Management Report

The following management report is a combined management report as defined in Section 315 (3) of the German Commercial Code *(Handelsgesetzbuch – HGB),* as the future opportunities and risks of the Continental Corporation and of the parent company, Continental AG, are inextricably linked.

Glossary of Financial Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IASB. International Accounting Standards Board. Independent standardization committee.

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

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

IFRS IC. International Financial Reporting Standards Interpretations Committee.

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

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

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

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

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

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

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

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

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

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

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

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

Corporate Profile
Structure of the Corporation

Corporate structure focused on flexibility and sustainable value creation.

Market- and customer-oriented corporate structure
In 1871, Continental Aktiengesellschaft (AG) was founded in Hanover as Continental-Caoutchouc- und Gutta-Percha Compagnie. Today, Continental AG, still headquartered in Hanover, Germany, is the parent company of the Continental Corporation. The Continental Corporation comprises 572 companies, including non-controlled companies, in addition to the parent company Continental AG. The Continental team is made up of 243,226 employees at a total of 544 locations in 60 countries and markets. The postal addresses of companies under our control are defined as locations.

Overall responsibility for management is borne by the Executive Board of Continental AG. In the reporting year, each division was represented by one Executive Board member until September 30, 2018. Since October 1, 2018, the Powertrain division has been under new management as a result of its transformation into an independent group of legal entities from 2019. With the exception of Corporate Purchasing, the central functions of Continental AG are represented by the chairman of the Executive Board, the chief financial officer and the Executive Board member responsible for Human Relations. They take on the functions required on a cross-divisional basis to manage the corporation. These include, in particular, finance, controlling, compliance, law, IT, sustainability, quality and environment.

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

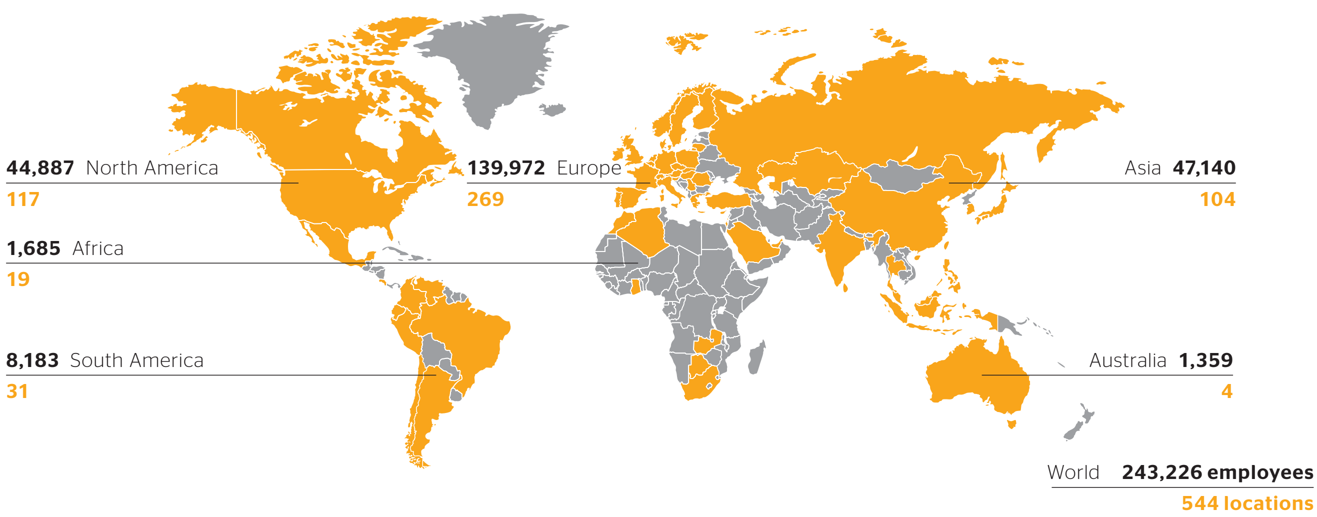
With a 72% share of our consolidated sales, the automotive industry (original equipment) is our largest customer group. The importance of this industry is accordingly high for growth in the Automotive Group. In the Rubber Group, the tire business with end customers is predominant. At ContiTech, other key industries in addition to the automotive industry play a major role as well, such as railway engineering, machine and plant construction, mining and the replacement sector. We deliver high-quality, innovative and established products, systems and services. Focusing on the market and on customers is a key success factor. The global corporate structure is thus based upon a balance of decentralized structures and central functions.

In the reporting year, the corporation consisted of the Automotive Group and the Rubber Group, which comprised five divisions with 26 business units. A division or business unit is classified according to products, product groups and services or according to regions. Differences result primarily from technological product requirements, innovation and product cycles; the raw materials base; and production technology. The divisions and business units have overall responsibility for their business, including their results.

Automotive Group:
The **Chassis & Safety division** develops, produces and markets intelligent systems to improve driving safety and vehicle dynamics. Integral active and passive safety technologies and products that support vehicle dynamics provide greater safety, comfort and convenience. The goal here is to implement "Vision Zero," the vision of accident-free driving. The Chassis & Safety division is divided into four business units:

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

544 locations in 60 countries and markets



Structure of the corporation

Continental Corporation Sales: €44.4 billion; Employees: 243,226				
Automotive Group Sales: €26.9 billion; Employees: 140,016			**Rubber Group** Sales: €17.6 billion; Employees: 102,763	
Chassis & Safety Sales: €9.6 billion Employees: 49,509	**Powertrain** Sales: €7.7 billion Employees: 42,601	**Interior** Sales: €9.7 billion Employees: 47,906	**Tires** Sales: €11.4 billion Employees: 55,840	**ContiTech** Sales: €6.3 billion Employees: 46,923

The **Powertrain division** focuses on efficient and clean vehicle drive systems. Here, the division works to improve the performance of injection systems, turbochargers, transmission control units, sensors, actuator systems and exhaust-gas aftertreatment. At the same time, it paves the way for the electrification of vehicles with efficient systems technology and economical vehicle integration. In the reporting year, the division was divided into five business units:

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

At the beginning of 2019, the Powertrain division was transformed into an independent group of legal entities. Since then, it has comprised three business units:

› Engine & Drivetrain Systems
› Powertrain Components
› Hybrid & Electric Vehicles

For more information, see the Corporate Strategy and the Research and Development sections.

The **Interior division** specializes in information management. It develops and produces network, information and communication solutions and services for cars and commercial vehicles. This enables and optimizes the control of the complex flow of information between the driver, passengers and the vehicle as well as mobile devices, other vehicles and the outside world. The focus is on systems integration. In addition, the Interior division is involved in cross-sector collaborations with leading companies. Since December 1, 2018, the Intelligent Transportation Systems business unit has been integrated as a segment into the Commercial Vehicles & Aftermarket business unit. The division is now divided into four business units:

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

Rubber Group:
The **Tire division** is known for maximizing safety through short braking distances and excellent grip as well as reducing fuel consumption by minimizing rolling resistance. Tires are the vehicle's only link with the road. They transmit all forces onto the road. It is the tire technology that determines whether a vehicle is able to stop in time and stay in the correct lane during cornering maneuvers. 28% of sales in the Tire division relates to business with vehicle manufacturers, and 72% relates to the replacement business. The division is divided into six business units:

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

The **ContiTech division** develops, manufactures and markets products, systems and intelligent components made of rubber, plastic, metal and fabric. They are used in machine and plant engineering, mining, agriculture, the automotive industry and other important sectors of the future. 51% of sales in the ContiTech division relates to business with vehicle manufacturers, and 49% relates to business with other industries and in the replacement market. The division is divided into seven business units:

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

Interconnected value creation

Research and development (R&D) takes place at 82 locations, predominantly in close proximity to our customers to ensure that we can respond flexibly to their various requirements and to regional market conditions. This applies particularly to projects of the Automotive Group and the ContiTech division. The product requirements governing tires are largely similar all around the world. They are adapted according to the specific requirements of each market. In this respect, R&D has a largely centralized structure in the Tire division. Continental invests about 7% of sales in R&D each year. For more information, see the Research and Development section.

Continental processes a wide range of raw materials and semifinished products. The purchasing volume in the reporting year was €29.9 billion in total, €20.3 billion of which was for production materials. The Automotive Group uses primarily steel, aluminum, precious metals, copper and plastics. Key areas when it comes to purchasing materials and semifinished products include electronics and electromechanical components, which together make up about 44% of the corporation’s purchasing volume of production materials. Furthermore, mechanical components account for nearly a quarter of production materials. Natural rubber and oil-based chemicals such as synthetic rubber and carbon black are key raw materials for the Rubber Group. The total purchasing volume for these materials amounts to around a sixth of the total volume for production material. For more information, see the Development of Raw Materials Markets section in the Economic Report.

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

Globally interconnected value creation

R&D	Purchasing	Production	Sales & Distribution
Innovative €3.2 billion in expenditure	**Diverse** €29.9 billion in volumes	**Global** 233 locations	**Local** €44.4 billion in sales

Corporate Strategy

New organizational structure for strategic flexibility and long-term success.

Continental will be reorganizing itself until 2020 in order to actively shape the mobility of the future. We will therefore be able to respond even more flexibly to the requirements of various customers, markets, government agencies, and companies and make faster and more efficient use of our opportunities.

A holding structure will be set up under a new umbrella brand. This will be divided into two group sectors, in addition to the Powertrain division. The reporting structure is to be used starting 2020.

- The Chassis & Safety and Interior divisions will be reorganized by the beginning of 2020. The two areas will be supported by a newly created central Automotive Research and Development function, which will bundle basic research and applications as an independent unit.
- The two current divisions Tires and ContiTech will remain unchanged in terms of their independent organizational structure and will form the second group sector.

As part of the realignment, the Powertrain division was transformed into an independent group of legal entities at the beginning of 2019. In addition to the combustion engine business, its activities will continue to include all future business involving hybrid and electric drive systems and all current battery activities. At the same time, we are preparing a partial initial public offering (IPO) for Powertrain, which will be possible in the second half of 2019. However, control over the new company is not to be relinquished in the medium to long term. The reason for the transformation into an independent group of legal entities is the change in the drive business, the development of which is determined chiefly by regulatory emission limit requirements, which vary in the markets that are important to us. Rapid adaptability is therefore essential in order to succeed in this business. Another reason is the increased focus on electric mobility. Considerable investments have already been made here and will continue to be necessary in the future. Furthermore, a legally independent business is in an even better position to actively support the expected long-term consolidation process in these markets.

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

Our seven strategic dimensions will not be affected by the reorganization. They complement each other and are geared toward sustainably creating value for all stakeholders and ensuring the future viability of the company.

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

For us, enhancing the value of the corporation on a long-term basis means sustainable success while taking into consideration the cost of capital. Our long-term target is at least 20% ROCE. We did not reach this target in the reporting year. After 20.6% in 2017, we achieved 17.0% in 2018.

2. Regional sales balance – globally balanced distribution of sales

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

In 2018, we achieved a 22% share of sales in Asia. The share of our sales in the North and South American markets was 28% in total.

We substantially reinforced our dealer network in Australia in 2018 by acquiring Tyre and Auto Pty Ltd., based in Melbourne, Australia, one of Australia's largest tire and auto service suppliers. With currently 258 branches, the company is well represented above all in the country's densely populated coastal regions. The company, which has more than 1,200 employees, is headquartered in Melbourne. Its core business comprises the sale of tires for passenger cars and light commercial vehicles as well as tire services, inspection and maintenance.

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

We want to shape our future based on a leading position and thus play a major role in advancing technological development in individual sectors. We therefore want to be among the world's three leading suppliers with regard to customer focus, quality and market share in the long term.

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

Among suppliers with sales of more than €3 billion, we play a leading role in digitalization. The digital products include, for example, sensors, electronics and software products.

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

Our global business model is based on a high degree of localization, with numerous product applications developed and produced locally. In this way, we are best able to meet the respective market conditions and requirements of our customers. The aim is for at least eight out of 10 application developments to be carried out locally, and for the percentage of local production to be just as high. Through our development and production teams worldwide, we offer solutions and products for high-quality cars and affordable vehicles, as well as customized industrial applications. At the same time, we are purchasing locally – insofar as this is possible and cost-effective – as well as marketing locally.

We have production locations in 38 of the 60 countries and markets in which we are represented. In 2018, we expanded our production in various countries. In Hungary, the production of hoses and air sleeves was expanded and a new plant was planned for automotive electronics. In Lithuania, we laid the foundations for the production of electronic components. In the U.S.A., we expanded production capacity for high-quality synthetic leather materials, which are used in transportation, the leisure sector and the hospitality industry.

We are still working on being able to count one of the Asian manufacturers among our five largest automotive customers. We aim to achieve this with a high degree of localization. Two Asian manufacturers are among our 10 largest customers.

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

In order to reduce dependence on the automotive industry, business is to be increased in industries outside of the automotive original equipment sector while at the same time achieving further growth with carmakers. In the medium to long term, we want to lift the share of sales with end users and industrial customers outside of the automotive original equipment sector toward a figure of 40%. This will be based on our Tire and ContiTech divisions.

Our activities relating to software products for the end-user market will have an increasing effect on our customer portfolio. Examples include advanced traffic management, intelligent payment systems, maintenance management and new technologies that go beyond the vehicle.

The share of sales with end users and industrial customers developed steadily at 30% in 2018.

6. Technological balance – combination of established and pioneering technologies

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

We are now working on getting highly automated driving ready for production and at the same time on systems for fully automated driving on the highway in 2025. Highly automated driving will allow drivers to temporarily focus on activities other than driving. With fully automated driving, this should be possible for sections of the route without the driver having to act as a fallback mode. We are also focusing on autonomous driving. Firstly, we are testing components and systems for driverless robot taxis in cities with our Continental Urban Mobility Experience (CUbE) test platform. Secondly, we are already pursuing the development of vehicle systems for autonomous vehicle fleets as a conceptual idea for the more distant future.

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

7. Great people culture – a culture of inspiration

An inspiring management culture, in which employees can enjoy demonstrating their full commitment and achieving top performance, is a requirement for a successful business. We promote a culture of trust and personal responsibility, one in which we openly deal with and tolerate our mistakes and turn them into lessons learned. Our working conditions are intended to make it easy for our employees to focus on what is important and to strike the right work-life balance. We keep in regular contact with our employees, for example through our worldwide survey, OUR BASICS Live, which is carried out annually with a representative sample of the workforce. This gives our employees the chance to tell us about how satisfied they are in general, the quality of management in the company and their attitude toward Continental. Participation is voluntary and anonymous.

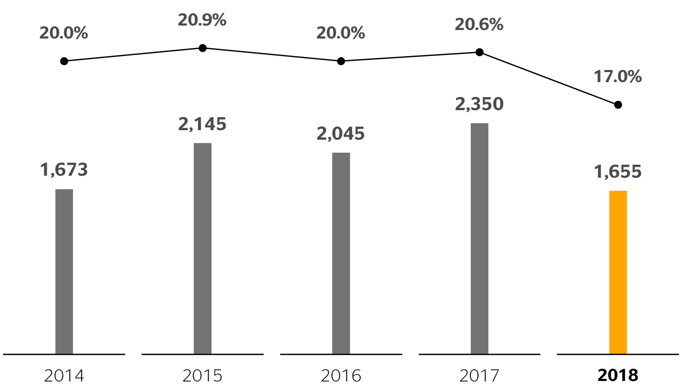
More than 50,000 employees took part in the survey in the reporting year. At 86%, agreement with our four corporate values remains high. This high percentage is particularly pleasing since we are currently seeing extremely radical changes in the industries relevant to us. For the automotive industry alone, digitalization, automation, connectivity and electrification represent the greatest upheaval in its more-than-130-year history. For more information on the employee survey, see page 50.

Corporate Management

The goal is the sustained increase in the corporation's value.

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

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



EBIT is calculated from the ongoing sales process. The figure is the net total of sales, other income and expenses plus income from equity-accounted investees and from investments but before financial result and income tax expense. Consolidated EBIT amounted to €4.0 billion in 2018.

Capital employed is the funds used by the company to generate its sales. At Continental, this figure is calculated as the average of operating assets as at the end of the quarterly reporting periods. In 2018, average operating assets amounted to €23.6 billion.

The return on capital employed (ROCE) represents the ratio of these two calculated values. Comparing a figure from the statement of income (EBIT) with one from the statement of financial position (capital employed) produces an integral analysis. We deal with the problem of the different periods of analysis by calculating the capital employed as an average figure over the ends of quarterly reporting periods. ROCE amounted to 17.0% in 2018 and was thus below 20% for the first time since 2013, but still significantly exceeded the weighted average cost of capital.

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

Value is added only if ROCE exceeds the weighted average cost of capital (WACC). We call this value added, produced by subtracting WACC from ROCE multiplied by average operating assets, the Continental Value Contribution (CVC). In 2018, the CVC amounted to €1,654.8 million.

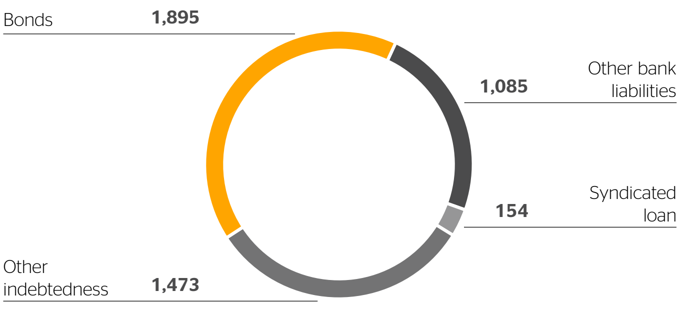
According to our definition, the value of the company increases when the CVC demonstrates positive growth in value.

ROCE by division (in %)	**2018**	2017
Chassis & Safety	16.0	19.9
Powertrain	3.3	13.2
Interior	17.6	14.9
Tires	29.1	35.0
ContiTech	12.6	13.9
Continental Corporation	**17.0**	**20.6**

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

The corporate function Finance & Treasury provides the necessary financial framework to finance corporate growth and secure the long-term existence of the company. The company's annual investment requirements will be 7% to 8% of sales in the coming years. The reasons for this are the continuing increase in incoming orders in the Automotive Group and the successful implementation of Vision 2025 in our Tire division, which will mean the expansion of tire production capacity, particularly in North America and Asia.

Composition of gross indebtedness (€4,607 million)



Our goal is to finance ongoing investment requirements from the operating cash flow. Other investment projects, for example acquisitions, should be financed from a balanced mix of equity and debt depending on the ratio of net indebtedness to equity (gearing ratio) and the liquidity situation to achieve constant improvement in the respective capital market environment. In general, the gearing ratio should remain below 20% in the coming years and not exceed 60% in general. If justified by extraordinary financing grounds or specific market circumstances, we can rise above this maximum level under certain conditions. The equity ratio should exceed 35%. In the reporting year, it was 45.3% and the gearing ratio 9.1%.

Our gross indebtedness should be a balanced mix of liabilities to banks and other sources of financing on the capital market. For short-term financing in particular, we use a wide range of financing instruments. As at the end of 2018, this mix consisted of bonds (41%), syndicated loan (3%), other bank liabilities (24%) and other indebtedness (32%) based on the gross indebtedness of €4,606.9 million. The committed volume of the syndicated loan, which consists of the revolving tranche, remained unchanged at €3.0 billion. The tranche will run until April 2021. The financing mix will not change significantly. Starting in 2019, however, all liabilities from leases will be recognized under gross indebtedness due to the application of IFRS 16, *Leases*, starting from January 1, 2019. This will accordingly lead to an increase in gross indebtedness.

The corporation strives to have at its disposal unrestricted liquidity of about €1.5 billion. This is supplemented by committed, unutilized credit lines from banks in order to cover liquidity requirements at all times. These requirements fluctuate during a calendar year owing in particular to the seasonal nature of some business areas. In addition, the amount of liquidity required is also influenced by corporate growth. Unrestricted cash and cash equivalents amounted to €2,587.7 million as at December 31, 2018. There were also committed and unutilized credit lines of €3,504.1 million.

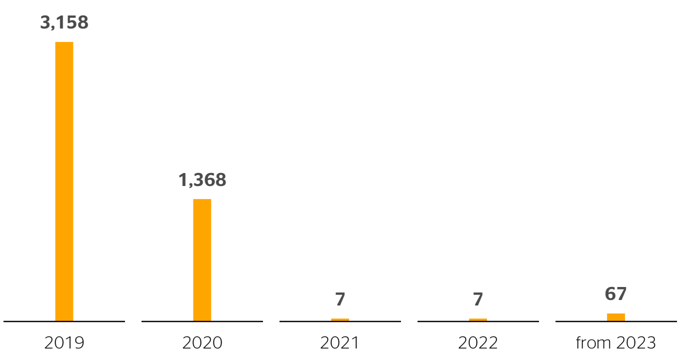
Gross indebtedness amounted to €4,606.9 million as at December 31, 2018. Key financing instruments are the syndicated loan with a revolving credit line of €3.0 billion that has been granted until April 2021 and bonds issued on the capital market.

The carrying amount drawn under the revolving line of credit was €154.3 million as at December 31, 2018. Around 40% of gross indebtedness is financed on the capital market in the form of bonds maturing between February 2019 and September 2020. The interest coupons vary between 0.0% and 3.125%. The repayment amounts are €500.0 million in 2019, and €600.0 million and €750.0 million in 2020. In addition to the forms of financing already mentioned, there were also bilateral credit lines with various banks in the amount of €1,799.5 million as at December 31, 2018. Continental's corporate financing instruments currently also include sale-of-receivables programs and commercial paper programs. 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.

Maturity profile

Continental always strives for a balanced maturity profile of its liabilities in order to be able to repay the amounts due each year from free cash flow as far as possible. Other than short-term maturities, which are usually rolled on to the next year, the repayment of the €500.0 million bond maturing in February 2019 and of the €600.0 million and €750.0 million bonds maturing in February and September 2020 is also on the agenda for 2019 and 2020.

Maturities of gross indebtedness (€4,607 million)



Continental's credit rating unchanged

In the reporting period, Continental AG was rated by the three rating agencies Standard & Poor's, Fitch and Moody's, each of which maintained their credit ratings for Continental AG during 2018.

Credit rating for Continental AG

	December 31, 2018	December 31, 2017
Standard & Poor's[1]		
Long-term	BBB+	BBB+
Short-term	A-2	A-2
Outlook	stable	stable
Fitch[2]		
Long-term	BBB+	BBB+
Short-term	F2	F2
Outlook	stable	stable
Moody's[3]		
Long-term	Baa1	Baa1
Short-term	no rating	no rating
Outlook	stable	stable

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

Research and Development

Automated driving, electric mobility, connectivity and digitalization are our core topics.

Our research and development (R&D) activities focus on developing innovative and sustainable products, systems and services for our customers in a wide variety of industries.

