instruments in hedges of net investments in foreign operations in accordance with IAS 39. It terminated these hedges as at August 25, 2017. Based on the decision that currency effects from net investments in a foreign operation and from designated hedges that are accumulated in the currency translation reserve in equity are to be reclassified to the income statement only if the foreign operation is sold or liquidated, €20.2 million (PY: €20.2 million) from the hedged transactions remains in the currency translation reserve in equity.

Hedging against financial foreign-currency risks (cash flow hedge)

In 2015, the Continental Corporation fully designated cross-currency interest-rate swaps as hedging instruments for cash flow hedge accounting pursuant to IAS 39. The cash flow hedges are used to secure the €500 million bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., on November 19, 2015. In doing so, first the currency risks of Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., are hedged against by the denomination in euros and, second, the euro-based fixed interest rate is exchanged for a U.S.-dollar-based fixed interest rate. The new regulations for hedge accounting in accordance with IFRS 9 were applied to these cash flow hedges prospectively as at January 1, 2018. There was no accounting effect as at the transition date on January 1, 2018.

In this context, the fulfillment of hedge effectiveness conditions as required under IFRS 9 was continually demonstrated prospectively in qualitative terms based on matching key parameters of the hedged transaction and the hedge (critical terms match). The fixed interest and capital cash outflows of the euro bond as the hedged transaction and the opposing interest and capital cash inflows from the fixed hedges (euro-swap leg) match and offset each other with regard to their critical terms: nominal amounts, maturities and the measurement methods used for setting interest rates. On this basis, an economically effective, efficient hedge is still assumed and the hedging ratio remains at 1:1. Ineffectiveness is calculated by comparing the present value development of the hedged transactions and the fair value development of the hedging instruments. Ineffectiveness generally results from the recognition of credit risk and of currency basis spreads when measuring cross-currency interest-rate swaps at fair value. These effects are not applied when measuring the bond that is carried at amortized cost.

For information on the accounting principles for cash flow hedges, please refer to General Information and Accounting Principles (Note 2).

The quantitative information required under IFRS 7 in relation to cash flow hedges is shown in the table below:

€ million (unless otherwise stated)	**Dec. 31, 2018**	Dec. 31, 2017
Carrying amount and item of the statement of financial position of the cross-currency interest-rate swaps		
Long-term derivative instruments and interest-bearing investments	–	51.5
Short-term derivative instruments and interest-bearing investments	28.2	–
Nominal amounts of cross-currency interest-rate swaps (EUR swap leg)	500.0	500.0
Maturity date	Feb. 19, 2019	Feb. 19, 2019
Average exchange rates of nominal amounts of cross-currency interest-rate swaps at maturity date	1,078	1,078
Average interest rate of EUR swap legs (annual payment) in %	0.50%	0.50%
Average interest rate of USD swap legs (semiannual payment) in %	2.37%	2.37%
Changes in fair values of cross-currency interest-rate swaps used as the basis for recognizing hedge ineffectiveness for the period	-23.3	60.8
Changes in the fair value of the bond used as the basis for recognizing hedge ineffectiveness for the period	23.3	-60.8

The table below shows the change in the cash flow hedge reserve, which is reported in equity under the "Difference arising from financial instruments" item:

€ millions	**2018**	2017
As at January 1	2.4	2.1
Fair value changes of cross-currency interest-rate swaps	-24.9	63.3
Reclassification adjustments to profit and loss because the hedged item has affected profit or loss[1]	22.6	-63.1
Deferred taxes	0.5	0.4
Exchange-rate changes	0.1	-0.3
As at December 31	**0.7**	**2.4**

1 Shown under the cash flow hedges item in the statement of comprehensive income.

As in the previous year, the cash flow hedges did not result in an ineffectiveness to be recognized in profit or loss in the year under review.

Translation-related foreign-currency risks

A large number of the subsidiaries are located outside the euro currency zone. As Continental AG's reporting currency in the consolidated financial statements is the euro, the financial statements of these companies are translated into euros. With regard to managing the risks of translation-related currency effects, it is assumed that investments in foreign companies are entered into for the long term and that earnings are reinvested. Translation-related effects that arise when the value of net asset items translated into euros changes as a result of exchange-rate fluctuations are recognized directly in equity in the consolidated financial statements and are generally not hedged.

Sensitivity analysis

IFRS 7 requires a presentation of the effects of hypothetical changes in exchange rates on income and equity using a sensitivity analysis. The changes in the exchange rates are related to all financial instruments outstanding as at the end of the reporting period, including the effects of hedges. Forecast transactions and translation-related foreign-currency risks are not included in the sensitivity analysis. To determine the transaction-related net foreign-currency risk, financial instruments with transaction currencies that differ from the functional currencies are identified and a 10% appreciation or depreciation of the respective functional currency of the subsidiaries in relation to the identified different transaction currencies is assumed. The following table shows, before income tax expense, the overall effect as measured using this approach, as well as the individual effects resulting from the euro and the U.S. dollar, as major transaction currencies, on the difference from currency translation and from financial instruments in equity and on net income.

