

Corporate Governance

Report of the Supervisory Board

Dear Shareholders,

Continental faced a wide range of challenges in 2018. These also influenced the work of the Supervisory Board and its committees in the past fiscal year, which we report on below. In this context, there were two especially significant topics: the company's business development with the profit warnings that Continental had to release in April and August 2018; and the considerations with regard to adjusting the corporate structure, which led in particular to the decision in July 2018 to transform the Powertrain division into an independent group of legal entities and prepare it for a possible partial IPO. It was particularly due to these topics that the Supervisory Board met more frequently than usual in 2018 to discuss them in depth together with the Executive Board.

We also comprehensively fulfilled all other tasks incumbent upon the Supervisory Board under applicable law, the Articles of Incorporation and our By-Laws. We closely supervised, carefully monitored and advised the Executive Board in the management of the company. We have satisfied ourselves of the legality and expediency of management. We were directly involved in a timely manner in all decisions of fundamental importance to the company.

The Executive Board provided the Supervisory Board with regular, timely and comprehensive updates at its meetings and in writing on all issues of relevance to the company. In particular, these include the business performance, planning, business strategy, significant business transactions in the company and the corporation, and the related risks and opportunities, as well as compliance issues. The members of the Supervisory Board were also available to the Executive Board for consultation outside the meetings. As chairman of the Supervisory Board, I had regular contact with the Executive Board and its chairman and discussed current company issues and developments with them.

Meetings of the Supervisory Board and the committees

The Supervisory Board held four ordinary meetings and two extraordinary meetings in 2018, as well as the strategy meeting and two telephone conferences. It adopted one resolution by means of a written procedure. At two meetings, the Supervisory Board conferred part of the time in the absence of the Executive Board. The Chairman's Committee held two meetings and one telephone conference in the year under review. The Audit Committee met four times in 2018. Meetings of the Nomination Committee or the Mediation Committee in accordance with Section 27 (3) of the German Co-determination Act (*Mitbestimmungsgesetz - MitbestG*) were not required in 2018. There are no other committees. All committees report to the plenary session on a regular basis. The Corporate Governance Report starting on page 16 describes their responsibilities in more detail and names their members.

Most members of the Supervisory Board attended all meetings in person. Maria Elisabeth Schaeffler-Thumann was unable to attend two meetings, the strategy meeting and two telephone conferences of the plenary session. Francesco Grioli, who had been appointed as Peter Hausmann's successor on the Supervisory Board and elected as a member of the Audit Committee as at November 1, 2018, was

not yet available for the committee meeting on November 5, 2018. All other members of the Supervisory Board attended more than half of the meetings of the plenary session and also of the committees to which they belonged in the past fiscal year. A detailed account of each Supervisory Board member's meeting attendance will be published in the Investors section of our website [📄](#) on March 20, 2019, with the invitation to the Annual Shareholders' Meeting.

Key topics dealt with by the Supervisory Board and the Chairman's Committee

At each meeting of the plenary session, the Executive Board informed the Supervisory Board in detail of the sales, results and employment development in the corporation and individual divisions as well as the financial situation of the company. Where the actual course of business deviated from the defined plans and targets, the Executive Board provided detailed explanations. It discussed the reasons for these deviations and the measures introduced in depth with the Supervisory Board. In addition, the Executive Board regularly informed us about the situation on the corporation's main raw materials and sales markets and about Continental AG's share price performance.

At an extraordinary meeting of the Supervisory Board on **February 6, 2018**, the Executive Board presented initial considerations with regard to modifying the company's organizational structure. In particular, we discussed in depth the initiation of a review with regard to transforming the Powertrain division into an independent group of legal entities. We addressed this topic again at the meeting to approve the annual financial statements on **March 13, 2018**. Another focus of this meeting was the company's annual financial statements and the consolidated financial statements for 2017, which we discussed and approved in the presence of the auditor. In addition, we resolved to grant the 2018/2021 long-term incentive tranche to the members of the Executive Board and approved the establishment of a joint venture with Osram Licht AG, Munich, Germany, that combines the two companies' expertise in the field of lights, light control and electronics. The discussions at the Supervisory Board meeting before the Annual Shareholders' Meeting on **April 27, 2018**, were limited to the current business performance.