As part of the preparations for the new organizational structure, which will be implemented from 2020 onwards, we have been working on the design of the new central Automotive R&D function since the beginning of 2019. This new area will incorporate the development functions of our present Interior and Chassis & Safety divisions as well as those of our current central functions. By the end of the year, autonomous driving and connected mobility technologies will be combined under the roof of Automotive R&D. Our software and hardware engineers will form a global center for predevelopment and application development.

The new area will strengthen our cross-organizational collaboration, shorten innovation cycles and further enhance the flexibility of our innovation processes – particularly in relation to software development. Our customers and end users will benefit from state-of-the-art, affordable solutions that help to prevent accidents, bypass traffic jams and increase driving comfort.

The Powertrain division's R&D locations have stayed virtually the same. Their areas of focus include combustion engine, hybrid and all-electric drive systems – including battery activities.

The R&D organizations of the Tire and ContiTech divisions will remain unchanged by the future organizational structure. R&D activities in the ContiTech division have a largely decentralized structure by virtue of the different product segments. The central Innovation & Digitalization unit and the central Business Development unit that the ContiTech division set up over the course of the reporting year have the goal of fostering innovative products and enhancing the existing portfolio with new services including mobility services. Product requirements for tires are very similar worldwide, which is why R&D has a mostly centralized structure. For example, our R&D site in Hanover-Stöcken has around 1,400 employees working on the development of up to 9,000 different tires to meet various requirements with regard to speed rating approvals, rolling resistance optimization, inch dimensions and application purpose. Our international scouting system ensures that we pay sufficient attention to the requirements of local markets.

Machine-learning advanced driver assistance system

We completed an exceptionally complex project during the reporting year: PRORETA 4, a three-and-a-half-year research project carried out in partnership with the Technical University of Darmstadt. The project's aim was to develop a machine-learning vehicle system (City Assist System) to help drivers navigate inner-city traffic. The system is already being used as a prototype. Radar sensor data helps the system to assess the traffic situation when making a left turn, entering a roundabout or approaching a right-before-left intersection. Machine-learning technology played an instrumental part in the project.

To enable an assistance system in a complex driving situation to give the driver a recommendation that the driver will accept – and to become familiar with the driver as a good passenger would – the system needs to analyze the driver's driving style and subjective perception of safety and risk. Using a machine learning method is a quick and reliable way of developing this kind of driving profile in which the system analyzes data that is recorded during the process of driving. Acceleration, direction of movement, braking maneuvers and lateral acceleration are all things that provide the algorithm with information on the type of driver it is dealing with.

	2018		2017	
Research and development expenses (net)	€ millions	% of sales	€ millions	% of sales
Chassis & Safety	1,023.2	10.7	913.8	9.4
Powertrain	672.6	8.7	699.0	9.1
Interior	1,064.7	11.0	1,062.7	11.4
Tires	299.4	2.6	289.8	2.6
ContiTech	149.1	2.3	138.4	2.2
Continental Corporation	**3,209.0**	**7.2**	**3,103.7**	**7.1**
Capitalization of research and development expenses	**158.0**		**92.1**	
in % of research and development expenses	4.7		2.9	
Depreciation on research and development expenses	**90.0**		**74.5**	

Extensive test drives with test subjects have revealed that the algorithms used in the City Assist System are able to make conclusions about the driver's current driving style after three to five driving maneuvers. The driver is then assigned to one or several clusters of driving profiles, which allows the City Assist System to personalize its driving recommendations.

Continental's global research network for artificial intelligence (AI) continued to expand in the year under review. After the University of Oxford, DFKI (German Research Center for Artificial Intelligence) and other organizations, Continental signed an agreement with the AI research group Berkeley DeepDrive (BDD) at the University of California. This partnership focuses on optimizing the speed of neural networks in cars, as well as protecting AI systems in safety-critical applications. The AI research results should make their way into production as quickly as possible.

Research and testing laboratory for dandelion rubber opened
During the reporting year, we opened the Anklam Taraxagum Lab – a research and development laboratory in Anklam, Germany. The lab will continue its research into the cultivation and processing of the Russian dandelion plant as an alternative raw material source to rubber harvested from rubber trees. The plan is to be using dandelion rubber in volume production and generating a growing percentage of our natural rubber supply from dandelion plants within a ten-year timeframe. We see the Russian dandelion plant as an important alternative and supplement to conventional natural rubber as it will enable us not only to meet the growing global demand for rubber by reliable means, but also to make tire production more sustainable and environmentally friendly.

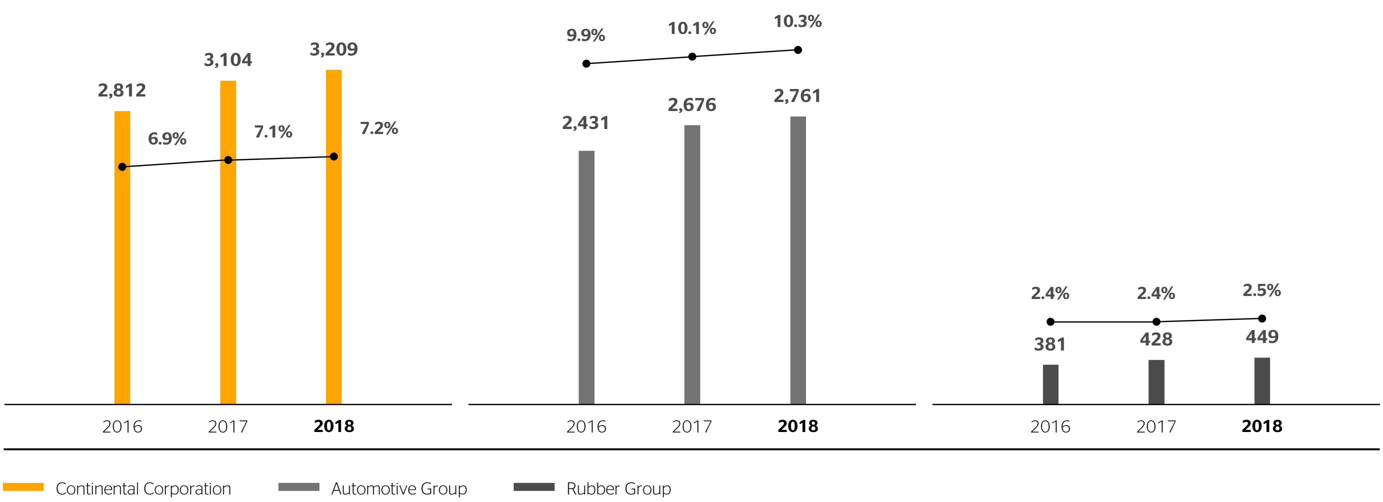
First self-driving tire-testing vehicle
Our first self-driving vehicle for testing tires on a variety of surfaces is now operational at our test track in Uvalde, Texas, U.S.A. Our aim is to further enhance the validity of test results for Continental passenger and light truck tires and minimize the impact of the test process on the results themselves. The new test vehicle is controlled with the help of a satellite-based positioning system and is based on Continental's Cruising Chauffeur, which was developed for automated driving on freeways. Automated vehicles allow us to reproduce processes accurately so that every tire undergoing testing is subjected to exactly the same conditions. This means that we can reliably determine that any differences in the test results are actually due to the tires themselves and not to the test procedure.

Intelligent solutions for conveyor belts
To demonstrate the different conveyor belt service options that exist for bulk materials and piece goods, we have developed a model that illustrates the latest market trends for belt monitoring as well as full-service applications. Our solutions are equipped with sensors that monitor every movement the conveyor belt and the conveyed material make. They inspect surfaces, report load levels and identify mistracking belts in real time. The information is stored in databases and analyzed by algorithms, which know when the belt needs servicing. Furthermore, there are monitoring systems in place to inspect the belts' safety-related properties.

The technology also meets the conditions required for new business models like "pay per ton" and anticipatory maintenance of components and systems.

We are already in a position where our customers are able not only to purchase a belt, but also to put together an end-to-end package comprising conveyor belts and services.

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



Combined Corporate Non-Financial Statement

For Continental, sustainable business practices mean having a positive impact on society.

For Continental, sustainable business practices mean having a positive impact on society. We thus want to secure our long-term success in the interest of all stakeholders and make important contributions to the future viability of our industries. Especially in the current dynamic transformation of the automotive industry, it is vital to systematically weigh up the various perspectives on our value creation. Dialogue with investors, customers, politicians and other stakeholders – for example, on clean and safe mobility, connected vehicles or automated driving – is a central element of this approach.

At Continental, sustainability is a strategic task for corporate development and therefore a task for the Executive Board. Dr. Ariane Reinhart is the head of Human Relations and Sustainability. She is therefore also responsible for the Sustainability department, which was newly created in the reporting year and coordinates the sustainability strategy, its development and an interdepartmental Sustainability Committee. All relevant business units and central functions are represented on the Sustainability Committee alongside Dr. Reinhart and another Executive Board member.

Continental is committed to the United Nations Global Compact and is a member of the sustainability associations econsense, World Business Council for Sustainable Development (WBCSD) and other initiatives.

Sustainable Product Portfolio and Quality

The global automotive industry is undergoing the greatest and most profound transformation in its history of over 130 years. Connectivity, automated driving, new safety solutions and clean mobility concepts are changing the industry at astonishing speed. At the same time, manufacturers and suppliers are increasing the complexity and diversity of models and speeding up development cycles. This is continuously increasing quality expectations.

Management approach

For Continental, the combination of pioneering innovations with high product quality is laying the foundation for sustainable products and solutions. As part of our quality policy, we have set ourselves the objective of being recognized by our customers as a benchmark in quality. This means that we want to develop innovative products at the high quality that our customers expect from us. Together with our customers, we can thus make a contribution to more sustainable mobility. In accordance with our corporate strategy, we implement the quality policy with a close connection to the local markets through our worldwide development centers and quality labs as well as quality officers and certified quality management systems at our locations. This decentralized implementation is coordinated and supported by the Global Quality Leadership Team, which comprises representatives of the central functions, divisions and countries. Standardized product life cycle processes, adapted to the needs of the various business fields, ensure systematic and high-quality product development across all stages – from innovation to the end of parts supply. These processes are continuously being developed and optimized.

Results and performance indicators

We already offer our customers a broad range of products that contribute to safe and clean mobility, for example the following solutions:

- Virtual A-pillar: Forward blind spots are eliminated thanks to an integrated OLED display and the combination of head-movement tracking and live images of the exterior environment.
- EcoContact 6: This high-tech summer tire for passenger cars delivers the highest standards of safety, precise handling, long tire life and low fuel consumption. It offers a 20% longer tire life and a 15% lower rolling resistance, and is currently certified under EU label A/A in about 40 sizes.
- Super Clean Electrified Diesel: A Continental research vehicle is proving that “super clean” diesel is possible. Specialists from the corporation have equipped a production vehicle of the Euro 6b emissions standard with Continental technologies already available, thus reducing its nitrogen oxide emissions to such an extent that it keeps well within even future limits from 2020 in everyday use.
- People’s hybrid: A 48-volt electric motor, which entered production in 2018, forms the core of an electrified powertrain. The combination of zero-emission coasting, early activation of the start-stop function and improved brake energy regeneration is proven to reduce consumption by as much as 21% in real driving conditions.
- Electronic air spring damping solution: When a commercial vehicle is traveling on the highway, its air resistance and thus fuel consumption can be reduced by lowering the vehicle’s entire cab.

In the reporting year, products that are energy efficient or help to reduce pollutant or carbon dioxide emissions accounted for nearly 40% of consolidated sales, by our own estimates.

The foundation for the industrial implementation of these solutions is laid by anchoring quality in the development and production processes. At the end of 2018, over 250 Continental development and production locations had certified quality management systems according to IATF 16949 or ISO 9001 or similar. This represents the major development and production locations and encompasses nearly 90% of the total workforce. The IATF 16949 standard is the quality management standard adapted specifically to the requirements of the automotive industry.

You will find more information on product innovations and quality aspects in the Research and Development section, the Report on Risks and Opportunities, “Other Disclosures” in the Notes to the Consolidated Financial Statements and online under the Products & Innovations heading.

Workforce Interests and Employees

Our people, our culture, our future – in our eyes, employees and corporate culture guarantee the success of our company. Groundbreaking solutions and pioneering technologies can only be created in an inspiring environment that allows freedom and encourages trusting cooperation across national, business and departmental borders. As at December 31, 2018, Continental had a total of 243,226 employees of more than 150 nationalities in 60 countries and markets. Their performance and satisfaction are key components of our business success.

Management approach
Our ambition for our relationship with our employees is based on a holistic perspective, whereby they are to be respected, their achievements appreciated, and their skills and abilities developed to the best possible extent.

The supreme principles for HR work and the treatment of employees are provided by Continental's four corporate values:

- Trust: We give and receive trust.
- Passion To Win: We want to win.
- Freedom To Act: We grow by exercising freedom responsibly.
- For One Another: We create the highest value by being there for one another.

The corporate values are complemented by a Code of Conduct, which includes fair working conditions and is a globally binding directive for all employees.

We bundle the strategic activities of HR work in two strategic areas:

- We group projects and initiatives that help us meet our considerable need for employees with the right skills and abilities – now and in the future – under "Industrialize Best Fit."
- "Enable Transformation" bundles projects and initiatives with which we support the digital transformation at Continental in order to make the most of the opportunities presented by digitalization.

Local HR (Human Relations) departments at the individual locations, experts at our global centers of expertise, and HR specialists working in the divisions and business units comprise a global HR network that works toward the attainment of these goals. They are coordinated via global committees comprising central HR functions, the HR managers of the divisions, the HR managers of the countries and the Executive Board member responsible for Human Relations.

We are proud of the diversity that our employees bring to our company worldwide. Together, we want to use diversity – for example, in terms of gender, culture and religion – to gain different perspectives on innovation and performance. To this end, we must find, recruit, inspire and develop talented individuals.

Key elements include the aim to increase the proportion of female managers to 16% by 2020 and to 25% by 2025. Another element for both transformation and employer attractiveness is making work more flexible. Since 2016, we have laid the foundations for flexible working conditions, which are developed locally. These include mobile working, part-time and flextime, and sabbaticals. Potential can thus be used more appropriately, professional and private lives unified more individually and, ultimately, employees better motivated and acquired. More satisfied employees are also usually healthier and more productive. This is also helped by the various occupational health and safety activities, which are implemented in particular in local management systems.

Significant projects and processes that we advanced in the reporting year were

- the enhancement of the global process for strategic workforce planning,
- the certification of leadership development in accordance with ISO 29990,
- the worldwide introduction of Microsoft Office 365 and new tools and platforms for digital and mobile collaboration,
- the global implementation of talent management conferences for salaried employees,
- the introduction of a global digital platform for learning and training (Learning Management Solution), such as for software engineers as part of a Software Academy, and
- the simultaneous increase in certifications for occupational safety management systems and the transfer to the new ISO 45001 standard.

For the upcoming changes at Continental, the Executive Board, Corporate Works Council, the corporate committee of executive representatives *(Konzernsprecherausschuss der leitenden Angestellten)*, and the trade unions IG BCE and IG Metall adopted "Continental in Motion," a key benchmark paper and alliance for the future for Germany, which is the common basis for the organizational realignment. A comparable paper was also adopted at European level. For more information on reorganization, see the Structure of the Corporation and Corporate Strategy sections.

Results and performance indicators

In the reporting year, the number of employees worldwide rose by 3% to 243,226. Germany and India posted the largest absolute growth rates. Despite the difficult market environment in the years to come, Continental's workforce will keep on growing through acquisitions and organic growth. Long-term workforce planning is based on the corporation's strategic workforce planning system, which is conducted on the basis of the employees recorded in the HR data system and covers 97% of the total workforce. Over a five-year horizon, the strategic HR planning system analyzes how employee numbers will develop and which disciplines will be required – including where and to what extent they will be required. For example, Continental's software and IT functions will thus be growing substantially. At present, we already have about 19,000 employees in this area. We prioritize further training, development and placement of our own employees via the internal job market. In order to retain and develop our own talented employees, talent management conferences were held for over 80,000 salaried employees, at which individual potential and areas for development were assessed and measures defined. A target-group-specific approach is essential to additionally find and recruit the right external candidates in areas where they are needed. At the end of 2018, Continental used over 40 career-related social media accounts in 14 networks and 15 countries for this purpose. In addition, the selection processes use a range of diagnostic methods such as interviews, assessment centers, personality scales, cognitive tests and simulations to assist the selection of candidates. Around 240,000 online assessment centers were carried out around the world.

We are systematically increasing our efforts to make work more flexible. In the 21 largest countries, with over 95% of the workforce, employees can make their ways of working more flexible. The range of opportunities is determined by the specific operational possibilities of the respective workplace. In the reporting year, various models began to be developed at 22 production locations to expand these opportunities more specifically in the production environment, including flextime regulations and mobile work.

A comprehensive overview of the results achieved from the employees' perspective is also provided by the annual employee survey OUR BASICS Live, which asks a representative sample of our employees about various topics. In the reporting year, the participation rate was on a par with the previous year at 74%. 82% (PY: 84%) of those surveyed said they were proud to work at Continental. 86%, and thus the same proportion as in the previous year, identify with our corporate values. 64% (PY: 63%) agreed that our values are put into practice every day, and 85% (PY: 86%) indicated that they have enough energy for their everyday work. As in the previous year, 71% stated that professional and private lives are easily compatible at Continental, for example, thanks to flexible working models. However, the feedback also includes aspects that are assessed critically, which the Executive Board takes very seriously. Trust in the decisions of the top management fell slightly compared with the previous year to 67% (PY: 70%). The findings of the employee survey are analyzed at various levels in order to derive improvement measures.

The percentage of occupational safety management system certifications (ISO 45001 or similar) was already at a level of around two-thirds of the total workforce as at December 31, 2018.

For more information on employees, see the Economic Report, the Report on Risks and Opportunities, and the "Employee Benefits" section in the Notes to the Consolidated Financial Statements.

Key figures	**Dec. 31, 2018**	Dec. 31, 2017[1]
Total number of employees (total workforce)[2]	243,226	235,473
thereof own employees (permanent staff)	228,922	219,687
in Germany	59,230	56,854
outside Germany	169,692	162,833
Apprentices in Germany	2,180	2,155
Average age[3]	38.5	38.4
Female employees in the total workforce[3]	27.5%	27.2%
Female employees in management positions[3, 4]	14.8%	13.4%
Average years of service to the company[3, 5, 6]	9.1	9.1
Fluctuation, unforced[5]	6.3%	5.7%
Sickness rate[5]	3.3%	3.2%
Accidents per million working hours[5, 7, 8]	3.4	3.2

1 According to previous year's reporting (only partially assured).
2 Excluding apprentices.
3 Based on the employees recorded in the HR data system (approx. 97%).
4 Executives and higher.
5 Permanent staff only (own employees).
6 For acquisitions, this includes years of service with previous company.
7 Counted from more than one lost day.
8 Excluding Continental Tire Sales (approx. 2% of the total workforce).

Human Rights and Fair Working Conditions

In accordance with the United Nations Guiding Principles on Business and Human Rights, we as a company bear a responsibility to respect human rights.

Management approach
We fulfill this responsibility and would like to make an active contribution to the implementation of human rights and fair working conditions by treating our employees, future employees, suppliers, customers and everyone else with whom we do business with fairness and respect. We have publicly committed ourselves to this by participating in the United Nations Global Compact and signing the Women's Empowerment Principles. This commitment is enshrined in important guidelines and processes. The binding Code of Conduct for all employees was expanded at the start of 2019 by a section on human rights and fair working conditions. We also commit our suppliers to these principles with our Business Partner Code of Conduct and our Natural Rubber Sourcing Policy. Remarks on the management approach and on results in dealings with business partners can be found under Purchasing and Responsibility in the Supply Chain.

The Compliance and Human Relations departments are responsible for training employees on the Code of Conduct. Training on the content of the Code of Conduct is a compulsory element in the induction and further training of our employees. There is a Compliance & Anti-Corruption Hotline, which any individual can call directly and anonymously to report violations of the Code of Conduct or suspected cases. The review and handling of information is managed by the Compliance and Corporate Audit departments and is supported in the countries by internal experts on labor relations from the Human Relations department.

Results and performance indicators
In the reporting period, the internal network comprising experts on labor relations and working conditions was further expanded. The network now provides fixed contact persons in 11 countries, who coordinate the work at the respective locations. This covers more than 70% of employees. For communication on specific cases in this area and to train the expert network, a workshop with representatives from 10 countries has been carried out for the second time. The handling of human rights issues, both at our own locations and in our supply chain, is also supported by newly established central sustainability coordination.

Environment

For Continental and its markets, the business relevance of environmental protection – for example, in the form of society's expectations, customers' standards and regulatory requirements – is increasing continuously.

Management approach
Environmental protection at Continental is based on the global policy for environment, safety, security, health and fire protection (ESH policy) which, among other things, stipulates that we want to use our processes and products to make a material contribution to sustainable environmental protection – especially climate protection – over the entire product life cycle. Overall responsibility for environmental management is borne by the Corporate Quality and Environment department, which reports directly to the chairman of the Executive Board and develops strategic targets for environmental protection in the corporation as a whole. These are broken down by division, and ultimate responsibility for the resulting strategic requirements, objectives and programs at each location lies with the respective ESH managers. We continuously improve our environmental performance through the systematic application of management systems. We have set clear targets for the corporation. By 2020, we want to reduce our specific CO_2 emissions, energy and water consumption, and waste generation by 20% in relation to adjusted sales, using 2013 as a basis. We also intend to improve our waste recycling and reuse rate by two percentage points a year. New locations are being integrated into these processes and programs incrementally.

Key environmental data[1]		**2018**	2017[2]
Energy use[3]	TWh	9.9	9.5
CO_2 emissions (Scope 1+2)[4]	million metric tons CO_2	3.3	3.2
Water demand	million m³	20.6	19.8
Waste generation	metric tons	419,426	379,992
Waste recycled	%	78	81

1 According to the environmental data system, which covers all major production and development locations, not including fleet consumption. Definitions of the data are based on the Global Reporting Initiative (GRI).
2 According to previous year's reporting.
3 Fossil energy sources, electricity and steam.
4 According to Greenhouse Gas Protocol Scope 2 (location-based) on the basis of the reported energy use and emission factors included in Defra (2016) and IEA (2017) databases.

Key performance indicators[1]		2018	Change compared to 2013[2]
Energy use	MWh/€ million	223	-3%
CO_2 emissions (Scope 1+2)[3]	metric tons CO_2/€ million	74	-2%
Water demand	m^3/€ million	465	-5%
Waste generation	metric tons/€ million	9.5	13%

1 In terms of adjusted sales in the respective year, according to environmental data system.
2 On the basis of figures reported for 2013 (only partially assured externally).
3 According to Greenhouse Gas Protocol Scope 2 (location-based) on the basis of the reported energy use and emission factors included in Defra (2016) and IEA (2017) databases.