	2018		2017	
€ millions	**Total equity**	**Net income**	Total equity	Net income
Local currency +10%				
Total	**-0.3**	**113.3**	**50.8**	**56.6**
thereof EUR	-0.3	89.6	50.8	14.2
thereof USD	–	7.5	–	20.2
Local currency -10%				
Total	**0.3**	**-113.3**	**-50.8**	**-56.6**
thereof EUR	0.3	-89.6	-50.8	-14.2
thereof USD	–	-7.5	–	-20.2

3. Interest-rate management

Variable interest agreements result in a risk of rising interest rates for interest-bearing financial liabilities and falling interest rates for interest-bearing financial investments. These interest-rate risks are valuated and assessed as part of our interest-rate management activities, partly on the basis of continuous monitoring of current and anticipated long-term and short-term interest-rate developments, and are managed by means of derivative interest-rate hedging instruments as needed. The corporation's interest-bearing net indebtedness is the subject of these activities. Interest-rate hedges serve exclusively to manage identified interest-rate risks. Once a year, a range is determined for the targeted share of fixed-interest indebtedness in relation to total gross indebtedness. As in the previous year, there were no derivative financial instruments for hedging against interest-rate risks as at December 31, 2018.

The corporation is not exposed to a risk of fluctuation in the fair value of long-term financial liabilities due to market changes in fixed interest rates, as the lenders do not have the right to demand early repayment in the event of changing rates and these liabilities are recognized at amortized cost.

Interest-rate risk

The profile of interest-bearing financial instruments allocated to net indebtedness, taking into account the effect of the Continental Corporation's derivative instruments, is as follows:

€ millions	**2018**	2017
Fixed-interest instruments		
Financial assets	18.4	0.1
Financial liabilities	2,820.9	2,764.3
Floating-rate instruments		
Financial assets	2,883.9	1,972.3
Financial liabilities	1,777.8	1,308.7

In accordance with IFRS 7, effects of financial instruments on income and equity resulting from interest-rate changes must be presented using a sensitivity analysis.

Fair value sensitivity analysis

The main effects resulted from the changes in the U.S. dollar and euro interest rates. There were no changes in the financial result in 2018 or in the previous year. The effects on equity are presented below; tax effects were not taken into account in the analysis:

- An increase in U.S. dollar interest rates of 100 basis points in 2018 would have increased equity by €0.7 million (PY: €4.9 million).
- A decline in U.S. dollar interest rates of 100 basis points would have reduced equity by €0.7 million (PY: €5.0 million).
- An increase in euro interest rates of 100 basis points in 2018 would have reduced equity by €0.7 million (PY: €5.7 million).
- A decline in euro interest rates of 100 basis points would have increased equity by €0.7 million (PY: €5.8 million).

Cash flow sensitivity analysis

The following table shows the effects an increase or a decrease in interest rates of 100 basis points would have had on the financial result. The effects would essentially result from floating-rate financial instruments. In the scenario in which there is a decrease in the pertinent interest rates, the effects were calculated for individual groups of financial instruments taking account of their contractual arrangement (particularly the interest-rate floors agreed) and based on assumptions with regard to changes in the applicable interest rates for these financial instruments depending on changes in market interest rates. With regard to these assumptions, we consider it realistic, as in the previous year, that only contractually agreed interest-rate floors would limit a decrease in the relevant interest rates. As in the previous year, this analysis is based on the assumption that all other variables, and in particular exchange rates, remain unchanged.

	Interest-rate increase +100 basis points		Interest-rate decline –100 basis points	
€ millions	**2018**	2017	**2018**	2017
Total	**11.2**	**6.8**	**–11.7**	**–7.3**
thereof EUR	0.5	0.2	–1.0	–0.7
thereof CNY	5.7	4.8	–5.7	–4.8
thereof USD	1.3	–1.4	–1.3	1.4
thereof INR	0.9	0.7	–0.9	–0.7
thereof JPY	0.7	0.4	–0.7	–0.4
thereof KRW	0.5	0.7	–0.5	–0.7
thereof BRL	0.5	0.3	–0.5	–0.3
thereof CAD	–0.8	–0.2	0.8	0.2

4. Liquidity risks

Cost-effective, adequate financing is necessary for the subsidiaries' operating business. A liquidity forecast is therefore prepared by central cash management on a regular basis.

Various marketable financial instruments are used to meet the financial requirements. These comprise overnight money, term borrowing, the commercial paper issue, sale-of-receivables programs, the syndicated loan with a committed nominal amount of €3.0 billion (PY: €3.0 billion) and other bilateral loans. Furthermore, approximately 41% (PY: 65%) of gross indebtedness is financed on the capital market in the form of long-term bonds. Capital expenditure by subsidiaries is primarily financed through equity and loans from banks or subsidiaries. There are also cash-pooling arrangements with subsidiaries to the extent they are possible and justifiable in the relevant legal and tax situation. If events lead to unexpected financing requirements, the Continental Corporation can draw upon existing liquidity and fixed credit lines from banks. For detailed information on the existing utilized and unutilized committed credit lines, please refer to Note 29.

