Consolidated Financial Statements

Statement of the Executive Board

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

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

KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, Germany, was engaged as the auditor for fiscal 2019 by the Annual Shareholders' Meeting of Continental AG. The audit mandate was issued by the Audit Committee of the Supervisory Board. KPMG audited the consolidated financial statements prepared in accordance with IFRS and the management report for the corporation and Continental AG. The auditor will issue the independent auditor's report.

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

Hanover, March 2, 2020

The Executive Board

Independent Auditor's Report

To Continental Aktiengesellschaft, Hanover

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

Opinions
We have audited the consolidated financial statements of Continental Aktiengesellschaft and its subsidiaries (the corporation), which comprise the Consolidated Statement of Financial Position as at December 31, 2019, the Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the fiscal year from January 1, 2019, to December 31, 2019, and the Notes to the Consolidated Financial Statements, including a summary of significant accounting policies. In addition, we have audited the corporate management report of Continental Aktiengesellschaft for the fiscal year from January 1, 2019, to December 31, 2019. In line with the German legal regulations, we have not audited the content of the parts of the corporate management report mentioned in the "Other information" section of our auditor's report.

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

› the accompanying consolidated financial statements comply, in all material respects, with IFRS as adopted by the E.U. and the additional requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code *(Handelsgesetzbuch – HGB)* and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the corporation as at December 31, 2019, and of its financial performance for the fiscal year from January 1, 2019, to December 31, 2019, and

› the accompanying corporate management report as a whole provides an appropriate view of the corporation's position. In all material respects, this corporate management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the corporate management report does not cover the content of the parts of the corporate management report mentioned in the "Other information" section.

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

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

Key audit matters in the audit of the consolidated financial statements
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from January 1, 2019, to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters.

Recoverability of the carrying amount of goodwill
The accounting policies as well as the assumptions made are disclosed in Note 2 of the notes to the consolidated financial statements. Disclosure of the amount of goodwill is provided in the notes to the consolidated financial statements in Note 13.

THE FINANCIAL STATEMENT RISK
As at December 31, 2019, goodwill totaled €5,114 million, thus comprising a substantial portion of net assets at 12%.

Goodwill is tested for impairment annually at the level of the cash-generating units. The carrying amount is thereby compared with the recoverable amount of the respective cash-generating unit. If the carrying amount exceeds the recoverable amount, an impairment is recorded. The recoverable amount is the higher of the fair value less costs to sell and value in use of the cash-generating unit. The impairment test, which must take place once a year, was carried out on November 30, 2019. Continental AG also carried out an ad-hoc impairment test on September 30, 2019.

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

Within the context of the annual planning process, the company did not expect global production of passenger cars and light commercial vehicles to increase substantially in the coming years (2020–2024). The reduction in expected future cash flows resulted, on the basis of the ad-hoc impairment test carried out on September 30, 2019, in goodwill impairment of €2,291.2 million. If financial performance is worse than expected or the discount rate on which the impairment test was based increases, further impairment will be required.

On the basis of the annual impairment test carried out on November 30, 2019, no additional need for impairment was identified. The company's sensitivity analysis has shown that reasonably possible changes not only in the discount rate and in the long-term growth rate in perpetuity but also in sales would lead to additional impairment.

There is a risk for the consolidated financial statements that the impairment recorded in the financial statements may not have been appropriately accounted for. In addition, there is a risk that the disclosures in the notes associated with the subsequent measurement of goodwill may not be appropriate.

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

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

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

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

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

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

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

The disclosures in the notes associated herewith are appropriate.

Recoverability of the carrying amount of deferred tax assets
The accounting policies as well as the assumptions made are disclosed in Notes 2 and 19 of the notes to the consolidated financial statements.

THE FINANCIAL STATEMENT RISK
As at December 31, 2019, deferred tax assets of €2,174 million – €389 million of which resulted from loss carryforwards and limitation of interest deduction – were reported in the consolidated financial statements of Continental AG.

For the recognition of deferred tax assets, it is necessary to estimate the extent to which the existing deferred tax assets can be used in the following reporting periods. The realization of these assets is subject to the condition that sufficient taxable income is generated in the future. If there are any doubts about the future usability of the deferred tax assets calculated, deferred tax assets may not be recognized or – if they have already been recognized – must be derecognized.

The measurement of deferred tax assets is highly dependent on the estimates and assumptions made by the Executive Board in relation to the operating performance of the country units and tax planning for the corporation, and is therefore subject to significant uncertainties. Realization is also dependent on the respective tax environment.

The global production of passenger cars and light commercial vehicles declined in fiscal 2019. This will have a negative effect on future business and earnings prospects. In Continental's opinion, it can be assumed, in spite of market developments, that existing deferred tax assets can be used, so that deferred tax assets can continue to be capitalized.

There is a risk for the consolidated financial statements that Continental AG's opinion may not be appropriate and that the recognized deferred tax assets may not be recoverable.

OUR AUDIT APPROACH
To assess tax matters, we involved our tax specialists in the audit. To begin with, we took a critical look at the temporary differences between the IFRS carrying amounts and the respective tax base carrying amounts for the corporation's entities. We also reconciled the losses carried forward to tax assessments and tax calculations for the current fiscal year and acknowledged off-balance-sheet corrections.

We assessed the recoverability of the carrying amount of deferred tax assets on the basis of internal projections issued for the corporation's entities on future taxable income, and critically examined the underlying assumptions. In this regard, we reconciled in particular the planning of future taxable income with the planning issued by the Executive Board, and reviewed the consistency of the underlying parameters. We also assessed the planning accuracy of the corporation's entities by comparing projections for previous fiscal years with the actual results realized and analyzing deviations.

Continental AG's opinion on the financial performance of the corporation's entities with an existing history of losses was presented to us by the Executive Board. If deferred tax assets are reported for these entities, we are convinced of the sustainability of the taxable income.

OUR OBSERVATIONS
The assumptions underlying the measurement of deferred tax assets are appropriate overall.

Recognition and measurement of restructuring provisions
The accounting policies as well as the assumptions made are disclosed in Notes 2 and 28 of the notes to the consolidated financial statements.

THE FINANCIAL STATEMENT RISK
As at December 31, 2019, restructuring provisions of €599 million were reported in the consolidated financial statements of Continental AG.

For restructuring measures, where there are general or illustrative recognition criteria for the relevant conditions, corresponding provisions must be drawn up. The measurement of significant restructuring provisions is highly dependent on the estimates and assumptions made by the Executive Board, particularly in relation to the arrangement of social schemes, compensation amounts, staff cuts and site closure costs.

There is a risk for the consolidated financial statements that the conditions for recognition of the restructuring provisions may not be met or may not be measured appropriately.

OUR AUDIT APPROACH
We initially assessed, within the scope of our engagement, whether the recognition criteria had been met in each case as at December 31, 2019. In this regard, we assessed in particular whether or not there was a detailed, formal restructuring plan in each case and whether the key elements of the restructuring measures had been communicated to the employees affected or implementation of the restructuring measures had begun.

The assumptions underlying the measurement of the restructuring provisions were then presented to us. We assessed the consistency of the assumptions with the detailed, formal restructuring plans. We also critically examined contracts and agreements that had already been concluded as at the end of the reporting period.

OUR OBSERVATIONS
The assumptions made by the Executive Board are appropriate.

Other information
The Executive Board and the Supervisory Board are responsible for the other information. The other information comprises the following parts of the management report. The content of these parts has not been audited:

- the combined corporate non-financial statement, which is in the "Sustainability and Combined Corporate Non-Financial Statement" section of the management report, and
- the corporate governance declaration, which is referred to in the section of the same name of the corporate management report.

The other information also comprises the remaining parts of the annual report.

The other information does not comprise the consolidated financial statements, the disclosures in the corporate management report audited with respect to content, and our auditor's report.

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

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

- is materially inconsistent with the consolidated financial statements, the disclosures in the corporate management report audited with respect to content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

In accordance with our engagement, we performed a separate operational audit of the combined corporate non-financial statement. The type, scope and results of this operational audit are disclosed in our unqualified audit opinion dated March 3, 2020.

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

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

Furthermore, the Executive Board is responsible for the preparation of the corporate management report that, as a whole, provides an appropriate view of the corporation's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the Executive Board is responsible for arrangements and measures (systems) that it considers necessary to enable the preparation of the corporate management report that is in accordance with the applicable German legal requirements and to be able to provide sufficient appropriate evidence for the assertions in the corporate management report.

The Supervisory Board is responsible for overseeing the corporation's financial reporting process for the preparation of the consolidated financial statements and of the corporate management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the corporate management report

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

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

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

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

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

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

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

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

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

- Evaluate the consistency of the corporate management report with the consolidated financial statements, its conformity with German law and the view of the corporation's position it provides.

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

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further information pursuant to Art. 10 of the E.U. Audit Regulation
We were elected as corporate auditor by the Annual Shareholders' Meeting on April 26, 2019. We were engaged by the Supervisory Board on November 13, 2019. We have been the corporate auditor of Continental Aktiengesellschaft without interruption for more than 30 years.

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

We have provided to the corporation's entities the following services that are not disclosed in the consolidated financial statements or the corporate management report:

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

German public auditor
The German public auditor responsible for the engagement is Andreas Modder.

Hanover, March 3, 2020

KPMG AG Wirtschaftsprüfungsgesellschaft

Dr. Tonne	Modder
Wirtschaftsprüfer	*Wirtschaftsprüfer*

Consolidated Statement of Income

€ millions	See Note	2019	2018
Sales	6	**44,478.4**	**44,404.4**
Cost of sales		-33,893.4	-33,299.5
Gross margin on sales		**10,585.0**	**11,104.9**
Research and development expenses	7	-4,471.8	-4,280.2
Selling and logistics expenses		-2,718.9	-2,494.3
Administrative expenses		-1,110.2	-1,149.0
Other income	8	1,774.6	1,803.4
Other expenses	8	-4,203.2	-1,027.5
Income from equity-accounted investees	10	-124.3	69.6
Other income from investments	10	0.5	0.8
EBIT		**-268.3**	**4,027.7**
Interest income	11	147.2	122.9
Interest expense	11	-317.3	-276.2
Effects from currency translation	11	-30.5	-30.4
Effects from changes in the fair value of derivative instruments, and other valuation effects	11	-119.7	5.9
Financial result	11	**-320.3**	**-177.8**
Earnings before tax		**-588.6**	**3,849.9**
Income tax expense	12	-582.4	-891.6
Net income		**-1,171.0**	**2,958.3**
Non-controlling interests		-54.0	-61.0
Net income attributable to the shareholders of the parent		-1,225.0	2,897.3
Basic earnings per share in €	37	**-6.13**	**14.49**
Diluted earnings per share in €	37	**-6.13**	**14.49**

IFRS 16, Leases, was adopted on and has been applied since January 1, 2019. It is applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some of these figures are not comparable with the prior-year period.

Consolidated Statement of Comprehensive Income

€ millions	2019	2018
Net income	**-1,171.0**	**2,958.3**
Reclassification within equity not affecting net income	**–**	**-0.3**
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit plans[1]	-808.8	-105.7
Fair value adjustments[1]	-797.6	-93.8
Reclassification from disposals of pension obligations	–	0.3
Investment in equity-accounted investees[2]	0.0	0.0
Currency translation[1]	-11.2	-12.2
Other investments	-3.6	-3.9
Fair value adjustments[1]	–	-3.9
Investment in equity-accounted investees[2]	-3.6	–
Tax on other comprehensive income	236.9	30.7
Items that may be reclassified subsequently to profit or loss		
Currency translation[1]	287.4	107.7
Difference from currency translation[1]	279.4	103.0
Reclassification adjustments to profit and loss	0.0	14.5
Investment in equity-accounted investees[2]	8.0	-9.8
Cash flow hedges	-0.9	-2.3
Fair value adjustments	-8.5	-24.9
Reclassification adjustments to profit and loss	7.6	22.6
Tax on other comprehensive income	0.5	2.7
Other comprehensive income	**-288.5**	**29.2**
Comprehensive income	**-1,459.5**	**2,987.2**
Attributable to non-controlling interests	-63.8	-70.3
Attributable to the shareholders of the parent	-1,523.3	2,916.9

1 Including non-controlling interests.
2 Including taxes.

Consolidated Statement of Financial Position

Assets

€ millions	See Note	December 31, 2019	December 31, 2018
Goodwill	13	5,113.5	7,233.4
Other intangible assets	13	1,691.8	1,566.3
Property, plant and equipment	14, 15	14,932.7	12,375.5
Investment property	16	11.7	12.0
Investments in equity-accounted investees	17	397.7	644.9
Other investments	18	197.6	192.9
Deferred tax assets	19	2,174.4	1,464.4
Defined benefit assets	27	7.8	27.8
Long-term contract assets	6	0.1	0.1
Long-term derivative instruments and interest-bearing investments	31	54.0	32.4
Long-term other financial assets	20	114.6	81.4
Long-term other assets	21	28.6	27.6
Non-current assets		**24,724.5**	**23,658.7**
Inventories	22	4,694.4	4,521.1
Trade accounts receivable[1]	23	7,711.6	7,858.2
Short-term contract assets	6	89.1	67.4
Short-term other financial assets[1]	20	118.5	94.4
Short-term other assets	21	1,406.7	1,124.2
Income tax receivables		240.5	208.2
Short-term derivative instruments and interest-bearing investments	31	151.5	151.8
Cash and cash equivalents	24	3,341.8	2,761.4
Assets held for sale	25	89.6	–
Current assets		**17,843.7**	**16,786.7**
Total assets		**42,568.2**	**40,445.4**

IFRS 16, Leases, was adopted on and has been applied since January 1, 2019. It is applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some of these figures are not comparable with the prior-year period.

1 From the 2019 fiscal year onward, the presentation of receivables from related parties is made more transparent by reclassifying receivables from operating service business from short-term other financial assets to trade accounts receivable among these items of the statement of financial position. The figures from the comparative period have been adjusted accordingly.

Equity and liabilities

€ millions	See Note	**December 31, 2019**	December 31, 2018
Subscribed capital		512.0	512.0
Capital reserves		4,155.6	4,155.6
Retained earnings		13,522.1	15,697.2
Other comprehensive income		–2,794.4	–2,514.4
Equity attributable to the shareholders of the parent		**15,395.3**	**17,850.4**
Non-controlling interests		480.4	482.9
Total equity	26	**15,875.7**	**18,333.3**
Long-term employee benefits	27	5,406.3	4,407.0
Deferred tax liabilities	19	305.4	315.7
Long-term provisions for other risks and obligations	28	666.1	163.7
Long-term indebtedness	30	3,375.2	1,449.0
Long-term other financial liabilities	32	31.7	38.4
Long-term contract liabilities	6	16.7	11.0
Long-term other liabilities	34	20.0	13.4
Non-current liabilities		**9,821.4**	**6,398.2**
Short-term employee benefits	27	1,368.7	1,454.2
Trade accounts payable[1]	33	7,111.0	7,525.6
Short-term contract liabilities	6	234.9	150.2
Income tax payables	29	938.6	750.7
Short-term provisions for other risks and obligations	28	1,261.6	1,066.1
Short-term indebtedness	30	4,243.8	3,157.9
Short-term other financial liabilities[1]	32	1,046.3	1,042.6
Short-term other liabilities	34	666.2	566.6
Current liabilities		**16,871.1**	**15,713.9**
Total equity and liabilities		**42,568.2**	**40,445.4**

IFRS 16, Leases, was adopted on and has been applied since January 1, 2019. It is applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some of these figures are not comparable with the prior-year period.

1 From the 2019 fiscal year onward, the presentation of liabilities to related parties is made more transparent by reclassifying liabilities from operating service business from short-term other financial liabilities to trade accounts payable among these items of the statement of financial position. The figures from the comparative period have been adjusted accordingly.

Consolidated Statement of Cash Flows

€ millions	See Note	2019	2018
Net income		**-1,171.0**	**2,958.3**
Income tax expense	12	582.4	891.6
Financial result	11	320.3	177.8
EBIT		**-268.3**	**4,027.7**
Interest paid[1]		-157.9	-130.4
Interest received[1]		75.0	39.1
Income tax paid[1]	12, 29	-866.0	-848.1
Dividends received		67.3	45.0
Depreciation, amortization, impairment and reversal of impairment losses	8, 13, 14, 16	5,245.5	2,208.0
Income from equity-accounted investees and other investments, incl. impairment and reversal of impairment losses	10, 17	123.8	-70.4
Gains/losses from the disposal of assets, companies and business operations		-15.5	-176.0
Changes in			
inventories	22	-49.1	-358.4
trade accounts receivable[1]	23	337.8	-11.5
trade accounts payable[1]	33	-544.7	430.1
employee benefits and other provisions	27	658.3	-232.1
other assets and liabilities[1]		-191.8	54.2
Cash flow arising from operating activities		**4,414.4**	**4,977.2**
Cash flow from the disposal of assets	13, 14	53.9	64.0
Capital expenditure on property, plant and equipment, and software	13, 14	-2,977.5	-3,124.4
Capital expenditure on intangible assets from development projects and miscellaneous	13	-242.8	-161.0
Cash flow from the disposal of companies and business operations	5	1.3	13.1
Acquisition of companies and business operations	5	-487.6	-417.9
Cash flow arising from investing activities		**-3,652.7**	**-3,626.2**
Cash flow before financing activities (free cash flow)		**761.7**	**1,351.0**
Net cash change in short-term indebtedness	30	-1,049.5	453.7
Cash change in long-term indebtedness	30	1,907.5	13.9
Other cash changes		-24.9	23.7
Successive purchases		-71.0	-19.2
Dividends paid		-950.0	-900.0
Dividends paid to and cash changes from equity transactions with non-controlling interests		-32.5	-45.4
Cash and cash equivalents arising from the first-time consolidation of subsidiaries		0.4	2.0
Cash flow arising from financing activities		**-220.0**	**-471.3**
Change in cash and cash equivalents		**541.7**	**879.7**
Cash and cash equivalents as at January 1		2,761.4	1,881.5
Effect of exchange-rate changes on cash and cash equivalents		38.7	0.2
Cash and cash equivalents as at December 31	24	**3,341.8**	**2,761.4**

IFRS 16, Leases, was adopted on and has been applied since January 1, 2019. It is applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some of these figures are not comparable with the prior-year period.

1 The previous year's figures have been adjusted due to the change in recognition of interest and penalties on income taxes. To increase transparency, receivables from and liabilities to related parties have been reclassified from changes in other assets and liabilities to changes in trade accounts receivable and payable, beginning in the 2019 fiscal year. The figures from the comparative period have been adjusted accordingly.

Consolidated Statement of Changes in Equity

					Difference from					
€ millions	Subscribed capital[1]	Capital reserves	Retained earnings	Successive purchases[2]	remeasurement of defined benefit plans[3]	currency translation[4]	financial instru-ments[5]	Subtotal	Non-controlling interests	**Total**
As at January 1, 2018	**512.0**	**4,155.6**	**13,669.3**	**-183.3**	**-1,720.7**	**-610.2**	**5.7**	**15,828.4**	**461.9**	**16,290.3**
Effects from the first-time adoption of new standards (IFRS 9/15)[6]	–	–	30.8	–	–	–	-3.4	27.4	-0.1	**27.3**
Adjusted as at January 1, 2018	**512.0**	**4,155.6**	**13,700.1**	**-183.3**	**-1,720.7**	**-610.2**	**2.3**	**15,855.8**	**461.8**	**16,317.6**
Net income	–	–	2,897.3	–	–	–	–	2,897.3	61.0	**2,958.3**
Comprehensive income	–	–	-0.2	–	-74.8	100.2	-5.6	19.6	9.3	**28.9**
Net profit for the period	**–**	**–**	**2,897.1**	**–**	**-74.8**	**100.2**	**-5.6**	**2,916.9**	**70.3**	**2,987.2**
Dividends paid	–	–	-900.0	–	–	–	–	-900.0	-45.6	**-945.6**
Successive purchases	–	–	–	-21.0	–	–	–	-21.0	-0.8	**-21.8**
Other changes[7]	–	–	–	-1.3	–	–	–	-1.3	-2.8	**-4.1**
As at December 31, 2018	**512.0**	**4,155.6**	**15,697.2**	**-205.6**	**-1,795.5**	**-510.0**	**-3.3**	**17,850.4**	**482.9**	**18,333.3**
Net income	–	–	-1,225.0	–	–	–	–	-1,225.0	54.0	**-1,171.0**
Comprehensive income	–	–	-0.1	–	-570.9	276.9	-4.2	-298.3	9.8	**-288.5**
Net profit for the period	**–**	**–**	**-1,225.1**	**–**	**-570.9**	**276.9**	**-4.2**	**-1,523.3**	**63.8**	**-1,459.5**
Dividends paid/resolved	–	–	-950.0	–	–	–	–	-950.0	-35.7	**-985.7**
Successive purchases	–	–	–	18.0	–	–	–	18.0	-33.3	**-15.3**
Other changes[7]	–	–	–	0.2	–	–	–	0.2	2.7	**2.9**
As at December 31, 2019	**512.0**	**4,155.6**	**13,522.1**	**-187.4**	**-2,366.4**	**-233.1**	**-7.5**	**15,395.3**	**480.4**	**15,875.7**

1 Divided into 200,005,983 shares outstanding.
2 Includes an amount of €18.0 million (PY: -€20.7 million) from successive purchases of shares in fully consolidated companies (of which €29.2 million relates to the exercise of the put option for Zonar Systems Inc. and -€11.2 million to the acquisition of remaining shares in ContiTech Fluid Technology (Changchun) Co., Ltd. (formerly ContiTech Grand Ocean Fluid (Changchun) Co., Ltd.)) and an amount of €0.2 million (PY: -€1.3 million) relating to effects from the first-time consolidation of previously non-consolidated subsidiaries. The prior-year period also includes the change in value of a put option of -€0.3 million for the acquisition of remaining shares in a fully consolidated company.
3 Includes shareholder's portion of €0.0 million (PY: €0.0 million) in non-realized gains and losses from pension obligations of equity-accounted investees.
4 Includes shareholder's portion of €8.0 million (PY: -€9.8 million) in the currency translation of equity-accounted investees.
5 The change in the difference arising from financial instruments, including deferred taxes, was due to the expiry of cash flow hedges for interest and currency hedging of -€0.6 million (PY: -€1.7 million) and other investments of -€3.6 million (PY: -€3.9 million).
6 Please see the "Revenue from Contracts with Customers" and "Financial Instruments" notes in the 2018 Annual Report
7 Other changes in non-controlling interests due to changes in the scope of consolidation and capital increases.

Notes to the Consolidated Financial Statements

1. Segment Reporting

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

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

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

Chassis & Safety integrates safety technologies and controls vehicle dynamics to enable safe, easy driving.

Powertrain offers efficient and clean vehicle drive systems. It focuses on intelligent systems and components for the electrification of vehicles, as well as on electronic control units, sensors, actuators and exhaust-gas aftertreatment solutions.

Interior develops components and end-to-end systems for connected mobility – hardware, software and services – across the strategic pillars of networking, information and integration.

Tires offers the right tires for a broad range of applications – from cars, trucks, buses and specialist vehicles to bicycles and motorcycles.

ContiTech develops, manufactures and markets products, systems and intelligent components made of rubber, plastic, metal and fabric. They are used in mining, agriculture, railway engineering, machine and plant construction, the automotive industry and other important sectors of the future.

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

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

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

Capital expenditure relates to additions to property, plant and equipment, and software, as well as additions to capitalized right-of-use assets in line with IFRS 16, *Leases*, and additions to capitalized borrowing costs in line with IAS 23, *Borrowing Costs*. Depreciation and amortization include the scheduled diminution of and the impairment on intangible assets, property, plant and equipment, and investment properties as well as the impairment on goodwill. This figure does not include impairment on financial investments.

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

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

Viewed across all segments, Continental recorded sales totaling €6,087.7 million (PY: €6,295.8 million) with a group of companies under common control in the year under review.

In 2019, 19% (PY: 20%) of sales were generated in Germany. Other than this, there were no countries except the U.S.A. and China in which more than 10% of sales were achieved, as was also the case in the previous year.