Results and performance indicators
In the production units, we are working on making processes more efficient and more sustainable. Because of Continental's growth in past years, the absolute values for energy use, CO_2 emissions, waste generation and water demand have increased continuously. Compared with 2013, there was an improvement in the specific performance indicators of 3% for energy, 2% for CO_2 and 5% for water. The specific figures for waste, however, were 13% higher than in 2013. The increases in efficiency and measures for improvement in the plants were balanced out by changes in the portfolio, sales effects, increasing vertical integration, more energy-intensive production technologies, and higher quality requirements.

At the end of 2018, the more than 200 major production and development locations were certified according to ISO 14001 (environmental management) and more than 90 locations were already certified according to ISO 50001 (energy management). This corresponds to over 80% and roughly half of the total workforce respectively. The focus of environmental management is efficiency and thus the improvement of each specific type of consumption.

You can find more information on aspects relating to environmental protection in the Report on Risks and Opportunities.

Compliance

Compliance with all the legal requirements that apply to Continental AG and its subsidiaries and its internal regulations by management and employees is an integral part of our corporate culture. Bribery and anti-competitive behavior are strictly forbidden. Continental's Executive Board is firmly committed to the zero-tolerance principle with regard to corruption and antitrust violations.

Management approach
This stance is a fixed component of our corporate culture and is reflected in our corporate guidelines, corporate governance principles and social responsibility principles. Important documents at corporation level are the Code of Conduct for employees, the anti-corruption policy, the antitrust manual and the Global ESH Policy. The Business Partner Code of Conduct lays down requirements for our suppliers in terms of responsible business.

In order to discharge its duties, the Executive Board has established the global compliance organization with regional departments, especially to prevent corruption and antitrust violations. The compliance organization reports directly to the Executive Board member for Finance, Controlling, Compliance, Law and IT.

Continental has a compliance management system, which is based on a comprehensive analysis of potential compliance risks for the core areas of antitrust law and corruption prevention. Its effectiveness was certified in 2016 in accordance with IDW PS 980 audit standard. When it comes to company mergers and acquisitions, we meet our due diligence obligations with extensive risk audits, which also include compliance due diligence. The audits carried out by the Corporate Audit department include reviewing whether compliance-related requirements are being met.

Both employees and external third parties can report all kinds of compliance-related incidents via the Compliance & Anti-Corruption Hotline, which can be reached around the clock by telephone or e-mail, anonymously and in the respective national language. The Compliance department analyzes the information together with Corporate Audit and then decides on necessary measures, involving other departments in a structured process. In addition, employees can contact their superiors or report directly to the Compliance department and the compliance coordinators in the countries and locations.

Results and performance indicators
Compliance training is provided according to a risk-based and target-group-specific classroom training plan. In addition, employees who have a Continental e-mail address are regularly trained via e-learning programs. In 2018, employees were trained online and in some 360 classroom training sessions in compliance, antitrust law and corruption prevention. For the online training, we aim for a completion rate of at least 95%, which we achieved again in 2018 with about 85,000 participants.

Compliance training in 2018	
Online training conducted	~85,000
Classroom training sessions conducted	~360
Online training completion rate	>95%

For more information, consult the Report on Risks and Opportunities and the "Other Disclosures" section in the Notes to the Consolidated Financial Statements.

Purchasing and Responsibility in the Supply Chain

Continental processes a wide range of raw materials and semi-finished products. The manufacture of these goods is associated with economic, ecological and social impacts along the global supply chain.

Management approach
At Continental, purchasing is organized by product group and business unit with teams in various countries. The aim of the purchasing organization is to create added value for the operating units with market expertise and sustainable procurement solutions. There is therefore close coordination between the purchasing, development and production units.

Supplier relationships are based on the General Conditions of Purchase, which define quality and handling requirements, among other things. Since 2011, we have also required suppliers and service providers to sign the Business Partner Code of Conduct which covers ethical, social and ecological aspects. In addition, we expect our business partners to work toward the implementation of the Code of Conduct or similar values in their own supply chains. Compliance with this Code of Conduct is assessed primarily with self-assessments via the generally accepted sustainability platforms Ecovadis and NQC. In addition, subject-specific audits, such as for environmental protection, are carried out for some suppliers. Violations can also be reported via the Compliance & Anti-Corruption Hotline. In the case of non-compliance with the Code of Conduct, Continental reserves the right to demand corresponding improvements or ultimately to terminate the business relationship.

Results and performance indicators
The purchasing volume in the reporting year was €29.9 billion in total, €20.3 billion of which was for production materials. The Automotive Group uses primarily steel, aluminum, precious metals, copper and plastics. Key areas when it comes to purchasing materials and semi-finished products include electronics and electromechanical components, which together make up about 44% of the corporation's purchasing volume of production materials. Mechanical components account for just under a quarter of production materials. Natural rubber and oil-based chemicals such as synthetic rubber and carbon black are key raw materials for the Rubber Group. The total purchasing volume for these materials amounts to around a sixth of the total volume for production materials. For more information, see the Development of Raw Materials Markets section in the Economic Report.

The integration of sustainability into our procurement processes was enhanced in the reporting year. As at December 31, 2018, the two sustainability platforms Ecovadis and NQC contained valid self-disclosures for more than 750 suppliers. This corresponds to a completion rate of over 60% of suppliers selected for this process on a rolling basis.

For natural rubber, a strategic purchasing issue, the "Continental Sustainable Natural Rubber Sourcing Policy" was published in the reporting year with the involvement of various stakeholders, which formulates specific requirements for Continental itself and for business partners in this supply chain. In Indonesia, the first implementation steps on the way to more sustainable natural rubber are being defined in a development partnership between Continental and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). The aim is to compile a list of criteria for the sustainable production of natural rubber, to train farmers in sustainable farming methods in accordance with these criteria, and to enable the traceability of rubber from the small farmers to its use in production at Continental. In addition, Continental has participated in industry activities for sustainable natural rubber, which were initiated among others by the World Business Council for Sustainable Development (WBCSD) together with the industry and various stakeholders.

Social Responsibility and Engagement

We see ourselves as part of the local communities at our locations. The jobs we create directly in our plants and indirectly at our suppliers are important local contributions. In addition, Continental also selectively promotes and supports social initiatives, activities and projects.

Management approach
Our social activities are based on our four corporate values, internal directives and local laws. For example, fundraising activities are governed by a corporate directive that defines priorities and processes. We not only donate money and goods, but also support our employees' volunteer work and participate in collaborations all around the world. Our efforts are largely organized on a decentralized basis in order to meet local needs. Our social commitment is supplemented by centrally managed activities. A global coordination process is currently being set up.

Results and performance indicators
Around the world, a large number of projects, campaigns and fund-raising activities took place that prove that we are there for the local communities at our locations and include the following activities:

- Employees from the Tire division in Hanover donated the proceeds of their winter festival, around €15,000, to three local charitable institutions.
- Continental Youth Safe-Driving Program: In Chongqing, China, we held a program day on safe driving for young drivers in coopera-tion with several local partners, such as the local government and associations.
- In India, Hungary, Mexico and Romania, Continental employees helped to renovate or equip schools and daycare centers close to their locations.
- In Germany, the Continental pilot project "We l.o.v.e. Europe" has resulted in the "Experiencing Europe" initiative, which has been joined by other companies. In cooperation with the German Federal Employment Agency and Caritas, selected participants in pre-vocational training (unemployed young people) are given the opportunity to complete internships throughout the rest of Europe. Continental has already hired some of the first participants.

Information on Non-Financial Disclosures

The preceding section constitutes the relevant mandatory disclosures according to Sections 289 (3) and 315 (3) of the German Commercial Code *(HGB)* and the combined corporate non-financial statement for fiscal 2018. The information applies to both the Continental Corporation and Continental AG, and is identical unless otherwise indicated. In accordance with Sections 315b and 315c in conjunction with Sections 289b to 289e *HGB*, the combined corporate non-financial statement presents the main information that is required in order to understand the business development, business performance and position, and the effects of business operations on non-financial aspects. There are no additional reportable risks in accordance with *HGB* besides those presented in the Report on Risks and Opportunities. The business model is explained in the Corporate Profile section. As a framework for the descriptions in the combined corporate non-financial statement, for some key figures the company used not only *HGB* and IFRS, but also GRI (Global Reporting Initiative) and Greenhouse Gas Protocol requirements.

You can find more information on sustainability and all important documents online under the Sustainability heading.

References to content not contained in the combined management report are to be classed as further information and not as mandatory components required under the German Commercial Code *(HGB)*.

Economic Report
General Conditions

Macroeconomic Development

Economic growth in Germany slowed over the course of the reporting year. According to initial calculations by the German Federal Statistical Office, gross domestic product (GDP) increased by 1.5% in 2018 compared with 2017 when adjusted for prices, after 2.2% in each of the two preceding years. This fell considerably short of the forecast of 2.3% issued by the International Monetary Fund (IMF) in January 2018. The decline in growth was attributable to lower-than-expected increases in consumer and public spending and a slightly lower positive contribution from foreign trade in comparison to the previous year.

According to the latest figures from the statistical agency Eurostat, the eurozone economy achieved GDP growth of 1.8% in 2018 and thus likewise fell short of the IMF forecast of 2.2% from January 2018. In addition to lower growth in Germany, the rate of expansion in the major economies of France, Italy and Spain also slowed. All in all, consumer and public spending was lower than expected. Economic development was still boosted by the monetary policy of the European Central Bank (ECB), which continued to adhere to its expansionary measures in the reporting year. It terminated its bond-buying program at the end of 2018 as announced.

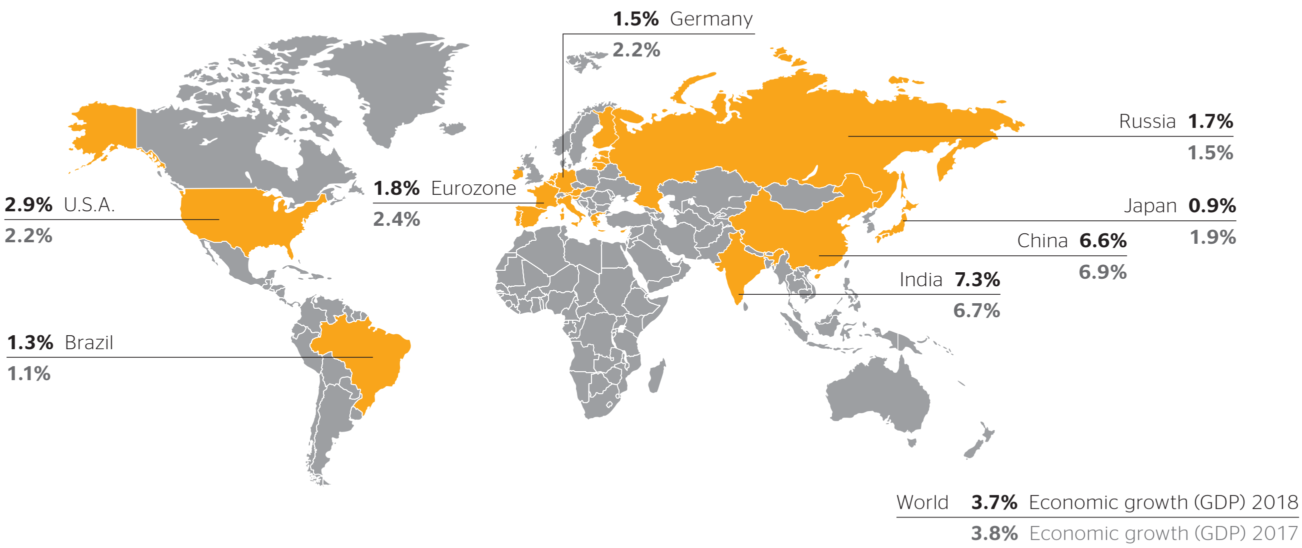
The U.S. economy picked up momentum during 2018 and is expected to have achieved GDP growth of 2.9%, slightly exceeding the IMF's forecast of 2.7% from January 2018. This was due chiefly to an increase in private investment and higher government spending. In each of the months March, June, September and December 2018, the U.S. Federal Reserve (Fed) increased its key interest rate by 25 basis points.

After reaching 1.9% in the previous year, Japan's economic growth fell to 0.9% in 2018 according to the IMF, despite the continuing expansionary monetary policy of the Japanese central bank. At the start of the year, the IMF had forecast a rise of 1.2%. Growth in consumer spending slowed considerably and the foreign trade surplus also increased only slightly. An increase in public spending and higher private investment only partly compensated for these effects.

According to the IMF's World Economic Outlook (WEO) Update from January 2019, emerging and developing economies achieved growth totaling 4.6% in 2018 (PY: 4.7%). At the start of the reporting year, the IMF had forecast an increase of 4.9%. China and India were the main growth drivers once again. However, growth in the Chinese economy slowed slightly, as expected by the IMF at the beginning of 2018, to 6.6% (PY: 6.9%). With GDP growth of 7.3%, India developed almost to the extent estimated by the IMF with its forecast of 7.4%. Russia grew by 1.7%, as the IMF had anticipated. With a 1.3% increase in GDP, Brazil fell short of the forecast growth of 1.9%. In addition, growth in some African countries and in the Middle East was lower than expected at the start of the year as a result of lower revenue from raw material exports.

The IMF's January 2019 WEO Update indicates that the global economy grew by 3.7% in 2018 after 3.8% in the previous year. As a result of the slowdown in many countries over the course of the year, the IMF's forecast of 3.9% growth from January 2018 was not achieved.

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



Sources: IMF – World Economic Outlook Update January 2019, Eurostat, statistical offices of the respective countries, Bloomberg.

Development of Key Customer Sectors

The most important market segment for Continental is the global supply business with the manufacturers of passenger cars and commercial vehicles, accounting for 72% of sales in fiscal 2018 as in the previous year. The second-biggest market segment for Continental is global replacement-tire business for passenger cars and commercial vehicles. Because passenger cars and light commercial vehicles weighing less than 6 metric tons make up a considerably higher share of vehicle production and replacement-tire business, their development is particularly important to our economic success. Continental's biggest sales region is still Europe, which accounted for 49% of sales in the year under review, followed by North America with 25% and Asia with 22%, all of which were unchanged from the previous year.

Development of new passenger-car registrations

On the basis of preliminary data from the German Association of the Automotive Industry (Verband der Automobilindustrie, VDA), new passenger-car registrations in Europe (EU-28 and EFTA) remained stable year-on-year in 2018. High demand for replacements could be seen in Greece, the Netherlands, Spain and several Eastern European countries. In France, new passenger-car registrations rose by 3%. In contrast, the United Kingdom, Norway and Sweden each saw a 7% decline. Sales volumes were also down slightly year-on-year in Italy, Ireland, Austria and Switzerland. In Germany, the months of July and August saw a significant increase in new registrations of vehicles that could still be produced and registered in accordance with the New European Driving Cycle (NEDC) exhaust-gas test procedure applicable until August 31, 2018. The introduction of the new test procedure WLTP resulted in considerably lower production and a decline in new vehicle registrations in Germany in particular between September and December 2018. All in all, new passenger-car registrations in Germany stagnated in 2018.

In the U.S.A., consumers' preference for light commercial vehicles and pickup trucks continued in 2018. Sales volumes of these vehicles grew by 8%, or around 855,000 units, in spite of higher fuel prices and increased lending rates. By contrast, demand for sedans fell by 13%, or around 775,000 units. Overall, new registrations in the U.S.A. increased slightly by around 80,000 units year-on-year in the reporting year.

In Japan, demand for passenger cars picked up in the second half of 2018, compensating for the slight decrease in sales volumes in the first half of the year. Overall, sales volumes of passenger cars in 2018 were up marginally year-on-year at 4.4 million units, corresponding to the average level of the past five years.

According to the VDA, demand for passenger cars in China increased by almost 6% in the first half of 2018 as a result of the good economic situation. However, the escalating trade conflict with the U.S.A. and the resulting uncertainty among consumers led to a 7% decline in demand for passenger cars in the third quarter and a 15% decline in the fourth quarter. Overall, China posted a 4% decline in sales volumes of passenger cars in the reporting year. The other BRIC countries saw very substantial growth in demand in 2018. In Brazil and Russia, demand continued to recover, with increases of 14% and 13% respectively, compared with the weak equivalent period of the previous year. In India, new vehicle registrations rose by 5%.

According to preliminary data, global new passenger-car registrations fell by around 300,000 units to 92.9 million units in 2018. The growth in sales volumes in Brazil, Russia, India and the U.S.A. only partly compensated for the reduced demand in China.

Development of production of passenger cars and light commercial vehicles

In Europe, the production of passenger cars and light commercial vehicles weighing less than 6 metric tons decreased in 2018 by 2% on the basis of preliminary figures. From September onward, the introduction of the new exhaust-gas test procedure WLTP put a noticeable dent in production volumes. German manufacturers in particular had to significantly limit their production, because not all models and their engine versions could be tested in advance in accordance with WLTP. In the year as a whole, production decreased in Germany, the United Kingdom and Turkey in particular. Without the higher production figures in Portugal, Russia and several Eastern European countries, the decrease in Europe would have been considerably larger.

In North America, the production of passenger cars and light commercial vehicles decreased by 1% to 17.0 million units in the reporting year on the basis of preliminary figures. Production declined in Canada, whereas the U.S.A. posted a slight increase in production. In Mexico, volumes remained at the previous year's level.

New registrations/sales of passenger cars

millions of units	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	**2018 Total**	Δ Prior Year
Europe (EU-28 and EFTA)	4.3	4.4	3.6	3.3	**15.6**	0%
U.S.A.	4.1	4.5	4.3	4.4	**17.2**	0%
Japan	1.3	1.0	1.1	1.0	**4.4**	0%
Brazil	0.5	0.6	0.7	0.7	**2.5**	14%
Russia	0.4	0.5	0.4	0.5	**1.8**	13%
India	0.9	0.9	0.9	0.8	**3.4**	5%
China	6.0	5.5	5.4	6.3	**23.3**	–4%
Worldwide	**23.6**	**23.9**	**22.1**	**23.2**	**92.9**	**0%**

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

Production of passenger cars and light commercial vehicles

millions of units	2018	2017	2016	2015	2014
Europe[1]	21.7	22.1	21.4	20.8	19.9
North America	17.0	17.1	17.8	17.5	17.0
South America	3.4	3.3	2.7	3.1	3.8
Asia[2]	50.6	51.6	50.0	46.4	45.8
Other markets	1.3	1.1	1.1	1.0	0.9
Worldwide	**94.0**	**95.2**	**93.1**	**88.8**	**87.4**

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

In Asia, the development of passenger-car and light-commercial-vehicle production varied considerably in the year under review. There were substantial increases in production in India, Indonesia and Thailand. By contrast, China saw a significant decline in production in the second half of the year, partly as a result of the trade conflict with the U.S.A. Japan recorded marginal growth in production, while volumes in Iran and South Korea decreased. On the basis of preliminary figures, Asia recorded an overall year-on-year decline in production of 2% in 2018, which was primarily due to the decline in China.

In South America, demand continued to recover and production of passenger cars and light commercial vehicles saw a further increase in 2018. Production in South America grew by 4% in the reporting year, according to preliminary figures. This was particularly due to the increase in Brazilian production of around 100,000 units.

On the basis of preliminary figures, global production of passenger cars and light commercial vehicles fell by 1% to 94.0 million units in 2018 as a result of declining production in the major markets.

Development of production of medium and heavy commercial vehicles

In Europe, an increase in the transportation of goods by road in Central and Eastern Europe boosted demand for trucks in 2018. Preliminary figures indicate that overall there was a 3% year-on-year increase in the production of commercial vehicles weighing more than 6 metric tons in the reporting year.

In North America, production of medium and heavy commercial vehicles picked up significantly as a result of the high order volume and the good economic situation. Based on preliminary figures, production of commercial vehicles weighing more than 6 metric tons increased by 18% as compared to the weak prior-year figure.

In Asia, production of medium and heavy commercial vehicles was around 3% below the previous year's level in the reporting year, based on the information currently available. In China in particular, there was a significant decline in the production of medium-weight commercial vehicles.

In South America, the economic recovery in the reporting year led to rising demand for trucks and an increase in the production of medium and heavy commercial vehicles of more than 40% compared to the very weak prior-year basis, according to preliminary data.

Preliminary figures indicate that global production of medium and heavy commercial vehicles rose overall by 2% in the year under review.

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

In Europe – Continental's most important market for replacement tires – sales volumes of replacement tires for passenger cars and light commercial vehicles weighing less than 6 metric tons rose by 2% year-on-year in the reporting year according to preliminary data. In the fourth quarter of 2018, momentum slowed due to weaker demand in Turkey.

Production of medium and heavy commercial vehicles

thousands of units	2018	2017	2016	2015	2014
Europe[1]	663	646	605	602	568
North America	638	542	474	581	551
South America	155	110	85	106	184
Asia[2]	2,240	2,316	1,896	1,646	1,851
Other markets	0	0	0	0	0
Worldwide	**3,695**	**3,614**	**3,060**	**2,935**	**3,154**

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

Sales of replacement tires for passenger cars and light commercial vehicles

millions of units	2018	2017	2016	2015	2014
Europe	358	350	340	328	324
North America	296	288	285	278	277
South America	67	71	66	65	64
Asia	450	447	431	409	397
Other markets	49	48	46	44	42
Worldwide	**1,220**	**1,204**	**1,168**	**1,124**	**1,104**

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

In North America, sales volumes of replacement tires for passenger cars and light commercial vehicles picked up considerably in the second half of 2018 after a relatively weak first half of the year. This was partly attributable to purchases brought forward due to the price increases announced by some manufacturers for the end of 2018/the start of 2019. According to preliminary figures, demand for replacement tires for passenger cars and light commercial vehicles increased by 3% overall in the reporting year.

In China, a sell-off of tire dealers' stocks resulted in a sharp decrease in sales volumes in the second half of 2018 as compared to the high comparative figures from the previous year. By contrast, India and Indonesia in particular recorded growing demand. In Asia as a whole, demand for replacement tires for passenger cars and light commercial vehicles grew 1% in 2018 according to preliminary figures.

In South America, the temporarily uncertain political situation in Brazil led to considerably subdued demand for replacement tires for passenger cars and light commercial vehicles in the second half of 2018. Preliminary figures indicate that the decline over the reporting year as a whole came to around 6% in comparison to the strong prior-year basis.

Based on preliminary figures, global sales volumes of replacement tires for passenger cars and light commercial vehicles grew by 1% in 2018.

Development of replacement tire markets for medium and heavy commercial vehicles

In Europe, preliminary figures indicate that demand for replacement tires for commercial vehicles weighing more than 6 metric tons dropped by 1% in 2018. The decline in demand in the United Kingdom and Turkey was offset only partially by volume growth in Russia and other Eastern European countries.

According to preliminary figures, demand for replacement tires for medium and heavy commercial vehicles in North America, our other core market for replacement commercial-vehicle tires alongside Europe, increased by 7% year-on-year thanks to a strong fourth quarter.