The financial liabilities of €13,213.5 million (PY: €12,201.4 million) result in the following undiscounted cash outflows in the next five years and thereafter.

Dec. 31, 2018/€ millions	2019	2020	2021	2022	2023	thereafter	**Total**
Other indebtedness incl. interest payments	-3,171.0	-1,396.7	-6.6	-6.9	-5.0	-64.8	**-4,651.0**
Derivative instruments[1]	-9.3	–	–	–	–	–	**-9.3**
Finance lease liabilities	-2.7	-2.6	-2.6	-2.4	-1.6	-1.3	**-13.2**
Trade accounts payable	-7,293.0	–	–	–	–	–	**-7,293.0**
Other financial liabilities	-1,275.6	-33.0	-0.3	-0.3	-0.3	-5.3	**-1,314.8**

1 Not including embedded derivatives, as they do not give rise to cash outflows.

Dec. 31, 2017/€ millions	2018	2019	2020	2021	2022	thereafter	Total
Other indebtedness incl. interest payments	–2,091.3	–604.8	–1,394.5	–9.5	–5.2	–66.8	**–4,172.1**
Derivative instruments[1]	–17.1	—	—	—	—	—	**–17.1**
Finance lease liabilities	–4.8	–2.9	–2.5	–2.5	–2.3	–3.0	**–18.0**
Trade accounts payable	–6,798.5	—	—	—	—	—	**–6,798.5**
Other financial liabilities	–1,277.2	–5.6	–25.1	–0.3	–0.3	–5.6	**–1,314.1**

1 Not including embedded derivatives, as they do not give rise to cash outflows.

In the analysis, foreign-currency amounts were translated into euros using the current spot rate as at the end of the reporting period. For floating-rate non-derivative financial instruments, the future interest payment flows were forecast using the most recently contractually fixed interest rates. Forward interest rates were used to determine floating-rate payments for derivative instruments. The analysis only includes cash outflows from financial liabilities. The net payments are reported for derivative instruments that are liabilities as at the end of the reporting period. Cash inflows from financial assets were not included.

The cash outflows in the maturity analysis are not expected to occur at significantly different reference dates or in significantly different amounts.

Global netting agreements and similar agreements

Continental AG concludes business in the form of derivative instruments on the basis of the German Master Agreement on Financial Derivatives Transactions *(Deutscher Rahmenvertrag für Finanztermingeschäfte)*. Fundamentally, there is the option to combine the amounts owed by each counterparty under such agreements on the same day in respect of all outstanding transactions in the same currency into a single net amount to be paid by one party to another.

The German Master Agreement on Financial Derivatives Transactions does not meet the criteria for offsetting in the statement of financial position. This is due to the fact that Continental AG has no legal right to the netting of the amounts recognized at the current time. According to the regulations of the German Master Agreement, the right to netting can be enforced only when future events occur, such as the insolvency of or default by a contractual party. In such cases, all outstanding transactions under the agreement are ended, the fair value is calculated as at this time, and just a single net amount is paid to settle all transactions.

At some Brazilian and South Korean subsidiaries, there are local framework agreements on the basis of which these companies have concluded derivative instruments. These agreements also do not meet the criteria for offsetting in the statement of financial position.

The following table shows the carrying amounts of the reported stand-alone derivative instruments, their offsetting in the statement of financial position, and any potential arising from the specified agreements subject to the occurrence of certain future events:

	Dec. 31, 2018			Dec. 31, 2017		
€ millions	**Carrying amounts[1]**	**Respective financial instruments not netted**	**Net amount**	Carrying amounts[1]	Respective financial instruments not netted	Net amount
Financial assets	43.3	–0.7	42.6	69.9	–7.5	62.4
Financial liabilities	–8.1	0.7	–7.4	–16.9	7.5	–9.4

1 There were no amounts to be offset in accordance with IAS 32.42 as at the reporting date and as the same date in the previous year.

31. Other Financial Liabilities

	Dec. 31, 2018		Dec. 31, 2017	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Liabilities to related parties	232.6	7.0	261.6	7.4
Interest payable	13.7	–	23.6	–
Liabilities for selling expenses	963.9	–	922.3	–
Purchase prices payable on company acquisitions	8.1	24.5	9.8	24.6
Miscellaneous financial liabilities	56.9	6.9	59.5	4.1
Other financial liabilities	**1,275.2**	**38.4**	**1,276.8**	**36.1**

The liabilities to related parties relate in particular to liabilities to associates for services provided. The decrease primarily resulted from a corporate company formed in 2010 that sources significant portions of its merchandise from an equity-accounted investee.

Interest payable at the end of 2018 is due mainly to deferred interest for the bonds issued. The decline compared to the end of 2017 is due in particular to the repayment on July 16, 2018, of the €750.0 million euro bond issued by Continental AG. Liabilities for selling expenses relate in particular to obligations from bonus agreements with customers and deferred price reductions granted.