On **July 26, 2018**, an extraordinary Supervisory Board meeting was held to discuss the proposals for changes to the structure of the company and the corporation that had been announced by the Executive Board in an ad-hoc disclosure on July 18, 2018. This had been preceded by extensive preliminary talks on the employee and the shareholder side, in which the results of a review by an independent financial consultant specially commissioned by the Supervisory Board were also discussed. The Supervisory Board approved the proposals, including the transformation of the Powertrain division into an independent group of legal entities as at January 1, 2019. In a telephone conference on **August 9, 2018**, we dealt with and approved the acquisition of Tyre and Auto Pty Ltd., Melbourne, Australia, with the aim of expanding tire sales in Australia.



At the full-day strategy meeting on **September 26, 2018**, the Executive Board and the Supervisory Board once again discussed at length the strategic objectives and strategic planning of the corporation and the divisions, as well as the HR strategy. The topics included in particular automated driving and connectivity, mobility services, clean combustion engines and electrification, industrial business, the growth strategy for tire business, and the development of Industry 4.0. At the strategy meeting, the Executive Board once again informed the Supervisory Board extensively about the reasons for the profit warning published on August 22, 2018, and explained the measures taken as a result. The ordinary meeting on the following day was largely devoted to discussions without the Executive Board. In addition to other current topics, we discussed succession planning for the Executive Board and resolved to terminate José Avila's mandate as a member of the Executive Board by mutual agreement and to reappoint Dr. Elmar Degenhart (see "Personnel changes in the Supervisory Board and Executive Board"). In addition, the head of the Compliance department submitted its annual report to the plenary session on the department's work and significant compliance cases. On **October 26, 2018**, another telephone conference was held during which we discussed and approved the ContiTech division's acquisition of Cooper Standard's anti-vibration systems business and the Interior division's acquisition of Kathrein Automotive.

At its meeting on **December 11, 2018**, the Supervisory Board discussed the annual planning for 2019 and long-term planning. It also approved the planning and the investment plans for fiscal 2019. In addition, Continental's top representative in China informed us in detail about the economic situation and the activities of the company there.

In a telephone conference on **January 31, 2018**, the Chairman's Committee dealt with and approved the establishment of a joint venture for the production of 48-volt battery systems with the Chinese automotive supplier and battery manufacturer CITC (Sichuan Chengfei Integration Technology Co., Ltd., Chengdu, China). The Chairman's Committee approved the update to the Debt Issuance Program at its meeting on **March 13, 2018**. In addition, this meeting and the meeting on **September 26, 2018**, involved in particular preparatory discussions regarding the plenary session's decisions on remuneration for Executive Board members and on personnel matters relating to the Executive Board. Before conducting another review of Executive Board remuneration and the remuneration system, the Supervisory Board intends to wait until the German Act for the Implementation of the 2nd EU Shareholder Rights Directive (*ARUG II*) and a new version of the German Corporate Governance Code take effect, which is expected to happen in mid-2019 and will have a significant impact on the review.

Key topics dealt with by the Audit Committee

The Audit Committee was also informed by the Executive Board in detail and on an ongoing basis about sales, results and employment development in the corporation and individual divisions as well as the financial situation of the company. The Executive Board is assisted by the heads of Accounting and Corporate Controlling, who can provide the Audit Committee directly with information at its meetings. In addition, the chairman of the Audit Committee is in contact with the chief financial officer and the auditor of the corporation outside of the meetings on a regular basis.