In Asia, sales volumes of replacement tires for medium and heavy commercial vehicles decreased by 1% in 2018 according to preliminary figures. The main reason for the weaker development was a decline in demand in China, which primarily resulted from the reduction of tire dealers' stocks in the second half of the year.

In South America, preliminary figures indicate that sales volumes of replacement tires for commercial vehicles were up 2% in the reporting year, despite the high prior-year basis. This was primarily due to the positive development in demand for replacement truck tires in Brazil.

Overall, global demand for replacement tires for medium and heavy commercial vehicles in the reporting year remained at the previous year's level according to preliminary figures.

Sales of replacement tires for medium and heavy commercial vehicles

millions of units	2018	2017	2016	2015	2014
Europe	25.8	26.1	24.5	23.0	23.4
North America	26.5	24.8	23.6	22.8	22.0
South America	14.8	14.5	13.7	13.5	14.0
Asia	87.0	88.2	86.6	83.7	85.2
Other markets	7.9	7.8	7.5	7.2	6.9
Worldwide	**162.0**	**161.4**	**155.9**	**150.2**	**151.6**

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

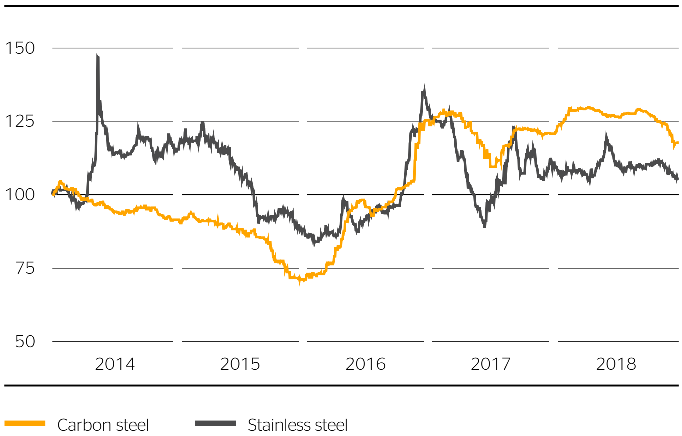
Development of Raw Materials Markets

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

In the reporting year, the slowing economic momentum over the course of the year resulted in diminishing demand for raw materials. Starting from the middle of the year, most quoted prices on the commodity markets therefore initially recorded a slight consolidation before falling further in most cases in the fourth quarter of 2018.

Carbon steel and stainless steel are input materials for many of the mechanical components such as stamped, turned, drawn and die-cast parts integrated by Continental into its products. Prices for carbon steel rose by around 7% in Europe in the first quarter of 2018 due to the seasonal increase in demand. From the end of September to the end of the year, they dropped 10% again due to seasonal factors as well as due to lower demand from the automotive industry. At the end of the year, rising prices for the primary products iron ore and coking coal had a stabilizing effect on prices. The average price of carbon steel over the year in Europe was up around 4% on the previous year.

Steel indexed to January 1, 2014

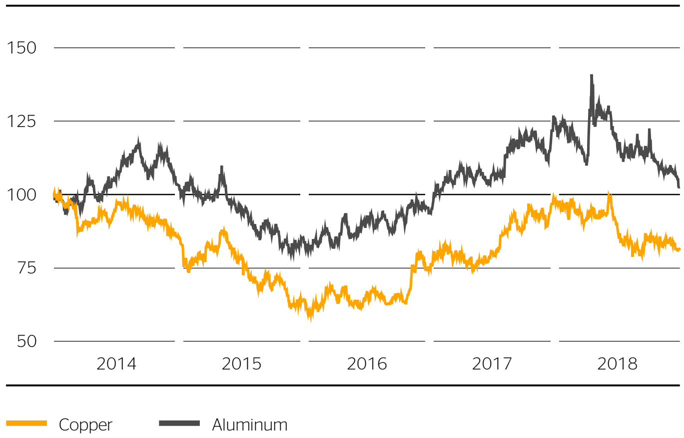


Sources:
Carbon steel: Hot-rolled coil Northern Europe from Platts (€ per metric ton).
Stainless steel: 2 mm stainless steel 3042B cold-rolled Shanghai market price from Shanghai Steel Home E-Commerce Co., Ltd (€ per metric ton).

Base prices for stainless steel remained relatively unchanged in the first half of 2018 before falling almost 10% in the second half of the year. By contrast, alloy surcharges increased by up to 30% by the middle of 2018. In the second half of the year, however, they recorded a significant price decline. On average for the year, they rose in price year-on-year by between 10% and more than 20% in some cases, depending on the stainless-steel grade. The main driving factor here was the increase in the nickel price by around 25% on average for the year, compared to the relatively low average price in the previous year. The decline in base prices compensated for the increase in alloy surcharges in 2018, with the effect that the annual average price for stainless steel in Europe remained roughly at the previous year's level.

Aluminum is used by Continental primarily for die-cast parts and stamped and bent components, while copper is used in particular in electric motors and mechatronic components. The aluminum price fell by 13% to around U.S. $2,000 per metric ton in the first quarter of 2018. In April, it rose by 25% as a result of the sanctions imposed against Russia by the U.S. government. It then decreased over the remainder of the year due to diminishing demand and ended the year down 19% year-on-year at U.S. $1,846 per metric ton. Compared to the previous year, its average price increased by 7% on a U.S. dollar basis and 2% on a euro basis in 2018. The quoted price for copper remained very stable in the first half of 2018 at around U.S. $7,000 per metric ton, before falling to a level of around U.S. $6,000 in the second half of the year. On average for the year, it increased by 6% on a U.S. dollar basis and 1% on a euro basis.

Copper and aluminum indexed to January 1, 2014



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

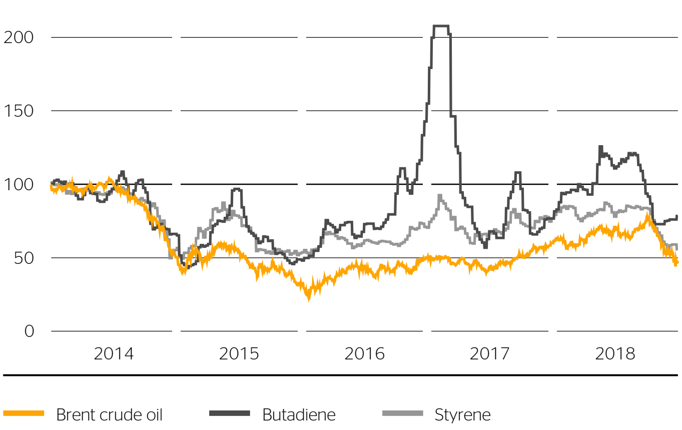
Precious metals such as gold, silver, platinum and palladium are used by Continental and by our suppliers to coat a wide range of components. The gold price in 2018 remained around the average level of the previous year on a U.S. dollar basis, whereas the average prices of silver and platinum were down 8% and 7% respectively year-on-year. On a euro basis, the gold price fell by 4% and the silver and platinum prices by 12% each. After the previous year's price increase of around 40%, the average price of palladium for the year increased by another 18% on a U.S. dollar basis and 14% on a euro basis in 2018. This was due to continued high demand for catalytic converters for cars with gasoline engines, particularly for the Chinese market.

Both Continental and our suppliers require various plastic granulates, known as resins, as technical thermoplastics primarily for manufacturing housing components. The recovery in prices for plastic granulates that began in 2016 also continued in the reporting year due to the initially increasing crude oil price and growing demand. The sharp decline in crude oil prices in the fourth quarter curbed the price development of some but not all resins. Average prices increased by 10% to 20%, and in some cases by as much as 30%, on a U.S. dollar basis. On a euro basis, the price increase was around 5 percentage points lower.

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

The price of crude oil – the most important basic building block for synthetic-rubber input materials such as butadiene and styrene and also for carbon black and various other chemicals – was very volatile in the reporting year. The lower level of production by OPEC countries led to a scarcer supply while demand remained stable. In addition, fears of an increased shortage of supply arose over the course of the year due to the U.S. government's announced sanctions against Iran. The price of Brent crude oil consequently rose from U.S. $67 per barrel at the start of the year to U.S. $86 per barrel at the start of October. In the fourth quarter of 2018, the substantial increase in U.S. shale oil production, higher-than-expected Iranian crude oil exports due to exemptions by the U.S. government, and rising inventories as a result of declining demand put an end to speculation of further rises in the oil price. Instead, there was a sudden slump of 40% to U.S. $50 per barrel as at the end of the year. The average price of crude oil for the year nonetheless increased by around 30% year-on-year on a U.S. dollar basis and 25% on a euro basis.

Crude oil, butadiene and styrene indexed to January 1, 2014



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

The average price of butadiene, the main input material for synthetic rubber, rose by more than 60% on both a U.S. dollar basis and a euro basis over the first half of 2018 as a result of the increasing crude oil price and high demand. From September onward, a decline in demand for tires in China also resulted in lower demand for synthetic rubber and falling butadiene prices. The average butadiene price for the year was down 6% on a U.S. dollar basis and 11% on a euro basis compared with the relatively high prior-year levels.

Prices for other input materials for synthetic rubber in 2018 were chiefly influenced by the development of the crude oil price. For example, the price of styrene increased by around 15% on a U.S. dollar basis by September 2018 compared to the start of the year, before falling around 30% in the fourth quarter. On average for the year, styrene became 7% more expensive on a U.S. dollar basis and 2% more expensive on a euro basis.

Natural rubber prices in the reporting year were unable to maintain the level of the fourth quarter of 2017, when they had stabilized at around U.S. $1.50 per kilogram. Decreasing Chinese demand for tires, particularly truck tires, resulted in excess supply, causing natural rubber prices to fall to the level of 2016 again over the course of the year. The natural rubber TSR 20 saw a decrease in its average price for the year of 17% on a U.S. dollar basis and 21% on a euro basis. The average price of ribbed smoked sheets (RSS) for the year fell by 22% on a U.S. dollar basis and 27% on a euro basis.

Natural rubber indexed to January 1, 2014

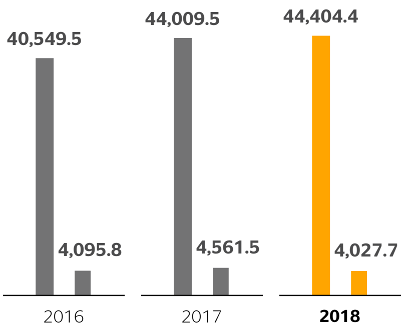
Source: Rolling one-month contracts from the Singapore Exchange (U.S. $ cents per kg).

Overall, the described price developments for raw materials led to costs for Continental in 2018, which were passed on to our customers via price adjustments only in part and with a delay. The Rubber Group was particularly affected by this in the year under review. The decrease in raw material prices in the fourth quarter of 2018 reduced production costs in the reporting year only to a very limited extent since, depending on the product, there is usually a gap of several months between purchasing raw materials, their delivery and their use in production.

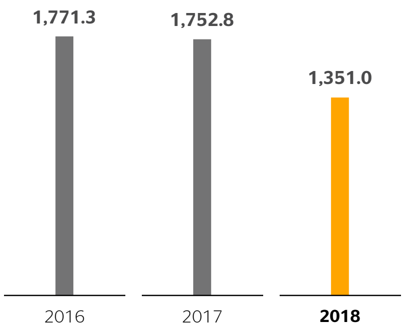
Earnings, Financial and Net Assets Position

- › Sales up 0.9% at €44.4 billion
- › Organic sales growth of 3.1%
- › Basic earnings per share at €14.49

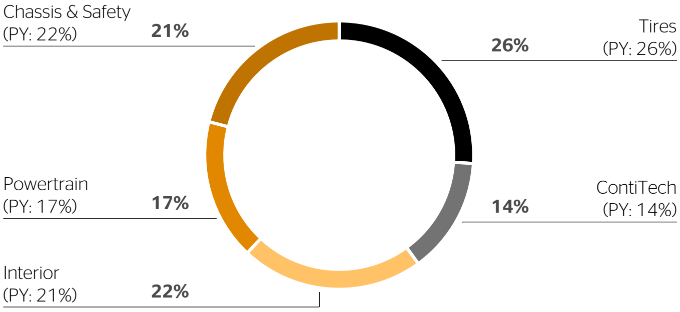
Sales; EBIT € millions



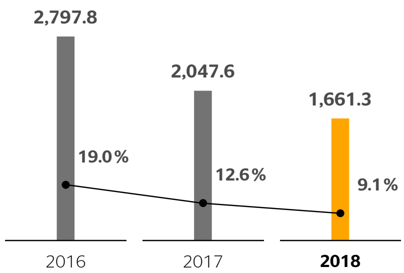
Free cash flow € millions



Sales by division %



Net indebtedness € millions **Gearing ratio** %



Earnings Position

› Sales up 0.9%
› Sales up 3.1% before changes in the scope of consolidation and exchange-rate effects
› Adjusted EBIT down 13.3%

Continental Corporation in € millions	2018	2017	Δ in %
Sales	44,404.4	44,009.5	0.9
EBITDA	6,235.7	6,678.9	–6.6
in % of sales	14.0	15.2	
EBIT	4,027.7	4,561.5	–11.7
in % of sales	9.1	10.4	
Net income attributable to the shareholders of the parent	2,897.3	2,984.6	–2.9
Basic earnings per share in €	14.49	14.92	–2.9
Diluted earnings per share in €	14.49	14.92	–2.9
Research and development expenses (net)	3,209.0	3,103.7	3.4
in % of sales	7.2	7.1	
Depreciation and amortization[1]	2,208.0	2,117.4	4.3
thereof impairment[2]	20.7	40.2	
Operating assets as at December 31	23,753.7	22,213.6	6.9
Operating assets (average)	23,640.5	22,172.4	6.6
ROCE	17.0	20.6	
Capital expenditure[3]	3,124.4	2,854.4	9.5
in % of sales	7.0	6.5	
Number of employees as at December 31[4]	243,226	235,473	3.3
Adjusted sales[5]	44,249.2	43,978.5	0.6
Adjusted operating result (adjusted EBIT)[6]	4,118.1	4,748.5	–13.3
in % of adjusted sales	9.3	10.8	

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

Sales up 0.9%
Sales up 3.1% before changes in the scope of consolidation and exchange-rate effects

Consolidated sales climbed by €394.9 million or 0.9% year-on-year in 2018 to €44,404.4 million (PY: €44,009.5 million). Before changes in the scope of consolidation and exchange-rate effects, sales rose by 3.1%. The further sales increase resulted from business development in both the Automotive Group and the Rubber Group. Sales growth was thus significantly greater than the increase in the production of passenger cars, station wagons and light commercial vehicles. Consolidated sales grew fastest in Asia, especially in Japan. Changes in the scope of consolidation contributed to the increase in sales, but were considerably more than offset by negative exchange-rate effects.

Adjusted EBIT down 13.3%

The corporation’s adjusted EBIT declined by €630.4 million or 13.3% year-on-year in 2018 to €4,118.1 million (PY: €4,748.5 million), equivalent to 9.3% (PY: 10.8%) of adjusted sales.

The regional distribution of sales in 2018 was as follows:

Sales by region in %	**2018**	2017
Germany	20	20
Europe excluding Germany	29	29
North America	25	25
Asia	22	22
Other countries	4	4

The corporation's adjusted EBIT for the fourth quarter of 2018 decreased by €187.3 million or 14.3% compared with the same quarter of the previous year to €1,126.1 million (PY: €1,313.4 million), equivalent to 10.1% (PY: 11.7%) of adjusted sales.

EBIT down 11.7%
EBIT was down by €533.8 million year-on-year in 2018 to €4,027.7 million (PY: €4,561.5 million), a decrease of 11.7%. The return on sales fell to 9.1% (PY: 10.4%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €173.0 million (PY: €170.7 million) in the year under review.

ROCE amounted to 17.0% (PY: 20.6%).

Special effects in 2018
Overall, impairment on property, plant and equipment resulted in expense of €20.0 million (Chassis & Safety €1.5 million; Powertrain €16.0 million; Interior €1.2 million; Tires €1.2 million; ContiTech €0.1 million).

In addition, restructuring expenses and the reversal of restructuring provisions no longer required resulted in a negative special effect of €20.0 million overall (Powertrain €22.8 million; Interior income of €3.0 million; ContiTech €0.2 million). This included impairment on property, plant and equipment in the amount of €3.5 million (Powertrain €3.3 million, ContiTech €0.2 million) and a reversal of impairment losses in the Interior division in the amount of €2.8 million.

Following the successful conclusion of all negotiations and the granting of the required merger control authorizations, OSRAM CONTINENTAL GmbH, Munich, Germany, commenced global operations on July 2, 2018. The contribution of net assets, including intangible assets, resulted in income of €183.7 million for the Interior division.

In addition, disposals of companies and business operations resulted in an expense totaling €25.5 million (Chassis & Safety income of €3.0 million; Interior €28.9 million; ContiTech income of €0.4 million).

The transformation of the Powertrain division into an independent group of legal entities resulted in expense totaling €40.9 million (Chassis & Safety €4.3 million; Powertrain €32.3 million; Interior €4.3 million).

In addition, an asset deal in the Interior division resulted in income of €2.9 million.

Total consolidated income from special effects in 2018 amounted to €80.2 million.

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

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

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

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

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

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

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

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

Procurement

The purchasing volume rose by around 1% year-on-year to €29.9 billion in 2018, of which approximately €20.3 billion was attributable to production materials. Prices for the Automotive Group's production materials were lower than in the previous year. The prices of key input materials and many raw materials for the Rubber Group peaked around the middle of 2018. However, the price of natural rubber fell steadily over the course of the year. Average prices for the Tire division's raw materials during the year were roughly on par with the previous year. Exchange-rate effects and the time lag between procurement, delivery and deployment resulted, however, in minor costs for the Tire division compared to the previous year. For the ContiTech division, raw material prices increased year-on-year.

Reconciliation of EBIT to net income

€ millions	**2018**	2017	Δ in %
Chassis & Safety	782.5	897.7	–12.8
Powertrain	119.8	439.9	–72.8
Interior	988.1	749.2	31.9
Tires	1,882.1	2,151.3	–12.5
ContiTech	396.2	442.2	–10.4
Other/consolidation	–141.0	–118.8	18.7
EBIT	**4,027.7**	**4,561.5**	**–11.7**
Financial result	–177.8	–285.7	–37.8
Earnings before tax	**3,849.9**	**4,275.8**	**–10.0**
Income tax expense	–891.6	–1,227.5	–27.4
Net income	**2,958.3**	**3,048.3**	**–3.0**
Non-controlling interests	–61.0	–63.7	–4.2
Net income attributable to the shareholders of the parent	**2,897.3**	**2,984.6**	**–2.9**
Basic earnings per share in €	14.49	14.92	–2.9
Diluted earnings per share in €	14.49	14.92	–2.9

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).

Research and development
Research and development expenses (net) rose by €105.3 million or 3.4% year-on-year to €3,209.0 million (PY: €3,103.7 million), corresponding to 7.2% (PY: 7.1%) of sales.

In the Powertrain and Interior divisions, costs in connection with initial product development projects in the original equipment business are capitalized. Costs are capitalized as at the time at which we are named as a supplier and have successfully achieved a specific pre-release stage. Capitalization ends with the approval for unlimited volume production. The costs of customer-specific applications, pre-production prototypes and testing for products already being sold do not qualify as development expenditure that may be recognized as an intangible asset. Capitalized development expenses are amortized on a straight-line basis over a useful life of three to seven years and recognized in the cost of sales. In Continental's opinion, the assumed useful life reflects the period for which an economic benefit is likely to be derived from the corresponding development projects. €158.0 million (PY: €92.1 million) of the development costs incurred in the two divisions in 2018 qualified for recognition as an asset.

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

This results in a capitalization ratio of 4.7% (PY: 2.9%) for the corporation.

Depreciation and amortization
Depreciation and amortization increased by €90.6 million to €2,208.0 million (PY: €2,117.4 million), equivalent to 5.0% of sales. This included impairment totaling €20.7 million (PY: €40.2 million).

Financial result
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 did 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 did 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. Exchange-rate 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.

Income tax expense
Income tax expense for fiscal 2018 amounted to €891.6 million (PY: €1,227.5 million). The tax rate was 23.2% after 28.7% in the previous year.

As in the previous year, foreign tax rate differences, incentives and tax holidays had positive effects in the year under review. The tax rate was negatively impacted by non-cash allowances on deferred tax assets totaling €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.

Net income attributable to the shareholders of the parent
Net income attributable to the shareholders of the parent declined by €87.3 million in 2018 to €2,897.3 million (PY: €2,984.6 million). Basic earnings per share amounted to €14.49 (PY: €14.92), the same amount as diluted earnings per share.

Employees

The number of employees in the Continental Corporation rose by 7,753 from 235,473 in 2017 to 243,226. The number of employees in the Automotive Group rose by 5,730, as a result in particular of increased production volumes and the continuous expansion of research and development. In the Rubber Group, the increase in the number of employees by 2,014 was chiefly attributable to the acquisition of the retail company Tyre and Auto Pty Ltd, Melbourne, Australia, and the adjustment to demand-driven production in the Tire division.

Employees by region in %	**2018**	2017
Germany	26	26
Europe excluding Germany	32	32
North America	18	19
Asia	20	19
Other countries	4	4

Financial Position

› Free cash flow before acquisitions at €1.8 billion
› Cash flow arising from investing activities at €3.6 billion
› Net indebtedness at €1.7 billion

Reconciliation of cash flow
EBIT declined by €533.8 million to €4,027.7 million after €4,561.5 million in 2017.

Interest payments resulting in particular from bonds decreased by €16.0 million to €115.5 million (PY: €131.5 million).

Income tax payments fell by €261.3 million to €860.8 million (PY: €1,122.1 million).

The cash-effective decrease in working capital led to a cash inflow of €136.6 million (PY: cash outflow of €483.8 million). This resulted from the €358.4 million increase in inventories (PY: €484.3 million). The decline in operating receivables in the amount of €38.3 million (PY: increase of €737.1 million) contrasted with the increase in operating liabilities in the amount of €456.7 million (PY: €737.6 million).

Cash flow from operating activities fell by €243.3 million year-on-year to €4,977.2 million (PY: €5,220.5 million) in 2018, corresponding to 11.2% (PY: 11.9%) of sales.

Cash flow arising from investing activities amounted to an outflow of €3,626.2 million (PY: €3,467.7 million). Capital expenditure on property, plant and equipment, and software was up €274.7 million from €2,849.7 million to €3,124.4 million before finance leases and the capitalization of borrowing costs. The net amount from the acquisition and disposal of companies and business operations resulted in a total cash outflow of €404.8 million (PY: €575.9 million) in 2018. This cash outflow was mainly attributable to the acquisition of Tyre and Auto Pty Ltd, Melbourne, Australia.