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

Segment report for 2019

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
External sales	9,348.2	7,614.9	9,540.6	11,671.3	6,303.4	–	44,478.4
Intercompany sales	33.4	187.4	54.9	56.7	98.1	-430.5	–
Sales (total)	**9,381.6**	**7,802.3**	**9,595.5**	**11,728.0**	**6,401.5**	**-430.5**	**44,478.4**
EBIT (segment result)	-120.3	-662.1	-1,325.3	1,651.6	305.9	-118.1	-268.3
in % of sales	-1.3	-8.5	-13.8	14.1	4.8	–	-0.6
thereof income from equity-accounted investees	9.6	6.7	-147.0	6.2	0.5	-0.3	-124.3
Capital expenditure[1]	720.6	657.7	683.7	926.2	261.7	58.7	3,308.6
in % of sales	7.7	8.4	7.1	7.9	4.1	–	7.4
Depreciation and amortization[2]	1,265.6	854.6	1,907.7	846.1	364.6	6.9	5,245.5
thereof impairment[3]	750.0	351.9	1,373.2	22.5	12.3	–	2,509.9
Internally generated intangible assets	2.0	67.9	130.5	0.0	0.0	–	200.4
Significant non-cash expenses/income	-0.1	-40.3	-179.4	-16.4	-21.9	6.5	-251.6
Segment assets	7,379.2	6,063.6	7,521.6	10,073.9	4,776.8	162.0	35,977.1
thereof investments in equity-accounted investees	128.5	68.4	63.4	109.2	19.9	8.3	397.7
Segment liabilities	2,662.4	2,716.3	2,764.4	2,518.7	1,285.5	38.8	11,986.1
Operating assets as at December 31	4,716.8	3,347.3	4,757.2	7,555.2	3,491.3	123.2	23,991.0
Operating assets (average)	5,159.9	3,906.3	5,760.2	7,797.5	3,519.8	34.8	26,178.5
ROCE	-2.3	-16.9	-23.0	21.2	8.7	–	-1.0
Number of employees as at December 31[4]	48,434	41,744	48,117	56,884	45,801	478	241,458
Adjusted sales[5]	9,381.6	7,802.3	9,448.5	11,468.7	6,197.1	-430.5	43,867.7
Adjusted operating result (adjusted EBIT)[6]	675.9	57.0	433.4	1,708.3	466.9	-107.6	3,233.9
in % of adjusted sales	7.2	0.7	4.6	14.9	7.5	–	7.4

IFRS 16, Leases, was adopted on and has been applied since January 1, 2019. It is applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some of these figures are not comparable with the prior-year period.

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

Segment report for 2018

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
External sales	9,559.3	7,612.0	9,668.9	11,315.9	6,248.3	–	44,404.4
Intercompany sales	28.7	129.0	38.3	36.3	96.4	-328.7	–
Sales (total)	**9,588.0**	**7,741.0**	**9,707.2**	**11,352.2**	**6,344.7**	**-328.7**	**44,404.4**
EBIT (segment result)	782.5	119.8	988.1	1,882.1	396.2	-141.0	4,027.7
in % of sales	8.2	1.5	10.2	16.6	6.2	–	9.1
thereof income from equity-accounted investees	18.8	0.2	34.1	15.7	0.2	0.6	69.6
Capital expenditure[1]	749.7	691.0	578.4	837.1	250.2	18.0	3,124.4
in % of sales	7.8	8.9	6.0	7.4	3.9	–	7.0
Depreciation and amortization[2]	430.8	454.8	401.1	613.1	305.2	3.0	2,208.0
thereof impairment[3]	1.5	19.3	-1.6	1.2	0.3	0.0	20.7
Internally generated intangible assets	0.0	55.5	102.4	0.0	0.0	0.1	158.0
Significant non-cash expenses/income	4.5	-37.0	14.0	-2.2	-21.2	10.0	-31.9
Segment assets	7,700.1	5,830.5	8,389.4	9,089.6	4,391.8	76.4	35,477.8
thereof investments in equity-accounted investees	124.5	61.0	336.6	112.1	2.0	8.7	644.9
Segment liabilities	2,709.6	2,272.8	2,601.3	2,654.3	1,270.9	215.2	11,724.1
Operating assets as at December 31	4,990.5	3,557.7	5,788.1	6,435.3	3,120.9	-138.8	23,753.7
Operating assets (average)	4,887.1	3,582.2	5,626.3	6,471.2	3,146.9	-73.2	23,640.5
ROCE	16.0	3.3	17.6	29.1	12.6	–	17.0
Number of employees as at December 31[4]	49,509	42,601	47,906	55,840	46,923	447	243,226
Adjusted sales[5]	9,588.0	7,888.0	9,566.8	11,352.2	6,336.7	-357.5	44,374.2
Adjusted operating result (adjusted EBIT)[6]	785.3	220.1	863.2	1,902.6	486.8	-141.0	4,117.0
in % of adjusted sales	8.2	2.8	9.0	16.8	7.7	–	9.3

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

Reconciliation of sales to adjusted sales and of EBITDA to adjusted operating result (adjusted EBIT) in 2019

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Sales	**9,381.6**	**7,802.3**	**9,595.5**	**11,728.0**	**6,401.5**	**-430.5**	**44,478.4**
Changes in the scope of consolidation[1]	–	–	-147.0	-259.3	-204.4	–	-610.7
Adjusted sales	**9,381.6**	**7,802.3**	**9,448.5**	**11,468.7**	**6,197.1**	**-430.5**	**43,867.7**
EBITDA	**1,145.3**	**192.5**	**582.4**	**2,497.7**	**670.5**	**-111.2**	**4,977.2**
Depreciation and amortization[2]	-1,265.6	-854.6	-1,907.7	-846.1	-364.6	-6.9	-5,245.5
EBIT	**-120.3**	**-662.1**	**-1,325.3**	**1,651.6**	**305.9**	**-118.1**	**-268.3**
Amortization of intangible assets from purchase price allocation (PPA)	–	10.7	57.2	20.0	94.6	–	182.5
Changes in the scope of consolidation[1]	0.1	–	-7.4	2.9	11.9	–	7.5
Special effects							
Impairment on goodwill	719.8	223.5	1,347.9	–	2.3	–	2,293.5
Impairment[3]	29.1	48.9	25.3	3.5	4.9	–	111.7
Restructuring[4]	42.7	402.6	172.9	32.5	46.5	–	697.2
Gains and losses from disposals of companies and business operations	–	–	–	–	0.0	–	0.0
Other	4.5	33.4	162.8	-2.2	0.8	10.5	209.8
Adjusted operating result (adjusted EBIT)	**675.9**	**57.0**	**433.4**	**1,708.3**	**466.9**	**-107.6**	**3,233.9**

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]	–	147.0	-140.4	–	-8.0	-28.8	-30.2
Adjusted sales	**9,588.0**	**7,888.0**	**9,566.8**	**11,352.2**	**6,336.7**	**-357.5**	**44,374.2**
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]	–	17.8	-20.8	–	-0.5	–	-3.5
Special effects							
Impairment[3]	1.5	16.0	1.2	1.2	0.1	–	20.0
Restructuring[5]	–	22.8	-3.0	0.0	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)	**785.3**	**220.1**	**863.2**	**1,902.6**	**486.8**	**-141.0**	**4,117.0**

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 €104.8 million (Powertrain €79.6 million; Chassis & Safety €1.2 million; Tires €19.0 million; ContiTech €5.0 million).
5 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 segment.

Reconciliation of EBIT to net income

€ millions	2019	2018
Chassis & Safety	-120.3	782.5
Powertrain	-662.1	119.8
Interior	-1,325.3	988.1
Tires	1,651.6	1,882.1
ContiTech	305.9	396.2
Other/consolidation	-118.1	-141.0
EBIT	**-268.3**	**4,027.7**
Financial result	-320.3	-177.8
Earnings before tax	**-588.6**	**3,849.9**
Income tax expense	-582.4	-891.6
Net income	**-1,171.0**	**2,958.3**
Non-controlling interests	-54.0	-61.0
Net income attributable to the shareholders of the parent	**-1,225.0**	**2,897.3**

Segment report by region

€ millions	Germany	Europe excluding Germany	North America	Asia	Other countries	Continental Corporation
External sales 2019	**8,349.6**	**13,102.9**	**11,628.0**	**9,752.0**	**1,645.9**	**44,478.4**
External sales 2018	8,826.8	13,046.1	10,975.1	9,888.7	1,667.7	44,404.4
Capital expenditure 2019[1]	**812.9**	**1,108.3**	**646.9**	**691.9**	**48.6**	**3,308.6**
Capital expenditure 2018[1]	775.1	925.6	594.1	771.9	57.7	3,124.4
Segment assets as at December 31, 2019	**10,289.5**	**9,509.2**	**8,208.7**	**7,402.8**	**566.9**	**35,977.1**
Segment assets as at December 31, 2018	11,231.8	8,702.0	7,707.2	7,241.0	595.8	35,477.8
Number of employees as at December 31, 2019[2]	**61,474**	**77,063**	**45,912**	**47,631**	**9,378**	**241,458**
Number of employees as at December 31, 2018[2]	63,396	76,576	44,887	48,499	9,868	243,226

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

Reconciliation to operating assets in 2019

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Total assets	**7,355.0**	**6,026.6**	**7,471.0**	**10,077.9**	**4,784.0**	**6,853.7**	**42,568.2**
Cash and cash equivalents	–	–	–	–	–	3,341.8	3,341.8
Short- and long-term derivative instruments, interest-bearing investments	–	–	–	–	–	205.5	205.5
Other financial assets	9.6	13.1	23.1	17.6	7.6	18.7	89.7
Less financial assets	**9.6**	**13.1**	**23.1**	**17.6**	**7.6**	**3,566.0**	**3,637.0**
Less other non-operating assets	**-33.8**	**-50.1**	**-73.7**	**-13.6**	**-0.4**	**710.8**	**539.2**
Deferred tax assets	–	–	–	–	–	2,174.4	2,174.4
Income tax receivables	–	–	–	–	–	240.5	240.5
Less income tax assets	**–**	**–**	**–**	**–**	**–**	**2,414.9**	**2,414.9**
Segment assets	**7,379.2**	**6,063.6**	**7,521.6**	**10,073.9**	**4,776.8**	**162.0**	**35,977.1**
Total liabilities and provisions	**4,145.5**	**3,579.6**	**3,786.7**	**3,399.9**	**1,972.9**	**9,807.9**	**26,692.5**
Short- and long-term indebtedness	–	–	–	–	–	7,619.0	7,619.0
Interest payable and other financial liabilities	–	–	–	–	–	25.1	25.1
Less financial liabilities	**–**	**–**	**–**	**–**	**–**	**7,644.1**	**7,644.1**
Deferred tax liabilities	–	–	–	–	–	305.4	305.4
Income tax payables	–	–	–	–	–	938.6	938.6
Less income tax liabilities	**–**	**–**	**–**	**–**	**–**	**1,244.0**	**1,244.0**
Less other non-operating liabilities	**1,483.1**	**863.3**	**1,022.3**	**881.2**	**687.4**	**881.0**	**5,818.3**
Segment liabilities	**2,662.4**	**2,716.3**	**2,764.4**	**2,518.7**	**1,285.5**	**38.8**	**11,986.1**
Operating assets	**4,716.8**	**3,347.3**	**4,757.2**	**7,555.2**	**3,491.3**	**123.2**	**23,991.0**

IFRS 16, Leases, was adopted on and has been applied since January 1, 2019. It is applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some of these figures are not comparable with the prior-year period.

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**

2. General Information and Accounting Principles

Continental Aktiengesellschaft (Continental AG), whose registered office is Vahrenwalder Straße 9, Hanover, Germany, is the parent company of the Continental Corporation and a listed stock corporation. It is entered in the commercial register of the Hanover Local Court *(Amtsgericht)* under HR B 3527. Continental AG is a supplier to the automotive industry, with worldwide operations. The areas of business and main activities in which Continental AG is engaged are described in more detail in the Segment Reporting section. The consolidated financial statements of Continental AG for fiscal 2019 were prepared by resolution of the Executive Board of March 2, 2020, and will be submitted to and published in the German Federal Gazette *(Bundesanzeiger)*. Continental AG is included in the consolidated financial statements of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, which are published in the German Federal Gazette.

The consolidated financial statements of Continental AG as at December 31, 2019, have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, pursuant to E.U. Regulation (E.C.) No. 1606/2002 in conjunction with Section 315e (1) of the German Commercial Code *(Handelsgesetzbuch – HGB)*. The term IFRS also includes the International Accounting Standards (IAS), the interpretations issued by the International Financial Reporting Standards Interpretations Committee or its predecessor the International Financial Reporting Interpretations Committee (IFRIC), and those of the former Standing Interpretations Committee (SIC). All International Financial Reporting Standards mandatory for fiscal 2019 have been applied, subject to endorsement by the European Union.

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

The annual financial statements of companies included in the corporation have been prepared using uniform accounting policies, in accordance with IFRS 10, *Consolidated Financial Statements*. The reporting date for the individual financial statements of companies included in the corporation is the same as the reporting date for the consolidated financial statements.

The first-time adoption of IFRS 16, *Leases*, affected the reporting period.

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

Companies consolidated

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

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

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

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

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

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

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

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

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

Currency translation

The statements of financial position of foreign subsidiaries with a functional currency other than the euro are translated into euros using the middle rate at the end of the reporting period (closing rate). The income statements are translated at the average exchange rate for the year. Differences resulting from currency translation are recognized in the difference from currency translation in equity until the disposal of the subsidiary, without recognizing deferred taxes.

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

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

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

Currencies		**Closing rate**		**Average rate for the year**	
€1 in		**December 31, 2019**	December 31, 2018	**2019**	2018
Brazil	BRL	4.51	4.44	4.42	4.31
Switzerland	CHF	1.09	1.13	1.11	1.16
China	CNY	7.81	7.88	7.73	7.80
Czechia	CZK	25.41	25.71	25.67	25.64
United Kingdom	GBP	0.85	0.90	0.88	0.88
Hungary	HUF	330.55	321.05	325.32	318.74
Japan	JPY	121.78	126.02	122.07	130.43
South Korea	KRW	1,294.82	1,276.08	1,304.91	1,299.44
Mexico	MXN	21.23	22.49	21.56	22.71
Malaysia	MYR	4.59	4.73	4.64	4.76
Philippines	PHP	56.82	60.11	57.97	62.26
Romania	RON	4.78	4.67	4.75	4.65
U.S.A.	USD	1.12	1.14	1.12	1.18
South Africa	ZAR	15.72	16.47	16.17	15.60

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

In accordance with IFRS 15, *Revenue from Contracts with Customers*, Continental recognizes as revenue from contracts with customers the amount that is received as consideration for the transfer of goods or services to customers. The relevant point in time or period of time is the transfer of control of the goods or services to the customer (control approach).

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

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

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

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

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

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

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

Dividends receivable are recognized upon the legal entitlement to payment.

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

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

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

The details of the annual impairment test are described under "Impairment." Once an impairment loss has been recognized on goodwill, it is not reversed in subsequent periods.

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

The details of the annual impairment test are described under "Impairment."

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

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

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

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

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

When assets are sold, closed down or scrapped, the difference between the net proceeds and the net carrying amount of the assets is recognized as gain or loss in other operation income or expense, respectively.

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

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

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

Leases
A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lessee shall recognize a right-of-use asset and a corresponding lease liability, which represents the lessee's obligation to make lease payments.

The lease liability is measured at the present value of the lease payments not yet made. It is recognized under indebtedness. Discounting is determined using the weighted-average incremental borrowing rates, as the interest rates underlying the leases often cannot be determined regularly. The right-of-use-asset recognized by the lessee is measured at cost. This amount comprises the corresponding lease liability and prepaid lease payments, taking into account any lease incentives received. It is recognized in property, plant and equipment. Depreciation is charged on a straight-line basis. The lease liability is subsequently measured according to the effective interest method. The resulting interest expense is recognized in the financial result.

Continental utilizes the exemptions for short-term leases and for leases in which the underlying asset is of low value.

Continental leases property, plant and equipment, especially buildings.

As lessor, Continental classifies leases as operating leases or finance leases. For this classification, Continental considers whether the lease transfers substantially all the risks and rewards incidental to ownership of an underlying asset. If this is the case, it is a finance lease; otherwise, it is an operating lease.

If Continental acts as an intermediate lessor, the interests arising from the head lease and sublease are accounted for separately. The sublease is measured based on the value of the right-of-use asset resulting from the head lease and not based on the underlying asset. If the head lease is a short-term lease for which the corporation applies the exemption described in Note 3, it classifies the sublease as an operating lease.

The corporation applies IFRS 15, *Revenue from Contracts with Customers*, when allocating the consideration in the contract to each lease and non-lease.

Impairment

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

Within the context of the annual planning process, global production of passenger cars and light commercial vehicles was not expected to increase substantially in the coming years (2020–2024). Due to this triggering event and other significant assumptions made when calculating the value in use of a cash-generating unit (CGU) – such as free cash flows, the discount rate and its parameters, and the long-term growth rate – goodwill was impaired by €2,291.2 million (September 30, 2019: €2,305.2 million). The Interior segment accounted for €1,347.9 million (September 30, 2019: €1,358.6) million of this, the Chassis & Safety segment for €719.8 million (September 30, 2019: €722.4 million), and the Powertrain segment for €223.5 million (September 30, 2019: €224.2 million). This impairment of goodwill is recognized in other expenses. The changes compared to September 30, 2019, are exclusively attributable to exchange-rate changes.

The impairment test as at September 30, 2019, was performed on the basis of the bottom-up business plan for 2019–2023 approved by management but adjusted for the changes in expectations for the global production of passenger cars and light commercial vehicles. For the CGUs of the Interior and Chassis & Safety segments, the cash flows were discounted with an interest rate before tax of 10.0%; for those of the Powertrain segment, they were discounted with an interest rate of 9.6%; and for those of the Tire and ContiTech segments, with an interest rate of 8.2%. At the time the test was performed, this pre-tax WACC was based on the capital structure of the respective relevant peer group on average over the last five years. The risk-free interest rate was -0.03% and the market risk premium 7.0%. Borrowing costs were calculated as the total of the risk-free interest rate plus the credit spreads of peer group companies rated by Standard & Poor's, Moody's or Fitch.

On average, the growth rate in the detailed planning period for the CGUs in the Interior segment was 6.1% (PY: 8.5%), in Chassis & Safety 4.0% (PY: 6.8%), in Powertrain 5.9% (PY: 6.5%), in Tires 3.8% (PY: 5.5%) and in ContiTech 3.5% (PY: 7.1%). The long-term growth rate was 1.5% for the CGUs of the Interior and Chassis & Safety segments and 1.0% for those of the Powertrain segment. For those of the Tire and ContiTech segments, the long-term growth rate was 0.5%. These growth rates do not exceed the long-term average growth rates for the markets in which the CGUs operate.

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

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

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

Annual impairment testing was performed on the basis of the bottom-up business plan for the next five years approved by management in the period under review. For the CGUs of the Interior and Chassis & Safety segments, the cash flows were discounted with an interest rate before tax of 11.1 % (PY: 10.7%) in the reporting year; for those of the Powertrain segment, they were discounted with an interest rate of 10.7% (PY: 10.7%); and for those of the Tire and ContiTech segments, with an interest rate of 9.2% (PY: 9.8%). These pre-tax WACCs are based on the capital structure of the respective relevant peer group on average over the last five years. The risk-free interest rate is 0.2% (PY: 1.1%) and the market risk premium

7.5% (PY: 6.75%). Borrowing costs were calculated as the total of the risk-free interest rate plus the credit spreads of peer group companies rated by Standard & Poor's, Moody's or Fitch.

For the annual impairment test, the average growth rate in the detailed planning period for the CGUs in the Interior segment was 6.1% (PY: 8.5%), in Chassis & Safety 4.0% (PY: 6.8%), in Powertrain 5.9% (PY: 6.5%), in Tires 3.8% (PY: 5.5%) and in ContiTech 3.5% (PY: 7.1%). The long-term growth rate was 1.5% (PY: 1.5%) for the CGUs of the Interior and Chassis & Safety segments and 1.0% (PY: 1.5%) for those of the Powertrain segment. For those of the Tire and ContiTech segments, the long-term growth rate was 0.5% (PY: 0.5%). These growth rates do not exceed the long-term average growth rates for the markets in which the CGUs operate.

The recoverable amount of the CGUs affected by impairment during the course of the year corresponds to at least their value in use at the time the annual impairment test is performed.

	December 31, 2019		September 30, 2019
Cash-generating unit in € millions	**Value in use**	**Impairment**	**Impairment**
Infotainment & Connectivity	385.0	568.5	570.2
Instrumentation & Driver HMI	1,664.0	779.4	788.4
Hydraulic Brake Systems	920.3	267.2	268.5
Vehicle Dynamics	1,946.1	452.6	453.9
Engine & Drivetrain Systems	2,377.9	223.5	224.2
		2,291.2	**2,305.2**

The annual impairment testing of goodwill determined no further requirements for impairment for 2019.

Assuming a 0.5-percentage-point increase in the discount rate to 11.6% for the Interior and Chassis & Safety segments,11.2% for the Powertrain segment and 9.7% for the Tire and ContiTech segments would potentially result in an additional asset impairment in Instrumentation & Driver HMI of around €28 million. Goodwill would additionally be impaired by around €76 million in Vehicle Dynamics. Reducing the long-term growth rate by 0.5 percentage points would result in an additional impairment of goodwill of around €44 million in Vehicle Dynamics. If sales in perpetuity would decline by 5.0%, consequently reducing free cash flow as a key planning parameter, this would potentially result in an asset impairment of around €21 million in Instrumentation & Driver HMI. Goodwill would additionally be impaired by around €46 million in Vehicle Dynamics.

The corporation recognized a goodwill impairment of €2.3 million in the ContiTech segment for the CGU Special Technologies and Solutions due to the discontinuation of a business activity.

Assets held for sale and related liabilities

A non-current asset (or disposal group) is classified as held for sale and is presented separately in the statement of financial position if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

A non-current asset (or disposal group) held for sale is measured at the lower of its carrying amount and fair value less costs to sell where it meets the held for sale criteria. Depreciation of these assets ceases once they are classified as held for sale. Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts shall be measured in accordance with the applicable IFRS.

A non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners. For this to be the case, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. A non-current asset (or disposal group) held for distribution is measured at the lower of its carrying amount and fair value less costs to distribute.

On subsequent remeasurement of a disposal group, the carrying amounts of any assets and liabilities that are not within the scope of the measurement requirements of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, but are included in a disposal group classified as held for sale, shall be remeasured in accordance with the applicable IFRS before the fair value less costs to sell of the disposal group is remeasured.

A discontinued operation can also be classified as held for sale under IFRS 5. A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The classification of a component of an entity as a discontinued operation is also appropriate in the case of classification as held for distribution, provided the criteria are met.

In the context of IFRS 5, the intended spin-off of the companies which were the subject of the carve-out and the transformation of the Vitesco Technologies Group into an independent legal entity is significant in the reporting period. After critical assessment of the overall circumstances, there is no obligation to report these spun-off companies as discontinued operations in accordance with IFRS 5 as at December 31, 2019. According to critical analysis, the above explained criteria relevant for the classification in accordance with IFRS 5 were not met due to the existing uncertainty as at the end of the reporting period. The relevant requirements of IFRS 5 are therefore not applied in the consolidated financial statements.

Financial instruments

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

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

Financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Insolvency or a similar event that indicates significant financial difficulty and a probable default of the counterparty.
- Probable debt waiver.
- A breach of contract that leads to the assumption that it is more probable that one or more receivables are not collectible.
- Other reasons in the assessment of credit management that lead to the assumption that it is more probable that the receivables are not collectible.

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

Financial liabilities

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

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

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

Changes in the fair values of derivative instruments that are designated to hedge cash flows where effectiveness is demonstrated are recognized in the cash flow hedge reserve in the difference from financial instruments in equity. If these cumulative fair value changes from inception of the hedge exceed the cumulative present value changes of the hedged items, the excess amounts are recognized directly in the income statement. The cash flow hedge reserve is reclassified to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss.

If the hedged cash flows are no longer expected to occur, that amount is immediately reclassified from the reserve to profit or loss.

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

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

Embedded derivatives

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

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

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

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

Inventories

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

Other assets

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

Accounting for income taxes

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

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

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

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

Employee benefits

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

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

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

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

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

Provisions for other risks and obligations

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

Non-financial liabilities

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

Share-based payments

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

Estimates

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

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

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

Consolidated statement of cash flows

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

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

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

Accounting policies applied until December 31, 2018

In the 2019 reporting year, the corporation applied IFRS 16, *Leases*, retrospectively for the first time, making use of the exemption from restating comparative information retrospectively. The comparative information is therefore still reported in accordance with the corporation's previous accounting policies. It is based on IAS 17, *Leases*, and its related interpretations (IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, SIC-15, *Operating Leases – Incentives*, and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*), which have been replaced by IFRS 16.

The previous accounting policies relevant for the comparative period regarding leases of property, plant and equipment, especially buildings, are explained below:

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

3. New Accounting Pronouncements

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

The following endorsed standards, interpretations issued in relation to published standards and amendments that were applicable to the consolidated financial statements of Continental AG became effective in 2019 and have been adopted accordingly:

IFRS 16, *Leases*, replaces the existing guidance for the accounting of leases and supersedes IAS 17, *Leases*; IFRIC 4, *Determining Whether an Arrangement Contains a Lease*; SIC-15, *Operating Leases – Incentives*; and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for the lessee and the lessor. IFRS 16 includes significant changes to lessee accounting with the removal of the distinction between finance lease and operating lease and the general recognition of all leases in the statement of financial position. In accordance with IFRS 16, the lessee shall recognize a right-of-use asset and a corresponding lease liability, which represents the lessee's obligation to make lease payments. The standard grants exemptions for short-term leases and for leases in which the underlying asset is of low value. Continental AG has made use of these exemptions. Regarding lessor accounting, the standard maintains the requirements of IAS 17. Accordingly, the lessor continues to classify leases as finance or operating leases. The standard and the consequential amendments to other standards are required to be applied for annual periods beginning on or after January 1, 2019. When adapting to the new lease standard, the company can select either the full retrospective approach or the modified retrospective approach including optional practical expedients. Continental applied IFRS 16 for the first time as of January 1, 2019, and selected the modified retrospective approach. The values for comparative periods are based on the accounting principles of IAS 17 and are shown unadjusted. Effects from the first-time adoption are presented in the opening statement of financial position as at January 1, 2019. The standard and the consequential amendments to other standards had a significant effect on the consolidated financial statements of Continental AG.