The purchase price obligations from company acquisitions mainly comprise the acquisitions implemented in the current year and previous years in Germany, Czechia, Australia and the U.S.A.

The miscellaneous financial liabilities primarily include the put option for the acquisition of the remaining shares in Zonar Systems, Inc., Seattle, Washington, U.S.A.

32. Trade Accounts Payable

Trade accounts payable amounted to €7,293.0 million (PY: €6,798.5 million) as at the end of the fiscal year. The liabilities are measured at amortized cost. The full amount is due within one year. The liabilities do not include any amounts from the percentage-of-completion method. For information on liquidity risk, currency risk and the sensitivity analysis for trade accounts payable, please see Note 30.

33. Other Liabilities

	Dec. 31, 2018		Dec. 31, 2017	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Liabilities for VAT and other taxes	254.8	–	303.6	–
Deferred income[1]	9.1	8.4	137.9	18.4
Miscellaneous liabilities	302.7	5.0	276.4	7.0
Other liabilities	**566.6**	**13.4**	**717.9**	**25.4**

1 Please see the "Revenue from contracts with customers" section in Note 6 regarding the changes in this item resulting from the partial reclassification to contract liabilities due to the first-time adoption of new IFRS standards.

Deferred income primarily includes deferrals for government grants.

Other Disclosures

34. Litigation and Compensation Claims

Continental AG and its subsidiaries are involved in lawsuits and regulatory investigations and proceedings worldwide. Such lawsuits, investigations and proceedings could also be initiated or claims asserted in other ways in the future.

Product liability
In particular, Continental is constantly subject to product liability and other claims in which the company is accused of the alleged infringement of its duty of care, violations against warranty obligations or defects of material or workmanship. Claims from alleged breaches of contract resulting from product recalls or government proceedings are also asserted. Among other cases, claimants in the U.S.A. file lawsuits for property damage, personal injury and death caused by alleged defects in our products. Claims for material and non-material damages, and in some cases punitive damages, are being asserted. The outcome of individual proceedings, which are generally decided by a jury in a court of first instance, cannot be predicted with certainty. No assurance can be given that Continental will not incur substantial expenses as a result of the final judgments or settlements in some of these cases, or that these amounts will not exceed any provisions set up for these claims. Some subsidiaries in the U.S.A. are exposed to relatively limited claims for damages from purported health injuries allegedly caused by products containing asbestos. The total costs for dealing with all such claims and proceedings have amounted to less than €50 million per year since 2006.

Proceedings relating to ContiTech AG
The actions of rescission and nullification by shareholders of ContiTech AG, Hanover, Germany, against resolutions adopted by the Annual Shareholders' Meeting of the company on August 22, 2007, regarding the approval of the conclusion of a management and profit and loss transfer agreement between this company as the controlled company and ContiTech-Universe Verwaltungs-GmbH, Hanover, Germany, as the controlling company and regarding the squeeze-out of minority shareholders were concluded in 2009 by a dismissal, which is final. In 2012, partial settlement agreements were entered in the records of the Hanover Regional Court *(Landgericht)* in the judicial review proceedings regarding the appropriateness of the settlement and compensation payment under the management and profit and loss transfer agreement and the settlement for the squeeze-out. Under these settlements, a payment of €3.50 plus interest per share on top of the exit compensation under the management and profit and loss transfer agreement and on account of the squeeze-out was agreed, as was – merely declaratory – a higher compensatory payment under the management and profit and loss transfer agreement. The compensation consequently increased to €28.33 per share. In October 2012, the Hanover Regional Court had awarded additional payments of the same amount.

Upon appeals by some petitioners, the Celle Higher Regional Court *(Oberlandesgericht)* had revoked the rulings on July 17, 2013, and remanded the matter to the Regional Court for a new hearing and ruling. On September 19, 2018, the Hanover Regional Court now adjusted the compensation under the management and profit and loss transfer agreement and on account of the squeeze-out to €26.70 per share and also adjusted the compensatory payment under the management and profit and loss transfer agreement on a merely declaratory basis. The rulings are not final.

Regulatory proceedings
In May 2005, the Brazilian competition authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Indústria Automotiva Ltda., Guarulhos, Brazil (CBIA), following a complaint of anticompetitive behavior in the area of commercialization of tachographs. On August 18, 2010, the Brazilian antitrust authorities determined an "invitation to cartel" and imposed a fine of BRL 12.0 million (around €2.7 million) on CBIA, which was then reduced to BRL 10.8 million (around €2.4 million). CBIA denies the accusation that it has infringed Brazilian antitrust law. The court of first instance appealed to by CBIA upheld the decision. However, on CBIA's further appeal, the next higher court annulled this decision and remanded the matter. In case an infringement of Brazilian antitrust law is found, third parties may, in addition, claim damages from CBIA.