Taking into account reduced tax payments as a result of U.S. tax reform, the additional funding of U.S. pension plans generated a negative cash flow effect of around €167.4 million.

Free cash flow for fiscal 2018 amounted to €1,351.0 million (PY: €1,752.8 million). This corresponds to a decrease of €401.8 million compared with the previous year.

Capital expenditure (additions)
Capital expenditure for property, plant and equipment, and software amounted to €3,124.4 million in 2018. Overall, there was an increase of €270.0 million compared with the previous year's level of €2,854.4 million, to which the Interior, Chassis & Safety, Powertrain and ContiTech divisions contributed. Capital expenditure amounted to 7.0% (PY: 6.5%) of sales.

Financing and indebtedness
As at the end of 2018, gross indebtedness amounted to €4,606.9 million (PY: €4,090.0 million), up €516.9 million on the previous year's level.

Based on quarter-end values, 54.7% (PY: 59.6%) of gross indebtedness after hedging measures had fixed interest rates on average over the year.

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

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.

The syndicated loan comprises a revolving tranche of €3,000.0 million. This credit line is available to Continental until April 2021 and had not been utilized by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in the amount of €157.2 million as at December 31, 2018 (PY: –).

Other indebtedness increased by €881.8 million to €1,472.7 million (PY: €590.9 million) as at the end of 2018. This increase was chiefly due to commercial paper issuances with a carrying amount of €814.5 million (PY: €12.6 million). At the end of 2018, the utilization of sale-of-receivables programs amounted to €469.2 million, down from the previous year's €513.7 million. As at the end of 2018, four (PY: five) sale-of-receivables programs with a total financing volume of €665.0 million (PY: €894.5 million) were used within the Continental Corporation.

Cash and cash equivalents, derivative instruments and interest-bearing investments were up by €903.2 million at €2,945.6 million (PY: €2,042.4 million).

Net indebtedness decreased by a considerable €386.3 million as compared to the end of 2017 to €1,661.3 million (PY: €2,047.6 million). The gearing ratio also continued to improve year-on-year to 9.1% (PY: 12.6%).

As at December 31, 2018, Continental had liquidity reserves totaling €6,265.5 million (PY: €5,568.3 million), consisting of cash and cash equivalents of €2,761.4 million (PY: €1,881.5 million) and committed, unutilized credit lines totaling €3,504.1 million (PY: €3,686.8 million).

The restrictions that may impact the availability of capital are also understood as comprising all existing restrictions on the cash and cash equivalents. In the Continental Corporation, the aforementioned cash and cash equivalents are restricted with regard to pledged amounts and balances in countries with foreign-exchange restrictions or other barriers to accessing liquidity. Taxes to be paid on the transfer of cash assets from one country to another are not usually considered to represent a restriction on cash and cash equivalents. As at December 31, 2018, unrestricted cash and cash equivalents totaled €2,587.7 million (PY: €1,726.7 million).

Reconciliation of net indebtedness

€ millions	Dec. 31, 2018	Dec. 31, 2017
Long-term indebtedness	1,449.0	2,017.8
Short-term indebtedness	3,157.9	2,072.2
Long-term derivative instruments and interest-bearing investments	–32.4	–113.3
Short-term derivative instruments and interest-bearing investments	–151.8	–47.6
Cash and cash equivalents	–2,761.4	–1,881.5
Net indebtedness	**1,661.3**	**2,047.6**

Reconciliation of change in net indebtedness

€ millions	2018	2017
Net indebtedness at the beginning of the reporting period	**2,047.6**	**2,797.8**
Cash flow arising from operating activities	4,977.2	5,220.5
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**
Dividends paid	–900.0	–850.0
Dividends paid to and cash changes from equity transactions with non-controlling interests	–45.4	–46.5
Non-cash changes	24.9	16.5
Other	–19.3	–151.6
Exchange-rate effects	–24.9	29.0
Change in net indebtedness	**386.3**	**750.2**
Net indebtedness at the end of the reporting period	**1,661.3**	**2,047.6**

Net Assets Position

- Equity at €18.3 billion
- Equity ratio at 45.3%
- Gearing ratio at 9.1%

Total assets

At €40,445.4 million (PY: €37,440.5 million), total assets as at December 31, 2018, were €3,004.9 million higher than on the same date in the previous year. Goodwill, at €7,233.4 million, was up by €223.3 million compared to the previous year's figure of €7,010.1 million. Other intangible assets decreased by €41.0 million to €1,566.3 million (PY: €1,607.3 million). Property, plant and equipment increased by €1,173.4 million to €12,375.5 million (PY: €11,202.1 million). Deferred tax assets were down €52.8 million at €1,464.4 million (PY: €1,517.2 million). Inventories rose by €392.9 million to €4,521.1 million (PY: €4,128.2 million), while trade accounts receivable fell by €37.4 million to €7,631.9 million (PY: €7,669.3 million). Short-term other assets decreased by €62.6 million to €1,124.2 million (PY: €1,186.8 million). At €2,761.4 million, cash and cash equivalents were up €879.9 million from €1,881.5 million on the same date in the previous year.

Non-current assets

Non-current assets rose by €1,620.3 million year-on-year to €23,658.7 million (PY: €22,038.4 million). In relation to the individual items of the statement of financial position, this was due primarily to the €223.3 million increase in goodwill to €7,233.4 million (PY: €7,010.1 million), the €230.1 million rise in investments in equity-accounted investees to €644.9 million (PY: €414.8 million), the €1,173.4 million increase in property, plant and equipment to €12,375.5 million (PY: €11,202.1 million) and the €80.9 million decrease in long-term derivative instruments and interest-bearing investments to €32.4 million (PY: €113.3 million).

Current assets

At €16,786.7 million, current assets were €1,384.6 million higher than the previous year's figure of €15,402.1 million. In the year under review, inventories rose by €392.9 million to €4,521.1 million (PY: €4,128.2 million), while trade accounts receivable fell by €37.4 million to €7,631.9 million (PY: €7,669.3 million). Cash and cash equivalents increased by €879.9 million to €2,761.4 million (PY: €1,881.5 million).

Equity

Equity was €2,043.0 million higher than in the previous year at €18,333.3 million (PY: €16,290.3 million). This was due primarily to the increase in retained earnings of €2,027.9 million. The gearing ratio improved from 12.6% to 9.1%. The equity ratio rose from 43.5% to 45.3% in the period under review.

Non-current liabilities

At €6,398.2 million, non-current liabilities were down €563.3 million from €6,961.5 million in the previous year. This was attributable mainly to the €568.8 million reduction in long-term indebtedness to €1,449.0 million (PY: €2,017.8 million). This in turn resulted from the repayment of a Continental AG euro bond with a nominal volume of €750.0 million.

Current liabilities

At €15,713.9 million, current liabilities were up €1,525.2 million from €14,188.7 million in the previous year. Short-term indebtedness increased by €1,085.7 million to €3,157.9 million (PY: €2,072.2 million) and trade accounts payable by €494.5 million to €7,293.0 million (PY: €6,798.5 million). By contrast, other current liabilities decreased by €151.3 million to €566.6 million (PY: €717.9 million) and income tax liabilities by €139.0 million to €750.7 million (PY: €889.7 million).

Operating assets

Operating assets increased by €1,540.1 million year-on-year to €23,753.7 million (PY: €22,213.6 million) as at December 31, 2018.

Total working capital was down €122.1 million at €5,083.9 million (PY: €5,206.0 million). This development was due to the €494.5 million increase in operating liabilities to €7,293.0 million (PY: €6,798.5 million) and the €20.5 million decline in operating receivables to €7,855.8 million (PY: €7,876.3 million), in contrast to the €392.9 million rise in inventories to €4,521.1 million (PY: €4,128.2 million).

Non-current operating assets were up €1,744.8 million year-on-year at €22,132.0 million (PY: €20,387.2 million). Goodwill increased by €223.3 million to €7,233.4 million (PY: €7,010.1 million). This change resulted primarily from additions of €189.8 million, which were countered by exchange-rate effects of €33.5 million. Property, plant and equipment increased by €1,173.4 million to €12,375.5 million (PY: €11,202.1 million) due to investing activities. Other intangible assets declined by €41.0 million to €1,566.3 million (PY: €1,607.3 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €173.0 million (PY: €170.7 million) reduced the value of intangible assets.

The acquisition of Tyre and Auto Pty Ltd, Melbourne, Australia, contributed €226.6 million to the increase in the Tire division's operating assets.

The disposal of a company resulted in a decline in operating assets by a total of €17.8 million in the Interior and Powertrain divisions.

Consolidated statement of financial position

Assets in € millions	Dec. 31, 2018	Dec. 31, 2017
Goodwill	7,233.4	7,010.1
Other intangible assets	1,566.3	1,607.3
Property, plant and equipment	12,375.5	11,202.1
Investments in equity-accounted investees	644.9	414.8
Long-term miscellaneous assets	1,838.6	1,804.1
Non-current assets	**23,658.7**	**22,038.4**
Inventories	4,521.1	4,128.2
Trade accounts receivable	7,631.9	7,669.3
Short-term miscellaneous assets	1,872.3	1,723.1
Cash and cash equivalents	2,761.4	1,881.5
Current assets	**16,786.7**	**15,402.1**
Total assets	**40,445.4**	**37,440.5**

Equity and liabilities in € millions	Dec. 31, 2018	Dec. 31, 2017
Total equity	**18,333.3**	**16,290.3**
Non-current liabilities	**6,398.2**	**6,961.5**
Trade accounts payable	7,293.0	6,798.5
Short-term other provisions and liabilities	8,420.9	7,390.2
Current liabilities	**15,713.9**	**14,188.7**
Total equity and liabilities	**40,445.4**	**37,440.5**
Net indebtedness	**1,661.3**	**2,047.6**
Gearing ratio in %	**9.1**	**12.6**

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

While exchange-rate effects reduced the corporation's total operating assets by €900.7 million in the previous year, they increased them by €61.7 million in the year under review.

Average operating assets rose by €1,468.1 million to €23,640.5 million as compared to the previous year (€22,172.4 million).

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**

Automotive Group

Automotive Group in € millions	2018	2017	Δ in %
Sales	26,855.8	26,565.4	1.1
EBITDA	3,177.1	3,296.4	-3.6
in % of sales	11.8	12.4	
EBIT	1,890.4	2,086.8	-9.4
in % of sales	7.0	7.9	
Research and development expenses (net)	2,760.5	2,675.5	3.2
in % of sales	10.3	10.1	
Depreciation and amortization[1]	1,286.7	1,209.6	6.4
thereof impairment[2]	19.2	37.3	
Operating assets as at December 31	14,336.3	13,187.2	8.7
Operating assets (average)	14,095.6	12,874.1	9.5
ROCE	13.4	16.2	
Capital expenditure[3]	2,019.1	1,789.5	12.8
in % of sales	7.5	6.7	
Number of employees as at December 31[4]	140,016	134,286	4.3
Adjusted sales[5]	26,840.7	26,546.3	1.1
Adjusted operating result (adjusted EBIT)[6]	1,886.3	2,180.7	-13.5
in % of adjusted sales	7.0	8.2	

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

The Automotive Group comprises three divisions:

› The **Chassis & Safety** division (21% of consolidated sales) develops, produces and markets intelligent systems to improve driving safety and vehicle dynamics.

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

› The **Interior** division (22% of consolidated sales) specializes in information management. It develops and produces information, communication and network solutions and services for cars and commercial vehicles.

The 13 business units in total generated 60% of consolidated sales in the year under review.

Key raw materials for the Automotive Group are steel, aluminum, precious metals, copper and plastics. One point of focus when it comes to purchasing materials and semifinished products is electronics and electromechanical components, which together make up roughly 44% of the corporation's purchasing volume for production material.

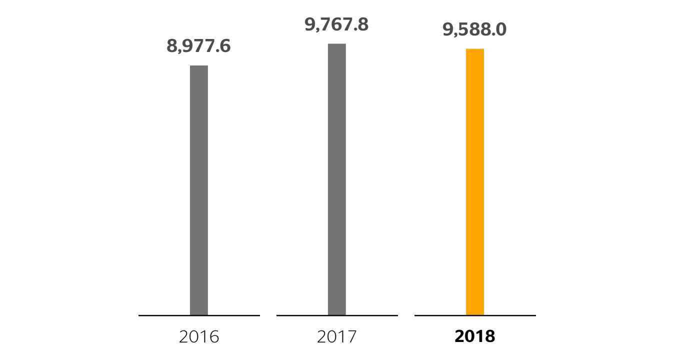
Development of the Chassis & Safety Division

- **Sales down 1.8%**
- **Sales up 0.5% before changes in the scope of consolidation and exchange-rate effects**
- **Adjusted EBIT down 12.6%**

Sales volumes
In the Vehicle Dynamics business unit, the number of electronic brake systems sold in 2018 fell by 1.8% year-on-year. In the Hydraulic Brake Systems business unit, sales figures for brake boosters were down 2.2% compared to the previous year. Sales of brake calipers with integrated electric parking brakes increased by 17% year-on-year, more than compensating for the decline in sales figures for conventional brake calipers, which decreased by 13% year-on-year. In the Passive Safety & Sensorics business unit, the sales volume of air-bag control units fell by 4% year-on-year. Unit sales of advanced driver assistance systems were up 31%.

Sales down 1.8%
Sales up 0.5% before changes in the scope of consolidation and exchange-rate effects
Sales in the Chassis & Safety division declined by 1.8% year-on-year to €9,588.0 million (PY: €9,767.8 million) in 2018. Before changes in the scope of consolidation and exchange-rate effects, sales rose by 0.5%.

Sales € millions



Adjusted EBIT down 12.6%
The Chassis & Safety division's adjusted EBIT declined by €113.2 million or 12.6% year-on-year in 2018 to €784.9 million (PY: €898.1 million), equivalent to 8.2% (PY: 9.2%) of adjusted sales.

EBIT down 12.8%
In comparison to the previous year, the Chassis & Safety division posted a decrease in EBIT of €115.2 million, or 12.8%, to €782.5 million (PY: €897.7 million) in 2018. The return on sales fell to 8.2% (PY: 9.2%).

ROCE amounted to 16.0% (PY: 19.9%).

Special effects in 2018
Impairment on property, plant and equipment in the Chassis & Safety division resulted in expense of €1.5 million.

In addition, there was income of €3.0 million from the disposal of shares in two companies.

The transformation of the Powertrain division into an independent group of legal entities resulted in expense of €4.3 million.

Special effects in 2018 had a negative impact totaling €2.8 million in the Chassis & Safety division.

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

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

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

Procurement
The procurement market for Chassis & Safety saw stable development in 2018. The supply was ensured at all times. However, market-driven supply bottlenecks for discrete and passive electronic components resulted in significant additional expense to ensure delivery capacity. In the raw materials sector, prices increased in the first half of the year as a result of strong global demand and tariff restrictions on aluminum and steel imports. This trend was intensified by impending U.S. sanctions against Russia. In the fourth quarter of 2018, declining demand in China resulted in a reversal of the price trend for most raw materials.

Research and development
Research and development expenses (net) rose by €109.4 million or 12.0% year-on-year to €1,023.2 million (PY: €913.8 million), corresponding to 10.7% (PY: 9.4%) of sales.

Depreciation and amortization
Depreciation and amortization rose by €26.9 million compared to fiscal 2017 to €430.8 million (PY: €403.9 million) and amounted to 4.5% (PY: 4.1%) of sales. This included impairment totaling €1.5 million in 2018 (PY: €0.5 million).

Chassis & Safety in € millions	2018	2017	Δ in %
Sales	9,588.0	9,767.8	-1.8
EBITDA	1,213.3	1,301.6	-6.8
in % of sales	12.7	13.3	
EBIT	782.5	897.7	-12.8
in % of sales	8.2	9.2	
Research and development expenses (net)	1,023.2	913.8	12.0
in % of sales	10.7	9.4	
Depreciation and amortization[1]	430.8	403.9	6.7
thereof impairment[2]	1.5	0.5	
Operating assets as at December 31	4,990.5	4,545.6	9.8
Operating assets (average)	4,887.1	4,519.6	8.1
ROCE	16.0	19.9	
Capital expenditure[3]	749.7	682.5	9.8
in % of sales	7.8	7.0	
Number of employees as at December 31[4]	49,509	47,788	3.6
Adjusted sales[5]	9,586.6	9,767.8	-1.9
Adjusted operating result (adjusted EBIT)[6]	784.9	898.1	-12.6
in % of adjusted sales	8.2	9.2	

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

Operating assets
Operating assets in the Chassis & Safety division rose by €444.9 million year-on-year to €4,990.5 million (PY: €4,545.6 million) as at December 31, 2018.

Working capital was down €24.8 million at €581.7 million (PY: €606.5 million). This change was chiefly attributable to the €132.5 million decline in operating receivables to €1,576.6 million (PY: €1,709.1 million) and the €0.7 million increase in operating liabilities to €1,609.1 million (PY: €1,608.4 million), in contrast to a €108.4 million rise in inventories to €614.2 million (PY: €505.8 million).

Non-current operating assets were up €356.1 million year-on-year at €5,267.6 million (PY: €4,911.5 million). Goodwill increased by €13.3 million to €2,644.0 million (PY: €2,630.7 million), with €3.2 million of this increase resulting from a share deal. This was countered by exchange-rate effects of €10.1 million. Property, plant and equipment increased by €333.5 million to €2,413.3 million (PY: €2,079.8 million) due to investing activities. Other intangible assets declined by €5.0 million to €77.2 million (PY: €82.2 million).

Operating assets in the Chassis & Safety division rose by €5.2 million as part of a share deal and by €6.3 million due to the reversal of a purchase price liability.

While exchange-rate effects reduced the Chassis & Safety division's total operating assets by €122.2 million in the previous year, they increased them by €30.3 million in 2018.

Average operating assets in the Chassis & Safety division climbed by €367.5 million to €4,887.1 million as compared to fiscal 2017 (€4,519.6 million).

Capital expenditure (additions)
Additions to the Chassis & Safety division rose by €67.2 million year-on-year to €749.7 million (PY: €682.5 million). Capital expenditure amounted to 7.8% (PY: 7.0%) of sales.

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

Employees
The number of employees in the Chassis & Safety division rose by 1,721 to 49,509 (PY: 47,788). This was due to the adjustment in line with higher sales volumes in the Advanced Driver Assistance Systems business unit and the continual expansion in research and development.

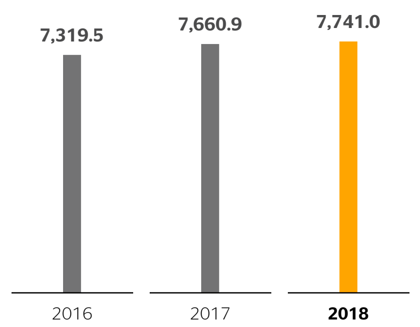
Development of the Powertrain Division

- Sales up 1.0%
- Sales up 2.9% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT down 56.9%

Sales volumes
In the Engine Systems business unit, sales volumes of engine control units, injectors, pumps and turbochargers increased in fiscal 2018. The Sensors & Actuators business unit is continuing to record growth. Emissions legislation has resulted in rising sales of exhaust-gas sensors in particular. The Hybrid Electric Vehicle business unit started to deliver 48-volt drive systems. The sales volume of power electronics was up year-on-year, whereas that of battery and on-board power supply systems was down year-on-year. Sales figures of the Transmission business unit were down slightly year-on-year. In the Fuel & Exhaust Management business unit, the sales volume of electronic control units for fuel delivery modules, catalytic converters and SCR systems increased year-on-year, while the sales volume of fuel delivery modules was slightly lower than in the previous year.

Sales up 1.0%
Sales up 2.9% before changes in the scope of consolidation and exchange-rate effects
Sales in the Powertrain division rose by 1.0% year-on-year to €7,741.0 million (PY: €7,660.9 million) in 2018. Before changes in the scope of consolidation and exchange-rate effects, sales rose by 2.9%.

Sales € millions



Adjusted EBIT down 56.9%
The Powertrain division's adjusted EBIT was down by €267.6 million or 56.9% year-on-year in 2018 to €202.3 million (PY: €469.9 million), equivalent to 2.6% (PY: 6.1%) of adjusted sales.

EBIT down 72.8%
In comparison to the previous year, the Powertrain division posted a decline in EBIT of €320.1 million, or 72.8%, to €119.8 million (PY: €439.9 million) in 2018. The return on sales fell to 1.5% (PY: 5.7%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €11.4 million (PY: €11.9 million).

ROCE amounted to 3.3% (PY: 13.2%).

Special effects in 2018
In the Powertrain division, there were restructuring expenses of €14.2 million for the location in Roding, Germany. This included impairment on property, plant and equipment in the amount of €3.3 million.

In addition, there were restructuring expenses of €8.6 million for the location in Gifhorn, Germany.

Impairment and a reversal of impairment losses on property, plant and equipment resulted in expense totaling €16.0 million.

The transformation into an independent group of legal entities resulted in expense of €32.3 million.

Special effects in 2018 had a negative impact totaling €71.1 million in the Powertrain division.

Special effects in 2017
Impairment on property, plant and equipment resulted in expense totaling €18.8 million in the Powertrain division.

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

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

Procurement
The procurement market was characterized by a tight supply situation in 2018. As a result of high market-driven demand for components, particularly for gasoline engines, and the associated additional demand for steel long products, there were longer delivery times in the steel industry. Average prices for precious and industrial metals traded in U.S. dollars were somewhat higher than the previous year's level. Despite the shortages in the semiconductor market, the supply was ensured. At the end of the year, initial signs of an easing in raw material prices could be observed. The procurement cooperation with the Schaeffler Group was again successfully continued.

Research and development
Research and development expenses (net) fell by €26.4 million or 3.8% year-on-year to €672.6 million (PY: €699.0 million), corresponding to 8.7% (PY: 9.1%) of sales.

Powertrain in € millions	**2018**	2017	Δ in %
Sales	7,741.0	7,660.9	1.0
EBITDA	574.6	854.8	-32.8
in % of sales	7.4	11.2	
EBIT	119.8	439.9	-72.8
in % of sales	1.5	5.7	
Research and development expenses (net)	672.6	699.0	-3.8
in % of sales	8.7	9.1	
Depreciation and amortization[1]	454.8	414.9	9.6
thereof impairment[2]	19.3	18.6	
Operating assets as at December 31	3,557.7	3,400.8	4.6
Operating assets (average)	3,582.2	3,325.6	7.7
ROCE	3.3	13.2	
Capital expenditure[3]	691.0	653.7	5.7
in % of sales	8.9	8.5	
Number of employees as at December 31[4]	42,601	40,492	5.2
Adjusted sales[5]	7,741.0	7,660.9	1.0
Adjusted operating result (adjusted EBIT)[6]	202.3	469.9	-56.9
in % of adjusted sales	2.6	6.1	

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

Depreciation and amortization

Depreciation and amortization rose by €39.9 million compared to fiscal 2017 to €454.8 million (PY: €414.9 million) and amounted to 5.9% (PY: 5.4%) of sales. This included impairment totaling €19.3 million in 2018 (PY: €18.6 million).