The amendments to IAS 19, *Employee Benefits (Plan Amendment, Curtailment or Settlement)*, clarify the accounting for plan amendments, curtailments and settlements. When there is a plan amendment, curtailment or settlement, the net defined benefit liability (asset) shall be remeasured using the current fair value of plan assets and current actuarial assumptions in order to determine past service cost or a gain or loss on settlement. In such cases, the amendments specify that current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment and settlement shall be determined using the updated actuarial assumptions as well. The net interest for the remainder of the annual reporting period after the plan amendment, curtailment and settlement shall be determined on the basis of the remeasured net defined benefit liability (asset). The amendments are required to be applied for annual periods beginning on or after January 1, 2019. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The amendments to IAS 28, *Investments in Associates and Joint Ventures (Long-term Interests in Associates and Joint Ventures)*, clarify that IFRS 9, *Financial Instruments*, applies to entities' long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the entity's net investment in an associate or joint venture. The amendments clarify that an entity has to apply the IFRS 9 requirements before applying the loss allocation and impairment requirements in IAS 28. Furthermore, in applying IFRS 9, an entity does not take account of any adjustments to the carrying amount of long-term interests that result from the application of IAS 28. Planned as proposed amendments to the IASB's annual improvements project, *Improvements to IFRSs, December 2017, Cycle 2015–2017*, it was finally decided to issue these amendments to IAS 28 separately. The amendments are required to be applied for annual periods beginning on or after January 1, 2019. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The amendments to IFRS 9, *Financial Instruments (Prepayment Features with Negative Compensation)*, state that particular financial assets with prepayment features that may result in reasonable negative compensation for the early termination of such contracts are eligible to be measured at amortized cost or at fair value through other comprehensive income. Regarding the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in derecognition, the amendments in the basis for conclusions clarify that any adjustment to the amortized cost should be recognized in profit or loss at the date of the modification or exchange. The amendments are required to be applied for annual periods beginning on or after January 1, 2019. The amendments had no significant effect on the consolidated financial statements of Continental AG.

IFRIC 23, *Uncertainty over Income Tax Treatments*, clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. According to IFRIC 23, uncertain tax treatments shall be considered separately or together with one or more other uncertain tax treatments depending on which approach better predicts the resolution of the uncertainty. For the assessment, it is assumed that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. Depending on which method the entity expects to better predict the resolution of the uncertainty, the most likely amount or the expected value can be used to reflect the effect of uncertainty for each uncertain tax treatment. If an uncertain tax treatment affects current tax and deferred tax, consistent judgments and estimates shall be made for both current and deferred tax. Furthermore, the interpretation contains a guideline for the consideration of changes in facts and circumstances and refers to existing disclosure requirements for uncertain tax positions. The interpretation and the consequential amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, are required to be applied for annual periods beginning on or after January 1, 2019. The interpretation had no significant effect on the consolidated financial statements of Continental AG.

Under the IASB's annual improvements project, *Improvements to IFRSs, December 2017, Cycle 2015–2017*, the following amendments are effective:

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

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

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

The amendments are required to be applied for annual periods beginning on or after January 1, 2019. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The following standards, interpretations issued in relation to published standards and amendments have already been adopted by the E.U. but will not take effect until a later date:
The amendments to IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *(Definition of Material)*, clarify the definition of materiality and standardize it in all standards and the Conceptual Framework of the IFRS. The amendments and the consequential amendments to other standards and publications are required to be applied for annual periods beginning on or after January 1, 2020. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 7, *Financial Instruments: Disclosures*, *(Interest Rate Benchmark Reform)*, modify some specific hedge accounting requirements and require additional information about hedging relationships in the context of the uncertainty caused by the IBOR reform. The amendments are required to be applied for annual periods beginning on or after January 1, 2020. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

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

The following standards, interpretations issued in relation to published standards and amendments have not yet been adopted by the E.U. and will become effective at a later date:
The amendments to IAS 1, *Presentation of Financial Statements (Classification of Liabilities as Current or Non-Current)*, clarify the classification of a liability. For a liability to be classified as non-current, the entity must have an unconditional right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The entity's intention to actually exercise this right is irrelevant. If the rights are dependent on certain terms, these must be fulfilled as at the end of the reporting period. If terms are attached to the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments, these do not affect its classification as current or non-current, provided the option is classified as an equity instrument and is reported separately as an equity component of a compound financial instrument in accordance with IAS 32, *Financial Instruments: Presentation*. The amendments are required to be applied for annual periods beginning on or after January 1, 2022. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

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

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

4. Companies Consolidated and Information on Subsidiaries and Investments

Companies consolidated
In addition to the parent company, the number of companies consolidated include 581 (PY: 572) domestic and foreign companies that Continental AG incorporates according to the regulations of IFRS 10, *Consolidated Financial Statements*, or that are classified as joint arrangements or associated companies. Of these, 451 (PY: 442) are fully consolidated and 130 (PY: 130) are accounted for using the equity method.

The number of companies consolidated has increased by a total of nine since the previous year. Three companies were formed, 17 were acquired and five previously unconsolidated entities were included in consolidation for the first time. Six structured entities were also fully consolidated according to IFRS 10. Three companies were liquidated, and the number of companies consolidated was reduced by 13 as a result of mergers.

The additions to the scope of consolidation in 2019 resulted mainly from acquisitions for the corporate restructuring.

A total of 38 (PY: 35) companies whose assets and liabilities, expenses and income – individually and combined – are not material for the earnings, financial and net assets position of the corporation, are not included in consolidation. 34 (PY: 34) of these are affiliated companies, three (PY: three) of which are currently inactive. Four (PY: one) further companies not included in consolidation are associated companies. These units are active.

Information on subsidiaries and investments
As at December 31, 2019, non-controlling interests were not of significance to the corporation. There are no significant restrictions in terms of access to or the use of assets of the corporation due to statutory, contractual or regulatory restrictions or property rights of non-controlling interests.

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

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

Further information on equity investments and an overview of the German companies and partnerships that utilized the exemption provisions of Sections 264 (3) and 264b of the German Commercial Code *(Handelsgesetzbuch – HGB)* can be found in Note 41.

5. Acquisition and Disposal of Companies and Business Operations

Acquisition of companies and business operations

In the Tire segment, as a result of the final purchase price settlement for the acquisition of Tyre and Auto Pty Ltd., Melbourne, Australia, in 2018, the purchase price increased by €0.8 million. The final purchase price allocation resulted in an increase in goodwill of €13.3 million to a total of €193.8 million, due among other things to a reduction in the valuation of intangible assets of €10.2 million and an increase in provisions of €7.9 million.

Four asset deals and two share deals also took place in the Tire segment. The purchase prices totaling €10.8 million were paid in cash. The purchase price allocations resulted in goodwill of €3.0 million, intangible assets of €1.5 million and a bargain purchase effect of €2.2 million, which was recognized in profit or loss under other income. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2019.

In the Chassis & Safety segment, there was a reduction in the purchase price of €2.0 million from €3.5 million to €1.5 million for a share deal from fiscal 2018 in connection with the final purchase price settlement. The final purchase price allocation resulted in goodwill of €1.1 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2019.

In the Interior segment, Continental Automotive GmbH, Hanover, Germany, acquired 100% of the shares in Kathrein Automotive GmbH, Hildesheim, Germany, on February 1, 2019. The company, a leading manufacturer of antenna and satellite technology as well as a broad range of communications technology, generated sales of €135.5 million in fiscal 2018. The acquisition augments the Body & Security business unit's expertise with the key segment of intelligent vehicle antennas. The purchase price for Kathrein Automotive GmbH now totals €149.9 million and was paid in cash. The total incidental acquisition costs incurred were recognized as other expenses in the amount of €0.5 million in fiscal 2018 and €0.8 million in fiscal 2019. The final purchase price allocation resulted mainly in goodwill of €38.9 million and other intangible assets of €93.7 million for the Interior segment. If the transaction had already been completed on January 1, 2019, net income after tax would have been €0.0 million lower and sales would have been up by €15.1 million. The transaction was closed on February 1, 2019. Since then, the company has generated sales of €143.6 million and, taking into account the effects of purchase price allocation, contributed net income after tax of -€0.3 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2019.

Also in the Interior segment, the put option on the acquisition of non-controlling interests in Zonar Systems, Inc., Seattle, Washington, U.S.A., was exercised for an exercise price of €55.3 million. The resulting difference of €29.2 million between the exercise price and the non-controlling interests was recognized in other comprehensive income.

In the ContiTech segment, a share and asset deal took place on April 1, 2019, for the acquisition of the anti-vibration systems business of Cooper-Standard Automotive Inc., Novi, Michigan, U.S.A. The business, which comprises the manufacturing of weight-optimized anti-vibration solutions to reduce noise and vibration in vehicles, generated sales of €294.7 million in fiscal 2018. The acquisition boosts the Vibration Control business unit's global presence in the area of vibration control and noise isolation, particularly in North America. The preliminary purchase price totals €216.8 million and was paid in cash. The total incidental acquisition costs incurred were recognized as other expenses in the amount of €2.1 million in fiscal 2018. The provisional purchase price allocation resulted mainly in goodwill of €72.8 million and other intangible assets of €78.9 million for the ContiTech segment. If the transaction had already been completed on January 1, 2019, net income after tax would have been €8.5 million higher and sales would have been up by €53.1 million. The transaction was closed on April 1, 2019. Since then, the business has generated sales of €191.2 million. Taking into account the effects of purchase price allocation and incurred integration costs, the business has contributed net income after tax of -€12.9 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2019.

Also in the ContiTech segment, there was an acquisition of remaining shares for a purchase price of €15.6 million. The resulting difference of €11.2 million between the purchase price and the carrying amount of the acquired shares was recognized in other comprehensive income.

One other asset deal took place in the ContiTech segment. The purchase price of €15.1 million was paid in cash. The purchase price allocation resulted in goodwill of €3.9 million, intangible assets of €4.4 million and inventories of €6.8 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2019.

Also in the ContiTech segment, 100% of the shares in Merlett Tecnoplastic S.p.A., Daverio, Italy, were acquired as part of a share deal. The deal was closed on November 4, 2019. With this acquisition, Continental intends to expand its material expertise beyond rubber, particularly with regard to high-performance thermoplastics technologies and solutions.

The purchase price for the shares amounts to €64.6 million and was paid in cash. The total incidental acquisition costs incurred were recognized as other expenses in the amount of €1.4 million in fiscal 2019. The provisional purchase price allocation resulted mainly in goodwill of €7.2 million and other intangible assets of €21.0 million for the ContiTech segment. If the transaction had already been completed on January 1, 2019, net income after tax would have been €4.2 million higher and sales would have been up by €67.4 million.

The transaction was closed on November 4, 2019. Since then, the company has generated sales of €10.0 million and, taking into account the effects of purchase price allocation, contributed net income after tax of -€3.8 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Corporation as at December 31, 2019.

Assets and liabilities that were part of the aforementioned acquisitions and adjustments to purchase price allocations from the previous year and were included in the consolidated statement of financial position were carried in the following amounts in fiscal 2019:

	Fair value at date of first-time consolidation			
Acquired net assets in € millions	**Kathrein**	**Cooper-Standard**	**Merlett**	**Other**
Other intangible assets[1]	93.7	78.9	21.0	-4.3
Property, plant and equipment	28.4	67.8	10.3	5.7
Investments in equity-accounted investees	0.0	17.6	0.0	0.0
Other investments	4.8	0.0	0.9	0.1
Deferred tax assets	0.1	0.0	0.0	4.8
Long-term other financial assets	1.5	0.0	0.0	0.0
Long-term other assets	0.1	0.0	0.0	0.0
Inventories	16.9	13.1	23.2	17.6
Trade accounts receivable	17.4	45.2	16.7	8.1
Short-term other financial assets	0.0	4.9	0.0	0.0
Short-term other assets	5.0	5.1	1.0	0.0
Income tax receivables	0.3	0.0	1.0	0.0
Cash and cash equivalents	6.3	0.0	9.8	3.6
Long-term employee benefits	-3.7	-22.4	-5.2	-1.4
Deferred tax liabilities	-15.6	-4.6	-5.9	0.1
Long-term provisions for other risks and obligations	-3.4	-2.3	-0.6	-7.3
Long-term indebtedness	-4.2	-8.2	0.0	-0.4
Short-term employee benefits	-3.1	-5.0	-2.7	-1.6
Trade accounts payable	-19.3	-38.1	-9.1	-6.3
Short-term contract liabilities	0.0	-4.7	-0.1	0.0
Income tax payables	-3.0	0.0	-0.2	0.0
Short-term provisions for other risks and obligations	-2.6	0.0	-0.7	-0.1
Short-term indebtedness	-2.0	-1.5	0.0	-7.0
Short-term other financial liabilities	0.0	-0.5	-0.2	0.1
Short-term other liabilities	-6.6	-1.3	-1.8	-3.0
Purchased net assets	**111.0**	**144.0**	**57.4**	**8.7**
Purchase price	149.9	216.8	64.6	24.7
Bargain purchase effect				2.2
Goodwill	**38.9**	**72.8**	**7.2**	**18.2**

1 This includes €1.5 million for purchased software.

Notes to the Consolidated Statement of Income

6. Revenue from Contracts with Customers

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

Revenue in the Continental Corporation

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

€ millions	2019	2018
Sales	44,478.4	44,404.4
Other revenues from research and development	1,107.6	1,071.2
Other revenues	75.5	63.0
Revenues from contracts with customers	**45,661.5**	**45,538.6**
Other ancillary business	109.6	111.9
Governmental grants	81.5	64.4
Sale of fixed assets	31.8	29.1
Revenues from franchising and trademarks	20.5	4.3
Sale of energy and scrap	10.7	15.1
Gains from sale of a company	0.0	49.2
Others	3.7	8.5
Revenues from other sources	**257.8**	**282.5**
Total revenues	**45,919.3**	**45,821.1**

Sales from contracts with customers from January 1 to December 31, 2019

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Germany	1,745.7	1,532.3	2,549.9	1,551.4	1,217.1	-246.8	8,349.6
Europe excluding Germany	2,051.1	2,109.5	2,611.7	4,761.8	1,631.4	-62.6	13,102.9
North America	2,336.3	1,871.1	2,322.9	3,166.3	2,015.1	-83.7	11,628.0
Asia	3,089.3	2,181.0	1,889.7	1,502.6	1,119.8	-30.4	9,752.0
Other countries	159.2	108.4	221.3	745.9	418.1	-7.0	1,645.9
Sales by region	**9,381.6**	**7,802.3**	**9,595.5**	**11,728.0**	**6,401.5**	**-430.5**	**44,478.4**
Automotive original equipment business	9,379.1	7,518.3	8,592.8	3,059.4	3,230.1	-254.0	31,525.7
Industrial/replacement business	2.5	284.0	1,002.7	8,668.6	3,171.4	-176.5	12,952.7
Sales by customer type	**9,381.6**	**7,802.3**	**9,595.5**	**11,728.0**	**6,401.5**	**-430.5**	**44,478.4**

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

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

Revenue from research and development is presented in Note 7 (Research and Development Expenses) of the notes to the consolidated financial statements.

Description of sales revenue in automotive original equipment business

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

Description of sales revenue in industrial and replacement business

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

Description of revenue in smaller business activities

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

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

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

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

Information on contract assets and contract liabilities

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

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

€ millions	December 31, 2019	December 31, 2018
Contract assets	89.2	67.5

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

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

€ millions	December 31, 2019	December 31, 2018
Contract assets	251.6	161.2

Of the contract liabilities of €161.2 million accounted for at the beginning of the year, €153.4 million was recognized as revenue in the reporting year. As a result of performance obligations satisfied in previous years, no material revenue – for example, due to changes in the transaction price – was recognized in the reporting year.

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

€ millions	2020	2021 onward
Revenue from research and development	175.7	274.0
Other revenues	45.9	47.4
Total	**221.6**	**321.4**

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

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

7. Research and Development Expenses

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

	2019					
€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Continental Corporation
Research and development expenses	-1,468.1	-1,057.7	-1,452.0	-299.4	-194.6	-4,471.8
Revenue from research and development	419.4	393.6	262.8	—	31.8	1,107.6
Research and development expenses (net)	**-1,048.7**	**-664.1**	**-1,189.2**	**-299.4**	**-162.8**	**-3,364.2**

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

8. Other Income and Expenses

€ millions	2019	2018
Other income	1,774.6	1,803.4
Other expenses	–4,203.2	–1,027.5
Other income and expenses	**–2,428.6**	**775.9**

Other income

€ millions	2019	2018
Income from research and development	1,107.6	1,071.2
Income from the reversal of provisions	116.3	83.5
Income from the reimbursement of customer tooling expenses	75.5	63.0
Income from the reversal of impairment on financial assets and contract assets	37.2	29.8
Compensation from customers and suppliers	34.5	90.2
Income from the reversal of provisions for litigation and environmental risks	34.0	26.6
Income from the disposal of property, plant and equipment	31.8	29.1
Income from the reversal of provisions for severance payments	4.7	8.5
Bargain purchase effect	2.2	2.9
Income from the disposal of companies and business operations	0.0	187.1
Reversal of impairment losses on property, plant and equipment	0.0	2.8
Miscellaneous	330.8	208.7
Other income	**1,774.6**	**1,803.4**

Other income decreased by €28.8 million to €1,774.6 million (PY: €1,803.4 million) in the reporting period.

Income from research and development increased by €36.4 million to €1,107.6 million (PY: €1,071.2 million).

The reversal of specific warranty provisions and provisions for restructuring measures resulted in income of €116.3 million (PY: €83.5 million) in the reporting period.

Reimbursement of customer tooling expenses resulted in income of €75.5 million (PY: €63.0 million) in 2019.

Income from the reversal of impairment on financial assets and contract assets was €37.2 million (PY: €29.8 million).

Compensation from customers and suppliers resulted in income totaling €34.5 million (PY: €90.2 million) in the reporting period.

The reversal of provisions for litigation and environmental risks resulted in income totaling €34.0 million (PY: €26.6 million).

Income of €31.8 million (PY: €29.1 million) was generated from the disposal of property, plant and equipment in the period under review.

Income of €4.7 million (PY: €8.5 million) arose from the reversal of provisions for severance payments in 2019.

An acquisition in the reporting period resulted in a bargain purchase effect of €2.2 million (PY: €2.9 million).

Disposals of companies and business operations did not result in any notable income in 2019 (PY: €187.1 million).

Reversal of impairment losses on property, plant and equipment did not result in any notable income (PY: €2.8 million).

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

Other expenses

€ millions	2019	2018
Impairment on goodwill	2,293.5	–
Additions to specific warranty provisions and provisions for restructuring measures	952.7	348.4
Impairment on property, plant and equipment, and intangible assets	216.4	23.5
Additions to provisions for litigation and environmental risks	80.6	91.6
Expenses from currency translation	75.3	86.7
Expenses from impairment on financial assets and contract assets	75.3	41.6
Expenses from severance payments	61.9	63.9
Expenses from customer tooling	60.2	38.8
Losses on the disposal of property, plant and equipment, and from scrapping	27.3	22.2
Compensation to customers and suppliers	11.2	71.8
Incidental acquisition costs from acquisitions of companies and business operations	5.4	2.0
Losses on the disposal of companies and business operations	0.0	28.9
Miscellaneous	343.4	208.1
Other expenses	**4,203.2**	**1,027.5**

Other expenses increased by €3,175.7 million to €4,203.2 million (PY: €1,027.5 million) in the reporting period.

Within the context of the annual planning process, global production of passenger cars and light commercial vehicles was not expected to increase substantially in the coming years (2020–2024). Due to this triggering event and other significant assumptions made when calculating the value in use of a cash-generating unit (CGU) – such as free cash flows, the discount rate and its parameters, and the long-term growth rate – goodwill was impaired by €2,291.2 million (PY: –). Please see Note 2 for information on impairment.

The corporation recognized a goodwill impairment of €2.3 million in the ContiTech segment for the CGU Special Technologies and Solutions due to the discontinuation of a business area (PY: –).

Additions to specific warranty provisions and provisions for restructuring measures resulted in expenses totaling €952.7 million (PY: €348.4 million).

Impairment on property, plant and equipment, and intangible assets amounted to €216.4 million (PY: €23.5 million) in the reporting period.

In connection with provisions for litigation and environmental risks, there were expenses of €80.6 million (PY: €91.6 million).

In the year under review, expenses of €75.3 million (PY: €86.7 million) were incurred as a result of currency translation from operating receivables and liabilities in foreign currencies not classified as indebtedness.

Expenses from impairment on financial assets and contract assets were €75.3 million (PY: €41.6 million).

Personnel adjustments not related to restructuring led to expenses from severance payments of €61.9 million (PY: €63.9 million).

Expenses from customer tooling of €60.2 million (PY: €38.8 million) arose in 2019.

Losses on the disposal of property, plant and equipment, and from scrapping amounted to €27.3 million (PY: €22.2 million) in 2019.

Compensation to customers and suppliers that is not attributable to warranties resulted in expenses of €11.2 million (PY: €71.8 million) in the reporting period.

Incidental acquisition costs of €5.4 million (PY: €2.0 million) were incurred for the acquisition of companies and business operations.

The disposal of companies and business operations did not result in any notable losses (PY: €28.9 million).

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

9. Personnel Expenses

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

€ millions	2019	2018
Wages and salaries	9,532.9	9,074.4
Social security contributions	1,838.4	1,704.5
Pension and post-employment benefit costs	378.7	346.4
Personnel expenses	**11,750.0**	**11,125.3**

Compared to the 2018 reporting year, personnel expenses rose by €624.7 million to €11,750.0 million (PY: €11,125.3 million). This increase is due primarily to the rise in the average number of employees. The average number of employees in 2019 was 244,137 (PY: 242,797). As at the end of the year, there were 241,458 (PY: 243,226) employees in the Continental Corporation. Please also see the comments in the management report.

10. Income from Investments

€ millions	2019	2018
Income from equity-accounted investees	-124.3	69.6
Other income from investments	0.5	0.8
Income from investments	**-123.8**	**70.4**

Income from investments includes, in particular, the share of income from equity-accounted investees in the amount of -€124.3 million (PY: €69.6 million). This figure includes an expense from an allowance recognized on the carrying amount in the associate OSRAM CONTINENTAL GmbH, Munich, Germany, in the amount of €157.9 million (PY: –).

11. Financial Result

€ millions	2019	2018
Interest and similar income	66.5	58.3
Expected income from long-term employee benefits and from pension funds	80.7	64.6
Interest income	**147.2**	**122.9**
Interest and similar expenses	-120.6	-124.4
Interest expenses from lease liabilities/Expense from finance leases	-32.1	-0.8
Interest expense for long-term provisions and liabilities	-3.2	-5.1
Interest expense from long-term employee benefits	-161.4	-145.9
Interest expense	**-317.3**	**-276.2**
Effects from currency translation	**-30.5**	**-30.4**
Effects from changes in the fair value of derivative instruments	-12.7	5.9
Other valuation effects	-107.0	0.0
Effects from changes in the fair value of derivative instruments, and other valuation effects	**-119.7**	**5.9**
Financial result	**-320.3**	**-177.8**

The negative financial result increased by €142.5 million year-on-year to €320.3 million (PY: €177.8 million) in 2019. This was primarily attributable to other valuation effects.

Interest income increased by €24.3 million year-on-year to €147.2 million (PY: €122.9 million) in 2019. Expected income from long-term employee benefits and from pension funds totaled €80.7 million in this period (PY: €64.6 million). This did not include the interest income from the plan assets of the pension contribution funds.

Interest expense totaled €317.3 million in 2019 and was thus €41.1 million higher than the previous year's figure of €276.2 million. The interest expense from long-term employee benefits totaled €161.4 million (PY: €145.9 million) in this period. This did not include the interest expense from the defined benefit obligations of the pension contribution funds. At €155.9 million, interest expense resulting mainly from bank borrowings, capital market transactions and other financing instruments was higher than the prior-year figure of €130.3 million. An increase in expenses resulted in particular from the new standard IFRS 16, *Leases*, the application of which has been mandatory since January 1, 2019. The recognition of all leases in the statement of financial position accordingly resulted in increased expenses from interest on lease liabilities. In 2019, this interest expense amounted to €32.1 million (PY: €0.8 million). The bonds issued by Continental AG and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., resulted in expenses of €32.4 million (PY: €54.6 million). The year-on-year decline is attributable to the repayment of two bonds. Firstly, the €750.0-million euro bond from Continental AG was repaid on July 16, 2018. This five-year bond bore interest at a rate of 3.0% p.a. Secondly, the €500.0-million euro bond from Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., was repaid on February 19, 2019. This bond was issued with a fixed interest rate of 0.5% p.a., which was exchanged via cross-currency interest-rate swaps for a U.S.-dollar-based fixed interest rate averaging 2.365%.