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

In a case that had come to light at the start of 2010 as a result of searches at several companies, the European Commission imposed fines on a number of automotive suppliers on July 10, 2013, for anti-competitive conduct in the field of supplying wire harnesses for automotive applications. These companies included S-Y Systems Technologies Europe GmbH, Regensburg, Germany (S-Y), and its French subsidiary, which had to pay a fine of €11.1 million due to cartel agreements with regard to one automotive manufacturer. Continental held a 50% share of S-Y until January 29, 2013. Class action lawsuits filed by alleged victims against S-Y and other companies are pending in Canada. A claim for damages brought against S-Y was settled out of court. Further claims cannot be ruled out.

In October 2012, Continental Automotive Systems US, Inc., Auburn Hills, Michigan, U.S.A., and two of Continental's South Korean subsidiaries became aware of investigations by the U.S. Department of Justice (DOJ) and the Korean Fair Trade Commission (KFTC) in connection with the suspected involvement in violations of U.S. and South Korean antitrust law in instrument cluster business. On December 23, 2013, the KFTC announced that it had imposed a fine of KRW 45,992 million (around €36 million) on Continental Automotive Electronics LLC, Bugan-myeon, South Korea (CAE). On June 25, 2015, the Seoul High Court, Seoul, South Korea, vacated the administrative fine imposed by the KFTC on CAE's appeal against the amount of the fine. The Supreme Court of South Korea rejected KFTC's appeal against this decision on May 31, 2017. On May 21, 2018, the KFTC adjusted the fine to KRW 32,101 million (around €25 million). This decision is final. On November 24, 2014, CAE and Continental Automotive Korea Ltd., Seongnam-si, South Korea, entered into an agreement with the DOJ that was confirmed by the competent U.S. court on April 1, 2015. Under this agreement, the two companies admitted to charges of violating U.S. antitrust law and agreed to pay a fine of U.S. $4.0 million (around €3.3 million). In the proceedings relating to class action lawsuits filed in the U.S.A. for alleged damages resulting from the antitrust violations, settlements totaling U.S. $5.0 million (around €4.4 million) were concluded in 2018. The risk of investigations into this matter by other antitrust authorities and claims for damages by further alleged victims remains unaffected by the fines imposed.

In September 2014, the European Commission conducted a search at a subsidiary of Continental. On February 21, 2018, the commission imposed a fine of €44.0 million on Continental AG; Continental Teves AG & Co. oHG, Frankfurt, Germany; and Continental Automotive GmbH, Hanover, Germany; for the unlawful exchange of information. This involved specific brake components. Continental has set aside provisions that cover this fine. Continental cannot rule out the possibility that customers will claim for damages with reference to the commission's decision. At this point in time, it is not possible to say whether such claims will be submitted and, if they are, how much the damages will be – irrespective of whether or not the claims are justified. As a result, it cannot be ruled out that the resulting expenses will exceed the provisions that have been set aside for this purpose. In accordance with IAS 37.92, 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.

35. Contingent Liabilities and Other Financial Obligations

€ millions	**Dec. 31, 2018**	Dec. 31, 2017
Liabilities on guarantees	16.9	9.5
Liabilities on warranties	52.9	35.6
Risks from taxation and customs	50.7	10.9
Other financial obligations	17.3	18.7
Other contingent liabilities	15.1	14.6
Contingent liabilities and other financial obligations	**152.9**	**89.3**

As in the previous years, the contingent liabilities related to guarantees for the liabilities of affiliated companies and third parties not included in consolidation and to contractual warranties. To the best of our knowledge, the underlying obligations will be fulfilled in all cases. Utilization is not anticipated.

The risks from tax and customs matters partly relate to announced tariffs and import restrictions in the U.S.A. as a result of the trade conflict between the U.S.A. and China for the protection of the U.S. economy.

The other financial obligations relate in part to the acquisition of companies now owned by the corporation.

The Continental Corporation could be subject to obligations relating to environmental issues under governmental laws and regulations, or as a result of various claims and proceedings that are pending or that might be made or initiated against it. Estimates of future expenses in this area are naturally subject to many uncertainties, such as the enactment of new laws and regulations, the development and application of new technologies and the identification of contaminated land or buildings for which the Continental Corporation is legally liable.

Open purchase commitments for property, plant and equipment amounted to €743.6 million (PY: €740.0 million).

In 2018, expenses from operating leases and rental agreements amounted to €277.3 million (PY: €255.9 million).

Future liabilities relating to operating leases and rental agreements with an original or remaining term of more than one year as at December 31, 2018, amount to the figures shown in the table below for 2019 and cumulatively for the years 2020 through 2023, and likewise cumulatively from 2024.

Dec. 31, 2018/€ millions	2019	2020–2023	from 2024
Operating leases and rental agreements	291.2	777.8	465.6

Dec. 31, 2017/€ millions	2018	2019–2022	from 2023
Operating leases and rental agreements	277.3	694.1	423.1

36. Earnings per Share

Basic earnings per share fell to €14.49 in 2018 (PY: €14.92), the same amount as diluted earnings per share. In both the period under review and the previous year, there were no dilutive effects such as interest savings on convertible bonds or warrant-linked bonds (after taxes). There were also no dilutive effects from stock option plans or the assumed exercise of convertible bonds.