Operating assets

Operating assets in the Powertrain division increased by €156.9 million year-on-year to €3,557.7 million (PY: €3,400.8 million) as at December 31, 2018.

Working capital was down €4.1 million at €368.5 million (PY: €372.6 million). Inventories increased by €105.0 million to €575.4 million (PY: €470.4 million). Operating receivables rose by €18.5 million to €1,373.8 million (PY: €1,355.3 million) as at the reporting date. Total operating liabilities were up €127.6 million at €1,580.7 million (PY: €1,453.1 million).

Non-current operating assets were up €282.3 million year-on-year at €3,736.9 million (PY: €3,454.6 million). Goodwill increased by €7.5 million to €993.8 million (PY: €986.3 million) as a result of exchange-rate effects. At €2,456.1 million, property, plant and equipment was €267.3 million above the previous year's level of €2,188.8 million. Other intangible assets climbed by €13.7 million to €191.7 million (PY: €178.0 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €11.4 million (PY: €11.9 million) reduced the value of intangible assets.

While exchange-rate effects reduced the Powertrain division's total operating assets by €97.6 million in the previous year, they increased them by €19.0 million in 2018.

Average operating assets in the Powertrain division climbed by €256.6 million to €3,582.2 million as compared to fiscal 2017 (€3,325.6 million).

Capital expenditure (additions)

Additions to the Powertrain division increased by €37.3 million year-on-year to €691.0 million (PY: €653.7 million). Capital expenditure amounted to 8.9% (PY: 8.5%) of sales.

In the Powertrain division, 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.

Employees

The number of employees in the Powertrain division rose by 2,109 compared with the previous year to 42,601 (PY: 40,492). This was due to the adjustment in line with higher sales volumes and the expansion in research and development.

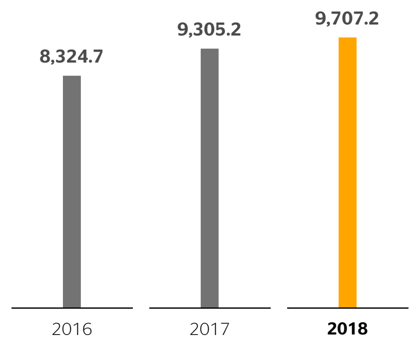
Development of the Interior Division

- Sales up 4.3%
- Sales up 6.3% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT up 10.6%

Sales volumes
Sales volumes in the Body & Security business unit were slightly below the previous year's level in fiscal 2018. There was slight growth in Europe, but this was not enough to fully offset the decline in the North America and Asia regions. Sales figures in the Infotainment & Connectivity business unit considerably exceeded the previous year's figure. The multimedia and connectivity areas posted a significant increase, while the audio area was somewhat weaker than in 2017. Sales volumes in the Commercial Vehicles & Aftermarket business unit were above the previous year's level overall. This was attributable mainly to growing demand in replacement parts and aftermarket business. By contrast, sales volumes in commercial-vehicles business decreased slightly. In the Instrumentation & Driver HMI business unit, sales volumes in 2018 were higher than in the previous year. Increases were mainly achieved with European and Chinese carmakers, particularly for instrument cluster and display solutions.

Sales up 4.3%
Sales up 6.3% before changes in the scope of consolidation and exchange-rate effects
In 2018, sales in the Interior division rose by 4.3% year-on-year to €9,707.2 million (PY: €9,305.2 million). Before changes in the scope of consolidation and exchange-rate effects, sales rose by 6.3%.

Sales € millions



Adjusted EBIT up 10.6%
The Interior division's adjusted EBIT increased by €86.4 million or 10.6% year-on-year in 2018 to €899.1 million (PY: €812.7 million), equivalent to 9.3% (PY: 8.8%) of adjusted sales.

EBIT up 31.9%
In comparison to the previous year, the Interior division posted an increase in EBIT of €238.9 million, or 31.9%, to €988.1 million (PY: €749.2 million) in 2018. The return on sales climbed to 10.2% (PY: 8.1%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €51.1 million (PY: €46.1 million).

ROCE amounted to 17.6% (PY: 14.9%).

Special effects in 2018
Following the successful conclusion of all negotiations and the granting of the required merger control authorizations, OSRAM CONTINENTAL GmbH, Munich, Germany, commenced global operations on July 2, 2018. The contribution of net assets, including intangible assets, resulted in income of €183.7 million for the Interior division.

In addition, the disposal of a company resulted in expense of €28.9 million.

Impairment on property, plant and equipment resulted in expense of €1.2 million.

The reversal of restructuring provisions no longer required resulted in income of €3.0 million, which included €2.8 million from a reversal of impairment losses on property, plant and equipment.

In addition, an asset deal resulted in income of €2.9 million.

The transformation of the Powertrain division into an independent group of legal entities resulted in expense of €4.3 million.

Special effects in 2018 had a positive impact totaling €155.2 million in the Interior division.

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

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

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

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

Interior in € millions	2018	2017	Δ in %
Sales	9,707.2	9,305.2	4.3
EBITDA	1,389.2	1,140.0	21.9
in % of sales	14.3	12.3	
EBIT	988.1	749.2	31.9
in % of sales	10.2	8.1	
Research and development expenses (net)	1,064.7	1,062.7	0.2
in % of sales	11.0	11.4	
Depreciation and amortization[1]	401.1	390.8	2.6
thereof impairment[2]	-1.6	18.2	
Operating assets as at December 31	5,788.1	5,240.8	10.4
Operating assets (average)	5,626.3	5,028.9	11.9
ROCE	17.6	14.9	
Capital expenditure[3]	578.4	453.3	27.6
in % of sales	6.0	4.9	
Number of employees as at December 31[4]	47,906	46,006	4.1
Adjusted sales[5]	9,693.3	9,286.1	4.4
Adjusted operating result (adjusted EBIT)[6]	899.1	812.7	10.6
in % of adjusted sales	9.3	8.8	

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

Procurement
For the Interior division, the year 2018 was dominated by supply problems as a result of the allocation on the semiconductor market. The need for passive and discrete components could only be covered with great effort and high costs in the supply chain. Production downtime due to component shortages was successfully avoided. In the interests of active risk management, the process of nominating alternative supply options for key components was further advanced. The share of displays in total procurement volumes for the Interior division and the size of the displays have both increased further. Overall, the quality level for purchased parts was further improved.

Research and development
Research and development expenses (net) rose by €2.0 million or 0.2% year-on-year to €1,064.7 million (PY: €1,062.7 million), corresponding to 11.0% (PY: 11.4%) of sales.

Depreciation and amortization
Depreciation and amortization rose by €10.3 million compared to fiscal 2017 to €401.1 million (PY: €390.8 million) and amounted to 4.1% (PY: 4.2%) of sales. This included reversals of impairment losses totaling €1.6 million in 2018 (PY: impairment of €18.2 million).

Operating assets
Operating assets in the Interior division increased by €547.3 million year-on-year to €5,788.1 million (PY: €5,240.8 million) as at December 31, 2018.

Working capital was down €85.9 million at €693.0 million (PY: €778.9 million). Inventories increased by €58.6 million to €882.3 million (PY: €823.7 million). Operating receivables fell by €8.2 million to €1,587.7 million (PY: €1,595.9 million) as at the reporting date. Operating liabilities were up €136.3 million at €1,777.0 million (PY: €1,640.7 million).

Non-current operating assets were up €628.6 million year-on-year at €5,705.0 million (PY: €5,076.4 million). Goodwill increased by €8.3 million to €2,709.7 million (PY: €2,701.4 million) as a result of exchange-rate effects. At €1,782.1 million, property, plant and equipment was €263.1 million above the previous year's level of €1,519.0 million. Other intangible assets climbed by €11.4 million to €696.2 million (PY: €684.8 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €51.1 million (PY: €46.1 million) reduced the value of intangible assets.

Overall, an asset deal resulted in a €3.9 million increase in operating assets in the Interior division.

The disposal of a company resulted in an overall decline in operating assets of €17.6 million in the Interior division.

While exchange-rate effects reduced the Interior division's total operating assets by €131.8 million in the previous year, they increased them by €13.0 million in the year under review.

Average operating assets in the Interior division climbed by €597.4 million to €5,626.3 million as compared to fiscal 2017 (€5,028.9 million).

Capital expenditure (additions)
Additions to the Interior division rose by €125.1 million year-on-year to €578.4 million (PY: €453.3 million). Capital expenditure amounted to 6.0% (PY: 4.9%) of sales.

In addition to the expansion of production capacity at the German locations, investments were also made 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.

Employees
The number of employees in the Interior division rose by 1,900 to 47,906 (PY: 46,006). The rise in staff numbers was due to the continuing expansion in research and development and the adjustment in line with greater volumes.

Rubber Group

Rubber Group in € millions	2018	2017	Δ in %
Sales	17,603.1	17,494.7	0.6
EBITDA	3,196.6	3,499.6	-8.7
in % of sales	18.2	20.0	
EBIT	2,278.3	2,593.5	-12.2
in % of sales	12.9	14.8	
Research and development expenses (net)	448.5	428.2	4.7
in % of sales	2.5	2.4	
Depreciation and amortization[1]	918.3	906.1	1.3
thereof impairment[2]	1.5	2.9	
Operating assets as at December 31	9,556.2	9,073.6	5.3
Operating assets (average)	9,618.1	9,325.1	3.1
ROCE	23.7	27.8	
Capital expenditure[3]	1,087.3	1,060.2	2.6
in % of sales	6.2	6.1	
Number of employees as at December 31[4]	102,763	100,749	2.0
Adjusted sales[5]	17,463.0	17,482.7	-0.1
Adjusted operating result (adjusted EBIT)[6]	2,372.8	2,686.6	-11.7
in % of adjusted sales	13.6	15.4	

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

The Rubber Group comprises two divisions:

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

In the year under review, the 13 business units in total generated 40% of consolidated sales.

Around the middle of 2018, the Rubber Group faced significantly higher prices for crude oil and for butadiene, an input material for synthetic rubber. Shortages of chemicals and high import duties on steel in the U.S.A. led to additional price increases. By contrast, the market for natural rubber eased in comparison to the previous year.

Development of the Tire Division

- › Sales up 0.2%
- › Sales up 3.1% before changes in the scope of consolidation and exchange-rate effects
- › Adjusted EBIT down 11.5%

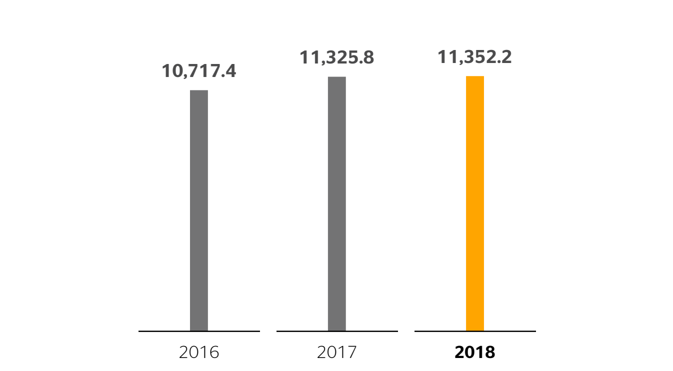
Sales volumes

Sales figures for passenger and light truck tires in 2018 were slightly below the previous year's level in original equipment business and slightly above the previous year's figure by 1% in the tire replacement business. Sales figures in commercial-vehicle tire business were 5% higher than the level of the previous year. The Tire division therefore sold 155 million tires again in 2018.

Sales up 0.2%
Sales up 3.1% before changes in the scope of consolidation and exchange-rate effects

Sales in the Tire division rose by 0.2% year-on-year to €11,352.2 million (PY: €11,325.8 million) in 2018. Before changes in the scope of consolidation and exchange-rate effects, sales rose by 3.1%.

Sales € millions



Adjusted EBIT down 11.5%

The Tire division's adjusted EBIT fell by €246.8 million or 11.5% year-on-year in 2018 to €1,900.0 million (PY: €2,146.8 million), equivalent to 16.8% (PY: 19.0%) of adjusted sales.

EBIT down 12.5%

In comparison to the previous year, the Tire division posted a decline in EBIT of €269.2 million, or 12.5%, to €1,882.1 million (PY: €2,151.3 million) in 2018. The return on sales fell to 16.6% (PY: 19.0%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €19.3 million (PY: €19.5 million).

ROCE amounted to 29.1% (PY: 35.0%).

Special effects in 2018

Special effects in 2018 had a negative impact totaling €1.2 million in the Tire division; this resulted from impairment on property, plant and equipment.

Special effects in 2017

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

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

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

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

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

Procurement

Prices for key raw materials rose steadily from the end of the first quarter onward. In particular, the prices of input materials such as butadiene and crude oil were very volatile because of both increased demand and speculation. At the end of the third quarter, the oil price reached its highest level in the past few years. The increase in the oil price also caused prices for other oil-based input materials such as carbon black to rise. In the fourth quarter of 2018, prices for oil and butadiene were quoted much lower again. Prices for steel and some textiles were up significantly at the end of the year due to increased import duties in the U.S.A. By contrast, the natural rubber price recorded a downward trend throughout the year. On average, the price level in 2018 as a whole was roughly the same as in the previous year. However, exchange-rate effects and the time lag between procurement, delivery and deployment resulted in minor costs for the Tire division compared to the previous year.

Research and development

Expenses for research and development (net) rose by €9.6 million or 3.3% year-on-year to €299.4 million (PY: €289.8 million), corresponding to 2.6% of sales as in the previous year.

Depreciation and amortization

Depreciation and amortization rose by €15.7 million compared to fiscal 2017 to €613.1 million (PY: €597.4 million) and amounted to 5.4% (PY: 5.3%) of sales. This included an impairment loss totaling €1.2 million in 2018 (PY: €0.5 million).

Tires in € millions	2018	2017	Δ in %
Sales	11,352.2	11,325.8	0.2
EBITDA	2,495.2	2,748.7	-9.2
in % of sales	22.0	24.3	
EBIT	1,882.1	2,151.3	-12.5
in % of sales	16.6	19.0	
Research and development expenses (net)	299.4	289.8	3.3
in % of sales	2.6	2.6	
Depreciation and amortization[1]	613.1	597.4	2.6
thereof impairment[2]	1.2	0.5	
Operating assets as at December 31	6,435.3	5,995.7	7.3
Operating assets (average)	6,471.2	6,143.0	5.3
ROCE	29.1	35.0	
Capital expenditure[3]	837.1	847.0	-1.2
in % of sales	7.4	7.5	
Number of employees as at December 31[4]	55,840	53,811	3.8
Adjusted sales[5]	11,304.9	11,325.8	-0.2
Adjusted operating result (adjusted EBIT)[6]	1,900.0	2,146.8	-11.5
in % of adjusted sales	16.8	19.0	

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

Operating assets
Operating assets in the Tire division increased by €439.6 million year-on-year to €6,435.3 million (PY: €5,995.7 million) as at December 31, 2018.

Working capital was down €33.6 million at €2,440.6 million (PY: €2,474.2 million). This development was due primarily to the €190.1 million increase in operating liabilities to €1,487.3 million (PY: €1,297.2 million), which was in contrast to a €36.8 million rise in inventories to €1,645.0 million (PY: €1,608.2 million) and a €119.7 million increase in operating receivables to €2,282.9 million (PY: €2,163.2 million).

Non-current operating assets were up €505.7 million year-on-year at €4,998.5 million (PY: €4,492.8 million). Goodwill increased by €187.0 million to €392.2 million (PY: €205.2 million). This increase resulted from the acquisition of Tyre and Auto Pty Ltd, Melbourne, Australia, in the amount of €180.5 million, from a share deal of €6.2 million and from exchange-rate effects of €0.3 million. Property, plant and equipment increased by €263.7 million to €4,287.1 million (PY: €4,023.4 million). Other intangible assets climbed by €16.6 million to €145.9 million (PY: €129.3 million). This increase was attributable to the acquisition of Tyre and Auto Pty Ltd, Melbourne, Australia, with a share of €45.0 million and two assets deals with a share totaling €2.1 million. This was countered by amortization of intangible assets from purchase price allocation (PPA) in the amount of €19.3 million (PY: €19.5 million).

Overall, the acquisition of Tyre and Auto Pty Ltd, Melbourne, Australia, contributed €226.6 million to the increase in operating assets in the Tire division, while €8.3 million came from a share deal, a total of €3.2 million from two asset deals and €0.4 million from the reversal of a purchase price liability.

Exchange-rate effects reduced the Tire division's total operating assets by €14.8 million in the fiscal year (PY: €353.7 million).

Average operating assets in the Tire division increased by €328.2 million to €6,471.2 million compared with fiscal 2017 (€6,143.0 million).

Capital expenditure (additions)
Additions to the Tire division decreased by €9.9 million year-on-year to €837.1 million (PY: €847.0 million). Capital expenditure amounted to 7.4% (PY: 7.5%) of sales.

In the Tire division, 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.

Employees

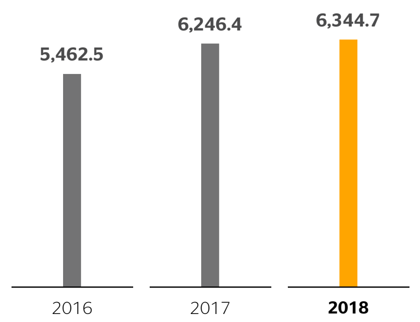
The number of employees in the Tire division increased by 2,029 to 55,840 (PY: 53,811). At the production companies, the adjustment to demand-driven production at the plants in Lousado, Portugal; Otrokovice, Czechia; Púchov, Slovakia; Rayong, Thailand; Sumter, South Carolina, U.S.A.; and Mount Vernon, Illinois, U.S.A., led to an increase in staff numbers. In addition, the increase in the number of employees at distribution and retail companies was attributable in particular to the acquisition of Tyre and Auto Pty Ltd, Melbourne, Australia, and the expansion of research and development activities worldwide.

Development of the ContiTech Division

- Sales up 1.6%
- Sales up 3.2% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT down 12.4%

Sales up 1.6%
Sales up 3.2% before changes in the scope of consolidation and exchange-rate effects
Sales in the ContiTech division rose by 1.6% year-on-year to €6,344.7 million (PY: €6,246.4 million) in 2018. Before changes in the scope of consolidation and exchange-rate effects, sales rose by 3.2%. Substantial growth in sales was generated in the industrial sector, particularly in the Conveyor Belt Group and Industrial Fluid Solutions business units. In addition, sales exceeded the previous year's level in automotive replacement business. In automotive original equipment business, the previous year's sales level was matched.

Sales € millions



Adjusted EBIT down 12.4%
The ContiTech division's adjusted EBIT was down by €67.0 million or 12.4% year-on-year in 2018 to €472.8 million (PY: €539.8 million), equivalent to 7.6% (PY: 8.7%) of adjusted sales.

EBIT down 10.4%
In comparison to the previous year, the ContiTech division posted a decline in EBIT of €46.0 million, or 10.4%, to €396.2 million (PY: €442.2 million) in 2018. The return on sales fell to 6.2% (PY: 7.1%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €91.2 million (PY: €93.2 million).

ROCE amounted to 12.6% (PY: 13.9%).

Special effects in 2018
An impairment loss on property, plant and equipment in connection with restructuring resulted in expense of €0.2 million in the ContiTech division.

There was income of €0.4 million from the disposal of a company.

An expense of €0.1 million resulted from an impairment loss on property, plant and equipment.

Special effects in 2018 had a positive impact totaling €0.1 million in the ContiTech division.

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

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

Disposals of companies and assets resulted in expense totaling €1.6 million.

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

Procurement
As a result of rising demand on the raw materials markets, the ContiTech division registered increasing prices for many raw materials in a very volatile environment. In particular, prices for carbon black, oil-based materials and key chemicals were up significantly year-on-year. Crude oil prices reached their highest level in years at the end of the third quarter of 2018. Overall, average material prices rose year-on-year.

Research and development
Research and development expenses (net) rose by €10.7 million or 7.7% year-on-year to €149.1 million (PY: €138.4 million), corresponding to 2.3% (PY: 2.2%) of sales.

Depreciation and amortization
Depreciation and amortization declined by €3.5 million compared to fiscal 2017 to €305.2 million (PY: €308.7 million) and amounted to 4.8% (PY: 4.9%) of sales. This included impairment totaling €0.3 million in 2018 (PY: €2.4 million).

ContiTech in € millions	**2018**	2017	Δ in %
Sales	6,344.7	6,246.4	1.6
EBITDA	701.4	750.9	-6.6
in % of sales	11.1	12.0	
EBIT	396.2	442.2	-10.4
in % of sales	6.2	7.1	
Research and development expenses (net)	149.1	138.4	7.7
in % of sales	2.3	2.2	
Depreciation and amortization[1]	305.2	308.7	-1.1
thereof impairment[2]	0.3	2.4	
Operating assets as at December 31	3,120.9	3,077.9	1.4
Operating assets (average)	3,146.9	3,182.1	-1.1
ROCE	12.6	13.9	
Capital expenditure[3]	250.2	213.2	17.4
in % of sales	3.9	3.4	
Number of employees as at December 31[4]	46,923	46,938	0.0
Adjusted sales[5]	6,251.9	6,234.4	0.3
Adjusted operating result (adjusted EBIT)[6]	472.8	539.8	-12.4
in % of adjusted sales	7.6	8.7	

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

Operating assets

Operating assets in the ContiTech division increased by €43.0 million year-on-year to €3,120.9 million (PY: €3,077.9 million) as at December 31, 2018.

Working capital was up €37.0 million at €1,058.8 million (PY: €1,021.8 million). Inventories increased by €84.1 million to €804.2 million (PY: €720.1 million). Operating receivables fell by €26.5 million to €1,034.6 million (PY: €1,061.1 million) as at the reporting date. Operating liabilities were up €20.6 million at €780.0 million (PY: €759.4 million).

Non-current operating assets were down €46.0 million at €2,393.3 million (PY: €2,439.3 million). Goodwill increased by €7.2 million to €493.7 million (PY: €486.5 million) as a result of exchange-rate effects. At €1,419.1 million, property, plant and equipment was €30.5 million above the previous year's level of €1,388.6 million. Other intangible assets declined by €79.6 million to €453.2 million (PY: €532.8 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €91.2 million (PY: €93.2 million) reduced the value of intangible assets.

While exchange-rate effects reduced the ContiTech division's total operating assets by €196.4 million in the previous year, they increased them by €15.1 million in the year under review.

Average operating assets in the ContiTech division declined by €35.2 million to €3,146.9 million as compared to fiscal 2017 (€3,182.1 million).

Capital expenditure (additions)

Additions to the ContiTech division increased by €37.0 million year-on-year to €250.2 million (PY: €213.2 million). Capital expenditure amounted to 3.9% (PY: 3.4%) of sales.