As a focus of each of its quarterly meetings, the Audit Committee talks with the Executive Board about the accounting as at the end of the previous quarter and the outlook for the year as a whole as well as the quarterly and half-year financial reports prior to their publication. At its meeting on **February 28, 2018**, the Audit Committee discussed the company's annual financial statements and the consolidated financial statements for 2017 with the Executive Board and the auditor and recommended their approval to the plenary session of the Supervisory Board. The interim financial statements as at June 30, 2018, were reviewed by KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover (KPMG), on behalf of the Audit Committee. The work of the Compliance and Corporate Audit departments and reporting on significant incidents are also regular topics at each meeting. These included in particular the matters described in more detail in the Report on Risks and Opportunities and in the Notes to the Consolidated Financial Statements. The head of the Compliance department and the head of Corporate Audit are also available to provide information directly to the Audit Committee and its chairman in coordination with the Executive Board. The chairman of the Audit Committee shares key information as part of his regular reporting to the plenary session. In addition, the Executive Board reports to the Audit Committee on the material risks covered by the risk management system and the corresponding measures resolved. The Audit Committee has satisfied itself of the effectiveness of the internal control system, the risk management system and the internal audit system.

In addition to these recurring topics, the Audit Committee also dealt with product compliance at Continental and investor relations activities at its meeting on **May 2, 2018**. On **July 31, 2018**, the Audit Committee heard information on the progress of major acquisition and investment projects, as it does regularly every year. In 2018, this related to the acquisition of the Hornschuch Group by Conti-Tech, the acquisition of Hoosier Tires and the establishment of a joint venture by the Chassis & Safety division with HASCO in China. The Audit Committee also dealt with the selection process for the change in auditor required in 2021 and the governance, risk and compliance (GRC) system. At the meeting on **November 5, 2018**, the Audit Committee issued the mandate for the audit of the 2018 annual and consolidated financial statements and the Dependent Company Report to the auditor appointed by the Annual Shareholders' Meeting, KPMG, after obtaining the necessary Dependent Company Report, and coordinated key audit matters with the auditor. KPMG was also

commissioned to audit the combined corporate non-financial statement, which is being issued as part of the management report rather than as a separate report as in the previous year. In addition, the Audit Committee defined an approval framework for commissioning the auditor with permissible non-audit services in accordance with the EU Audit Regulation. The Executive Board regularly informs the Audit Committee about the use of this framework. Other topics at this meeting included tax compliance and the potential effects of Brexit.

Corporate governance

At its meeting in December 2018, the Supervisory Board agreed to an updated declaration in accordance with Section 161 of the German Stock Corporation Act (*Aktiengesetz - AktG*) on the recommendations of the German Corporate Governance Code. There were no conflicts of interest for members of the Supervisory Board in the reporting year. In its opinion, the Supervisory Board also had an appropriate number of independent members as defined in the German Corporate Governance Code at all times in the period under review. Further information on corporate governance is included in the Corporate Governance Report starting on page 16.

Annual and consolidated financial statements; combined corporate non-financial statement for 2018

KPMG audited the annual financial statements as at December 31, 2018, prepared by the Executive Board in accordance with the provisions of the German Commercial Code (*Handelsgesetzbuch - HGB*), the 2018 consolidated financial statements and the combined management report for the corporation and Continental AG, including the accounts, the accounting-related internal control system and the system for early risk recognition. The 2018 consolidated financial statements of Continental AG were prepared in accordance with the International Financial Reporting Standards (IFRS). The auditor issued unqualified opinions. In terms of the system for early risk recognition, the auditor found that the Executive Board had taken the necessary measures under Section 91 (2) *AktG* and that the company's system for early risk recognition is suitable for identifying developments at an early stage that pose a risk to the company as a going concern. In addition, KPMG audited the Executive Board's report on relations with affiliated companies pursuant to Section 312 *AktG* (Dependent Company Report). KPMG issued the following unqualified opinion on this report in accordance with Section 313 (3) *AktG*:

"Based on the results of our statutory audit and evaluation we confirm that:

- › the actual information included in the report is correct,
- › with respect to the transactions listed in the report, payments by the company were not unduly high or that detrimental effects had been compensated for, and
- › there are no circumstances in favor of a significantly different assessment than that made by the Executive Board in regard to the measures listed in the report."