Effects from currency translation resulted in a negative contribution to earnings of €30.5 million (PY: €30.4 million) in the reporting year. Effects from changes in the fair value of derivative instruments, and other valuation effects, also resulted in an expense in 2019. This expense amounted to €119.7 million (PY: income of €5.9 million). The reasons for this are in particular allowances for doubtful accounts on loans to associates as well as expenses from the creation of a provision for loan commitments to these companies in the amount of €108.2 million, which are included in the other valuation effects of €107.0 million (PY: income of €0.0 million). Taking into account the sum of the effects from currency translation and changes in the fair value of derivative instruments, earnings in 2019 were negatively impacted by €43.2 million (PY: €24.5 million).

12. Income Tax Expense

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

€ millions	**2019**	2018
Current taxes (domestic)	–175.1	–86.2
Current taxes (foreign)	–894.1	–757.0
Deferred taxes (domestic)	173.4	–44.1
Deferred taxes (foreign)	313.4	–4.3
Income tax expense	**–582.4**	**–891.6**

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

€ millions	2019	2018
Earnings before tax	**–588.6**	**3,849.9**
Non-tax-deductible impairment of goodwill	1,631.7[1]	–
Earnings before tax and impairment of goodwill	**1,043.1**	**3,849.9**
Expected tax expense at the domestic tax rate	–320.2	–1,178.1
Non-deductible expenses and non-imputable withholding taxes	–387.4	–146.1
Incentives and tax holidays	187.8	134.6
Foreign tax rate differences	146.2	277.5
Non-recognition of deferred tax assets unlikely to be realized	–117.4	–79.6
Local income tax with different tax base	–90.7	–12.3
Taxes for previous years	–79.3	100.0
Change in permanent differences	36.6	–28.6
Realization of previously non-recognized deferred taxes	22.2	27.0
Effects from changes in enacted tax rate	15.0	–6.9
Tax effect from equity-accounted investees	7.5	16.0
Initial recognition of deferred tax assets likely to be realized	7.1	–
Other	–9.8	4.9
Income tax expense	**–582.4**	**–891.6**
Effective tax rate in %	**55.8**	**23.2**

1 Earnings before tax are not adjusted for the total goodwill impairment in the amount of €2,293.5 million. A portion totaling €661.8 million resulted in the reversal of deferred tax liabilities and therefore must be excluded from the reconciliation.

The average domestic tax rate in 2019 was 30.7% (PY: 30.6%). This took into account a corporate tax rate of 15.0% (PY: 15.0%), a solidarity surcharge of 5.5% (PY: 5.5%) and a trade tax rate of 14.9% (PY: 14.8%).

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

As in the previous year, foreign tax rate differences as well as 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 €117.4 million (PY: €79.6 million), of which €3.9 million (PY: €16.4 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 taxes. Please see Note 19.

The tax effects from government incentives and tax holidays increased in comparison to the previous year. In addition to the ongoing utilization of incentives in Europe and Asia as in the previous year, the utilization of government incentives in the U.S.A. had a further positive impact in the reporting year. In the year under review, local income taxes of €90.7 million (PY: €12.3 million) were incurred with a different tax base. This increase was attributable primarily to the alternative minimum tax in the U.S.A.

The result of equity-accounted investees included in net income resulted in tax income of €7.5 million (PY: €16.0 million) in the year under review.

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

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

€ millions	**December 31, 2019**	December 31, 2018
Income tax expense (acc. to consolidated statement of income)	**–582.4**	**–891.6**
Tax income on other comprehensive income	237.5	33.4
Remeasurement of defined benefit plans	236.9	30.7
Investment in equity-accounted investees	0.1	0.0
Currency translation	0.3	2.2
Cash flow hedges	0.2	0.5
Total income tax expense	**–344.9**	**–858.2**

Notes to the Consolidated Statement of Financial Position

13. Goodwill and Other Intangible Assets

€ millions	Goodwill	Capitalized development expenses[1]	Other intangible assets	Advances to suppliers	Total other intangible assets
As at January 1, 2018					
Cost	**9,597.7**	393.5	2,705.7	17.3	**3,116.5**
Accumulated depreciation	**-2,587.6**	-171.1	-1,338.1	–	**-1,509.2**
Book value	**7,010.1**	**222.4**	**1,367.6**	**17.3**	**1,607.3**
Net change in 2018					
Book value	**7,010.1**	222.4	1,367.6	17.3	**1,607.3**
Exchange-rate changes	**33.5**	1.2	17.2	1.2	**19.6**
Additions	**–**	157.9	54.5	19.4	**231.8**
Additions from the first-time consolidation of subsidiaries	**189.8**	–	47.4	–	**47.4**
Reclassification to assets held for sale	**–**	–	0.0	–	**0.0**
Transfers	**–**	–	7.5	-7.8	**-0.3**
Disposals	**–**	–	-0.2	-0.3	**-0.5**
Depreciation	**–**	-90.0	-249.0	–	**-339.0**
Impairment	**–**	–	0.0	–	**0.0**
Book value	**7,233.4**	**291.5**	**1,245.0**	**29.8**	**1,566.3**
As at December 31, 2018					
Cost	**9,823.5**	552.1	2,818.5	29.8	**3,400.4**
Accumulated depreciation	**-2,590.1**	-260.6	-1,573.5	–	**-1,834.1**
Book value	**7,233.4**	**291.5**	**1,245.0**	**29.8**	**1,566.3**
Net change in 2019					
Book value	**7,233.4**	291.5	1,245.0	29.8	**1,566.3**
Exchange-rate changes	**36.5**	1.0	30.3	0.0	**31.3**
Additions	**–**	200.4	99.7	26.2	**326.3**
Additions from the first-time consolidation of subsidiaries	**137.1**	0.0	189.3	–	**189.3**
Transfers	**–**	-25.4	36.9	-11.5	**0.0**
Disposals	**–**	–	-0.1	0.0	**-0.1**
Depreciation	**–**	-119.2	-251.7	–	**-370.9**
Impairment	**-2,293.5**	-12.8	-17.6	-20.0	**-50.4**
Book value	**5,113.5**	**335.5**	**1,331.8**	**24.5**	**1,691.8**
As at December 31, 2019					
Cost	**10,004.8**	631.1	3,139.9	44.5	**3,815.5**
Accumulated depreciation	**-4,891.3**	-295.6	-1,808.1	-20.0	**-2,123.7**
Book value	**5,113.5**	**335.5**	**1,331.8**	**24.5**	**1,691.8**

1 Excluding development expenses for internally generated software.

Acquisitions of companies in 2019 resulted in an addition to goodwill totaling €137.1 million (PY: €189.8 million). The carrying amount of goodwill relates principally to the acquisitions of Siemens VDO (2007), Continental Teves (1998), the automotive electronics business from Motorola (2006), Elektrobit Automotive (2015) and Veyance Technologies (2015). Please see Note 8 for information on impairment.

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

	Goodwill		
€ millions	**December 31, 2019**		December 31, 2018
Vehicle Dynamics	808.7	Vehicle Dynamics	1,259.1
Hydraulic Brake Systems	143.5	Hydraulic Brake Systems	409.0
Passive Safety & Sensorics	592.7	Passive Safety & Sensorics	592.1
Advanced Driver Assistance Systems	366.1	Advanced Driver Assistance Systems	366.9
Continental Engineering Services	17.5	Continental Engineering Services	16.9
Chassis & Safety	**1,928.5**	**Chassis & Safety**	**2,644.0**
Engine & Drivetrain Systems	485.2	Engine Systems[1]	455.3
Powertrain Components	320.7	Fuel & Exhaust Management[2]	78.4
		Sensors & Actuators[2]	209.4
		Transmission[1]	250.7
Powertrain	**805.9**	**Powertrain**	**993.8**
Instrumentation & Driver HMI	0.0	Instrumentation & Driver HMI	767.5
Infotainment & Connectivity	0.0	Infotainment & Connectivity	567.3
Body & Security	757.9	Body & Security	716.6
Commercial Vehicles & Aftermarket	630.2	Commercial Vehicles & Aftermarket	658.3
Interior	**1,388.1**	**Interior**	**2,709.7**
Passenger and Light Truck Tire Original Equipment	2.0	Passenger and Light Truck Tire Original Equipment	2.0
Passenger and Light Truck Tire Replacement Business, EMEA	140.0	Passenger and Light Truck Tire Replacement Business, EMEA	139.8
Passenger and Light Truck Tire Replacement Business, APAC	193.6	Passenger and Light Truck Tire Replacement Business, APAC	180.5
Passenger and Light Truck Tire Replacement Business, The Americas	16.9	Passenger and Light Truck Tire Replacement Business, The Americas	16.6
Commercial Vehicles Tires	57.2	Commercial Vehicles Tires	53.3
Tires	**409.7**	**Tires**	**392.2**
Air Spring Systems	22.7	Air Spring Systems	22.7
Surface Solutions[3]	116.8	Benecke-Hornschuch Surface Group	116.7
Special Technologies and Solutions	1.9	Special Technologies and Solutions	4.2
Conveyor Belt Group	112.0	Conveyor Belt Group	110.4
Mobile Fluid Systems	50.3	Mobile Fluid Systems	50.1
Industrial Fluid Solutions	154.6	Industrial Fluid Solutions	144.9
Power Transmission Group	48.6	Power Transmission Group	44.1
Vibration Control	74.4	Vibration Control	0.6
ContiTech	**581.3**	**ContiTech**	**493.7**
Continental Corporation	**5,113.5**	**Continental Corporation**	**7,233.4**

1 Since January 2019: Engine & Drivetrain Systems.
2 Since January 2019: Powertrain Components.
3 Until June 2019: Benecke-Hornschuch Surface Group.

The additions to purchased intangible assets from changes in the scope of consolidation are attributable primarily to customer relationships and know-how. Other additions related mainly to software in the amount of €85.2 million (PY: €51.4 million). Under IAS 38, *Intangible Assets*, €200.4 million (PY: €158.0 million) of the total development costs incurred in 2019 qualified for recognition as an asset.

Amortization of other intangible assets amounted to €370.9 million (PY: €339.0 million). Of this, €296.7 million (PY: €271.2 million) is included in the consolidated statement of income under the cost of sales and €74.2 million (PY: €67.8 million) under administrative expenses.

The other intangible assets include carrying amounts adjusted for translation-related exchange-rate effects and not subject to amortization in the amount of €112.2 million (PY: €112.2 million). These relate in particular to the VDO brand name in the amount of €71.2 million (PY: €71.2 million), the Elektrobit brand name in the amount of €30.4 million (PY: €30.4 million), the Phoenix brand name in the amount of €4.2 million (PY: €4.2 million) and the Matador brand name in the amount of €3.2 million (PY: €3.2 million). The purchased intangible assets also include the carrying amounts of software amounting to €164.4 million (PY: €102.7 million), which are amortized on a straight-line basis as scheduled.

14. Property, Plant and Equipment

The additions to property, plant and equipment from changes in the scope of consolidation in the amount of €97.9 million resulted primarily from the acquisition of the anti-vibration systems business of Cooper-Standard Automotive Inc., Novi, Michigan, U.S.A. (€67.8 million), and Kathrein Automotive GmbH, Hildesheim, Germany (€28.4 million). Please see Note 5.

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

Production capacity in the Powertrain segment was increased at the German locations and in China, Hungary, the U.S.A., Romania and Czechia. Production capacity was hereby increased for all business units. Important additions related to the construction of new plants in Debrecen, Hungary, and Pune, India.

In the Interior segment, there were major investments to expand production capacity at the German locations and in Romania, China, Czechia, Mexico and the U.S.A. Investments focused primarily on the expansion of production capacity for the Body & Security and Instrumentation & Driver HMI business units. Important additions related to the construction of new plants in Kaunas, Lithuania, and Aguascalientes, Mexico. In addition, the Instrumentation & Driver HMI business unit expanded its production capacity for operation and display solutions.

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

Investments in the ContiTech segment focused on the expansion of production facilities at the German locations and in China, the U.S.A., India and Mexico, among other countries. Production capacity for the Mobile Fluid Systems, Surface Solutions, Power Transmission Group and Conveyor Belt Group business units was expanded in particular. Important additions related to the construction of new plants in Pune, India, and Changshu, China. In addition, investments were made in all business units to rationalize existing production processes.

Please see Note 8 for information on impairment and reversal of impairment losses.

Government investment grants of €38.4 million (PY: €84.6 million) were deducted directly from cost, primarily for the plant in Clinton, Mississippi, U.S.A.

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

Please see Note 25 for information on reclassifications during the period to assets held for sale.

There are restrictions on title and property, plant and equipment pledged as security for liabilities in the amount of €12.3 million (PY: €13.5 million).

Please see Note 15 for information on the right-of-use assets that are recognized under property, plant and equipment in accordance with IFRS 16, *Leases*.

€ millions	Land, land rights and buildings[1]	Technical equipment and machinery	Other equipment, factory and office equipment	Advances to suppliers and assets under construction	Total
As at January 1, 2018					
Cost	4,701.4	17,266.2	2,727.5	1,984.2	**26,679.3**
Accumulated depreciation	-1,895.0	-11,579.5	-1,993.0	-9.7	**-15,477.2**
Book value	**2,806.4**	**5,686.7**	**734.5**	**1,974.5**	**11,202.1**
thereof finance leases	20.2	0.6	0.0	–	**20.8**
Net change in 2018					
Book value	2,806.4	5,686.7	734.5	1,974.5	**11,202.1**
Exchange-rate changes	-7.0	14.0	-0.2	16.8	**23.6**
Additions	120.4	866.9	186.6	1,879.7	**3,053.6**
Additions from the first-time consolidation of subsidiaries[2]	5.8	12.1	5.2	0.4	**23.5**
Amounts disposed of through disposal of subsidiaries	-8.2	-3.3	-1.6	-0.4	**-13.5**
Transfers	146.5	1,046.9	124.1	-1,318.1	**-0.6**
Disposals	-2.1	-38.0	-3.1	-1.4	**-44.6**
Depreciation	-186.5	-1,405.1	-256.3	–	**-1,847.9**
Impairment[3]	-0.4	-19.0	-0.9	-0.4	**-20.7**
Book value	**2,874.9**	**6,161.2**	**788.3**	**2,551.1**	**12,375.5**
As at December 31, 2018					
Cost	4,948.9	18,770.5	2,970.3	2,561.3	**29,251.0**
Accumulated depreciation	-2,074.0	-12,609.3	-2,182.0	-10.2	**-16,875.5**
Book value	**2,874.9**	**6,161.2**	**788.3**	**2,551.1**	**12,375.5**
thereof finance leases	8.8	0.5	1.0		**10.3**
Net change in 2019					
Book value	2,862.9	6,160.4	788.3	2,551.1	**12,362.7**
Exchange-rate changes	28.7	59.7	4.3	35.3	**128.0**
Additions	195.7	984.3	203.9	1,510.0	**2,893.9**
Additions from the first-time consolidation of subsidiaries[4]	28.9	60.5	7.5	4.8	**101.7**
Amounts disposed of through disposal of subsidiaries	–	-0.6	0.0	–	**-0.6**
Transfers	309.0	1,313.5	124.9	-1,747.4	**0.0**
Disposals	-3.2	-41.1	-5.6	-2.5	**-52.4**
Depreciation	-204.1	-1,543.9	-280.0	–	**-2,028.0**
Impairment[3]	-30.8	-100.2	-4.0	-21.9	**-156.9**
Book value	**3,187.1**	**6,892.6**	**839.3**	**2,329.4**	**13,248.4**
As at December 31, 2019					
Cost	5,481.2	20,792.0	3,224.1	2,361.6	**31,858.9**
Accumulated depreciation	-2,294.1	-13,899.4	-2,384.8	-32.2	**-18,610.5**
Book value	**3,187.1**	**6,892.6**	**839.3**	**2,329.4**	**13,248.4**

1 Investment property is shown separately in Note 16.
2 Included in the additions from the first-time consolidation of subsidiaries are additions from property, plant and equipment in the amount of €0.4 million from a previously unconsolidated entity that was included in the consolidation for the first time.
3 Impairment also includes necessary reversal of impairment losses.
4 Included in the additions from the first-time consolidation of subsidiaries are additions from property, plant and equipment in the amount of €3.8 million from a previously unconsolidated entity that was included in the consolidation for the first time.

15. Leases

In addition to the comments in Note 2 (General Information and Accounting Principles) and Note 3 (New Accounting Principles), the disclosure requirements that arise in relation to IFRS 16, *Leases*, are grouped together in this note.

Information on the transition to IFRS 16 and its first-time adoption
IFRS 16, *Leases*, was first applied as at January 1, 2019. In this context, Continental uses the modified retrospective approach. The figures from the comparative periods are based on the accounting principles of IAS 17, *Leases*, and are shown unadjusted. Adjustments are therefore presented in the opening carrying amounts as at January 1, 2019.

Leases that were previously classified as operating leases in accordance with IAS 17 are recognized pursuant to IFRS 16.C8 using the following recognition and measurement requirements and exemptions:

- As at the date of first-time adoption, Continental as lessee measures the lease liability at the present value of the lease payments not yet made. It is recognized under indebtedness. Discounting is determined using the weighted-average incremental borrowing rates on January 1, 2019, as the interest rates underlying the leases often cannot be determined.
- The right-of-use asset recognized by the lessee as at the date of first-time adoption is measured at cost. This amount comprises the corresponding lease liability and prepaid lease payments, taking into account any lease incentives received. It is recognized in property, plant and equipment. Depreciation is charged on a straight-line basis.
- The lease liability is subsequently measured according to the effective interest method. The resulting interest expenses are recognized in the financial result.
- Continental does not remeasure the leases existing as at the date of first-time adoption.
- When determining the lease term with regard to extension or termination options, Continental as lessee uses hindsight in connection with the measurement.
- The reported right-of-use assets are consequently depreciated on a straight-line basis over the entire useful life of the underlying asset, or until the end of the term of the lease. The estimated useful life of right-of-use assets is determined based on that of the property, plant and equipment. In addition, the underlying asset is periodically written down to take into account any impairment losses and adjusted for specific remeasurement of the lease liability.

For leases that were previously classified as finance leases in accordance with IAS 17:

- The right-of-use asset is recognized at the previous carrying amount resulting from the measurement of the leased asset in accordance with IAS 17 directly before the first-time adoption of IFRS 16.
- The lease liability is recognized at the previous carrying amount resulting from the measurement of the leased asset in accordance with IAS 17 directly before the first-time adoption of IFRS 16.

The first-time adoption of IFRS 16 resulted in the following effects on the earnings, financial and net assets position as at January 1, 2019:

- In total, right-of-use assets of €1,734.9 million and financial liabilities of €1,742.4 million were recognized from leases. Of the latter, €284.9 million are allocated to short-term indebtedness and €1,457.5 million to long-term indebtedness. The difference from the change in net indebtedness due to the first-time adoption of IFRS 16 is attributable to liabilities from finance leases in accordance with IAS 17 that were already accounted for as at December 31, 2018. The difference between right-of-use assets and financial liabilities from leases of €7.5 million results from the reclassification of assets and lease liabilities that were previously classified as finance leases under IAS 17 and from prepaid lease payments and lease incentives received.
- The obligations from operating leases in accordance with IAS 17 existing before the first-time adoption of IFRS 16 were discounted by a weighted-average incremental borrowing rate of 2.35% as at January 1, 2019.
- The difference between the obligations from leases in accordance with IAS 17 as at December 31, 2018, and the opening carrying amount in accordance with IFRS 16 as at January 1, 2019, amounts to €189.6 million. In addition to the effect from the discounting of operating leases in accordance with IAS 17, the amount results primarily from the use of exemptions for short-term and low-value leases and from the different treatment of extension options.

Continental as lessee
Right-of-use assets
The right-of-use assets recognized from leases relate primarily to the leasing of land and buildings at various locations worldwide. To a small extent, right-of-use assets are recognized for technical equipment and machinery as well as other equipment, factory and office equipment.

Additions within the right-of-use assets amounted to €331.0 million for the reporting year. These resulted mainly from additions to land and buildings in the amount of €277.9 million and from additions to other equipment, factory and office equipment in the amount of €50.2 million. The additions within the right-of-use assets from changes in the scope of consolidation amounted to €14.3 million. Please see Note 5.

The right-of-use assets reported as at December 31, 2019 in the amount of €1,684.3 million correspond to approximately 11.3% of all property, plant and equipment of the Continental Corporation. The weighted average lease term is approximately five years for right-of-use assets for land and buildings, approximately three years for right-of-use assets for technical equipment and machinery, and approximately three years for right-of-use assets for other equipment, factory and office equipment.

The development of right-of-use assets in the reporting year was as follows:

€ millions	Right of use for land and buildings	Right of use for technical equipment and machinery	Right of use for other equipment, factory and office equipment	**Total**
Book value as at December 31, 2018	**—**	**—**	**—**	**—**
Book value as at January 1, 2019	**1,637.9**	**8.1**	**88.9**	**1,734.9**
Net change in 2019				
Book value	1,637.9	8.1	88.9	**1,734.9**
Exchange-rate changes	21.7	0.1	1.2	**23.0**
Additions	277.9	2.9	50.2	**331.0**
Additions from the first-time consolidation of subsidiaries	11.8	1.8	0.7	**14.3**
Transfers	-0.1	-0.7	0.8	**0.0**
Disposals	-58.0	-0.6	-14.8	**-73.4**
Depreciation	-290.3	-3.7	-42.4	**-336.4**
Impairment[1]	-9.1	—	0.0	**-9.1**
Book value	**1,591.8**	**7.9**	**84.6**	**1,684.3**
As at December 31, 2019				
Cost	1,888.9	11.7	126.1	**2,026.7**
Accumulated depreciation	-297.1	-3.8	-41.5	**-342.4**
Book value	**1,591.8**	**7.9**	**84.6**	**1,684.3**

1 Impairment also includes necessary reversal of impairment losses.

Lease liabilities

As at the end of the reporting period, lease liabilities amounted to €1,715.0 million. Future cash outflows resulting from leases are shown in the following table:

€ millions	**2019**
Less than one year	346.3
One to two years	299.2
Two to three years	250.8
Three to four years	203.0
Four to five years	156.2
More than five years	589.7
Total undiscounted lease liabilities	**1,845.2**
Lease liabilities as at December 31	**1,715.0**
Current	318.3
Non-current	1,396.7

In the reporting year, the following amounts were recognized in the income statement:

€ millions	**2019**
Interest expenses on lease liabilities	32.1
Expenses relating to short-term leases	69.5
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	12.0
Expenses from variable lease payments not included in the measurement of lease liabilities	0.5
Income from subleasing right-of-use assets	0.3

In the reporting year, the following amounts were recognized in the statement of cash flows:

€ millions	**2019**
Cash outflow for leases	433.5

In addition to cash outflows for the interest and principal portion of recognized lease liabilities, the cash outflow for leases also includes variable lease payments and lease payments for unrecognized leases for low-value assets as well as for short-term leases.

Potential future cash outflows

The leases recognized as at December 31, 2019, include options that were not considered reasonably certain as at the reporting date and are not included in the measurement of lease liabilities. These options may result in potential future cash outflows over the coming fiscal years.

The leases in some cases include variable lease payments as well as extension, termination and purchase options. As a rule, Continental endeavors to include extension and termination options in new leases in order to ensure operational flexibility. For the initial measurement of lease liabilities, such options are recognized once it is reasonably certain that they will be exercised. If a significant event or a significant change in circumstances occurs that is within Continental's control, this will be taken into account accordingly in the remeasurement of lease liabilities. As at the end of the reporting period, potential future lease payments of €638.0 million from such options were not included in the measurement of lease liabilities. Potential future cash outflows of €2.7 million arising from variable lease payments were likewise not included in the measurement of lease liabilities as at the end of the reporting period.

The future scope of obligations arising from leases to which Continental is committed but that had not yet commenced as at the balance sheet date amounted to €216.7 million.

Continental as lessor

Continental acts as lessor in some business relationships. These are operating leases, as Continental retains the material risks and rewards incidental to ownership.

Operating leases

Lease income from operating leases in which Continental acts as lessor amounted to €1.0 million for the past fiscal year. These related primarily to the leasing of land and buildings.

Future cash inflows resulting from leases as at the end of the reporting period are shown in the following table:

€ millions	2019
Less than one year	0.8
One to two years	0.3
Two to three years	0.3
Three to four years	0.3
Four to five years	0.0
More than five years	0.0
Total undiscounted lease payments	**1.7**

16. Investment Property

€ millions	2019	2018
Cost as at January 1	22.3	20.7
Accumulated depreciation as at January 1	-10.3	-10.2
Net change		
Book value as at January 1	**12.0**	**10.5**
Exchange-rate changes	0.0	0.1
Reclassifications	0.0	1.7
Depreciation	-0.3	-0.3
Book value as at December 31	**11.7**	**12.0**
Cost as at December 31	20.7	22.3
Accumulated depreciation as at December 31	-9.0	-10.3

The fair value – determined using the gross rental method – of land and buildings accounted for as investment property as at December 31, 2019, amounted to €16.5 million (PY: €16.3 million). Rental income in 2019 amounted to €2.8 million (PY: €3.3 million), while associated maintenance costs of €1.4 million (PY: €1.4 million) were incurred.