In the ContiTech division, the production facilities at German locations and in China, the U.S.A., Hungary, Mexico and Romania were expanded and established. 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.

Employees

The number of employees in the ContiTech division was almost unchanged at 46,923 (PY: 46,938).

Continental AG – Short Version in Accordance with *HGB*

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

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

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

Total assets increased by €2,231.6 million year-on-year to €21,033.1 million (PY: €18,801.5 million). On the assets side, the change is due primarily to the €2,459.0 million increase in financial investments and the €195.1 million increase in cash and cash equivalents. This was countered by a €454.8 million decrease in receivables from affiliated companies to €6,987.7 million (PY: €7,442.5 million).

Primarily due to the founding of subsidiaries as part of the transformation of the Powertrain division into an independent group of legal entities, investments increased by €2,459.0 million year-on-year to €13,454.4 million (PY: €10,995.4 million) and now account for 64.0% of total assets (PY: 58.5%).

At €42.8 million (PY: €28.6 million), prepaid expenses and deferred charges were up €14.2 million. The increase resulted primarily from other prepaid expenses. By contrast, prepaid expenses for the syndicated loan decreased by €1.2 million as a result of their straight-line reversal over the remaining term of the syndicated loan.

On the equity and liabilities side, liabilities to affiliated companies increased by €1,814.3 million year-on-year to €11,022.4 million (PY: €9,208.1 million). Bank loans and overdrafts climbed by €81.8 million to €295.8 million (PY: €214.0 million) and trade accounts payable by €35.4 million to €60.9 million (PY: €25.5 million).

Net assets and financial position of Continental AG	**Dec. 31, 2018**	Dec. 31, 2017
Assets in € millions		
Intangible assets	19.1	26.4
Property, plant and equipment	22.2	6.8
Investments	13,454.4	10,995.4
Non-current assets	**13,495.7**	**11,028.6**
Inventories	0.0	0.0
Receivables and other assets	7,042.3	7,487.1
Cash and cash equivalents	452.3	257.2
Current assets	**7,494.6**	**7,744.3**
Prepaid expenses and deferred charges	**42.8**	**28.6**
Total assets	**21,033.1**	**18,801.5**
Shareholders' equity and liabilities in € millions		
Subscribed capital	512.0	512.0
Capital reserves	4,179.1	4,179.1
Revenue reserves	54.7	54.7
Accumulated profits brought forward from the previous year	570.4	253.1
Net income	1,188.1	1,217.3
Shareholders' equity	**6,504.3**	**6,216.2**
Provisions	**936.4**	**963.1**
Liabilities	**13,591.9**	**11,622.2**
Deferred income	**0.5**	**–**
Total equity and liabilities	**21,033.1**	**18,801.5**
Gearing ratio in %	94.8	65.1
Equity ratio in %	30.9	33.1

Bonds increased by €39.7 million year-on-year to €2,207.9 million (PY: €2,168.2 million). This increase is due primarily to issuances of short-term commercial papers with a total nominal value of €800.0 million. By contrast, the repayment of the 3.0% euro bond with a nominal value of €750.0 million that matured on July 16, 2018, resulted in a decrease in the bonds' carrying amount.

Provisions decreased by €26.7 million to €936.4 million (PY: €963.1 million) due to the decline in tax provisions of €72.6 million to €624.4 million (PY: €697.0 million). This was countered by a €35.3 million increase in pension provisions to €210.6 million (PY: €175.3 million). Other provisions likewise rose by €10.6 million to €101.4 million in the year under review.

Equity increased from €6,216.2 million in the previous year to €6,504.3 million. The decrease as a result of the dividend payment for 2017 in the amount of €900.0 million was offset by the net income of €1,188.1 million generated in fiscal 2018. The equity ratio fell from 33.1% to 30.9% as a result of the increased total assets.

Sales increased by €22.7 million to €260.4 million (PY: €237.7 million), primarily due to the increase in sales from corporate services.

Net investment income decreased by €274.4 million year-on-year to €1,462.7 million (PY: €1,737.1 million). As in the previous year, it mainly consisted of profit and loss transfers from the subsidiaries. The income from profit transfers resulted particularly from Continental Caoutchouc-Export-GmbH, Hanover, in the amount of €644.9 million; Continental Automotive GmbH, Hanover, in the amount of €471.3 million; UMG Beteiligungsgesellschaft mbH, Hanover, in the amount of €188.9 million; and Formpolster GmbH, Hanover, in the amount of €131.0 million.

The negative net interest result improved by €20.1 million year-on-year to €65.5 million in fiscal 2018 (PY: €85.6 million). Interest expenses fell by €10.2 million to €108.1 million (PY: €118.3 million), chiefly due to the repayment of the euro bond with a nominal value of €750.0 million and an interest rate of 3.0% p.a. on July 16, 2018.

Interest income climbed by €9.9 million year-on-year to €42.6 million (PY: €32.7 million). This increase was attributable to interest and similar income from other companies in the amount of €20.4 million. By contrast, interest and similar income from affiliated companies declined by €10.5 million.

The tax income of €0.2 million (PY: tax expense of €265.6 million) resulted primarily from tax refunds and the reversal of provisions for previous years, which was due in particular to the resolution of a legal dispute in the fiscal year. Current expenses in Germany and non-imputable foreign withholding tax offset this income by nearly the same amount.

After taking income tax expense into account, Continental AG posted net income for the year of €1,188.1 million (PY: €1,217.3 million). The after-tax return on equity was 18.3% (PY: 19.6%).

Taking into account the accumulated profits brought forward from the previous year of €570.4 million, retained earnings amounted to €1,758.5 million. 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 shares entitled to dividends, the total distribution will thus amount to €950,028,419.25. The remaining amount is to be carried forward to new account.

We expect stable income from profit and loss transfers and investment income from the subsidiaries in fiscal 2019.

Earnings position of Continental AG in € millions	**2018**	2017
Sales	260.4	237.7
Cost of sales	–252.9	–230.9
Gross margin on sales	**7.5**	**6.8**
General administrative expenses	–193.7	–182.3
Other operating income	25.5	35.8
Other operating expenses	–59.4	–39.2
Net investment income	1,462.7	1,737.1
Income from other securities and long-term loans	11.6	10.3
Amortization of investments and of securities under current assets	-0.8	–
Net interest result	–65.5	-85.6
Result from activities	**1,187.9**	**1,482.9**
Income tax expense	0.2	–265.6
Net income	**1,188.1**	**1,217.3**
Accumulated profits brought forward from the previous year	570.4	253.1
Retained earnings	**1,758.5**	**1,470.4**

Other Information
Dependent Company Report

Final declaration from the Executive Board's report on relations with affiliated companies pursuant to Section 312 of the German Stock Corporation Act *(Aktiengesetz – AktG)*
In fiscal 2018, Continental AG was a dependent company of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, as defined under Section 312 *AktG*. In line with Section 312 (1) *AktG*, the Executive Board of Continental AG has prepared a report on relations with affiliated companies, which contains the following final declaration:

"We declare that the company received an appropriate consideration for each transaction and measure listed in the report on relations with affiliated companies from January 1 to December 31, 2018, under the circumstances known to us at the time the transactions were made or the measures taken or not taken. To the extent the company suffered any detriment thereby, the company was granted the right to an appropriate compensation before the end of the 2018 fiscal year. The company did not suffer any detriment because of taking or refraining from measures."

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

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

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

3. Bearers of shares with privileges
There are no shares with privileges granting control.

4. Type of voting right control for employee shareholdings
The company is not aware of any employees with shareholdings not directly exercising control of their voting rights.

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

a) In accordance with the Articles of Incorporation, the Executive Board consists of at least two members; beyond this the number of members of the Executive Board is determined by the Supervisory Board. Members of the Executive Board are appointed and dismissed in accordance with Section 84 of the German Stock Corporation Act *(Aktiengesetz – AktG)* in conjunction with Section 31 of the German Co-determination Act *(Mitbestimmungsgesetz – MitbestG)*. In line with this, the Supervisory Board is responsible for the appointment and dismissal of members of the Executive Board. It passes decisions with a majority of two-thirds of its members. If this majority is not reached in the event of an appointment, the so-called Mediation Committee must submit a nomination to the Supervisory Board for the appointment within one month of voting. Other nominations can also be submitted to the Supervisory Board in addition to the Mediation Committee's nomination. A simple majority of the votes is sufficient when voting on these nominations submitted to the Supervisory Board. In the event that voting results in a tie, a new vote takes place in which the Chairman of the Supervisory Board has the casting vote in accordance with Section 31 (4) *MitbestG*.

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

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

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

a) The Executive Board can issue new shares only on the basis of resolutions by the Shareholders' Meeting. As at the end of the reporting period, the Executive Board has not been authorized to issue new shares in connection with a capital increase (authorized capital) or to issue convertible bonds, warrant-linked bonds, or other financial instruments that could entitle the bearers to subscribe to new shares.

b) The Executive Board may only buy back shares under the conditions codified in Section 71 *AktG*. The Shareholders' Meeting has not authorized the Executive Board to acquire treasury shares in line with Section 71 (1) No. 8 *AktG*.

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

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

a) As at the reporting date, the agreement concluded on April 24, 2014, for a syndicated loan originally amounting to €4.5 billion consists only of a revolving tranche of €3.0 billion. This agreement grants each creditor the right to terminate the agreement prematurely and to demand repayment of the loans granted by it if one person or several persons acting in concert acquire control of Continental AG and subsequent negotiations concerning a continuation of the loan do not lead to an agreement. The term "control" is defined as the holding of more than 50% of the voting rights or if Continental AG concludes a domination agreement as defined under Section 291 *AktG* with Continental AG as the company dominated.

b) The bonds issued by Continental AG in 2013 at a nominal amount of €750 million, the bond issued by another subsidiary of Continental AG, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in November 2015 at a nominal amount totaling €500 million, and the bond of €600 million issued by Continental AG in November 2016 entitle each bondholder to demand that the respective issuer redeem or acquire the bonds held by the bondholder at a price established in the bond conditions in the event of a change of control at Continental AG. The bond conditions define a change of control as the sale of all or substantially all of the company's assets to third parties that are not affiliated with the company, or as one person or several persons acting in concert, pursuant to Section 2 (5) of the German Takeover Act *(Wertpapiererwerbs- und Übernahmegesetz – WpÜG)*, holding more than 50% of the voting rights in Continental AG by means of acquisition or as a result of a merger or other form of combination with the participation of Continental AG. The holding of voting rights by Schaeffler GmbH (operating as IHO Verwaltungs GmbH following legal restructuring within the corporation in 2015), its legal successors, or its affiliated companies does not constitute a change of control within the meaning of the bond conditions.

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

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

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

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

Remuneration of the Executive Board

The total remuneration of the members of the Executive Board comprises a number of remuneration components. Specifically, these components comprise fixed remuneration, variable remuneration elements including components with a long-term incentive effect, additional benefits and retirement benefits. Further details including individual remuneration are specified in the Remuneration Report contained in the Corporate Governance Report starting on page 22. The Remuneration Report is a part of the Management Report.

Corporate Governance Declaration Pursuant to Section 289f *HGB*

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

Report on Risks and Opportunities

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

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

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

Risk and Opportunity Management and Internal Control System

In order to operate successfully as a company in a complex business sector and to ensure the effectiveness, efficiency and propriety of accounting and compliance with the relevant legal and sub-legislative regulations, Continental has created a governance system that encompasses all relevant business processes. The governance system comprises the internal control system, the risk management system and the compliance management system, which is described in detail in the Corporate Governance Declaration on page 21. The risk management system in turn also includes the early risk identification system in accordance with Section 91 (2) of the German Stock Corporation Act *(Aktiengesetz – AktG)*.

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

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

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

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

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

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

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

Risk reporting

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

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

Significant individual risks for the corporation are identified from all the reported risks based on the probability of occurrence and the amount of damage that would be caused in the period under consideration. The individual risks that Continental has classified as material and the aggregated risks that have been assigned to risk categories are all described in the Report on Risks and Opportunities, provided the potential negative EBIT effect of an individual risk or the sum of risks included in a category exceeds €100 million in the period under consideration or there is a significant negative impact on the strategic corporate goals.

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

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

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

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

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

Risk management

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

Material Risks

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

Financial Risks

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

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

In order to finance its current business activities as well as its investments and payment obligations, Continental concluded a syndicated loan agreement in April 2014 from which risks may arise. This loan agreement was last renegotiated in April 2016. Under the terms of the syndicated loan agreement, the lenders have the right to demand repayment of the loan in the event of a change of control at Continental AG. The requirements for and consequences of a change in control in accordance with the terms of the bonds or the syndicated loan agreement are described in detail in the Further Disclosures and Notes section, pursuant to Sections 289a and 315a *HGB*, on pages 90 and 91. The loans and bonds cited here could also immediately become due and payable if other financing agreements of more than €75.0 million are not repaid on time or are prematurely called for repayment.

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

Owing to the market and operational risks presented below, it cannot be ruled out that under certain extreme circumstances it may not be possible for Continental to comply with the ratio described previously. If Continental fails in this obligation, the creditors are entitled to declare the loan and bonds immediately due and payable. The committed volume of the syndicated loan consists of a revolving tranche of €3.0 billion (due in April 2021). This had been utilized by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in the amount of €157.2 million as at the end of fiscal 2018.

The leverage ratio was 0.19 as at December 31, 2018. The financial covenant was complied with at all times.

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

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

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

In order to quantify the possible effects of transaction-related exchange-rate risks from financial instruments on the earnings position of the Continental Corporation, transaction currencies with a significant exchange-rate risk within the next 12 months were identified using a mathematical model based on historical volatility. If the exchange rates of these currencies all develop disadvantageously for Continental at the same time, then the hypothetical negative effect on the corporation's earnings position, calculated based on a 10% change in the current closing rate, would amount to between €100 million and €200 million.

Risks Related to the Markets in which Continental Operates

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

The automotive markets in Europe and North America, as well as in China, are currently developing much more weakly than in the past, while also displaying increasing volatility and uncertainty. If this represents a prolonged weakness of the market or is intensified by a general economic downturn, it would likely adversely affect Continental's sales and results of operations. Furthermore, Continental's five largest OEM customers (Daimler, Fiat-Chrysler, Ford, Renault-Nissan-Mitsubishi and VW) generated approximately 40% of the Continental Corporation's sales in 2018. If one or more of Continental's OEM customers is lost or terminates a supply contract prematurely, the original investments made by Continental to provide such products or outstanding claims against such customers could be wholly or partially lost.

Based on a scenario analysis that assumes a 20% decrease in volumes in fiscal 2019, and taking account of restructuring measures required as a result, we anticipate a decline of around 8 percentage points in the EBIT margin and of 5 to 6 percentage points in the adjusted EBIT margin.

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

Continental is reliant on certain markets.
In 2018, Continental generated 49% of its total sales in Europe and 20% in Germany alone. By comparison, 25% of Continental's total sales in 2018 were generated in North America, 22% in Asia, and 4% in other countries. Therefore, in the event of an economic downturn in Europe, particularly in Germany, for example, Continental's business and earnings situation could be affected more extensively than that of its competitors'. Furthermore, the automotive and tire markets in Europe and North America are largely saturated. To minimize these risks, Continental is therefore striving to improve the regional sales balance, particularly by generating more sales in emerging markets and especially in Asia, as described in the corporate strategy. However, the established markets in Europe and North America as well as the growth markets, particularly in China, are currently developing much more weakly than in the past while also displaying increasing volatility and uncertainty, which makes it more difficult to plan and implement suitable measures to reduce regional market dependencies.

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

- Due to increasingly stringent consumption and emission standards throughout the industrial world, including the EU and Asia, car manufacturers are increasingly being forced to develop environmentally compatible technologies aimed at lowering fuel consumption as well as CO_2 and particulate emissions. These developments are causing a trend toward lower-consumption vehicles. The emerging markets are focusing strongly on the small-car segment as their introduction to mobility.

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

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

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

Continental is exposed to risks associated with additional or higher tariffs.
Due to the current increase in protectionist tendencies around the world as well as political developments such as Brexit, Continental sees itself at risk from additional or higher tariffs on automobiles and on the products, components and raw materials it supplies or purchases. These tariffs could cause demand for Continental's products to drop and costs to increase, which would have an adverse effect on Continental's business and earnings situation.

Continental is exposed to fluctuations in the prices of raw materials and electronic components.
For the divisions of the Automotive Group, higher prices for raw materials and electronic components in particular can result in cost increases. The divisions of the Rubber Group mainly depend on the development of oil, natural rubber and synthetic rubber prices. The prices for these raw materials and components are exposed to sometimes considerable fluctuations worldwide. At present, Continental does not actively hedge against the risk of rising prices of electronic components or raw materials by using derivative instruments. If the company is not able to compensate for the increased costs or to pass them on to customers, the price increases could reduce Continental's income by €100 million to €200 million.

Risks Related to Continental's Business Operations

Continental is exposed to risks in connection with its pension commitments.
Continental provides defined benefit pension plans in Germany, the U.S.A., the U.K. and certain other countries. As of December 31, 2018, the pension obligations amounted to €6,595.3 million. These existing obligations are financed predominantly through externally invested pension plan assets. In 2006, Continental established legally independent trust funds under contractual trust arrangements (CTAs) for the funding of pension obligations of certain subsidiaries in Germany. In 2007, Continental assumed additional CTAs in connection with the acquisition of Siemens VDO. As of December 31, 2018, Continental's net pension obligations (defined benefit obligations less the fair value of plan assets) amounted to €3,866.8 million.

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

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

If the discount rates used to calculate net pension obligations were to decrease by 0.5 percentage points at the end of the year, ceteris paribus, this would lead to a rise in net pension obligations in a range from €600 million to €700 million, which would not be reduced by taking measures to minimize risk. However, this would not affect EBIT.

Continental is exposed to warranty and product liability claims.

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

The quantifiable risks from warranty and product liability claims as at December 31, 2018, taking into account provisions, amounted to between €200 million and €300 million.

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

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

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

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

Continental is exposed to information-technology risks.
With regard to its business and production processes as well as its internal and external communication, Continental is highly dependent on centralized and standardized information-technology systems and networks. These systems and networks are potentially exposed to the risk of various forms of cybercrime as well as damage and disruption that can have a wide range of other causes. In hacker attacks, third parties could attempt to gain unauthorized access to confidential information that is stored, processed or communicated in the systems and networks. In addition, data and systems could be blocked, damaged or destroyed as a result of becoming infected with viruses or malware.

Although Continental has taken appropriate precautions to manage the risks associated with system and network disruptions and corresponding attacks, a prolonged outage in a computer center or telecommunication network or a comparable incident could result in systems or networks becoming unexpectedly unavailable over an extended period. The measures taken to minimize such risks include technical and organizational precautions such as duplicated data storage and contingency plans, as well as suitable training measures that are continuously expanded, particularly to raise awareness of the growing threat from cybercrime.

Should the precautions taken prove insufficient to adequately protect the systems, networks and information, Continental could suffer considerable damage and disadvantages as a result of outages or the knowledge and use of its information by third parties.

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

Legal and Environmental Risks

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

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

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

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

Continental could be threatened with fines and claims for damages for alleged or actual antitrust behavior.
In May 2005, the Brazilian competition authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Indústria Automotiva Ltda., Guarulhos, Brazil (CBIA), following a complaint of anticompetitive behavior in the area of commercialization of tachographs. On August 18, 2010, the Brazilian antitrust authorities determined an "invitation to cartel" and imposed a fine of BRL 12 million (around €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. Although the court of first instance appealed to by CBIA upheld the decision, on CBIA's further appeal the next higher court annulled this decision and remanded the matter. In case an infringement of Brazilian antitrust law is found, third parties may, in addition, claim damages from CBIA.

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

In October 2012, Continental Automotive Systems US, Inc., Auburn Hills, Michigan, U.S.A., and two of Continental's South Korean subsidiaries became aware of investigations by the U.S. Department of Justice (DOJ) and the Korean Fair Trade Commission (KFTC) in connection with the suspected involvement in violations of U.S. and South Korean antitrust law in instrument cluster business. On December 23, 2013, the KFTC announced that it had imposed a fine of KRW 45,992 million (around €36 million) on Continental Automotive Electronics LLC, Bugan-myeon, South Korea (CAE). On June 25, 2015, the Seoul High Court, Seoul, South Korea, vacated the administrative fine imposed by the KFTC on CAE's appeal against the amount of the fine. The Supreme Court of South Korea rejected KFTC's appeal against this decision on May 31, 2017. 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 €3.5 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 by other antitrust authorities into this matter and further claims for damages by further alleged victims remain unaffected by the fines imposed. Continental has conducted internal audits in certain business units to check compliance with antitrust law. These audits revealed anticompetitive behavior with respect to product groups. Continental took measures to end this behavior. There is a risk that antitrust authorities may conduct investigations due to this behavior and impose fines and that third parties, especially customers, may file claims for damages. The amount of such fines and any subsequent claims is unknown from the current perspective, but could be significant. It also cannot be ruled out that future internal audits may reveal further actual or potential violations of antitrust law that in turn could result in fines and claims for damages. In addition, alleged or actual antitrust behavior could seriously disrupt the relationships with business partners.

In September 2014, the European Commission conducted a search at a subsidiary of Continental. 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 and GAS 20.154, no further disclosures will be made with regard to the proceedings and the related measures so as not to adversely affect the company's interests.

Continental is exposed to risks from legal disputes.
Companies from the Continental Corporation are involved in a number of legal and arbitration proceedings and could become involved in other such proceedings in the future. These proceedings could involve substantial claims for damages or payments, particularly in the U.S.A. For more information on legal disputes, see Note 34 of the Notes to the Consolidated Financial Statements.

Material Opportunities

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

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

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

There are opportunities for Continental if there is a stable price level on the raw materials markets relevant to us.
Continental's earnings situation is affected to a significant extent by the cost of raw materials, electronic components and energy. For the Automotive Group divisions, this particularly relates to the cost of steel and electronic components. If we succeed even better than before in offsetting possible cost increases or compensating for them through higher prices for our products, this would then have a positive effect on Continental's earnings. The earnings situation of the Rubber Group divisions is significantly impacted by the cost of oil and of natural and synthetic rubber. If prices for natural and synthetic rubber in particular settle down at the level of the second half of 2018, this could have a positive impact on Continental's earnings. We currently anticipate that prices, particularly of rubber, will rise again over the course of 2019 as a result of the assumed increase in demand on the global tire-replacement and industrial markets.

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

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

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

There are opportunities for Continental from digitalization and particularly from the intelligent interconnection of vehicles with each other and with the internet.
By intelligently connecting advanced driver assistance systems and driver information systems with each other and with the internet, we are laying the foundations for gradually making automated driving possible in the coming years. We also plan to implement fully automated driving in the coming decade by means of collaborations with leading providers from the technology and internet sector. To this end, we are developing new cross-divisional system, service and software solutions that can offer substantial growth potential for Continental with positive effects on its future sales and attainable margins. External studies estimate the market potential of connecting vehicles with each other and with the internet at U.S. $70 billion to U.S. $110 billion in 2025. This also includes the intelligent use of automotive data. This digitalization is opening up a new market for mobility services that enables Continental to tap new business areas with its Continental.cloud and eHorizon, which are paving the way for such services.