The Audit Committee discussed the documents relating to the annual financial statements, including the Dependent Company Report, and the audit reports with the Executive Board and the auditor on February 27, 2019, and March 1, 2019. Furthermore, the plenary session of the Supervisory Board discussed these at length at its meeting to approve the annual financial statements on March 14, 2019. The discussions also concerned the combined corporate nonfinancial statement for the Continental Corporation and for Continental AG according to Section 289b and Section 315b HGB. The required documents were distributed to all members of the Audit Committee and the Supervisory Board in good time before these meetings so that the members had sufficient opportunity to review them. The auditor was present at these discussions. The auditor reported on the main results of the audits and was available to provide additional information to the Audit Committee and the Supervisory Board. Based on its own review of the annual financial statements, the consolidated financial statements, the company management report, the combined management report of Continental AG and of the corporation, as well as the Dependent Company Report including the final declaration of the Executive Board, and based on the report and the recommendation of the Audit Committee, the Supervisory Board concurred with the results of the auditor's audit. There were no objections. The Supervisory Board approved the annual financial statements and the consolidated financial statements. The annual financial statements are thereby adopted. KPMG issued an unqualified opinion for the combined corporate non-financial statement. Based on the Supervisory Board's own review, the Audit Committee's report on its preliminary examination and its recommendation, and KPMG's audit and unqualified opinion on the combined corporate non-financial statement, the Supervisory Board finds that the combined corporate non-financial statement is correct and appropriate and was prepared in accordance with Sections 315b and 315c in conjunction with Sections 289c to 289e HGB.

The Supervisory Board together with the Executive Board will propose a dividend distribution of €4.75 per share for the past fiscal year at the Annual Shareholders' Meeting on April 26, 2019.

Personnel changes in the Supervisory Board and Executive Board

In 2018, there were two personnel changes in the Supervisory Board: As of February 28, 2018, Hartmut Meine, who up to that point had been the vice chairman of the Supervisory Board, stepped down to begin his retirement. The Supervisory Board would like to thank Hartmut Meine once again for his constructive contribution to the work of the Supervisory Board. On February 8, 2018, the Hanover Local Court (*Amtsgericht*) named Christiane Benner, vice president of IG Metall, as his successor from March 1, 2018. Peter Hausmann stepped down as a member of the Supervisory Board as at October 31, 2018, likewise in order to retire. The Supervisory Board would also like to thank Peter Hausmann for his many years of good and successful cooperation on the Supervisory Board. On October 15, 2018, the Hanover Local Court (*Amtsgericht*) appointed Francesco Grioli, a member of the Central Board of Executive Directors of Industriegewerkschaft Bergbau, Chemie, Energie, as his successor from November 1, 2018.

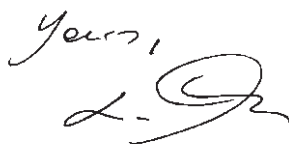
Further information on the members of the Supervisory Board and its committees who were in office in the year under review can be found starting on page 17, and on pages 211 and 212.

At its meeting on September 27, 2018, the Supervisory Board reappointed Dr. Elmar Degenhart as a member of the Executive Board for another five years starting from August 12, 2019, and confirmed his appointment as Chairman of the Executive Board. At the same time, the Supervisory Board terminated José A. Avila's mandate as a member of the Executive Board by mutual agreement as at September 30, 2018. Until the scheduled end of his employment contract on December 31, 2019, he will take on advisory duties, including primarily the further development and implementation of Continental's strategy in the fields of battery technology and electrification technologies. The Supervisory Board would like to thank José A. Avila for his valuable contribution to the successful turnaround of the Powertrain division, which under his leadership has once again been back on track for success since 2010.

The Supervisory Board would like to thank the Executive Board, all the employees and the employee representatives for their good work overall in the past year. They took on the wide range of challenges in an environment characterized by great uncertainty, and we are confident that, together, we will successfully rise to these challenges.

Hanover, March 14, 2019

For the Supervisory Board,



Prof. Dr.-Ing. Wolfgang Reitzle
Chairman