€ millions/millions of shares	2018	2017
Net income attributable to the shareholders of the parent	2,897.3	2,984.6
Weighted average number of shares issued	200.0	200.0
Basic earnings per share in €	**14.49**	**14.92**

37. Events after the End of the Reporting Period

As at the start of 2019, the business units, assets and liabilities belonging to the Powertrain segment were transferred to a separate legal structure. Because Continental still retains control as defined in IFRS 10, *Consolidated Financial Statements*, there is no material effect on the assets and liabilities currently recognized in the consolidated financial statements of Continental AG, except for the calculation of deferred taxes in fiscal 2019.

38. Auditor's Fees

For fiscal 2018, a global fee of €11.8 million (PY: €11.0 million) was agreed for the audit of the consolidated financial statements and the separate financial statements of the subsidiaries.

The following fees were recognized as an expense specifically for the auditor of Continental AG elected by the Annual Shareholders' Meeting.

The following fees relate only to services directly connected with Continental AG and its German subsidiaries:

€ millions	**2018**	2017
Audit of financial statements	4.6	4.4
Other assurance services	0.6	0.1
Tax advisory services	0.0	0.5
Other services provided to the parent company or its subsidiaries	0.2	0.4
Total	**5.4**	**5.4**

The values to be disclosed according to Section 314 (1) No. 9 *HGB* are determined pursuant to IDW RS HFA 36 in the new version of September 8, 2016. KPMG AG Wirtschaftsprüfungsgesellschaft and its registered branches are deemed the auditor.

39. Transactions with Related Parties

Remuneration of the Executive Board and the Supervisory Board

The remuneration of the corporation's key management personnel that must be disclosed in accordance with IAS 24 comprises the remuneration of the active members of the Executive Board and the Supervisory Board.

The remuneration of the active members of the Executive Board in the respective years was as follows:

€ thousands	**2018**	2017
Short-term benefits	10,950	17,339
Service cost relating to post-employment benefits	5,694	7,166
Termination benefits	1,947	680
Share-based payment	-23,971	22,058
Total	**-5,380**	**47,243**

The basic elements of the Executive Board remuneration system and the amounts granted to the Executive Board and the Supervisory Board in the year under review are explained in the Remuneration Report, which supplements the Corporate Governance Report and is part of the combined Management Report with the Continental Corporation.

The total remuneration granted to the Executive Board of Continental AG in 2018 amounted to €20.5 million (PY: €35.8 million). That total remuneration also includes, in addition to short-term benefits of €11.0 million (PY: €17.3 million), a newly granted long-term incentive plan totaling €7.1 million (PY: €7.3 million) and the long-term component of variable remuneration totaling €2.4 million (PY: €6.1 million), which is converted into virtual shares of the company. In 2018, this resulted in the long-term component for 2017 being converted into 27,026 virtual shares. Moreover, former members of the Executive Board and their surviving dependents received payments totaling €8.3 million (PY: €6.8 million). Provisions for pension obligations for former members of the Executive Board and their surviving dependents amounted to €131.6 million (PY: €121.5 million).

Remuneration paid to the members of Continental AG's Supervisory Board, including meeting fees, totaled €5.3 million in the past fiscal year (PY: €5.2 million). As in 2017, no advances or loans were granted to members of Continental AG's Executive Board or Supervisory Board in 2018.

Transactions with related parties other than subsidiaries:

	Services rendered		Services received		Accounts receivable		Accounts payable	
€ millions	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Non-consolidated companies	24.2	23.3	6.1	15.1	11.7	14.7	3.5	10.4
Equity-accounted investees	420.1	317.7	225.1	293.8	193.9	141.5	210.3	236.9
Schaeffler Group	89.5	84.4	118.0	117.5	20.5	20.5	18.8	14.4
Other related parties	2.2	2.9	0.1	0.2	1.6	1.5	7.0	7.3
Total	**536.0**	**428.3**	**349.3**	**426.6**	**227.7**	**178.2**	**239.6**	**269.0**

Transactions with related parties other than subsidiaries are attributable solely to the ordinary business activities of the respective company and were conducted on an arm's-length basis.

In addition, short-term derivative instruments and interest-bearing investments include receivables of €33.9 million (PY: –) and short-term indebtedness includes liabilities of €119.6 million (PY: –) from transactions with equity-accounted investees that are attributable to transfers in connection with financing agreements.

Notices in Accordance with the German Securities Trading Act *(Wertpapierhandelsgesetz – WpHG)*

From the start of the fiscal year to the time of the preparation of the financial statements, we received the following notifications in accordance with Section 40 (1) *WpHG* on holdings in Continental AG. In the event of the threshold stated in this provision being reached, exceeded or falling below on multiple occasions by the same party, only the most recent notification has been shown here. Notifications from earlier fiscal years about the existence of voting rights shares of at least 3% are still disclosed as at the end of the reporting period. In these cases, the provisions relate to the version of the *WpHG* valid until January 2, 2018.