In addition, the increasing digitalization of our products gives us the opportunity to offer our customers software-based services as well as the product itself (servitization). Additional sales in these fields would bring Continental closer to achieving its strategic goal of greater independence from the automotive industry.

The trend toward automated driving presents Continental with opportunities.
In recent years, the trend from assisted driving to fully automated driving has intensified considerably. Some OEMs expect to be able to provide this function in just a few years. A key requirement for fully automated driving is that vehicles be equipped with sensors. Today, an average of one sensor for assisted driving is installed per vehicle. Merely for partly automated driving, an average of 16 sensors are required, including radar, laser and camera sensors. OEMs estimate that up to 44 sensors are needed in order to realize fully automated driving. Continental is already one of the leading providers of advanced driver assistance systems. According to our own estimate, the market volume for sensors for assisted/automated driving in 2025 will be more than €20 billion. However, this estimate is based on far fewer sensors per vehicle than is currently assumed by our customers. Should the trend toward automated driving continue to accelerate in the years to come and the data we assume for sensor equipment per vehicle prove too conservative, this would result in considerable sales and earnings opportunities for Continental.

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

Statement on Overall Risk and Opportunities Situation

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

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

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

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

Report on Expected Developments
Future General Conditions

Forecast of Macroeconomic Development

In its January 2019 World Economic Outlook Update, the International Monetary Fund (IMF) predicts that growth in Germany and the eurozone will slow slightly again in the current fiscal year due to subdued consumer spending, flagging growth in private investment and weaker foreign demand. For 2019, the IMF is now projecting that the gross domestic product (GDP) of Germany and the eurozone will grow by 1.3% and 1.6% respectively.

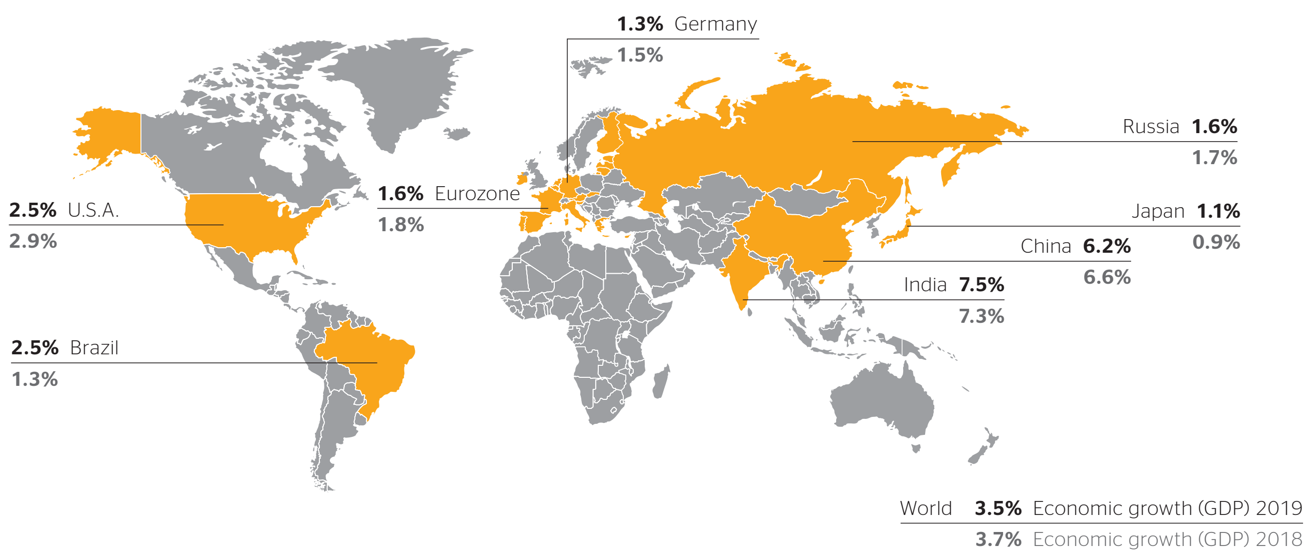
For the U.S.A., the IMF expects a decline in GDP growth to 2.5% this year. Above all, economic activity could be curbed by further interest-rate hikes by the U.S. Federal Reserve (Fed). The IMF also expects the effects from the U.S. fiscal policy to decrease. As a result of the increase in the exchange rate of the U.S. dollar to many currencies, the trade deficit is also likely to increase due to rising imports.

For Japan, the IMF is forecasting growth of 1.1% in 2019. The IMF anticipates an expansion of fiscal policy measures here to mitigate the effects of the rise in consumption tax planned for October 2019. Low interest rates, which are boosting private investment, continue to have a positive effect. However, the fact that the exchange rate of the Japanese yen to many other currencies has recently increased means that the contribution of Japanese foreign trade in 2019 could be lower than in 2018.

According to the IMF, emerging and developing economies are expected to record a 4.5% increase in GDP in 2019. The main reason for the lower level of growth in comparison to 2018 has to do with China, for which the IMF anticipates a slowdown in growth to 6.2% as a result of the continuing trade conflict with the U.S.A. The IMF also anticipates somewhat lower growth of 1.6% for Russia. By contrast, it is once again forecasting strong growth of 7.5% for India. For Brazil, the IMF expects a slight increase in growth to 2.5%.

Based on its estimates for the individual countries and regions, the IMF expects global economic growth to fall by 0.2 percentage points year-on-year to 3.5% in 2019. The IMF cites an escalation of the various trade conflicts as a key source of risk to its outlook. Given the high levels of public and private debt, general risk sentiment and financial conditions could also deteriorate further. The potential triggers mentioned by the IMF include a "no-deal" withdrawal of the United Kingdom from the European Union and a greater-than-envisaged slowdown in China.

Year-on-year economic growth (GDP) in 2019



Sources: IMF – World Economic Outlook Update January 2019, Eurostat, statistical offices of the respective countries, Bloomberg.

Forecast for Key Customer Sectors

Forecast for production of passenger cars and light commercial vehicles
For the global production of passenger cars and light commercial vehicles weighing less than 6 metric tons, we currently expect production volumes in 2019 to be at the previous year's level of 94 million units.

In the first half of 2019, there is likely to be a decline in global production of passenger cars and light commercial vehicles, which should be compensated by production increases in the second half of the year along with lower prior-year figures. In our estimation, Brazil, India, Indonesia and Russia in particular are likely to record rises in production volumes. We expect the production volume in Europe to remain at the previous year's level, as the effects from the introduction of the WLTP emissions testing procedure will also impact the first half of 2019 in our view. In North America, we expect production to be at the previous year's level. While Mexico is likely to record growth in production, we anticipate declining volumes in Canada and the U.S.A. We also expect production in Asia to remain at the previous year's level. This is due mainly to the development of demand in China and the effects of the Chinese government's purchase incentive program. In South America, we expect production to increase by 4% as a result of the anticipated economic recovery.

Forecast for production of medium and heavy commercial vehicles
According to our estimates, global production of commercial vehicles weighing more than 6 metric tons will go down 1% year-on-year in 2019.

We expect production in China and India to decline. As a result, we expect a 3% fall in production in Asia. For Western Europe, we anticipate generally modest demand and a slight decrease in production volumes, although this should be more than compensated by stronger demand in Russia and in other Eastern European countries. Following the strong growth in North America in the previous year and the recent decline in incoming orders, we expect production volumes here to stagnate. By contrast, the continuing economic recovery in South America should lead to a 10% increase in production here.

Forecast for replacement-tire markets for passenger cars and light commercial vehicles
The positive trend in demand for replacement tires for passenger cars and light commercial vehicles weighing less than 6 metric tons is expected to continue in all regions in 2019. On a global level, we anticipate an increase of 2%.

The Asian market is expected to contribute around half of this with projected growth of 3%. This will probably be driven mainly by increasing demand in China as a result of further growth in vehicle numbers and replenishment of stocks. Demand is also likely to grow in India, Indonesia and South Korea. In Europe, we expect a 2% increase in demand for replacement tires for passenger cars and light commercial vehicles in 2019. We anticipate continued strong growth rates for Russia in particular. In our view, demand in North America will likely increase by 2% in 2019. In South America, we also currently expect a 2% increase in sales volumes of replacement tires for passenger cars and light commercial vehicles.

Forecast for replacement-tire markets for medium and heavy commercial vehicles
Thanks to the growing world economy, global demand for replacement tires for commercial vehicles weighing more than 6 metric tons is likely to continue increasing and to rise by 2% overall in 2019.

Asia is likely to account for the majority of the anticipated increase in demand. We expect demand for replacement tires for medium and heavy commercial vehicles to increase by 2% in this region as a result of rising transport volumes and the replenishment of stocks in China. In Europe, we anticipate a 2% rise in sales volumes of replacement tires. In North America, we consider a slowdown in the positive trend to 2% to be realistic. In South America, we also expect demand for replacement tires for medium and heavy commercial vehicles to go up by 2%.

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

	Vehicle production				Replacement sales of tires			
	of passenger cars and light commercial vehicles in millions of units		of medium and heavy commercial vehicles in thousands of units		for passenger cars and light commercial vehicles in millions of units		for medium and heavy commercial vehicles in millions of units	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Europe	21.7	21.7	663	663	364	358	26.3	25.8
North America	17.0	17.0	638	638	301	296	27.0	26.5
South America	3.6	3.4	170	155	68	67	15.1	14.8
Asia	50.5	50.6	2,170	2,240	465	450	89.0	87.0
Other markets	1.3	1.3	0	0	50	49	8.0	7.9
Worldwide	**94.0**	**94.0**	**3,641**	**3,695**	**1,248**	**1,220**	**165.4**	**162.0**

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

Outlook for the Continental Corporation

Forecast process

In January, Continental already reports its initial expectations regarding the most important production and sales markets for the new fiscal year. This forms the basis of our forecast for the corporation's key performance indicators, which we publish at the same time. These include sales and the adjusted EBIT margin for the corporation. In addition, we provide information on the assessment of important factors influencing EBIT. These include the expected negative or positive effect of the estimated development of raw materials prices for the current year, the expected development of special effects and the amount of amortization from purchase price allocation. We thus allow investors, analysts and other interested parties to estimate the corporation's expected EBIT. Furthermore, we publish an assessment of the development of interest income and expenses as well as the tax rate for the corporation, which in turn allows the corporation's expected net income to be estimated. We also publish a forecast of the capital expenditures planned for the current year and the free cash flow before acquisitions and certain exceptional effects, if any.

When we prepare the annual report, we supplement this forecast for the corporation with a forecast of the sales and adjusted EBIT margins of the two core business areas: the Automotive Group and the Rubber Group. We then publish this forecast in March as part of our annual financial press conference and the publication of our annual report for the previous year.

The forecast for the current year is reviewed continually. Possible changes to the forecast are described at the latest in the financial report for the respective quarter. At the start of the subsequent year, i.e. when the annual report for the previous fiscal year is prepared, a comparison is made with the forecast published in the annual report for the year before.

In 2015, Continental compiled a medium-term forecast in addition to the targets for the current year. This comprises the corporate strategy, the incoming orders in the Automotive Group and the medium-term targets of the Rubber Group. Accordingly, we want to generate sales of more than €50 billion in the medium term. This could be achievable as early as 2020 depending on customer market trends, but equally may not be attainable until after 2020 on account of the current difficult market conditions and volatile exchange-rate parities. We are aiming for a return on capital employed (ROCE) of at least 20% in the long term. These targets were also confirmed after the review in 2018.

Comparison of the past fiscal year against forecast

Unfortunately, we failed to meet our forecast for fiscal 2018, which we had published in full in March 2018, with respect to sales and adjusted EBIT margin. Instead of the planned sales figure of around €47 billion, assuming exchange rates remain constant year-on-year, the Continental Corporation achieved sales of €44.4 billion. The corporation was aiming for an adjusted EBIT margin in the region of 10.5%, but the actual figure was 9.3%.

On April 18, 2018, we lowered the earnings forecast for the Rubber Group from approximately 15% to more than 14% for 2018 due to exchange-rate and inventory-valuation effects, which impacted the Rubber Group's earnings in the first half of 2018. For the corporation, this also resulted in the forecast for the adjusted EBIT margin being lowered from around 10.5% to more than 10%. All other aspects of the forecast remained the same. We maintained the changed forecast in the first-quarter reporting in May 2018 and again in the reporting on the first half of the year in August 2018.

Comparison of fiscal 2018 against forecast

	Corporation				Automotive Group		Rubber Group	
	Sales	Adjusted EBIT margin	Capital expenditure in % of sales	Free cash flow[3]	Sales	Adjusted EBIT margin	Sales	Adjusted EBIT margin
First forecast for 2018 as at Jan. 9, 2018	~€47 billion[1]	~10.5%	~7%	~€2 billion				
Annual Financial Press Conference as at Mar. 8, 2018	~€47 billion[1]	~10.5%	~7%	~€2 billion	~€28.5 billion[2]	~8.5%	~€18.5 billion[1]	~15%
Forecast change as at Apr. 18, 2018	~€47 billion[1]	>10%	~7%	~€2 billion	~€28.5 billion[2]	~8.5%	~€18.5 billion[1]	>14%
Q1 2018 Financial Report as at May 8, 2018	~€47 billion[1]	>10%	~7%	~€2 billion	~€28.5 billion[2]	~8.5%	~€18.5 billion[1]	>14%
H1 2018 Financial Report as at Aug. 2, 2018	~€47 billion[1]	>10%	~7%	~€2 billion	~€28.5 billion[2]	~8.5%	~€18.5 billion[1]	>14%
Forecast change as at Aug. 22, 2018	~€45 billion[2]	>9%	~7%	~€1.6 billion	~€27.5 billion[2]	~7%	~€17.5 billion[2]	>13%
9M 2018 Financial Report as at Nov. 8, 2018	~€44.5 billion[2]	>9%	~7%	~€1.6 billion	~€27 billion[2]	~7%	~€17.5 billion[2]	>13%
2018 Annual Report	**€44.4 billion[2]**	**9.3%**	**7.0%**	**€1.9 billion**	**€26.9 billion[2]**	**7.0%**	**€17.6 billion[2]**	**13.6%**

1 Assuming exchange rates remain constant year-on-year.
2 Reported sales including exchange-rate effects. The negative exchange-rate effects for the corporation amounted to €1.1 billion in 2018. Around half of this was attributable to the Automotive Group, and the other half to the Rubber Group.
3 Before acquisitions and before the net outflow for the funding of the U.S. pension plans in 2018.

On August 22, 2018, lower sales expectations, cost increases and warranty cases forced us to announce another change to our forecast. The main reasons for this were the decline in original equipment business in the major sales markets of Europe and China during the second half of 2018 and weak demand in the tire market in these regions. This was exacerbated by higher-than-anticipated development costs in the Automotive Group as a result of high incoming orders and start-up costs for new products and plants.

The forecast for consolidated sales in 2018 – including negative exchange-rate effects – was reduced to around €45 billion, while the forecast for the corporation's adjusted EBIT margin was lowered to more than 9%. The guidance for the Automotive Group's sales – including negative exchange-rate effects – was reduced to around €27.5 billion with an adjusted EBIT margin of around 7%. The sales forecast for the Rubber Group – including negative exchange-rate effects – was lowered to around €17.5 billion and the adjusted EBIT margin was revised to more than 13%. The guidance for free cash flow before acquisitions and before the net outflow for the funding of the U.S. pension plans was reduced to approximately €1.6 billion for the current year. Almost all aspects of the revised forecast were confirmed in November 2018 in the reporting on the first nine months of the year. The corporation's sales guidance was the only aspect to be lowered slightly to around €44.5 billion due to weaker development in China.

Continental achieved consolidated sales of €44.4 billion and a consolidated adjusted EBIT margin of 9.3% in fiscal 2018. The Automotive Group generated sales of €26.9 billion and an adjusted EBIT margin of 7.0%. The Rubber Group generated sales of €17.6 billion and an adjusted EBIT margin of 13.6%.

The negative financial result decreased to €177.8 million in 2018, which was in line with our expectations. In January 2018, we had forecast a negative financial result of less than €190 million before effects from currency translation, effects from changes in the fair value of derivative instruments, and other valuation effects. In March 2018, we lowered this forecast to less than €180 million.

The tax rate for fiscal 2018 went down to 23.2%. In January 2018, like at the start of the previous year, we had assumed a figure of less than 30%. In the reporting on the first half of the year in August, we lowered this figure to around 25%. This was due primarily to the effects of the tax reform in the U.S. and to tax refunds for previous years on the back of a supreme court ruling in Germany. In November, we slightly adjusted our guidance for the tax rate to around 24%.

The capital expenditure ratio increased to 7.0% in 2018, as had been forecast in January 2018. Free cash flow before acquisitions and before the net outflow for the funding of the U.S. pension plans amounted to €1.9 billion in 2018, a figure between the guidance of January 9, 2018, and the lowered forecast of August 22, 2018.

Order situation

The order situation in the Automotive Group was extremely positive in the past fiscal year, as it was in the previous year. As such, incoming orders for the three Automotive divisions remained on par with the previous year's record level. Altogether, the Chassis & Safety, Powertrain and Interior divisions again acquired orders for a total value of roughly €40 billion for the entire duration of the deliveries. These lifetime sales are based primarily on assumptions regarding production volumes of the respective vehicle or engine platforms, the agreed cost reductions and the development of key raw materials prices. The volume of orders calculated in this way represents a reference point for the resultant sales achievable in the medium term that may, however, be subject to deviations if these factors change. Should the assumptions prove to be accurate, the lifetime sales are a good indicator for the sales volumes that can be achieved in the Automotive Group in four to five years.

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

Outlook for fiscal 2019

For fiscal 2019, we currently anticipate that global production of passenger cars and light commercial vehicles will be at roughly the same level as the previous year. The declining market performance we experienced over the second half of last year looks set to continue unabated in the first half of 2019. For the second half of the year, we anticipate slight increases in production compared with the low prior-year basis. The positive trend in demand for replacement tires for passenger cars and light commercial vehicles is expected to continue in all regions in 2019. On a global level, we expect it to increase by 2%.

Based on these market assumptions and in light of what continues to be a highly volatile market environment – and provided that exchange rates remain constant – we anticipate total sales of between around €45 billion and €47 billion and an adjusted EBIT margin of approximately 8% to 9% in fiscal 2019.

For the Automotive Group, assuming constant exchange rates, we anticipate sales of approximately €27 billion to €28 billion with an adjusted EBIT margin of around 6% to 7%. For the Rubber Group, assuming constant exchange rates, we anticipate sales of approximately €18 billion to €19 billion with an adjusted EBIT margin of around 12% to 13%.

For the Rubber Group, we anticipate increased fixed costs in the Tire division in 2019. This increase in fixed costs has resulted primarily from the considerable expansion of capacity over recent years. The utilization of the new capacity and the generation of related sales will not positively impact the cost situation until 2020 onwards.

If demand for tires increases worldwide over the course of the year, as we expect it to, this is likely to be reflected in rubber prices at a commensurately fast rate. We are anticipating an average price of U.S. $1.46 per kilogram (2018: U.S. $1.36 per kilogram) for natural rubber (TSR 20) and U.S. $1.43 per kilogram (2018: U.S. $1.41 per kilogram) for butadiene, a base material for synthetic rubber. Moreover, we expect the import tariffs that have been levied by various countries to increase the costs of steel cord. We do not expect the recent resurgent price of crude oil to produce a positive impact on the cost of carbon black and other chemicals year-on-year. Generally speaking, every U.S. $10 increase in the average price of crude oil equates to a negative gross effect of around U.S. $50 million on the Rubber Group's operating earnings. Overall, we expect rising raw material prices to have a negative effect of approximately €50 million on the Rubber Group in 2019.

In 2019, we expect the negative financial result before effects from currency translation, effects from changes in the fair value of derivative instruments, and other valuation effects to be in the region of €220 million. The fact that this figure is higher than in the previous year can be attributed primarily to the new standard IFRS 16, *Leases*, which has to be applied starting in the 2019 fiscal year. It stipulates that interest expenses resulting from the measurement of lease liabilities are to be reported in the financial result.

The tax rate – including the tax effects from the transformation of the Powertrain division into an independent group of legal entities – is expected to be around 27% in 2019.

For 2019, taking into account expenses relating to the transformation of the Powertrain division into an independent group of legal entities, we expect negative special effects to total €200 million.

Amortization from purchase price allocations, resulting primarily from the acquisitions of Veyance Technologies (acquired in 2015), Elektrobit Automotive (acquired in 2015) and the Hornschuch Group (acquired in 2017), is expected to total approximately €200 million and to affect mainly the ContiTech and Interior divisions.

In fiscal 2019, the capital expenditure ratio before financial investments will increase to around 8% of sales. This increase is chiefly attributable to the recognition of leases as a result of the first-time adoption of IFRS 16. Approximately 60% of capital expenditure will be attributable to the Automotive Group and 40% to the Rubber Group.

The largest projects within the Chassis & Safety division in 2019 remain the global expansion of production capacity for the new generations of electronic brake systems in the Vehicle Dynamics business unit. Further extensive capital expenditure is planned for the global expansion of production capacity for sensors. The Powertrain division will continue its investments in a new plant in China. Investments in the Hybrid Electric Vehicle business unit are also a priority for capital expenditure. The Interior division is continuing to invest in the construction of new plants in Eastern Europe, North America and China and in the industrialization of new display technologies in 2019.

This year, like last year, investments in the Tire division will focus on the expansion of passenger tire production in Asia, North America, and Southern and Eastern Europe. In the area of commercial-vehicle tires, the emphasis will be on the expansion of production capacity in North America and Eastern Europe. In 2019, the ContiTech division will be directing its investments toward expanding production in the Benecke-Hornschuch Surface Group business unit in Asia, predominantly in China and India.

As at the end of 2018, Continental's net indebtedness amounted to €1.7 billion. The first-time adoption of IFRS 16, *Leases*, will approximately double net indebtedness as at January 1, 2019. In the future, we intend to continue strengthening the industrial business in particular, in line with our objective of reducing our dependency on the automotive original equipment sector. The acquisition of further companies for this purpose has not been ruled out. Another focus will be the selective reinforcement of our technological expertise in future-oriented fields within the Automotive Group.

In 2019, we are planning on free cash flow of approximately €1.4 billion to €1.6 billion, before acquisitions and before the effects of transforming the Powertrain division into an independent group of legal entities. This year-on-year decline is due mainly to the market environment on an operational level. We also expect a portion of the warranty provisions recognized in 2018 to flow out.

The start to 2019 has so far confirmed our forecast for the full year. As anticipated, market conditions are proving very challenging – particularly in China but also in Europe.