17. Investments in Equity-Accounted Investees

€ millions	2019	2018
As at January 1	**644.9**	**414.8**
Additions	27.4	215.2
Changes in the consolidation method, and transfers	-88.4	-1.2
Share of income	33.6	69.6
Impairment	-157.9	–
Dividends received	-66.8	-44.2
Changes in other comprehensive income	4.5	-9.8
Exchange-rate changes	0.4	0.5
As at December 31	**397.7**	**644.9**

Investments in equity-accounted investees include carrying amounts of joint ventures in the amount of €204.5 million (PY: €273.5 million) and of associates in the amount of €193.2 million (PY: €371.4 million).

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

The following investments are held in material joint ventures in the Automotive Group:

- Continental AG, Hanover, holds 49% of the voting rights in Shanghai Automotive Brake Systems Co., Ltd., Shanghai, China, which is jointly controlled with Huayu Automotive Systems Co., Ltd., Shanghai, China. The main business purpose of the company is the production of hydraulic braking systems for the Chinese market; it is assigned to the Hydraulic Brake Systems and Vehicle Dynamics business units.
- SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany, is jointly controlled by Continental Automotive GmbH, Hanover, Germany, and Faurecia Automotive GmbH, Stadthagen, Germany. Both shareholders hold 50% of the voting rights. The object of the company and its subsidiaries is essentially the development, assembly and distribution of cockpits and other modules for the automotive industry. The company therefore belongs to the Instrumentation & Driver HMI business unit. Due to the planned sale of the 50% shareholding in SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany, to Faurecia Automotive GmbH, Stadthagen, Germany, at the beginning of 2020, the carrying amount of the equity-accounted investee of €88.4 million was classified as “held for sale” and included in the “Assets held for sale” item.

The figures taken from the last two available sets of IFRS-compliant financial statements (2018 and 2017) for the material joint ventures above are as follows. Amounts are stated at 100%. Furthermore, the pro rata net assets have been reconciled to the respective carrying amount of the investment. All investments are accounted for using the equity method.

	MC Projects B.V.		Shanghai Automotive Brake Systems Co., Ltd.		SAS Autosystemtechnik GmbH & Co. KG	
€ millions	2018	2017	2018	2017	2018	2017
Dividends received	4.0	5.0	21.9	21.0	15.0	10.0
Current assets	150.4	180.1	284.3	316.4	490.2	406.3
thereof cash and cash equivalents	39.8	37.5	68.6	59.2	64.7	72.9
Non-current assets	105.3	94.7	111.5	105.4	136.9	131.0
Total assets	255.7	274.8	395.8	421.8	627.1	537.4
Current liabilities	102.5	122.6	194.3	220.8	485.1	410.7
thereof other short-term financial liabilities	0.0	0.0	–	–	0.0	0.0
Non-current liabilities	5.4	7.4	13.4	14.1	4.6	5.7
thereof long-term financial liabilities	1.3	1.3	–	–	–	–
Total liabilities	107.9	129.9	207.7	234.8	489.7	416.4
Sales	165.8	170.3	529.0	591.6	633.4	3,169.5
Interest income	0.1	0.1	0.4	0.9	0.3	0.4
Interest expense	0.1	0.3	–	–	0.2	0.1
Depreciation and amortization	13.4	10.8	15.7	14.3	28.1	18.5
Earnings from continued operations	18.9	25.7	48.6	57.2	47.0	37.0
Other comprehensive income	–	0.7	–	–	-1.5	-5.9
Income tax expense	-6.5	7.3	7.2	8.9	17.8	11.2
Earnings after tax	14.6	26.4	48.6	57.2	45.8	31.1
Net assets	147.8	144.9	188.1	187.0	137.4	121.0
Share of net assets	73.9	72.4	92.2	91.6	68.7	60.5
Goodwill	–	–	10.6	10.6	20.3	20.3
Exchange-rate changes	–	–	-9.4	-5.0	–	–
Change in other comprehensive income for the prior year	–	–	–	–	0.3	3.0
Share earnings for prior years	4.6	-4.8	0.0	0.0	–	–
Carrying amount	78.4	67.6	93.4	97.3	89.2	83.7

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

OSRAM CONTINENTAL GmbH, Munich, Germany, along with its subsidiaries was founded in fiscal 2018 and is a material associate of Continental in the Interior segment. Continental Automotive GmbH, Hanover, Germany, and OSRAM GmbH, Munich, Germany, each hold a 50% stake in it. The company operates in the field of lights, light control and electronics.

The figures taken from the last two available sets of IFRS-compliant financial statements (2017 and 2018) for IAV GmbH Ingenieurgesellschaft Auto und Verkehr, Berlin, Germany, are as follows. The IFRS-compliant financial information for OSRAM CONTINENTAL GmbH, Munich, Germany, was disclosed for the periods from January 1, 2019, to December 31, 2019, and from July 2, 2018, (the date of the investment) to December 31, 2018. These disclosure periods differ from the associate's fiscal year, which ends as at September 30. Amounts are stated at 100%. Furthermore, the pro rata net assets have been reconciled to the respective carrying amount of the investment, which is accounted for using the equity method.

	IAV GmbH Ingenieurgesellschaft Auto und Verkehr		**OSRAM CONTINENTAL GmbH**	
€ millions	2018	2017	2019	2018
Dividends received	0.0	0.2	–	–
Current assets	352.1	281.9	74.8	108.5
Non-current assets	241.6	239.4	216.1	211.0
Total assets	593.7	521.3	290.9	319.5
Current liabilities	300.5	226.3	159.4	106.9
Non-current liabilities	61.5	71.9	18.2	3.6
Total liabilities	362.0	298.1	177.6	110.5
Sales	907.4	798.1	285.6	130.6
Earnings from continued operations	8.5	14.7	-106.9	-10.1
Other comprehensive income	-0.1	-2.0	–	-10.5
Earnings after tax	8.4	12.7	-106.9	-20.6
Net assets	231.7	223.2	113.3	209.9
Share of net assets	46.3	44.6	56.7	104.5
Goodwill	12.7	12.7	256.5	256.5
Elimination of non-realized gains from downstream sales	–	–	-186.0	-186.0
Change in other comprehensive income for the prior year	0.0	0.4	–	–
Other adjustments	-0.2	1.0	–	5.5
Impairment[1]	–	–	-157.9	–
Carrying amount	59.0	58.9	0.0	180.5

1 The carrying amount for the associate OSRAM CONTINENTAL GmbH, Munich, Germany, was fully impaired as at September 30, 2019, due to changes in expectations with regard to future business development.

The figures taken from the last two available sets of financial statements (2018 and 2017) for the joint ventures and associates that are not material to the corporation are summarized as follows. Amounts are stated in line with the proportion of ownership interest.

	Associates		**Joint ventures**	
€ millions	2018	2017	2018	2017
Earnings from continued operations	20.9	14.4	-5.4	-6.4
Earnings after tax	**20.9**	**14.4**	**-5.4**	**-6.4**

18. Other Investments

€ millions	**December 31, 2019**	December 31, 2018
Investments in unconsolidated affiliated companies	14.7	9.5
Other participations	182.9	183.4
Other investments	**197.6**	**192.9**

Other investments are accounted for at fair value. Changes are recognized in other comprehensive income. No amounts were recognized from changes in fair value in the reporting year (PY: -€3.9 million).

With regard to year-on-year changes in the carrying amount, €6.2 million (PY: €149.7 million) resulted from additions, €2.1 million (PY: €4.5 million) from disposals and €0.6 million (PY: €0.6 million) from exchange-rate effects. No amounts were recognized from changes in fair value in the reporting year (PY: -€3.9 million).

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

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

19. Deferred Taxes

Deferred taxes developed as follows:

	Dec. 31, 2019						Dec. 31, 2018
€ millions	**Deferred tax assets**	**Deferred tax liabilities**	**Net**	**Recognized in profit or loss**	**Recognized in equity**	**Recognized in other comprehensive income**	**Net**
Other intangible assets and goodwill	11.9	-381.3	-369.4	124.7	-20.3	1.7	-475.5
Property, plant and equipment	202.6	-505.5	-302.9	-239.5	-1.9	-1.4	-60.1
Inventories	304.4	-108.2	196.2	-20.1	-1.4	1.1	216.6
Other assets	318.4	-301.2	17.2	69.7	–	-1.2	-51.3
Employee benefits less defined benefit assets	1,298.1	-10.3	1,287.8	97.4	–	242.3	948.1
Provisions for other risks and obligations	213.0	-11.9	201.1	69.3	2.5	0.7	128.6
Indebtedness and other financial liabilities	553.2	-104.8	448.4	256.1	–	-0.1	192.4
Other differences	247.2	-296.0	-48.8	-65.6	–	3.6	13.2
Allowable tax credits	50.5	–	50.5	29.1	–	2.1	19.3
Tax losses carried forward and limitation of interest deduction	388.9	–	388.9	165.7	–	5.8	217.4
Deferred taxes (before offsetting)	**3,588.2**	**-1,719.2**	**1,869.0**	**486.8**	**-21.1**	**254.6**	**1,148.7**
Offsetting (IAS 12.74)	-1,413.8	1,413.8	–				–
Net deferred taxes	**2,174.4**	**305.4**	**1,869.0**				**1,148.7**

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

The development of deferred taxes in the year under review was influenced in particular by the transformation of the Powertrain division into an independent legal entity, and the change in actuarial gains and losses from pensions and similar obligations. The first-time adoption of IFRS 16, *Leases*, had an impact on deferred taxes on property, plant and equipment, and indebtedness, which offset one other in terms of amounts.

Deferred tax assets were up €710.0 million at €2,174.4 million (PY: €1,464.4 million). This was primarily attributable to a €171.5 million increase in tax losses carried forward and limitation of interest deduction, a €336.3 million rise in deferred taxes on employee benefits and a €338.5 million increase in indebtedness.

Deferred tax liabilities declined by €10.3 million year-on-year to €305.4 million (PY: €315.7 million). The increase in deferred tax assets on property, plant and equipment of €238.9 million stood in contrast to a decrease in deferred tax liabilities on goodwill of €94.2 million and in offsetting of €374.6 million.

As at December 31, 2019, the corporate tax losses, in Germany and abroad, carried forward amounted to €3,701.4 million (PY: €2,647.2 million). The majority of the corporation's tax losses carried forward relate to foreign subsidiaries and are mostly limited in terms of the time period for which they can be carried forward.

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

€ millions	**December 31, 2019**	December 31, 2018
Temporary differences	75.4	56.5
Tax losses carried forward and limitation of interest deduction	447.4	388.1
Allowable tax credits	67.2	49.1
Total unrecognized deferred tax assets	**590.0**	**493.7**

As at December 31, 2019, some corporation companies and tax groups that reported a loss recognized total deferred tax assets of €915.8 million (PY: €48.2 million), which arose from current losses, tax losses carried forward and a surplus of deferred tax assets. Given that future taxable income is expected, it is sufficiently probable that these deferred tax assets can be realized.

The temporary differences from retained earnings of foreign companies amounted to a total of €943.0 million (PY: €639.1 million). Deferred tax liabilities were not taken into account, since remittance to the parent company is not planned in the short or medium term.

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

20. Other Financial Assets

	December 31, 2019		December 31, 2018	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Amounts receivable from related parties[1]	2.9	0.6	–	1.4
Loans to third parties	–	69.8	–	76.5
Amounts receivable from employees	25.7	–	19.1	–
Other amounts receivable	89.9	44.2	75.3	3.5
Other financial assets	**118.5**	**114.6**	**94.4**	**81.4**

1 From the 2019 fiscal year onward, receivables from related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

The receivables from related parties related primarily to loans to associates.

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

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

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

Please see Note 31 for information on the default risks in relation to other financial assets.

21. Other Assets

	December 31, 2019		December 31, 2018	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Trade accounts receivable from the sale of customer tools	244.6	–	241.5	–
Tax refund claims (incl. VAT and other taxes)	706.3	–	453.3	–
Prepaid expenses	203.3	–	191.9	–
Other	252.5	28.6	237.5	27.6
Other assets	**1,406.7**	**28.6**	**1,124.2**	**27.6**

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

The receivables from the sale of customer tooling related to costs that have not yet been invoiced. The year-on-year rise of €3.1 million resulted mainly from an increase in the Automotive Group, which was partially offset by a decrease in the Rubber Group.

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

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

Impairment totaling €10.6 million (PY: €12.5 million) was recognized for the probable default risk on other assets. Income of €1.9 million (PY: €3.0 million) arose in the reporting period.

22. Inventories

€ millions	**December 31, 2019**	December 31, 2018
Raw materials and supplies	1,474.3	1,528.3
Work in progress	840.1	712.1
Finished goods and merchandise	2,380.0	2,280.7
Inventories	**4,694.4**	**4,521.1**

Write-downs recognized on inventories increased by €45.8 million to €496.3 million (PY: €450.5 million).

23. Trade Accounts Receivable

€ millions	**December 31, 2019**	December 31, 2018
Trade accounts receivable	7,840.1	7,967.7
Allowances for doubtful accounts	–128.5	-109.5
Trade accounts receivable[1]	**7,711.6**	**7,858.2**

1 From the 2019 fiscal year onward, receivables from related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

The carrying amounts of the trade accounts receivable, net of allowances for doubtful accounts, are their fair values. Please see Note 31 for information on the default risks in relation to trade accounts receivable.

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

Under the existing sale-of-receivables programs, the contractual rights to the receipt of payment inflows have been assigned to the corresponding contractual parties. The transferred receivables have short remaining terms. As a rule, therefore, the carrying amounts as at the reporting date in the amount of €702.4 million (PY: €745.5 million) are approximately equivalent to their fair value. The respective liabilities with a carrying amount of €468.6 million (PY: €469.2 million) represent the liquidation proceeds from the sale of the receivables. As in the previous year, this was approximately equivalent to their fair value. The committed financing volume under these sale-of-receivables programs amounts to €665.0 million (PY: €665.0 million).

24. Cash and Cash Equivalents

Cash and cash equivalents include all liquid funds and demand deposits. Cash equivalents are short-term, highly liquid financial investments that can be readily converted into known cash amounts and are subject to an insignificant risk of changes in value. As at the reporting date, cash and cash equivalents amounted to €3,341.8 million (PY: €2,761.4 million). Of that, €3,114.3 million (PY: €2,587.7 million) was unrestricted.

For information on the interest-rate risk and the sensitivity analysis for financial assets and liabilities, please see Note 31.

25. Assets Held for Sale

€ millions	**December 31, 2019**	December 31, 2018
Individual assets held for sale	89.6	–
Assets of a disposal group	–	–
Assets held for sale	**89.6**	**–**

Assets held for sale of €89.6 million (PY: –) include primarily assets from the disposal of joint venture SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany, in the amount of €88.4 million.

26. Equity

Number of shares outstanding	**2019**	2018
As at January 1	**200,005,983**	**200,005,983**
Change in the period	–	–
As at December 31	**200,005,983**	**200,005,983**

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

Under the German Stock Corporation Act *(Aktiengesetz – AktG)*, the dividends distributable to the shareholders are based solely on Continental AG's retained earnings as at December 31, 2019, of €5,856.0 million (PY: €1,758.5 million), as reported in the annual financial statements prepared in accordance with the German Commercial Code. The Supervisory Board and the Executive Board will propose to the Annual Shareholders' Meeting the distribution of a dividend of €4.00 per share. With 200,005,983 no-par-value shares entitled to dividends, the total distribution will thus amount to €800,023,932.00. The remaining amount is to be carried forward to new account.

27. Employee Benefits

The following table outlines the employee benefits:

	December 31, 2019		December 31, 2018	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	–	4,851.7	–	3,896.0
Provisions for other post-employment benefits	–	215.9	–	194.9
Provisions for similar obligations	3.4	60.0	2.4	49.4
Other employee benefits	–	255.3	–	240.8
Liabilities for workers' compensation	35.8	23.4	40.9	25.9
Liabilities for payroll and personnel-related costs	882.7	–	967.7	–
Termination benefits	46.8	–	50.5	–
Liabilities for social security	179.6	–	183.2	–
Liabilities for vacation	220.4	–	209.5	–
Employee benefits	**1,368.7**	**5,406.3**	**1,454.2**	**4,407.0**
Defined benefit assets (difference between pension obligations and related funds)		**7.8**		**27.8**

Long-term employee benefits

Pension plans

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

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

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

Defined benefit plans

Defined benefit plans include pension plans, termination indemnities regardless of the reason for the end of employment and other post-employment benefits. As a result of the significant increase in the number of employees in recent years and the high level of acquisition activity, pension obligations essentially relate to active employees. The defined benefit pension plans cover 167,038 beneficiaries, including 123,646 active employees, 17,168 former employees with vested benefits, and 26,224 retirees and surviving dependents. The pension obligations are concentrated in four countries: Germany, the U.S.A., the U.K. and Canada, which account for more than 90% of total pension obligations.

The weighted average term of the defined benefit pension obligations is around 20 years. This term is based on the present value of the obligations.

Germany

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

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

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

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

Some prior commitments were granted through two legally independent pension contribution funds. Pensionskasse für Angestellte der Continental Aktiengesellschaft VVaG and Pensionskasse von 1925 der Phoenix AG VVaG have been closed since March 1, 1984 and July 1, 1983, respectively. The pension contribution funds are smaller associations within the meaning of Section 53 of the German Insurance Supervision Act *(Versicherungsaufsichtsgesetz – VAG)* and are subject to the supervision of the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht). The investment regulations are in accordance with the legal requirements and risk structure of the obligations. The pension contribution funds have tariffs with an interest rate of 2.6%. Under the German Company Pensions Law *(Betriebsrentengesetz – BetrAVG)*, Continental is ultimately liable for the implementation path of the pension contribution fund. In accordance with IAS 19, *Employee Benefits*, the pension obligations covered by the pension contribution fund are therefore defined benefit pension plans. The pension contribution funds met their minimum net funding requirement as at December 31, 2019. However, given that only the plan members are entitled to the assets and amounts generated, the benefit obligations are recognized in the same amount as the existing assets at fair value.

Continental also supports private contribution through deferred compensation schemes.

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

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

U.S.A.

Owing to its acquisition history, Continental has various defined benefit plans in the U.S.A., which were closed to new entrants and frozen to accretion of further benefits in a period from April 1, 2005, to December 31, 2011. In 2017, acquisitions also included an open defined benefit plan for unionized employees.

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

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

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

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

United Kingdom

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

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

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

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

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

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

The most recent technical valuations of the four defined benefit pension plans took place with their valuation dates between March 2016 and April 2018 and led to the following result:

- Continental Teves UK Employee Benefit Scheme (assessment as at December 31, 2017): As part of the assessment, an agreement on a minimum annual endowment of GBP 1.4 million over a period of five years was resolved. This amount is payable until the next review is performed in the technical assessment.

- Continental Group Pension and Life Assurance Scheme (assessment as at April 5, 2018): An agreement was concluded with an insurer in 2019 for a complete buy-out through the acquisition of annuities. The corporation anticipates this buy-out will be finalized in 2020 once the necessary data clarifications and preparatory work are completed.

- Mannesmann UK Pension Scheme (assessment as at March 31, 2016): As part of the assessment, an agreement was resolved on a minimum monthly endowment of GBP 75,000 for the period from October 1, 2017, to September 30, 2019, and on a minimum monthly endowment of GBP 100,000 for the period from October 1, 2019, to May 31, 2025.

- Phoenix Dunlop Oil & Marine Pension Scheme (assessment as at December 31, 2018): As part of the assessment, an agreement was resolved on a minimum annual endowment of GBP 2.2 million and an annual adjustment of 3.5% over a period of four years. Thereafter, there will be an annual payment of GBP 1.4 million and an annual adjustment of 3.5% over a period of another three years.

Canada

Continental maintains various defined benefit plans as a result of its history of acquisitions. The pension plans are based mainly on a pension multiplier per year of service.

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

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

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

	2019						2018					
€ millions	**Germany**	**U.S.A.**	**Canada**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	Canada	U.K.	Other	Total
Defined benefit obligations as at January 1	**4,781.8**	**1,031.4**	**106.4**	**355.7**	**320.0**	**6,595.3**	**4,518.5**	**1,067.0**	**110.7**	**386.4**	**297.1**	**6,379.7**
Exchange-rate differences	–	21.3	7.3	20.8	2.6	**52.0**	–	46.8	-3.9	-4.3	1.3	39.9
Current service cost	221.8	4.1	1.6	2.2	26.9	**256.6**	198.8	5.2	1.6	2.1	22.9	230.6
Service cost from plan amendments	–	–	–	–	0.8	**0.8**	–	–	–	3.0	3.1	6.1
Curtailments/settlements	–	–	–	–	-0.7	**-0.7**	–	–	–	–	-0.3	-0.3
Interest on defined benefit obligations	87.5	44.2	3.9	10.0	11.0	**156.6**	83.1	39.0	3.6	9.3	9.5	144.5
Actuarial gains/losses from changes in demographic assumptions	–	-8.5	–	-4.7	-0.6	**-13.8**	39.2	-3.5	0.6	-2.4	0.9	34.8
Actuarial gains/losses from changes in financial assumptions	759.5	125.7	10.0	47.3	41.5	**984.0**	0.0	-74.8	-3.0	-23.8	2.0	-99.6
Actuarial gains/losses from experience adjustments	32.0	-4.1	1.6	-1.7	-1.1	**26.7**	42.7	11.7	1.3	1.1	5.6	62.4
Net changes in the scope of consolidation	1.6	–	–	–	21.1	**22.7**	–	–	–	–	–	0.0
Employee contributions	–	–	0.3	0.2	-0.6	**-0.1**	–	–	0.3	0.2	-0.3	0.2
Other changes	–	–	–	–	-0.2	**-0.2**	–	–	–	-0.4	-1.2	-1.6
Benefit payments	-102.5	-62.5	-6.3	-14.5	-19.0	**-204.8**	-100.5	-60.0	-4.8	-15.5	-20.6	-201.4
Defined benefit obligations as at December 31	**5,781.7**	**1,151.6**	**124.8**	**415.3**	**401.7**	**7,875.1**	**4,781.8**	**1,031.4**	**106.4**	**355.7**	**320.0**	**6,595.3**

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

	2019						2018					
€ millions	**Germany**	**U.S.A.**	**Canada**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	Canada	U.K.	Other	Total
Fair value of fund assets as at January 1	**1,195.2**	**925.7**	**88.4**	**369.0**	**150.2**	**2,728.5**	**1,189.0**	**746.6**	**90.7**	**378.5**	**144.3**	**2,549.1**
Exchange-rate differences	–	19.0	6.0	20.5	1.1	**46.6**	–	39.2	-3.3	-4.5	0.6	32.0
Interest income from pension funds	29.6	39.9	3.3	10.5	5.9	**89.2**	15.9	30.7	3.0	9.4	5.0	64.0
Actuarial gains/losses from fund assets	45.8	145.2	10.9	5.3	1.8	**209.0**	-32.5	-52.2	0.6	-17.4	-3.0	-104.5
Employer contributions	42.1	11.8	2.4	7.5	15.3	**79.1**	46.5	222.7	2.3	18.8	18.8	309.1
Employee contributions	–	–	0.3	0.2	0.2	**0.7**	–	0.0	0.3	0.2	0.2	0.7
Net changes in the scope of consolidation	–	–	–	–	–	**–**	–	–	–	–	–	0.0
Other changes	–	-1.6	-0.3	–	-0.6	**-2.5**	–	-1.3	-0.4	-0.5	-0.1	-2.3
Benefit payments	-24.2	-62.5	-6.3	-14.5	-10.2	**-117.7**	-23.7	-60.0	-4.8	-15.5	-15.6	-119.6
Fair value of fund assets as at December 31	**1,288.5**	**1,077.5**	**104.7**	**398.5**	**163.7**	**3,032.9**	**1,195.2**	**925.7**	**88.4**	**369.0**	**150.2**	**2,728.5**

The carrying amount of pension provisions increased by €975.7 million as compared to the previous year, primarily because of actuarial losses in all countries. The positive balance from pension valuation decreased by €20.0 million year-on-year. This was due chiefly to the increase in defined benefit obligations in the U.K. as a result of actuarial losses.

€7,707.8 million (PY: €6,488.8 million) of the defined benefit obligations as at December 31, 2019, related to plans that are fully or partially funded, and €167.3 million (PY: €106.5 million) related to plans that are unfunded.

The €1,279.8 million increase in the defined benefit obligations as compared to December 31, 2018, resulted in particular from actuarial losses from changes in financial assumptions, exchange-rate effects and net changes in the scope of consolidation.

The fund assets in Germany include the CTA assets amounting to €941.4 million (PY: €838.1 million), pension contribution fund assets of €234.7 million (PY: €242.7 million), insurance annuity contracts amounting to €112.0 million (PY: €114.0 million) and further plan assets of €0.4 million (PY: €0.4 million).