BlackRock, Inc., Wilmington, Delaware, United States, notified us that its share of voting rights in Continental AG on November 22, 2018, amounted to 3.09%.

› 2.99% of these voting rights (5,980,485 voting rights) are attributed to the company in accordance with Section 34 *WpHG*.

› 0.08% of these voting rights (160,558 voting rights) are attributed to the company as instruments in accordance with Section 38 (1) No. 1 *WpHG* (Lent Securities).

› 0.02% of these voting rights (40,717 voting rights) are attributed to the company as instruments in accordance with Section 38 (1) No. 2 *WpHG* (Contract for Difference).

Harris Associates L.P., Wilmington, Delaware, United States, notified us that its share of voting rights in Continental AG on November 2, 2018, amounted to 5.02%.

› 5.02% of these voting rights (10,031,823 voting rights) are attributed to the company in accordance with Section 34 *WpHG*.

By way of a letter dated January 4, 2016, we received notification that:

› the share of voting rights in Continental AG held by Schaeffler Familienholding Eins GmbH, Herzogenaurach, Germany, fell below the threshold of 3% of voting rights on December 31, 2015, due to restructuring within the corporation and amounted to 0.00% at this time.

› the share of voting rights in Continental AG held by Schaeffler Familienholding Zwei GmbH, Herzogenaurach, Germany, fell below the threshold of 3% of voting rights on December 31, 2015, due to restructuring within the corporation and amounted to 0.00% at this time.

› the share of voting rights in Continental AG held by IHO Verwaltungs GmbH (still operating as Schaeffler Verwaltung Zwei GmbH as at December 31, 2015), Herzogenaurach, Germany, on December 31, 2015, amounted to 35.99%.

› the share of voting rights in Continental AG held by IHO Beteiligungs GmbH (still operating as Schaeffler Verwaltungs GmbH as at December 31, 2015), Herzogenaurach, Germany, on December 31, 2015, amounted to 10.01%. Another 35.99% of the voting rights in Continental AG are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

› 46.00% of the voting rights in Continental AG are attributed to IHO Holding GmbH & Co. KG (still operating as Schaeffler Holding GmbH & Co. KG as at December 31, 2015), Herzogenaurach, Germany, on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

› 46.00% of the voting rights in Continental AG are attributed to IHO Management GmbH (still operating as Schaeffler Management GmbH as at December 31, 2015), Herzogenaurach, Germany, on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

› 46.00% of the voting rights in Continental AG are attributed to INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

› 46.00% of the voting rights in Continental AG are attributed to Schaeffler Holding LP, Dallas, Texas, U.S.A., on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

› 46.00% of the voting rights in Continental AG are attributed to Mrs. Maria-Elisabeth Schaeffler-Thumann on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

› 46.00% of the voting rights in Continental AG are attributed to Mr. Georg F. W. Schaeffler on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

As a result of the withdrawal of Schaeffler Familienholding Drei GmbH & Co. KG, Herzogenaurach, Germany, from Schaeffler Beteiligungsholding GmbH & Co. KG, Herzogenaurach, Germany, on December 31, 2015, the investment held by Schaeffler Beteiligungsholding GmbH & Co. KG, Herzogenaurach, Germany, in Continental AG accrued to IHO Verwaltungs GmbH (still operating as Schaeffler Verwaltung Zwei GmbH as at December 31, 2015), Herzogenaurach, Germany. The investment held by Schaeffler Familienholding Drei GmbH & Co. KG, Herzogenaurach, Germany, as well as the investment by its co-owner; by Schaeffler Familienholding Eins GmbH, Herzogenaurach, Germany; and by Schaeffler Familienholding Zwei GmbH, Herzogenaurach, Germany, in Continental AG accordingly ceased to exist. As a result of a subsequent further accrual and termination without liquidation of Schaeffler Familienholding Drei GmbH & Co. KG, Herzogenaurach, Germany, this company's notification obligation in accordance with *WpHG* ceased to apply on January 1, 2016.

In 2018 and until March 1, 2019, inclusively, the members of the Executive Board held shares representing a total interest of less than 1% of the share capital of the company. Shares representing 46.0% of the share capital of the company were attributable to the members of the Supervisory Board Mrs. Maria-Elisabeth Schaeffler-Thumann and Mr. Georg F. W. Schaeffler. In 2018 and until March 1, 2019, inclusively, the other members of the Supervisory Board held shares representing a total interest of less than 1% of the share capital of the company.