In the year under review, fund assets increased by €304.4 million to €3,032.9 million, primarily because of actuarial gains in the reporting year. Owing to the change in U.S. tax laws in the previous year, it was possible for the corporation to fund most of the plan assets for pensions in the U.S.A. while benefiting from tax breaks. On July 11, 2018, €209.2 million was transferred to the corresponding plan assets.

Actuarial gains and losses on fund assets in Germany resulted from actuarial gains of €45.9 million (PY: losses of €32.5 million) from the CTA.

In the Continental Corporation, there are pension contribution funds for previously defined contributions in Germany that have been closed to new entrants since July 1, 1983, and March 1, 1984, respectively. As at December 31, 2019, the minimum net funding requirement was exceeded; Continental AG has no requirement to make additional contributions. The pension fund assets had a fair value of €234.7 million as at December 31, 2019 (PY: €242.7 million). The pension contribution funds have tariffs with an interest rate of 2.6%. Under this law, the pension obligations constitute a defined benefit pension plan, which is why this plan must be reported in line with the development of pension provisions. However, given that only the plan members are entitled to the assets and income generated, the benefit obligations are recognized in the same amount as the existing assets at fair value.

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

	December 31, 2019						December 31, 2018					
€ millions	**Germany**	**U.S.A.**	**Canada**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	Canada	U.K.	Other	Total
Funded status[1]	**-4,493.2**	**-74.1**	**-20.1**	**-16.8**	**-238.0**	**-4,842.2**	**-3,586.6**	**-105.7**	**-18.0**	**13.3**	**-169.8**	**-3,866.8**
Asset ceiling	–	–	-0.9	–	-0.8	**-1.7**	–	–	-0.4	–	-1.0	-1.4
Carrying amount	**-4,493.2**	**-74.1**	**-21.0**	**-16.8**	**-238.8**	**-4,843.9**	**-3,586.6**	**-105.7**	**-18.4**	**13.3**	**-170.8**	**-3,868.2**

1 Difference between fund assets and defined benefit obligations.

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

	December 31, 2019						December 31, 2018					
€ millions	**Germany**	**U.S.A.**	**Canada**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	Canada	U.K.	Other	Total
Defined benefit assets	–	3.9	1.5	–	2.4	**7.8**	–	–	1.4	23.9	2.5	27.8
Pension provisions	-4,493.2	-78.0	-22.5	-16.8	-241.2	**-4,851.7**	-3,586.6	-105.7	-19.8	-10.6	-173.3	-3,896.0
Carrying amount	**-4,493.2**	**-74.1**	**-21.0**	**-16.8**	**-238.8**	**-4,843.9**	**-3,586.6**	**-105.7**	**-18.4**	**13.3**	**-170.8**	**-3,868.2**

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

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

	2019					2018				
%	**Germany[1]**	**U.S.A.**	**Canada**	**U.K.**	**Other**	Germany[1]	U.S.A.	Canada	U.K.	Other
Discount rate	1.21	3.30	3.00	2.00	2.43	1.90	4.35	3.60	2.80	3.41
Long-term salary growth rate	3.00	0.00	2.86	3.56	3.32	3.00	0.00	2.86	3.79	3.30

1 Not including the pension contribution funds.

Another parameter for measuring the pension obligation is the long-term pension trend. The following weighted average long-term pension trend was used as at December 31, 2019, for the key countries: Germany 1.75% (PY: 1.75%), Canada 1.6% (PY: 1.6%) and the United Kingdom 3.2% (PY: 3.8%). For the U.S.A., the long-term pension trend does not constitute a significant measurement parameter.

Net pension cost can be summarized as follows:

	2019						2018					
€ millions	**Germany**	**U.S.A.**	**Canada**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	Canada	U.K.	Other	Total
Current service cost	221.8	4.1	1.6	2.2	26.9	**256.6**	198.8	5.2	1.6	2.1	22.9	230.6
Service cost from plan amendments	–	–	–	–	0.8	**0.8**	–	–	–	3.0	3.1	6.1
Curtailments/settlements	–	–	–	–	-0.7	**-0.7**	–	–	–	–	-0.3	-0.3
Interest on defined benefit obligations	87.5	44.2	3.9	10.0	11.0	**156.6**	83.1	39.0	3.6	9.3	9.5	144.5
Expected return on the pension funds	-29.6	-39.9	-3.3	-10.5	-5.9	**-89.2**	-15.9	-30.7	-3.0	-9.4	-5.0	-64.0
Effect of change of asset ceiling	–	–	–	–	0.1	**0.1**	–	–	–	–	0.1	0.1
Other pension income and expenses	–	1.7	0.3	–	–	**2.0**		1.2	0.3	–	-0.3	1.2
Net pension cost	**279.7**	**10.1**	**2.5**	**1.7**	**32.2**	**326.2**	**266.0**	**14.7**	**2.5**	**5.0**	**30.0**	**318.2**

These were no special effects in the development of net pension cost in the reporting year.

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

	2019						2018					
€ millions	**Germany**	**U.S.A.**	**Canada**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	Canada	U.K.	Other	Total
Actuarial gains/losses as at Jan. 1	**-1,974.2**	**-291.4**	**-11.3**	**-91.3**	**-74.7**	**-2,442.9**	**-1,859.8**	**-305.8**	**-12.6**	**-99.0**	**-63.4**	**-2,340.6**
Actuarial gains/losses from defined benefit obligations	-791.5	-113.2	-11.6	-40.9	-39.8	**-997.0**	-81.9	66.6	1.1	25.1	-8.5	2.4
Actuarial gains/losses from fund assets	45.8	145.2	10.9	5.3	1.8	**209.0**	-32.5	-52.2	0.6	-17.4	-3.0	-104.5
Actuarial gains/losses from asset ceiling	–	–	-0.4	–	0.2	**-0.2**	–	0.0	-0.4	–	0.2	-0.2
Actuarial gains/losses as at Dec. 31	**-2,719.9**	**-259.4**	**-12.4**	**-126.9**	**-112.5**	**-3,231.1**	**-1,974.2**	**-291.4**	**-11.3**	**-91.3**	**-74.7**	**-2,442.9**

Actuarial gains and losses arise from increases or decreases in the present value of the defined benefit obligation due to changes in the actuarial assumptions made. On the one hand, the decrease in the discount factor in all countries in the 2019 reporting period as compared to 2018 resulted in actuarial losses in all countries. The actuarial gains accrued in the 2018 reporting period were due primarily to changes in financial assumptions, which were attributable to an increase in the discount factors compared to 2017 in the U.S.A., Canada and the U.K. These gains were offset by changes in demographic assumptions in Germany, which led to actuarial losses.

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

If the other assumptions are maintained, a 0.5-percentage-point increase or decrease in the discount rate used to discount pension obligations would have had the following impact on the pension obligations as at the end of the reporting period:

	December 31, 2019					December 31, 2018				
€ millions	**Germany[1]**	**U.S.A.**	**Canada**	**U.K.**	**Other**	Germany[1]	U.S.A.	Canada	U.K.	Other
0.5% increase										
Effects on service and interest cost	-20.7	-2.4	-0.1	0.8	-0.4	-17.0	-1.8	-0.1	0.7	-0.5
Effects on benefit obligations	-566.4	-63.1	-8.7	-35.5	-21.6	-435.7	-53.3	-7.1	-31.1	-16.8
0.5% decrease										
Effects on service and interest cost	24.1	2.2	0.0	-0.9	0.4	19.7	1.5	0.1	-0.7	0.5
Effects on benefit obligations	665.9	69.6	9.8	39.8	23.8	508.4	58.5	8.0	32.9	18.5

1 Not including the pension contribution funds.

A 0.5-percentage-point increase or decrease in the long-term salary growth rate would have had the following impact on the pension obligations as at the end of the reporting period:

	December 31, 2019				December 31, 2018			
€ millions	**Germany**	**U.S.A.[1]**	**Canada**	**U.K.**	Germany	U.S.A.[1]	Canada	U.K.
0.5% increase								
Effects on benefit obligations	5.5	–	1.0	2.2	5.8	–	0.8	2.3
0.5% decrease								
Effects on benefit obligations	-8.4	–	-0.9	-2.0	-5.5	–	-0.7	-2.2

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

A 0.5-percentage-point increase or decrease in the long-term pension trend would have had the following impact on the pension obligations as at the end of the reporting period:

	December 31, 2019				December 31, 2018			
€ millions	**Germany**	**U.S.A.[1]**	**Canada**	**U.K.**	Germany	U.S.A.[1]	Canada	U.K.
0.5% increase								
Effects on benefit obligations	199.9	–	4.2	24.6	166.9	–	3.8	22.4
0.5% decrease								
Effects on benefit obligations	-180.9	–	-3.8	-23.7	-151.5	–	-3.4	-21.0

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

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

In addition to the aforementioned sensitivities, the impact of a one-year-longer life expectancy on the value of benefit obligations was computed for the key countries. A one-year increase in life expectancy would lead to a €284.6 million (PY: €215.4 million) increase in the value of the benefit obligations, and that figure would be broken down as follows: Germany €231.3 million (PY: €173.3 million), U.S.A. €34.5 million (PY: €27.2 million), U.K. €15.6 million (PY: €12.3 million) and Canada €3.2 million (PY: €2.6 million). In Germany, increased payments in the form of pensions rather than capital were assumed in the actuarial valuation, which has the effect of increasing the benefit obligations. For the calculation of pension obligations for domestic plans, life expectancy is based on the 2018 G mortality tables by Prof. Klaus Heubeck. For foreign pension plans, comparable criteria are used for the respective country.

Pension funds

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

The portfolio structures of the pension funds at the measurement date for the fiscal years 2019 and 2018 are as follows:

%	**2019**					2018				
Asset class	**Germany[1]**	**U.S.A.**	**Canada**	**U.K.**	**Other**	Germany[1]	U.S.A.	Canada	U.K.	Other
Equity instruments	5	21	48	7	13	2	20	51	7	9
Debt securities	52	78	51	29	74	54	79	48	44	76
Real estate	13	–	–	1	2	15	–	–	1	1
Absolute return[2]	17	–	–	16	–	18	1	1	23	2
Cash, cash equivalents and other	13	1	1	5	11	11	–	–	3	12
Annuities[3]	–	–	–	42	–	–	–	–	22	–
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

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

The following table shows the cash contributions made by the company to the pension funds for 2019 and 2018 as well as the expected contributions for 2020:

€ millions	2020 (expected)	2019	2018
Germany	41.4	42.1	46.5
U.S.A.	6.8	11.8	222.7
Canada	2.8	2.4	2.3
U.K.	5.7	7.3	18.8
Other	21.6	15.3	18.8
Total	**78.3**	**78.9**	**309.1**

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

€ millions	Germany	U.S.A.	CAN	U.K.	Other	Total
Benefits paid						
2018	100.5	60.0	4.8	15.5	15.6	**196.4**
2019	102.5	62.5	6.3	14.5	19.0	**204.8**
Benefit payments as expected						
2020	131.0	65.7	5.6	10.6	18.0	**230.9**
2021	127.0	66.9	5.6	11.1	18.2	**228.8**
2022	134.9	67.4	5.7	11.5	19.5	**239.0**
2023	138.1	67.7	6.3	12.1	22.0	**246.2**
2024	148.2	68.0	6.2	12.8	24.4	**259.6**
Total of years 2025 to 2029	859.4	338.3	35.0	76.6	158.9	**1,468.2**

The pension payments from 2018 onward relate to lump-sum amounts in connection with fixed service cost benefit plans, as well as annual pension benefits. Furthermore, the earliest eligible date for retirement has been assumed when determining future pension payments. The actual retirement date could occur later. Therefore, the actual payments in future years for present plan members could be lower than the amounts assumed.

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

€ millions	2019	2018	2017	2016	2015
Defined benefit obligations	7,875.1	6,595.3	6,379.7	6,528.7	5,807.4
Fund assets	3,032.7	2,728.5	2,549.1	2,684.4	2,571.9
Funded status	-4,843.9	-3,866.8	-3,830.6	-3,844.3	-3,235.5
Experience adjustments to plan liabilities	997.0	-2.4	-39.1	596.3	51.9
Experience adjustments to plan assets	209.0	-104.5	77.2	65.4	-21.6

Other post-employment benefits

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

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

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

€ millions	**2019**	2018
Defined benefit obligations as at January 1	**194.9**	**209.3**
Exchange-rate differences	5.5	5.7
Current service cost	1.3	1.3
Service cost from plan amendments	-0.3	0.1
Curtailments/settlements	-0.1	0.4
Interest on healthcare and life insurance benefit obligations	8.1	7.5
Actuarial gains/losses from changes in demographic assumptions	-0.5	-2.7
Actuarial gains/losses from changes in financial assumptions	15.5	-10.6
Actuarial gains/losses from experience adjustments	-1.8	-2.3
Net changes in the scope of consolidation	7.5	—
Benefit payments	-14.2	-13.8
Defined benefit obligations/net amount recognized as at December 31	**215.9**	**194.9**

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

%	**2019**	2018
Discount rate	3.31	4.24
Rate of increase in healthcare and life insurance benefits in the following year	4.04	4.94
Long-term rate of increase in healthcare and life insurance benefits	3.29	3.78

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

€ millions	**2019**	2018
Current service cost	1.3	1.3
Service cost from plan amendments	-0.3	0.1
Curtailments/settlements	-0.1	0.4
Interest on healthcare and life insurance benefit obligations	8.1	7.5
Net loss/income	**9.0**	**9.3**

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

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

€ millions	**2019**	2018
0.5% increase		
Effects on service and interest cost	0.1	0.1
Effects on benefit obligations	2.1	2.2
0.5% decrease		
Effects on service and interest cost	-0.1	-0.1
Effects on benefit obligations	-1.9	-2.0

A 0.5-percentage-point increase or decrease in the discount rate specified above for calculating the net cost of healthcare and life insurance benefit obligations would have had the following effect on net cost:

€ millions	**2019**	2018
0.5% increase		
Effects on service and interest cost	0.5	0.5
Effects on benefit obligations	-10.7	-8.8
0.5% decrease		
Effects on service and interest cost	-0.5	-0.5
Effects on benefit obligations	11.9	9.7

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

€ millions	
Benefits paid	
2018	13.8
2019	14.2
Benefit payments as expected	
2020	15.1
2021	15.2
2022	15.3
2023	15.3
2024	15.3
Total of years 2025 to 2029	70.1

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

€ millions	**2019**	2018	2017	2016	2015
Defined benefit obligations	215.9	194.9	209.3	232.6	229.9
Funded status	-215.9	-194.9	-209.3	-232.6	-229.9
Experience adjustments to plan liabilities	13.2	-15.6	6.3	-2.1	-22.2

Provisions for obligations similar to pensions

Some companies of the corporation have made commitments to employees for a fixed percentage of the employees' compensation. These entitlements are paid out when the employment relationship is terminated. In the year under review, expenses from these obligations amounted to €4.9 million (PY: €3.7 million).

Defined contribution pension plans

The Continental Corporation offers its employees pension plans in the form of defined contribution plans, particularly in the U.S.A., the U.K., Japan and China. Not including social security contributions, expenses from defined contribution pension plans amounted to €88.3 million (PY: €80.1 million) in the fiscal year.

Other employee benefits

Other employee benefits include provisions for partial early retirement programs and anniversary and other long-service benefits. The provisions for partial early retirement are calculated using a discount rate of 0.0% (PY: 1.05%). Provisions for anniversary and other long-service benefits were calculated using a discount rate of 1.2% (PY: 1.9%). In accordance with the option under IAS 19, *Employee Benefits*, the interest component is reported in the financial result.

Long-term incentive plans (LTI plans)

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

The LTI plans for the years starting from 2014 and the deferral are classified as cash-settled share-based payments; hence they are recognized at fair value in accordance with IFRS 2, *Share-based Payment*.

The net amount from expenses and income from LTI plans and the TIP bonus led to income from the reversal of provisions of €8.2 million in the reporting year (PY: €21.9 million).

- 2014 to 2019 LTI plan: Since 2014, senior executives of the Continental Corporation and members of the Executive Board have been granted a new bonus, the basic structure of which has been altered. This bonus is intended to allow for participation in the long-term, sustainable increase in the corporation's value and profitability. The LTI bonus still depends on job grade and degree of target achievement and is issued in annual tranches.

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

- The term of the 2015/18 tranche, which was resolved on March 18, 2015, by the Supervisory Board for the members of the Executive Board and on June 4, 2015, by the Executive Board for senior executives, begins retroactively as at January 1, 2015, and is four years. After the expiry of the 2015/18 LTI tranche in December 2018, the bonus was paid out in July 2019.

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

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

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

- The term of the 2019/22 tranche, which was resolved on March 14, 2019, by the Supervisory Board for the members of the Executive Board and on May 24, 2019, by the Executive Board for senior executives, begins retroactively as at January 1, 2019, and is four years.

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

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

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

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

- 2019 Transformation Incentive Plan (TIP): In 2019, the Continental Corporation offered its senior executives the possibility of participating in the long-term, sustainable increase in the corporation's value by paying a TIP bonus in addition to the fixed salary and the annual variable remuneration. The term of the TIP, which the Executive Board adopted for senior executives on September 2, 2019, extends from October 1, 2019, to December 31, 2021.

- The Executive Board of Continental AG specifies the amount of the target bonus (TIP bonus) in euros for each beneficiary of a TIP bonus (senior executives). The TIP bonus is calculated based on a certain number of virtual shares of Continental AG (base portfolio), which can increase through two bonus packages, multiplied by the payment share price. The payment share price is the arithmetic mean of Continental AG's closing share prices in Xetra trading on the Frankfurt Stock Exchange (or a successor system) on the trading days in the last month prior to the Annual Shareholders' Meeting that follows the end of the term. The TIP bonus, which can total at most 200% of the initial share price, is paid to the respective beneficiary as a gross lump sum at the end of the second complete calendar month following the Annual Shareholders' Meeting that follows the end of the term. Since the base portfolio can be increased through two bonus packages, the degree of achievement of two target criteria is decisive for the amount of the TIP bonus. The target criterion of the first bonus package is the results of the OUR BASICS Live corporate survey in 2021. If at least 70% (equally weighted average) of all participants respond positively to the Sustainable Engagement Index, the beneficiary receives additional virtual shares equivalent to 50% of the base portfolio. The target criterion of the second bonus package is met if, at the end of the term, the total shareholder return (TSR) on Continental shares equals or exceeds the performance of the STOXX Europe 600 Automobiles & Parts Index. In this case, the beneficiary receives additional virtual shares equivalent to 50% of the base portfolio. The TSR on Continental shares corresponds to the sum of the share price performance as at the end of the term and all dividends distributed during the term relative to the share price at the beginning of the term. The share price used in calculating the TSR is the arithmetic mean of the closing prices in Xetra trading on the Frankfurt Stock Exchange (or a successor system) on the trading days (i) in the first month of the term ("initial share price") and (ii) in the last month of the term ("final share price").

A Monte Carlo simulation is used in the measurement of stock options. This means that log-normal distributed processes are simulated for the price of Continental shares and the price of the STOXX Europe 600 Automobiles & Parts Gross Return Index. The Monte Carlo simulation takes into account the average value accumulation of the Continental share prices for the final share price and the payment share price, the TSR dividends, the performance compared with the benchmark index and the restriction for the distribution amount.

The following TSR parameters were used as at the measurement date of December 31, 2019:

- Constant zero rates as at the measurement date of December 31, 2019:
  2016 LTI plan: -0.70% as at the expected payment date;
  2017 LTI plan: -0.68% as at the due date and -0.65% as at the expected payment date;
  2018 LTI plan: -0.63% as at the due date and -0.60% as at the expected payment date;
  2019 LTI plan: -0.58% as at the due date and -0.55% as at the expected payment date.
  2019/2021 TIP bonus: -0.63% as at the due date, -0.61% as at the end of the payment share price period and -0.61% as at the payment date.

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

- Dividend payments as the arithmetic mean based on publicly available estimates for the years 2020 and 2021; the dividend of Continental AG amounted to €4.75 per share in 2019.

- Historic volatilities on the basis of daily Xetra closing rates for Continental shares based on the respective remaining term for LTI tranches. The volatility for the 2017 LTI plan is 29.00%, for the 2018 LTI plan 29.60% and for the 2019 LTI plan 25.99%.

- The fair values of the tranches developed as follows:
  2016 LTI plan: €0.0 million (PY: €8.5 million), the vesting level is 100%;
  2017 LTI plan: €0.0 million (PY: €6.7 million), the vesting level is 75%;
  2018 LTI plan: €0.0 million (PY: €2.1 million), the vesting level is 50%;
  2019 LTI plan: €0.0 million, the vesting level is 25%.
  2019 TIP bonus: €21.8 million, the vesting level is 11.11%.

The lower LTI-related liabilities for payroll and personnel-related costs resulted during the reporting period in income of €0.2 million for the 2015 LTI plan (PY: €8.0 million), €6.5 million for the 2016 LTI plan (PY: €7.4 million), €3.4 million (PY: €5.9 million) for the 2017 LTI plan and €0.5 million (PY: expenses of €0.5 million) for the 2018 LTI plan. In total, no expenses or income for the 2019 LTI plan were recorded in the reporting year. Expenses of €2.4 million were incurred for the TIP bonus in 2019.

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

- Expenses of €0.2 million from virtual shares (PY: income of €7.7 million from the reversal of provisions from virtual shares) were recognized in the respective function costs.

The following parameters were used as at the measurement date of December 31, 2019:

- Constant zero rates as at the measurement date of December 31, 2019:
  2016 tranche: -0.71% as at the due date and as at the expected payment date;
  2017 tranche: -0.66% as at the due date and as at the expected payment date;
  2018 tranche: -0.61% as at the due date and as at the expected payment date.

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

- Dividend payments as the arithmetic mean based on publicly available estimates for 2020 and 2021; the dividend of Continental AG amounted to €4.75 per share in 2019, and Continental AG distributed a dividend of €4.50 per share in 2018.

- Historic volatilities on the basis of daily Xetra closing rates for Continental shares based on the respective remaining term for virtual shares. The volatility for the 2016 tranche is 24.75%, for the 2017 tranche 30.05% and for the 2018 tranche 27.96%.

As at December 31, 2019, commitments with a fair value of €7.1 million (PY: €8.5 million) are attributable to Executive Board members active at the end of the reporting period; this is equivalent to 55,631 virtual shares (PY: 63,266 virtual shares).

Short-term employee benefits

Liabilities for payroll and personnel-related costs

The Continental value sharing bonus is a program that allows Continental employees to share in net income. The amount of profits shared is calculated on the basis of key internal figures. A provision of €83.2 million (PY: €153.1 million) was recognized in liabilities for staff costs for the period under review.

28. Provisions for Other Risks and Obligations

	December 31, 2019		December 31, 2018	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Restructuring provisions	96.5	502.6	23.8	8.6
Litigation and environmental risks	116.3	103.2	104.4	117.6
Warranties	741.4	–	619.8	–
Other provisions	307.4	60.3	318.1	37.5
Provisions for other risks and obligations	**1,261.6**	**666.1**	**1,066.1**	**163.7**

The provisions for other risks developed as follows:

€ millions	Restructuring provisions	Litigation and environmental risks	Warranties	Other provisions
As at January 1, 2019	**32.4**	**222.0**	**619.8**	**355.6**
Additions	588.6	80.6	599.1	214.4
Utilizations	-21.4	-61.1	-301.1	-89.2
Net changes in the scope of consolidation	—	5.7	2.1	9.2
Reversals	-0.4	-34.0	-182.2	-124.9
Interest	0.0	3.1	—	0.1
Exchange-rate changes	-0.1	3.2	3.7	2.5
As at December 31, 2019	**599.1**	**219.5**	**741.4**	**367.7**

The restructuring measures resulted in additions to the restructuring provisions in all segments. These were the result of the Transformation 2019–2029 structural program and included corresponding costs. These relate primarily to the Powertrain and Interior segments.

The utilization of restructuring provisions relates to the implementation of restructuring measures adopted in previous years and incorporated for the first time in 2019.

As in the previous year, the additions to the provisions for litigation and environmental risks relate in particular to product liability risks from the tire activities in the U.S.A. Please see Note 35.

The utilizations relate mainly to the aforementioned product liability risks from tire activities.

The changes in provisions for warranties include utilization of €301.1 million (PY: €329.5 million) and reversals of €182.2 million (PY: €132.9 million), which are offset by additions of €599.1 million (PY: €554.2 million), especially for specific individual cases within the Automotive Group.

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

29. Income Tax Liabilities

Income tax liabilities developed as follows:

€ millions	2019	2018
As at January 1	**750.7**	**889.7**
Additions	694.0	653.5
Utilizations and advance payments for the current fiscal year	-477.8	-664.8
Reversals	-34.5	-19.3
Additions from the first-time consolidation of subsidiaries	3.2	-110.8
Exchange-rate changes	3.0	2.4
As at December 31	**938.6**	**750.7**

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

30. Indebtedness and Additional Notes to the Statement of Cash Flows

€ millions	December 31, 2019 Total	Short-term	Long-term	December 31, 2018 Total	Short-term	Long-term
Bonds	**2,793.8**	1,348.7	1,445.1	1,895.2	499.9	1,395.3
Bank loans and overdrafts[1]	**1,470.4**	960.3	510.1	1,239.0	1,223.7	15.3
Derivative instruments	**13.3**	13.3	–	8.2	8.1	0.1
Lease liabilities/finance lease liabilities	**1,715.0**	318.3	1,396.7	12.3	2.4	9.9
Liabilities from sale-of-receivables programs	**468.6**	468.6	–	469.2	469.2	–
Other indebtedness[2]	**1,157.9**	1,134.6	23.3	983.0	954.6	28.4
Indebtedness	**7,619.0**	**4,243.8**	**3,375.2**	**4,606.9**	**3,157.9**	**1,449.0**

1 Thereof €12.4 million (PY: €13.5 million) secured by land charges, mortgages and similar securities.
2 Other indebtedness in 2019 included a carrying amount of €938.4 million (PY: €814.5 million) from commercial paper issuances.

Continental's key bond issues

€ millions Issuer/type	Amount of issue Dec. 31, 2019	Carrying amount Dec. 31, 2019	Stock market value Dec. 31, 2019	Amount of issue Dec. 31, 2018	Carrying amount Dec. 31, 2018	Stock market value Dec. 31, 2018	Coupon p.a.	Issue/maturity and fixed interest until	Issue price
CRoA[1] euro bond	–	–	–	500.0	499.9	500.4	0.500%	2015/02.2019	99.739%
CAG[2] euro bond	600.0	599.8	600.2	600.0	598.1	600.2	0.000%	2016/02.2020	99.410%
CAG[2] euro bond	750.0	748.9	767.3	750.0	747.2	787.4	3.125%	2013/09.2020	99.228%
CAG[2] euro bond	500.0	497.8	496.5	–	–	–	0.000%	2019/09.2023	99.804%
CAG[2] euro bond	600.0	597.3	598.7	–	–	–	0.375%	2019/06.2025	99.802%
Total	**2,450.0**	**2,443.8**	**2,462.7**	**1,850.0**	**1,845.2**	**1,888.0**			

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

The carrying amount of the bonds increased by €898.6 million from €1,895.2 million in the previous year to €2,793.8 million as at the end of fiscal 2019. This build-up is attributable to several euro bond issues totaling €1,400.0 million by Continental AG in the second half of 2019 under Continental's Debt Issuance Programme (DIP). Continental utilized the favorable market and interest rate environment to successfully issue two listed euro bonds in September 2019 and make two private placements with investors in Germany and abroad in October 2019. The issue price of the €500.0-million bond issued on September 12, 2019, amounted to 99.804%. This bond has a term of four years and an interest rate of 0.000% p.a. The issue price of the €600.0-million bond issued on September 27, 2019, amounted to 99.802%. This bond has a term of five years and nine months and an interest rate of 0.375% p.a. One of the two private placements has a nominal volume of €100.0 million, a term of five years and a fixed interest rate of 0.231% p.a. The second private placement, which has an 18-month term, has a nominal volume of €200.0 million and a variable interest rate. The only bond that matured in 2019, the €500.0-million euro bond from Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., was redeemed on February 19, 2019, at a rate of 100.000%. This bond bore interest at a rate of 0.5% p.a. and had a term of three years and three months.

The corporation concluded cross-currency interest-rate swaps to hedge against the currency risks arising from the bond's denomination in euros, and to exchange the euro-based fixed interest rate of 0.5% p.a. for a U.S.-dollar-based fixed interest rate averaging 2.365% p.a. (please see Note 31 for further information on the accounting for the cross-currency interest-rate swaps in the previous year).

The carrying amount of the bonds also includes a private placement issued by Continental AG at 100.000% at the end of August 2013 with a volume of €50.0 million, an interest rate of 3.9% p.a. and a term of 12 years.

Credit lines and available financing from banks

Bank loans and overdrafts amounted to €1,470.4 million (PY: €1,239.0 million) as at December 31, 2019, and were therefore up €231.4 million on the previous year's level. On December 31, 2019, there were credit lines and available financing from banks in the amount of €6,210.2 million (PY: €4,799.5 million). A nominal amount of €4,702.2 million of this had not been utilized as at the end of the reporting period (PY: €3,504.1 million). €4,000.0 million (PY: €3,000.0 million) of this relates to the revolving tranche of the syndicated loan. The revolving loan had not been utilized as at December 31, 2019. In the previous year, it had been utilized by

Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in the amount of €157.2 million. In the year under review, the Continental Corporation utilized its commercial paper programs, its sale-of-receivables programs and its various bank lines to meet short-term credit requirements.

The previous syndicated loan, which was due in April 2021, was renewed ahead of schedule in December 2019. In doing so, the previous volume of the revolving tranche was increased from €3,000.0 million to €4,000.0 million. This credit line is now available to Continental until December 2024. In addition to improved conditions, sustainability components are included in the calculation of interest for the renegotiated credit line for the first time. These components are linked to the sustainability strategy adopted by the Executive Board of Continental AG and updated in 2019. If the corporation achieves the performance improvements in sustainability as set out in detail in the loan agreement, this will reduce the interest rate; non-achievement will result in interest rate increases. Contractually agreeing sustainability metrics in a loan agreement is a novelty not only for Continental but also for the automotive industry. In addition, the obligation to meet agreed financial covenants as at the end of the respective quarter was omitted. As in the previous year, the agreed financial covenants under the previous syndicated loan were complied with as at the end of the respective quarter in 2019. This tranche can be utilized both in euros and in other currencies on the basis of variable interest rates. Depending on the currency, interest is accrued at either the Euribor rate or the corresponding Libor rate plus a margin in each case.

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

Please see Note 31 for the maturity structure of indebtedness.

Finance lease liabilities

The future payment obligations resulting from finance leases are shown in the table below[1]:

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

1 In the previous year, the corporation broke down the minimum lease payments into principal and interest payments in accordance with IAS 17, Leases. IFRS 16, Leases, however, does not include any explicit provisions regarding this disclosure. Please see Note 15 for the disclosures in accordance with IFRS 16.

The fair value of the lease liabilities was €12.3 million in the previous year. The effective interest rate of the main leases was between 2.0% and 5.4%.

Additional notes to the statement of cash flows

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

		Cash	Non-cash					
€ millions	**Dec. 31, 2019**		**Exchange-rate changes**	**Reclassi-fications**	**Changes in fair value**	**Changes in the scope of consolidation**	**Other**	Dec. 31, 2018
Change in derivative instruments and interest-bearing investments	205.5	10.3	-1.1	53.5	8.9	—	-50.3	184.2
Change in short-term indebtedness	-4,243.8	1,039.2	-43.0	-1,657.1	-13.4	-10.5	-401.1	-3,157.9
Change in long-term indebtedness	-3,375.2	-1,907.5	-20.1	1,657.1	—	-12.8	-1,642.9	-1,449.0

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

31. Financial Instruments

The tables below show the carrying amounts and fair values of financial assets and liabilities, whereby non-current and current items are presented together. In addition, the relevant measurement categories are shown according to IFRS 9, *Financial Instruments*, and the levels of the fair value hierarchy relevant for calculating fair value according to IFRS 13, *Fair Value Measurement*.

€ millions	Measurement category in acc. with IFRS 9	Carrying amount as at Dec. 31, 2019	Fair value as at Dec. 31, 2019	thereof Level 1	thereof Level 2	thereof Level 3
Other investments	FVOCIwoR	197.6	197.6	–	–	197.6
Derivative instruments and interest-bearing investments						
Derivative instruments not accounted for as effective hedging instruments[1]	FVPL	7.5	7.5	–	7.5	–
Debt instruments	FVPL	39.8	39.8	29.1	10.7	–
Debt instruments	at cost	158.2	158.2	–	–	–
Trade accounts receivable						
Trade accounts receivable[2]	at cost	7,571.2	7,571.2	–	–	–
Bank drafts	FVOCIwR	134.2	134.2	–	134.2	–
Trade accounts receivable	FVPL	6.2	6.2	–	6.2	–
Other financial assets						
Other financial assets	FVPL	36.5	36.5	–	36.5	–
Other financial assets[2]	at cost	196.6	196.6	–	–	–
Cash and cash equivalents						
Cash and cash equivalents	at cost	2,748.6	2,748.6	–	–	–
Cash and cash equivalents	FVPL	593.2	593.2	400.6	192.6	–
Financial assets		**11,689.6**	**11,689.6**	**429.7**	**387.7**	**197.6**
Indebtedness without lease liabities[3]						
Derivative instruments not accounted for as effective hedging instruments[1]	FVPL	13.3	13.3	–	13.3	–
Other indebtedness	at cost	5,890.7	5,926.8	2,462.7	908.3	–
Trade accounts payable[4]	at cost	7,111.0	7,111.0	–	–	–
Other financial liabilities[4]	at cost	1,078.0	1,078.0	–	0.4	–
Financial liabilities without lease liabilities[3]		**14,093.0**	**14,129.1**	**2,462.7**	**922.0**	**–**
Aggregated according to categories as defined in IFRS 9:						
Financial assets (FVOCIwR)		134.2				
Financial assets (FVOCIwoR)		197.6				
Financial assets (FVPL)		683.2				
Financial assets (at cost)		10,674.6				
Financial liabilities (FVPL)		13.3				
Financial liabilities (at cost)		14,079.7				

1 Including positive fair values of €0.0 million and negative fair values of €0.1 million for short-term embedded derivatives.
2 From the 2019 fiscal year onward, receivables from related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.
3 Due to the first-time adoption of IFRS 16, Leases, disclosure of the fair value of lease liabilities in accordance with IFRS 7, Financial Instruments: Disclosures, is no longer required.
4 From the 2019 fiscal year onward, liabilities to related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

€ millions	Measurement category in acc. with IFRS 9	**Carrying amount as at Dec. 31, 2018**	**Fair value as at Dec. 31, 2018**	thereof Level 1	thereof Level 2	thereof Level 3
Other investments	FVOCIwoR	192.9	192.9	–	–	192.9
Derivative instruments and interest-bearing investments						
Derivative instruments accounted for as effective hedging instruments	n. a.	28.2	28.2	–	28.2	–
Derivative instruments not accounted for as effective hedging instruments[1]	FVPL	15.1	15.1	–	15.1	–
Debt instruments	FVPL	29.4	29.4	19.6	9.8	–
Debt instruments	at cost	111.5	111.5	–	–	–
Trade accounts receivable						
Trade accounts receivable[2]	at cost	7,742.4	7,742.4	–	–	–
Bank drafts	FVOCIwR	114.9	114.9	–	114.9	–
Trade accounts receivable	FVPL	0.9	0.9	–	0.9	–
Other financial assets						
Other financial assets	FVPL	0.9	0.9	–	0.9	–
Other financial assets[2]	at cost	174.9	174.9	–	–	–
Cash and cash equivalents						
Cash and cash equivalents	at cost	2,201.0	2,201.0	–	–	–
Cash and cash equivalents	FVPL	560.4	560.4	458.8	101.6	–
Financial assets		**11,172.5**	**11,172.5**	**478.4**	**271.4**	**192.9**
Indebtedness						
Derivative instruments not accounted for as effective hedging instruments[1]	FVPL	8.2	8.2	–	8.2	–
Finance lease liabilities	n. a.	12.3	12.3	–	12.3	–
Other indebtedness	at cost	4,586.4	4,638.5	1,888.0	283.0	–
Trade accounts payable[3]	at cost	7,525.6	7,525.6	–	–	–
Other financial liabilities						
Liabilities to related parties from finance leases	n. a.	6.9	6.5	–	6.5	–
Miscellaneous financial liabilities[3]	at cost	1,074.1	1,074.1	–	1.6	–
Financial liabilities		**13,213.5**	**13,265.2**	**1,888.0**	**311.6**	**–**
Aggregated according to categories as defined in IFRS 9:						
Financial assets (FVOCIwR)		114.9				
Financial assets (FVOCIwoR)		192.9				
Financial assets (FVPL)		606.7				
Financial assets (at cost)		10,229.8				
Financial liabilities (FVPL)		8.2				
Financial liabilities (at cost)		13,186.1				

1 Including positive fair values of €0.0 million and negative fair values of €0.1 million for long-term embedded derivatives.
2 From the 2019 fiscal year onward, receivables from related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.
3 From the 2019 fiscal year onward, liabilities to related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

Abbreviations

- at cost: measured at amortized cost
- FVOCIwR: fair value through other comprehensive income with reclassification
- FVOCIwoR: fair value through other comprehensive income without reclassification
- FVPL: fair value through profit and loss
- n. a.: not applicable, not assigned to any measurement category

Levels of the fair value hierarchy according to IFRS 13, *Fair Value Measurement*:

- Level 1: quoted prices on the active market for identical instruments
- Level 2: quoted prices on the active market for a similar instrument or a measurement method for which all major input factors are based on observable market data
- Level 3: measurement method for which the major input factors are not based on observable market data

Other investments are measured at FVOCIwoR (*fair value through other comprehensive income without reclassification*) and classified accordingly, as these investments are held over a long term for strategic purposes.

For other investments for which there are no quoted prices on the active market for identical instruments (level 1) or for a similar instrument, or for which there is no applicable measurement method in which all major input factors are based on observable market data (level 2), the fair value must be calculated using a measurement method for which the major input factors are not based on observable market data (level 3). If external valuation reports or information from other financing rounds is available, these are used. If such information is not available, the measurement is performed according to the measurement method that is deemed appropriate and realizable in each case: for example, according to the discounted cash flow method or by valuation according to multiples using ratios based on purchase prices for comparable transactions. Measurement at amortized cost is only considered the best estimate of the fair value of financial assets if the most recent information available for fair value measurement is insufficient. Other investments are centrally monitored with regard to any changes to the key non-observable input factors and continuously checked for changes in value. As at the reporting date, there were no indications of any significant change in the value of the financial investments. For this reason, there is no need to present the changes in carrying amounts separately, or for a sensitivity analysis.

Derivative instruments that meet the requirements of hedge accounting as well as finance lease liabilities in the previous year are not allocated to any IFRS 9 measurement category, since they are excluded from the individual measurement categories.

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

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

The corporation recognizes possible reclassifications between the different levels of the fair value hierarchy as at the end of the reporting period in which a change occurred. In 2019, as in the previous year, there were no transfers between the different levels of the fair value hierarchy.

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

	Net gains and losses from interest		Other net gains and losses		Total net gains and losses	
€ millions	**2019**	2018	**2019**	2018	**2019**	2018
Financial assets (at cost)	31.1	28.0	-97.2	26.1	-66.1	54.1
Financial assets and liabilities (FVPL)	8.7	8.6	-31.6	14.2	-22.9	22.8
Financial assets (FVOCI)	-1.7	-1.9	0.6	0.8	-1.1	-1.1
Financial liabilities (at cost)	-96.9	-108.7	-54.1	-62.7	-151.0	-171.4

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

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

Collateral
As at December 31, 2019, a total of €745.8 million (PY: €762.5 million) of financial assets had been pledged as collateral. In the year under review, as in the previous year, collateral mainly consisted of trade accounts receivable; the remainder related to pledged cash or other financial assets.

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

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

Further information about the risks presented below and about risk management can be found in the report on risks and opportunities in the corporate management report.

1. Default risk
Default risks from trade accounts receivable, contract assets or other financial assets include the risk that receivables will be collected late or not at all if a customer or another contractual party does not fulfill its contractual obligations. The total of the positive carrying amounts is equivalent to the maximum default risk of the Continental Corporation from financial assets. Default risk is influenced mainly by characteristics of the customers and the sector and is therefore analyzed and monitored by central and local credit managers. The responsibilities of the credit management function also include pooled receivables risk management. Contractual partners' creditworthiness and payment history are analyzed on a regular basis.

Default risk for non-derivative financial receivables is also limited by ensuring that agreements are entered into with partners with proven creditworthiness only or that collateral is provided or, in individual cases, trade credit insurance is agreed. As in the previous year, the corporation held no collateral as at December 31, 2019. There are therefore no trade accounts receivable or contract assets for which an impairment loss was not recognized due to collateral held.

However, default risk cannot be excluded with absolute certainty, and any remaining risk is addressed by recognizing expected credit losses for identified individual risks and on the basis of experience, taking account of any relevant future components. Financial assets that are neither past due nor impaired accordingly have a prime credit rating. Default risks are calculated on the basis of corporation-wide standards. The methods for calculating valuation allowances are described in the notes to the consolidated financial statements under General Information and Accounting Principles (Note 2).

Trade accounts receivable and contract assets
If the creditworthiness of receivables is impaired, corresponding expenses are recognized in an allowance account.

Lifetime expected credit losses are largely calculated using estimates and assessments based on the creditworthiness of the respective customer, current economic developments and the analysis of historical losses on receivables. The creditworthiness of a customer is assessed on the basis of its payment history and its ability to make payments. It is regularly reviewed whether there is a need to take account of any risks in connection with different customer groups, sectors or countries. No such allocation of default risk was required in 2019.

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

The table below shows the gross carrying amounts as at December 31, 2019, for trade accounts receivable and contract assets whose creditworthiness was not impaired[1]:

€ millions	December 31, 2019	December 31, 2018
not overdue	7,006.7	7,102.3
0–29 days	398.4	451.5
30–59 days	146.0	128.8
60–89 days	57.5	38.2
90–119 days	33.9	36.7
120 days or more	116.7	114.1
As at December 31	**7,759.2**	**7,871.6**

1 The difference of €170.1 million (December 31, 2018: €163.6 million) from the tables in Notes 6 and 23 results from trade accounts receivable and contract assets whose creditworthiness was impaired.
From the 2019 fiscal year onward, receivables from related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

In the year under review, lifetime expected credit losses and valuation allowances for trade accounts receivable and contract assets whose creditworthiness was impaired developed as follows[1]:

€ millions	2019	2018
As at January 1	**109.5**	**114.4**
Additions	75.3	40.5
Utilizations	-21.2	-13.3
Reversals	-37.2	-29.7
Amounts disposed of through disposal of subsidiaries	0.0	-0.1
Exchange-rate changes	2.1	-2.3
As at December 31	**128.5**	**109.5**

1 From the 2019 fiscal year onward, receivables from related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

As at December 31, 2019, valuation allowances for trade accounts receivable whose creditworthiness was impaired amounted to €113.5 million (PY: €96.3 million).

Of the impaired receivables written down in the reporting period, €0.7 million (PY: €0.8 million) is still subject to enforcement measures.

Other financial assets

Valuation allowances equivalent to the gross carrying amount totaling €2.0 million (PY: 2.0 million) were recognized for other financial assets whose creditworthiness was impaired. Other 12-month and lifetime expected credit losses on other financial assets are not of significance.

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

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

In order to minimize the default risk for cash and cash equivalents, derivative instruments and interest-bearing investments, Continental generally uses banks that it has classified as core banks on the basis of defined criteria. These banks have at least one investment-grade credit rating from one of the global rating agencies. The default risk can therefore be considered very low. The creditworthiness of the core banks – and of other banks and business partners with which investments are made, loans are granted or derivative instruments are traded in derogation from the core bank principle for operational or regulatory reasons – is continuously monitored by tracking not only their credit ratings but also particularly the premiums for insuring against credit risks (credit default swap, CDS). In addition, Continental sets investment limits for each bank and trading limits for derivative instruments. The amount of these limits is based on the creditworthiness of the respective bank. Compliance with these limits is continuously monitored. Valuation allowances for loans to associates with impaired creditworthiness of €50.3 million (PY: –) were recognized in the reporting year. These valuation allowances equal the gross carrying amounts as at the end of the reporting year. In addition, a provision of €57.4 million (PY: –) was recognized for loan commitments to these companies. This provision equals the outstanding nominal amount of the loan commitments as at the end of the reporting year. As in the previous year, the expected credit losses from cash and cash equivalents and other interest-bearing investments measured at amortized cost are not significant.

2. Currency management

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

Operational foreign-currency risk

In operational currency management, actual and expected foreign-currency cash flows are combined as operational foreign-exchange exposures in the form of net cash flows for each transaction currency on a rolling 12-month basis. These cash flows arise mainly from receipts and payments from external and intra-corporate transactions by the corporation's subsidiaries worldwide. A natural hedge approach for reducing currency risks has been pursued for several years, meaning that the difference between receipts and payments in any currency is kept as low as possible. Exchange-rate developments are also monitored, analyzed and forecast. Based on the operational foreign-exchange exposure and constantly updated exchange-rate forecasts, the interest-rate and currency committee, which convenes weekly, agrees on the hedging measures to be implemented in individual cases by concluding derivative instruments, particularly currency forwards, currency swaps and currency options with a term of up to 12 months. Their amount must not exceed 30% of the 12-month exposure per currency without Executive Board permission. In addition, further risk limits for open derivative positions are set, which considerably reduce the risks from hedging activities. Hedge accounting was not used in the reporting year or in the previous year for hedges concluded in this way. As in the previous year, there were no derivative instruments for hedging against operational foreign-currency risks as at December 31, 2019.

As at December 31, 2019, the net exposure from financial instruments that are denominated in a currency other than the functional currency of the respective subsidiary and are not allocated to net indebtedness existed in the major currencies of the euro in the amount of -€533.1 million (PY: -€211.6 million) and the U.S. dollar in the amount of -€291.2 million (PY: -€525.4 million).

Financial foreign-currency risks

In addition to operational foreign-currency risk, currency risks also result from the corporation's external and internal net indebtedness that is denominated in a currency other than the functional currency of the respective subsidiary. The quantity of these instruments is regularly summarized in the form of a financial foreign-currency exposure for each transaction currency. As at December 31, 2019, the net exposure in the major currencies amounted to -€121.2 million (PY: -€1,297.8 million) for the euro and €687.5 million (PY: €423.7 million) for the U.S. dollar. These currency risks are generally hedged against through the use of derivative instruments, particularly currency forwards, currency swaps and cross-currency interest-rate swaps. The corporation's net foreign investments are, as a rule, not hedged against exchange-rate fluctuations. In the case of highly effective, longer-term and significant hedges, Continental usually applies hedge accounting. The hedged transactions are not divided into their risk components.

Hedging against financial foreign-currency risks without using hedge accounting

As at December 31, 2019, there are derivative instruments for hedging against financial foreign-currency risks from intra-corporate receivables and liabilities. Hedge accounting is not used for these instruments. As at December 31, 2019, they are reported in the statement of financial position under the item "Short-term derivative instruments and interest-bearing investments" in the amount of €7.5 million (PY: €15.1 million) and under the item "Short-term financial liabilities" in the amount of €13.3 million (PY: €8.1 million) and are assigned to the measurement category FVPL. Their nominal volume comes to €1,275.6 million as at December 31, 2019 (PY: €940.4 million).

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

Until August 2017, the Continental Corporation hedged its net investments in foreign operations. Based on the decision that currency effects from net investments in a foreign operation and from designated hedges that are accumulated in the currency translation reserve in equity are to be reclassified to the income statement only if the foreign operation is sold or liquidated, €20.2 million (PY: €20.2 million) from the hedged transactions remains in the currency translation reserve in equity.

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

In 2015, the Continental Corporation fully designated cross-currency interest-rate swaps as hedging instruments for cash flow hedge accounting pursuant to IAS 39 and, from January 1, 2018, pursuant to IFRS 9. The cash flow hedges were used to secure the €500-million bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., on November 19, 2015. In doing so, first the currency risks of Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., were hedged against by the denomination in euros and, second, the euro-based fixed interest rate was exchanged for a U.S.-dollar-based fixed interest rate. These cash flow hedges expired together with the maturity of the bond on February 19, 2019.

In this context, the fulfillment of hedge effectiveness conditions as required under IFRS 9 was continually demonstrated prospectively in qualitative terms based on matching key parameters of the hedged transaction and the hedge (critical terms match). The hedging ratio was 1:1. Ineffectiveness was calculated by comparing the present value development of the hedged transactions and the fair value development of the hedging instruments. As in the previous year, the cash flow hedges did not result in an ineffectiveness to be recognized in profit or loss in the year under review. The fair value of the hedges totaled €28.2 million in the previous year and was reported in the statement of financial position under the item "Short-term derivative instruments and interest-bearing investments." For further information and parameters on the cash flow hedges, please refer to Note 30 in the notes to the consolidated financial statements of the 2018 Annual Report.