40. List of Shareholdings of the Corporation

Further information on equity investments can be found in the list of the corporation's shareholdings in accordance with Section 313 of the German Commercial Code *(Handelsgesetzbuch – HGB)*, which is published as part of the consolidated financial statements in the German Federal Gazette *(Bundesanzeiger)*. The consolidated financial statements with the list of the corporation's shareholdings are also made available for inspection by the shareholders in the business premises at the company's headquarters from the date on which the Annual Shareholders' Meeting is convened, and from that point in time are available together with the additional documents and information in accordance with Section 124a of the German Stock Corporation Act *(Aktiengesetz – AktG)* online at www.continental-ir.com.

Statutory exemption provisions applying to German companies

The following German companies and partnerships utilized the exemption provisions of Section 264 (3) *HGB* and Section 264b *HGB*:

Company	Registered office
ADC Automotive Distance Control Systems GmbH	Lindau
Alfred Teves Beteiligungsgesellschaft mbH	Frankfurt am Main
balance GmbH, Handel und Beratungsservice im Gesundheitswesen	Hanover
Benecke-Kaliko AG	Hanover
CAS München GmbH	Hanover
CAS-One Holdinggesellschaft mbH	Hanover
CPT Beteiligungs GmbH	Hanover
CPT Group GmbH	Hanover
CPT Industriebeteiligungs GmbH & Co. KG	Hanover
CPT Verwaltungs GmbH	Hanover
CPT Zwei GmbH	Hanover
co-pace GmbH	Hanover
Conseo GmbH	Hamburg
Conti Temic microelectronic GmbH	Nuremberg
Conti Versicherungsdienst Versicherungsvermittlungsges. mbH	Hanover
Continental Aftermarket GmbH	Eschborn
Continental Automotive GmbH	Hanover
Continental Automotive Grundstücksges. mbH	Frankfurt am Main
Continental Automotive Grundstücksvermietungsges. mbH & Co. KG	Frankfurt am Main
Continental Caoutchouc-Export-GmbH	Hanover
Continental Emitec GmbH	Lohmar
Continental Engineering Services & Products GmbH	Ingolstadt
Continental Engineering Services GmbH	Frankfurt am Main
Continental Finance GmbH	Hanover
Continental Mechanical Components Germany GmbH	Roding
Continental Reifen Deutschland GmbH	Hanover
Continental Safety Engineering International GmbH	Alzenau
Continental Teves AG & Co. oHG	Frankfurt am Main
Continental Trading GmbH	Schwalbach am Taunus
ContiTech AG	Hanover
ContiTech Antriebssysteme GmbH	Hanover
ContiTech Elastomer-Beschichtungen GmbH	Hanover
ContiTech Kühner Beteiligungsgesellschaft mbH	Hanover
ContiTech Kühner GmbH & Cie. KG	Oppenweiler
ContiTech Luftfedersysteme GmbH	Hanover
ContiTech MGW GmbH	Hannoversch Münden
ContiTech Schlauch GmbH	Hanover

Company	Registered office
ContiTech Techno-Chemie GmbH	Karben
ContiTech Transportbandsysteme GmbH	Hanover
ContiTech Verwaltungs-GmbH	Hanover
ContiTech Vibration Control GmbH	Hanover
ContiTech-Universe Verwaltungs-GmbH	Hanover
Eddelbüttel + Schneider GmbH	Hamburg
Elektrobit Automotive GmbH	Erlangen
Formpolster GmbH	Hanover
Göppinger Kaliko GmbH	Eislingen
Hornschuch GmbH	Weißbach
Hornschuch Group GmbH	Weißbach
Hornschuch Stolzenau GmbH	Weißbach
inotec Innovative Technologie GmbH	Kohren-Sahlis
kek-Kaschierungen GmbH	Herbolzheim
Konrad Hornschuch AG	Weißbach
OTA Grundstücks- und Beteiligungsverwaltung GmbH	Frankfurt am Main
Phoenix Beteiligungsgesellschaft mbH	Hamburg
Phoenix Compounding Technology GmbH	Hamburg
Phoenix Conveyor Belt Systems GmbH	Hamburg
Phoenix Fluid Handling Industry GmbH	Hamburg
Phoenix Service GmbH & Co. KG	Hamburg
Phoenix Vermögensverwaltungsgesellschaft mbH	Hamburg
Präzisionstechnik Geithain GmbH	Geithain
REG Reifen-Entsorgungsgesellschaft mbH	Hanover
Senior Experts Services GmbH	Hanover
STEINEBRONN BETEILIGUNGS-GMBH	Oppenweiler
TON Tyres Over Night Trading GmbH	Schondra-Schildeck
UMG Beteiligungsgesellschaft mbH	Hanover
Union-Mittelland-Gummi-GmbH & Co. Grundbesitz KG	Hanover
Vergölst GmbH	Bad Nauheim

41. German Corporate Governance Code/Declaration in Accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz – AktG)*

The declaration required in accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz – AktG)* was issued by the Executive Board and the Supervisory Board in December 2018, and is available to our shareholders online at www.continental-corporation.com in the Company section under Corporate Governance.

42. Report on Subsequent Events

As at March 1, 2019, there were no events or developments that could have materially affected the measurement and presentation of individual asset and liability items as at December 31, 2018.