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

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

€ millions	**2019**	2018
As at January 1	**0.7**	**2.4**
Fair value changes of cross-currency interest-rate swaps	–8.5	–24.9
Reclassification adjustments to profit and loss because the hedged item has affected profit or loss[1]	7.6	22.6
Deferred taxes	0.2	0.5
Exchange-rate changes	0.0	0.1
As at December 31	**—**	**0.7**

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

Translation-related foreign-currency risks

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

Sensitivity analysis

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

	2019		2018	
€ millions	**Total equity**	**Net income**	Total equity	Net income
Local currency +10%				
Total	**–**	**73.5**	**-0.3**	**113.3**
thereof EUR	–	49.0	-0.3	89.6
thereof USD	–	-32.8	–	7.5
Local currency -10%				
Total	**–**	**-73.5**	**0.3**	**-113.3**
thereof EUR	–	-49.0	0.3	-89.6
thereof USD	–	32.8	–	-7.5

3. Interest-rate management

Variable interest agreements result in a risk of rising interest rates for interest-bearing financial liabilities and falling interest rates for interest-bearing financial investments. These interest-rate risks are valuated and assessed as part of our interest-rate management activities, partly on the basis of continuous monitoring of current and anticipated long-term and short-term interest-rate developments, and are managed by means of derivative interest-rate hedging instruments as needed. The corporation's interest-bearing net indebtedness is the subject of these activities. Interest-rate hedges serve exclusively to manage identified interest-rate risks. Once a year, a range is determined for the targeted share of fixed-interest indebtedness in relation to total gross indebtedness. As in the previous year, there were no derivative financial instruments for hedging against interest-rate risks as at December 31, 2019.

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

Interest-rate risk

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

€ millions	**2019**	2018
Fixed-interest instruments		
Financial assets	87.4	18.4
Financial liabilities	5,266.0	2,820.9
Floating-rate instruments		
Financial assets	3,452.4	2,883.9
Financial liabilities	2,339.7	1,777.8

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

Fair value sensitivity analysis

The main effects resulted from the changes in the U.S. dollar and euro interest rates. There were no changes in the financial result in 2019 or in the previous year. The effects on equity are presented below; tax effects were not taken into account in the analysis:

- An increase in U.S. dollar interest rates of 100 basis points in 2019 would not have affected equity (PY: increase of €0.7 million).
- A decrease in U.S. dollar interest rates of 100 basis points would not have affected equity (PY: reduction of €0.7 million).
- An increase in euro interest rates of 100 basis points in 2019 would not have affected equity (PY: reduction of €0.7 million).
- A decrease in euro interest rates of 100 basis points would not have affected equity (PY: increase of €0.7 million).

Cash flow sensitivity analysis

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

	Interest-rate increase +100 basis points		Interest-rate decline -100 basis points	
€ millions	**2019**	2018	**2019**	2018
Total	**11.5**	**11.2**	**-14.3**	**-11.7**
thereof EUR	-1.6	0.5	-1.3	-1.0
thereof CNY	9.4	5.7	-9.4	-5.7
thereof KRW	1.0	0.5	-1.0	-0.5
thereof INR	0.9	0.9	-0.9	-0.9
thereof BRL	0.9	0.5	-0.9	-0.5
thereof USD	-0.8	1.3	0.8	-1.3
thereof CAD	-1.7	-0.8	1.7	0.8

4. Liquidity risks

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

Various marketable financial instruments are used to meet the financial requirements. These comprise overnight money, term borrowing, the issue of commercial paper, sale-of-receivables programs, the syndicated loan with a committed nominal amount of €4.0 billion (PY: €3.0 billion) and other bilateral loans. Furthermore, approximately 37% (PY: 41%) of gross indebtedness is financed on the capital market in the form of long-term bonds. Capital expenditure by subsidiaries is primarily financed through equity and loans from banks or subsidiaries. There are also cash-pooling arrangements with subsidiaries to the extent they are possible and justifiable in the relevant legal and tax situation. If events lead to unexpected financing requirements, the Continental Corporation can draw upon existing liquidity and fixed credit lines from banks. For detailed information on the existing utilized and unutilized loan commitments, please refer to Note 30.

The financial liabilities without lease liabilities of €14,093.0 million (PY: €13,213.5 million including finance lease liabilities) result in the following undiscounted cash outflows over the next five years and thereafter (lease liabilities are no longer presented in the table for 2019; for more information in this regard, please refer to the analysis in Note 15):

Dec. 31, 2019/€ millions	2020	2021	2022	2023	2024	thereafter	**Total**
Other indebtedness incl. interest payments	3,937.5	219.9	277.3	510.4	345.7	661.9	**5,952.7**
Derivative instruments[1]	18.3	–	–	–	–	–	**18.3**
Trade accounts payable[2]	7,111.0	–	–	–	–	–	**7,111.0**
Other financial liabilities[2]	1,046.3	32.4	–	–	–	–	**1,078.7**

1 Not including embedded derivatives, as they do not give rise to cash outflows.
2 From the 2019 fiscal year onward, liabilities to related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

Dec. 31, 2018/€ millions	2019	2020	2021	2022	2023	thereafter	Total
Other indebtedness incl. interest payments	3,171.0	1,396.7	6.6	6.9	5.0	64.8	**4,651.0**
Derivative instruments[1]	9.3	–	–	–	–	–	**9.3**
Finance lease liabilities	2.7	2.6	2.6	2.4	1.6	1.3	**13.2**
Trade accounts payable[2]	7,525.6	–	–	–	–	–	**7,525.6**
Other financial liabilities[2]	1,043.0	33.0	0.3	0.3	0.3	5.3	**1,082.2**

1 Not including embedded derivatives, as they do not give rise to cash outflows.
2 From the 2019 fiscal year onward, liabilities to related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

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

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

Global netting agreements and similar agreements

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

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

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

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

	December 31, 2019			December 31, 2018		
€ millions	**Carrying amounts[1]**	**Respective financial instruments not netted**	**Net amount**	Carrying amounts[1]	Respective financial instruments not netted	Net amount
Financial assets	7.5	2.3	5.2	43.3	0.7	42.6
Financial liabilities	13.2	2.3	10.9	8.1	0.7	7.4

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

32. Other Financial Liabilities

€ millions	December 31, 2019		December 31, 2018	
	Short-term	Long-term	Short-term	Long-term
Liabilities to related parties[1]	–	0.5	–	7.0
Interest payable	13.8	–	13.7	–
Liabilities for selling expenses	1,027.4	–	963.9	–
Purchase prices payable on company acquisitions	0.1	24.5	8.1	24.5
Miscellaneous financial liabilities	5.0	6.7	56.9	6.9
Other financial liabilities	**1,046.3**	**31.7**	**1,042.6**	**38.4**

1 From the 2019 fiscal year onward, liabilities to related parties are reclassified from operating service business from short-term other financial assets to trade accounts receivable for increased transparency. The figures from the comparative period have been adjusted accordingly.

Interest payable is due mainly to deferred interest for the bonds issued.

Liabilities for selling expenses relate in particular to obligations from bonus agreements with customers and deferred price reductions granted.

The purchase price obligations from company acquisitions mainly comprise the acquisitions implemented in previous years in Germany and Czechia.

The decrease in short-term miscellaneous financial liabilities results primarily from the exercise of the put option on the acquisition of non-controlling interests in Zonar Systems, Inc., Seattle, Washington, U.S.A. Please see Note 5.

33. Trade Accounts Payable

Trade accounts payable amounted to €7,111.0 million (PY: €7,525.6 million) as at the end of the fiscal year. The liabilities are measured at amortized cost. The full amount is due within one year. The liabilities do not include any amounts from the percentage-of-completion method. For information on liquidity risk, currency risk and the sensitivity analysis for trade accounts payable, please see Note 31.

34. Other Liabilities

€ millions	December 31, 2019		December 31, 2018	
	Short-term	Long-term	Short-term	Long-term
Liabilities for VAT and other taxes[1]	320.9	–	254.6	–
Deferred income	25.3	8.3	9.1	8.4
Miscellaneous liabilities[1]	320.0	11.7	302.9	5.0
Other liabilities	**666.2**	**20.0**	**566.6**	**13.4**

1 From the 2019 fiscal year onward, liabilities for interest and penalties on income taxes are no longer included under liabilities for VAT and other taxes but in other liabilities. The figures from the comparative period have been adjusted accordingly.

Other Disclosures

35. Litigation and Compensation Claims

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

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

Proceedings relating to ContiTech AG
The actions of rescission and nullification by shareholders of ContiTech AG, Hanover, Germany, against resolutions adopted by the Annual Shareholders' Meeting of the company on August 22, 2007, regarding the approval of the conclusion of a management and profit and loss transfer agreement between this company as the controlled company and ContiTech-Universe Verwaltungs-GmbH, Hanover, Germany, as the controlling company and regarding the squeeze-out of minority shareholders were concluded in 2009 by a dismissal, which is final. In 2012, partial settlement agreements were entered in the records of the Hanover Regional Court *(Landgericht)* in the judicial review proceedings regarding the appropriateness of the settlement and compensation payment under the management and profit and loss transfer agreement and the settlement for the squeeze-out. Under these settlements, a payment of €3.50 plus interest per share on top of the exit compensation under the management and profit and loss transfer agreement and on account of the squeeze-out was agreed upon, as was a – merely declaratory – higher compensatory payment under the management and profit and loss transfer agreement. The compensation consequently increased to €28.33 per share. In October 2012, the Hanover Regional Court awarded additional payments of the same amount. Upon appeals by some petitioners, the Celle Higher Regional Court *(Oberlandesgericht)* revoked the rulings on July 17, 2013, and remanded the matter to the Regional Court for a new hearing and ruling. On September 19, 2018, the Hanover Regional Court adjusted the compensation under the management and profit and loss transfer agreement and on account of the squeeze-out to €26.70 per share and also adjusted the compensatory payment under the management and profit and loss transfer agreement on a merely declaratory basis. On March 22, 2019, the Celle Higher Regional Court dismissed as inadmissible and rejected the appeals filed by some petitioners against these decisions by the Hanover Regional Court. These rulings by the higher regional court are final. The proceedings have therefore come to an end.

Regulatory proceedings
In May 2005, the Brazilian competition authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Indústria Automotiva Ltda., Guarulhos, Brazil (CBIA), following a complaint of anticompetitive behavior in the area of commercialization of tachographs. On August 18, 2010, the Brazilian antitrust authorities determined an "invitation to cartel" and imposed a fine of BRL 12 million (around €2.7 million) on CBIA, which was then reduced to BRL 10.8 million (around €2.4 million). CBIA denies the accusation that it has infringed Brazilian antitrust law. The court of first instance appealed to by CBIA upheld the decision. However, on CBIA's further appeal, the next higher court annulled this decision and remanded the matter. In case an infringement of Brazilian antitrust law is found, third parties may, in addition, claim damages from CBIA.

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

In 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. CAE successfully appealed against the fine of KRW 45,992 million (around

€36 million) that the KFTC had originally imposed on Continental Automotive Electronics LLC, Bugang-myeon, South Korea (CAE), in this case on December 23, 2013. On May 21, 2018, the KFTC subsequently 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 €3.6 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 €4.5 million) were concluded in 2018. The risk of investigations into this matter by other antitrust authorities and claims for damages by further alleged victims remains unaffected by the fines imposed.

In September 2014, the European Commission conducted a search at a subsidiary of Continental. On February 21, 2018, the Commission imposed a fine of €44.0 million on Continental AG; Continental Teves AG & Co. oHG, Frankfurt am Main, 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, *Provisions, Contingent Liabilities and Contingent Assets*, 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.

36. Contingent Liabilities and Other Financial Obligations

€ millions	**December 31, 2019**	December 31, 2018
Liabilities on guarantees	20.3	16.9
Liabilities on warranties	24.7	52.9
Risks from taxation and customs	14.6	50.7
Other financial obligations	17.7	17.3
Other contingent liabilities	10.0	15.1
Contingent liabilities and other financial obligations	**87.3**	**152.9**

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

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

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

Open purchase commitments for property, plant and equipment amounted to €781.9 million (PY: €743.6 million).

37. Earnings per Share

Basic earnings per share fell in 2019 to -€6.13 (PY: €14.49), the same amount as diluted earnings per share. In both the period under review and the previous year, there were no dilutive effects such as interest savings on convertible bonds or warrant-linked bonds (after taxes). There were also no dilutive effects from stock option plans or the assumed exercise of convertible bonds.

€ millions/millions of shares	**2019**	2018
Net income attributable to the shareholders of the parent	-1,225.0	2,897.3
Weighted average number of shares issued	200.0	200.0
Basic earnings per share in €	**-6.13**	**14.49**

38. Events after the End of the Reporting Period

With effect from January 30, 2020, Continental sold its 50% shareholding in SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany, to Faurecia Automotive GmbH, Stadthagen, Germany, for a provisional purchase price of €225.0 million. The transaction resulted in a provisional gain from disposal of €136.6 million.

39. Auditor's Fees

For fiscal 2019, a global fee of €13.4 million (PY: €11.8 million) was agreed for the audit of the consolidated financial statements and the separate financial statements of the subsidiaries. In the fiscal year, additional fees of €4.8 million were incurred for other attestation services in connection with the transformation of the Powertrain division into an independent legal entity.

The following fees for the auditor elected by the Annual Shareholders' Meeting relate only to services directly connected with Continental AG and its German subsidiaries:

€ millions	**2019**	2018
Audit of financial statements	5.9	4.6
Other assurance services	5.4	0.6
Tax advisory services	0.2	0.0
Other services provided to the parent company or its subsidiaries	0.0	0.2
Total	**11.5**	**5.4**

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

40. Transactions with Related Parties

Remuneration of the Executive Board and the Supervisory Board

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

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

€ thousands	2019	2018
Short-term benefits	8,757	10,950
Service cost relating to post-employment benefits	6,227	5,694
Termination benefits	977	1,947
Share-based payment	–5,700	–23,971
Total	**10,261**	**–5,380**

The basic elements of the Executive Board remuneration system and the amounts granted to the Executive Board and the Supervisory Board in the year under review are explained in the remuneration report, which supplements the corporate governance report and is part of the combined management report with the Continental Corporation.

The total remuneration granted to the Executive Board of Continental AG in 2019 amounted to €16.9 million (PY: €20.5 million). That total remuneration also includes, in addition to short-term benefits of €8.8 million (PY: €11.0 million), a newly granted long-term incentive plan totaling €7.1 million (PY: €7.1 million) and the long-term component of variable remuneration totaling €1.0 million (PY: €2.4 million), which is converted into virtual shares of the company. In 2019, this resulted in the long-term component for 2018 being converted into 16,749 virtual shares.

Moreover, former members of the Executive Board and their surviving dependents received payments totaling €7.5 million (PY: €8.3 million). Provisions for pension obligations for former members of the Executive Board and their surviving dependents amounted to €147.5 million (PY: €131.6 million).

Remuneration paid to the members of Continental AG's Supervisory Board, including meeting fees, totaled €3.7 million in the past fiscal year (PY: €5.3 million).

As in 2018, no advances or loans were granted to members of Continental AG's Executive Board or Supervisory Board in 2019.

The table below shows the transactions with related parties other than subsidiaries:

	Income		Expenses		Accounts receivable		Accounts payable	
€ millions	2019	2018	2019	2018	2019	2018	2019	2018
Non-consolidated companies								
Ordinary business activities	16.9	24.2	5.9	6.1	6.0	11.7	3.2	3.5
Others	0.5	0.2	0.0	–	5.8	–	0.6	–
Equity-accounted investees								
Ordinary business activities	351.2	420.1	93.8	225.1	116.0	193.9	154.6	210.3
Financing	2.6	9.0	108.5	–	51.6	33.9	171.4	119.6
Others	0.0	–	0.0	–	0.1	–	0.0	–
Schaeffler Group								
Ordinary business activities	94.3	89.5	104.9	118.0	23.0	20.5	22.5	18.8
Others	0.0	–	0.0	–	0.0	–	0.0	–
Other related parties								
Ordinary business activities	–	2.2	0.0	0.1	–	1.6	–	7.0
Total	**465.5**	**545.2**	**313.1**	**349.3**	**202.5**	**261.6**	**352.3**	**359.2**

Transactions with related parties other than subsidiaries were conducted on an arm's-length basis. Ordinary business activities comprise the purchase or sale of goods and other assets as well as rendered or received services. Expenses from financing activities are primarily the result of allowances for doubtful accounts on loans to equity-accounted investees as well as the creation of a provision for loan commitments to these companies totaling €108.2 million (PY: –).

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

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

BlackRock, Inc., Wilmington, Delaware, United States, notified us that its share of voting rights in Continental AG on December 31, 2019, amounted to 3.05%.

- 2.95% of these voting rights (5,896,808 voting rights) are attributed to the company in accordance with Section 34 *WpHG*.
- 0.09% of these voting rights (187,188 voting rights) are attributed to the company as instruments in accordance with Section 38 (1) No. 1 *WpHG* (Lent Securities).
- 0.01% of these voting rights (23,532 voting rights) are attributed to the company as instruments in accordance with Section 38 (1) No. 2 *WpHG* (Contract for Difference).

Harris Associates L.P., Wilmington, Delaware, U.S.A. notified us that the Harris Associates Investment Trust's share of voting rights in Continental AG on May 17, 2019, amounted to 5.02%.

- 5.02% of these voting rights (10,050,154 voting rights) are attributed to the company in accordance with Section 34 *WpHG*.

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

- the share of voting rights in Continental AG held by Schaeffler Familienholding Eins GmbH, Herzogenaurach, Germany, fell below the threshold of 3% of voting rights on December 31, 2015, due to restructuring within the corporation and amounted to 0.00% at this time.
- the share of voting rights in Continental AG held by Schaeffler Familienholding Zwei GmbH, Herzogenaurach, Germany, fell below the threshold of 3% of voting rights on December 31, 2015, due to restructuring within the corporation and amounted to 0.00% at this time.
- the share of voting rights in Continental AG held by IHO Verwaltungs GmbH (still operating as Schaeffler Verwaltung Zwei GmbH as at December 31, 2015), Herzogenaurach, Germany, on December 31, 2015, amounted to 35.99%.
- the share of voting rights in Continental AG held by IHO Beteiligungs GmbH (still operating as Schaeffler Verwaltungs GmbH as at December 31, 2015), Herzogenaurach, Germany, on December 31, 2015, amounted to 10.01%. Another 35.99% of the voting rights in Continental AG are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- 46.00% of the voting rights in Continental AG are attributed to IHO Holding GmbH & Co. KG (still operating as Schaeffler Holding GmbH & Co. KG as at December 31, 2015), Herzogenaurach, Germany, on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- 46.00% of the voting rights in Continental AG are attributed to IHO Management GmbH (still operating as Schaeffler Management GmbH as at December 31, 2015), Herzogenaurach, Germany, on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- 46.00% of the voting rights in Continental AG are attributed to INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- 46.00% of the voting rights in Continental AG are attributed to Schaeffler Holding LP, Dallas, Texas, U.S.A., on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- 46.00% of the voting rights in Continental AG are attributed to Mrs. Maria-Elisabeth Schaeffler-Thumann on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- 46.00% of the voting rights in Continental AG are attributed to Mr. Georg F. W. Schaeffler on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

As a result of the withdrawal of Schaeffler Familienholding Drei GmbH & Co. KG, Herzogenaurach, Germany, from Schaeffler Beteiligungsholding GmbH & Co. KG, Herzogenaurach, Germany, on December 31, 2015, the investment held by Schaeffler Beteiligungsholding GmbH & Co. KG, Herzogenaurach, Germany, in Continental

AG accrued to IHO Verwaltungs GmbH (still operating as Schaeffler Verwaltung Zwei GmbH as at December 31, 2015), Herzogenaurach, Germany. The investment held by Schaeffler Familienholding Drei GmbH & Co. KG, Herzogenaurach, Germany, as well as the investment by its co-owner; by Schaeffler Familienholding Eins GmbH, Herzogenaurach, Germany; and by Schaeffler Familienholding Zwei GmbH, Herzogenaurach, Germany, in Continental AG accordingly ceased to exist. As a result of a subsequent further accrual and termination without liquidation of Schaeffler Familien-holding Drei GmbH & Co. KG, Herzogenaurach, Germany, this company's notification obligation in accordance with *WpHG* ceased to apply on January 1, 2016.

In 2019 and until March 2, 2020, inclusively, the members of the Executive Board held shares representing a total interest of less than 1% of the share capital of the company. Shares representing 46.0% of the voting share capital of the company were attributable to the members of the Supervisory Board Mrs. Maria-Elisabeth Schaeffler-Thumann and Mr. Georg F. W. Schaeffler. In 2019 and until March 2, 2020, inclusively, the other members of the Supervisory Board held shares representing a total interest of less than 1% of the share capital of the company.

41. List of Shareholdings of the Corporation

Further information on equity investments can be found in the list of the corporation's shareholdings in accordance with Section 313 of the German Commercial Code *(Handelsgesetzbuch – HGB)*, which is published as part of the consolidated financial statements in the German Federal Gazette *(Bundesanzeiger)*. The consolidated financial statements with the list of the corporation's shareholdings are also made available for inspection by the shareholders in the business premises at the company's headquarters from the date on which the Annual Shareholders' Meeting is convened, and from that point in time are available together with the additional documents and information in accordance with Section 124a of the German Stock Corporation Act *(Aktiengesetz – AktG)* online at www.continental-ir.com.

Statutory exemption provisions applying to German companies

The following German companies and partnerships utilized the exemption provisions of Section 264 (3) *HGB* and Section 264b *HGB*:

Company	Registered office
ADC Automotive Distance Control Systems GmbH	Lindau
A-Z Formen- und Maschinenbau GmbH	Runding-Langwitz
balance GmbH, Handel und Beratungsservice im Gesundheitswesen	Hanover
Benecke-Kaliko AG	Hanover
CAS München GmbH	Hanover
CAS-One Holdinggesellschaft mbH	Hanover
Conseo GmbH	Hamburg
Conti Temic microelectronic GmbH	Nuremberg
Conti Versicherungsdienst Versicherungsvermittlungsges. mbH	Hanover
Continental Advanced Antenna GmbH	Hildesheim
Continental Aftermarket GmbH	Eschborn
Continental Automotive GmbH	Hanover
Continental Automotive Grundstücksges. mbH	Frankfurt am Main
Continental Caoutchouc-Export-GmbH	Hanover
Continental Engineering Services & Products GmbH	Ingolstadt
Continental Engineering Services GmbH	Frankfurt am Main
Continental Finance GmbH	Hanover
Continental Reifen Deutschland GmbH	Hanover
Continental Safety Engineering International GmbH	Alzenau
Continental Teves AG & Co. oHG	Frankfurt am Main
Continental Trading GmbH	Schwalbach am Taunus
ContiTech AG	Hanover
ContiTech Antriebssysteme GmbH	Hanover
ContiTech Elastomer-Beschichtungen GmbH	Hanover
ContiTech Kühner Beteiligungsgesellschaft mbH	Hanover
ContiTech Kühner GmbH & Cie. KG	Oppenweiler
ContiTech Luftfedersysteme GmbH	Hanover
ContiTech MGW GmbH	Hannoversch Münden
ContiTech Schlauch GmbH	Hanover
ContiTech Techno-Chemie GmbH	Karben
ContiTech Transportbandsysteme GmbH	Hanover
ContiTech Verwaltungs-GmbH	Hanover
ContiTech Vibration Control GmbH	Hanover
ContiTech-Universe Verwaltungs-GmbH	Hanover
co-pace GmbH	Hanover
Eddelbüttel + Schneider GmbH	Hamburg
Elektrobit Automotive GmbH	Erlangen

Company	Registered office
Formpolster GmbH	Hanover
Göppinger Kaliko GmbH	Eislingen
Hornschuch GmbH	Weißbach
Hornschuch Group GmbH	Weißbach
Hornschuch Stolzenau GmbH	Weißbach
Hornschuch-Markt GmbH	Weißbach
inotec Innovative Technologie GmbH	Kohren-Sahlis
kek-Kaschierungen GmbH	Herbolzheim
Konrad Hornschuch AG	Weißbach
MISA-Beteiligungs GmbH	Hanover
MISA GmbH & Co. KG	Hanover
OTA Grundstücks- und Beteiligungsverwaltung GmbH	Frankfurt am Main
Phoenix Beteiligungsgesellschaft mbH	Hamburg
Phoenix Compounding Technology GmbH	Hamburg
Phoenix Conveyor Belt Systems GmbH	Hamburg
Phoenix Fluid Handling Industry GmbH	Hamburg
Phoenix Service GmbH & Co. KG	Hamburg
Phoenix Vermögensverwaltungsgesellschaft mbH	Hamburg
Präzisionstechnik Geithain GmbH	Geithain
REG Reifen-Entsorgungsgesellschaft mbH	Hanover
Senior Experts Services GmbH	Hanover
STEINEBRONN BETEILIGUNGS-GMBH	Oppenweiler
TON Tyres Over Night Trading GmbH	Schondra-Schildeck
UMG Beteiligungsgesellschaft mbH	Hanover
Union-Mittelland-Gummi-GmbH & Co. Grundbesitz KG	Hanover
Vergölst GmbH	Bad Nauheim
Vitesco Technologies 1. Beteiligungsgesellschaft mbH & Co. KG	Frankfurt am Main
Vitesco Technologies 2. Beteiligungsgesellschaft mbH & Co. KG	Hanover

42. German Corporate Governance Code/Declaration in Accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz – AktG)*

The declaration required in accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz – AktG)* was issued by the Executive Board and the Supervisory Board in December 2019, and is available to our shareholders online at www.continental-corporation.com in the Company section under Corporate Governance.

43. Report on Subsequent Events

As at March 2, 2020, there were no events or developments that could have materially affected the measurement and presentation of individual asset and liability items as at December 31, 2019.