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 Continental AG and the Continental Group, as well as for the other information provided in the annual report. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and include any necessary and appropriate estimates. The management report for Continental AG and the Continental Group contains an analysis of the earnings, financial and net assets position of the Continental Group, 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 Continental AG and the Continental Group, as well as for internal reporting, is reliable. This includes standardized guidelines at the corporate 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 Continental Group's value-oriented management, plus audits by Group 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 2020 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 Continental AG and the Continental Group. The auditor will issue the independent auditor's report.

The consolidated financial statements, the management report for Continental AG and the Continental Group, 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, February 19, 2021

The Executive Board

Independent Auditor's Report

To Continental Aktiengesellschaft, Hanover

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

Opinions
We have audited the consolidated financial statements of Continental Aktiengesellschaft, Hanover, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2020, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the management report on the Company and the Group (hereinafter: the "group management report") of Continental Aktiengesellschaft for the financial year from January 1 to December 31, 2020.

In accordance with German statutory provisions, we did not audit the content of the elements of the group management report set out 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 the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e(1) *HGB* (*Handelsgesetzbuch*: German Commercial Code) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2020, and of its financial performance for the financial year from January 1 to December 31, 2020, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group 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 group management report does not cover the content of the elements of the group management report specified 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 the group management report.

Basis for the opinions
We conducted our audit of the consolidated financial statements and the group management report in accordance with Section 317 *HGB* and the EU Audit Regulation (No. 537/2014; hereinafter the "EU-AR"), taking into account the generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (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 group management report" section of our auditor's report. We are independent of the consolidated companies 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. Furthermore, we declare pursuant to Article 10(2) f) EU-AR that we have not carried out any prohibited non-audit services referred to in Article 5(1) EU-AR. 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 group management report.

Key audit matters in the audit of the consolidated financial statements
Key audit matters are such matters that, in our professional judgement, were the most significant in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2020. These matters were taken into account in connection with our audit of the consolidated financial statements as a whole and in forming our audit opinion; we do not provide a separate audit opinion on these matters.

Recoverability of the carrying amount of goodwill
Please refer to Section 2 in the notes to the consolidated financial statements for information on the accounting policies applied and the assumptions used. Information on the amount of the goodwill can be found in Section 14 in the notes to the consolidated financial statements.

RISK FOR THE FINANCIAL STATEMENTS
The goodwill amounts to €4,362 million as at December 31, 2020, and, at 11% of the total assets, constitutes a significant proportion of the assets.

Goodwill is tested annually at the level of the cash-generating units, without this requiring a specific reason. If impairment triggers arise in the course of the year, an ad hoc impairment test is additionally performed during the year. For this purpose, the carrying amount is compared with the recoverable amount of the relevant cash-generating unit. If the carrying amount exceeds the recoverable amount, an impairment loss has to be recognized. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the cash-generating unit. The reporting date for the mandatory impairment test which has to be carried out every year is November 30, 2020. Ad hoc impairment tests are additionally carried out by Continental AG.

The goodwill impairment test is complex and based on a number of discretionary assumptions. These include the expected business and earnings development of the cash-generating units segment for the next five and nine years, the long-term growth rates that are assumed and the discount rate that is used.

In the course of the annual planning process, the Company did not expect global production of passenger cars and light commercial vehicles to increase significantly in the next five years up to 2025 in comparison with pre-crisis levels. The expected effects of restructuring measures were additionally taken into account in this planning process. The reduction in the expected future cash inflows led in the course of the ad hoc impairment test as at September 30, 2020, to impairments of the goodwill totaling €649 million (€655 million as at December 31, 2020, due to currency effects).

No additional impairment loss was identified during the annual impairment test as at November 30, 2020. The results of the sensitivity analyses conducted by the Company showed that a reasonably possible change both in the discount rate, the sustainable growth rate in the perpetual annuity and in sales does not require any additional impairments.

There is a risk for the consolidated financial statements that the impairment recognized in the financial statements has not been recognized in the appropriate amount. There is also a risk that the disclosures in the notes to the financial statements relating to the subsequent measurement of the goodwill are not appropriate and complete.

OUR AUDIT APPROACH

With the support of our valuation specialists, we assessed, among other things, the appropriateness of the key assumptions as well as of the Company's valuation model. To this end, we discussed the expected business and earnings development as well as the assumed long-term growth rates with those responsible for the planning. Furthermore, we checked the plausibility of the annual planning and the long-term planning drawn up by the Executive Board and approved by and taken note of by the Supervisory Board. We additionally assessed the consistency of the assumptions with external market forecasts.

We furthermore satisfied ourselves of the Company's planning accuracy by comparing plans from earlier financial years with the results actually realized and analyzing any deviations. As even minor changes to the discount rate can have a significant impact on the results of the impairment test, we compared the assumptions and data underlying the discount rate, the risk-free rate, the market risk premium and the beta coefficient, with our own assumptions and publicly available data.

In order to ensure that the valuation model used was mathematically accurate, we verified the Company's calculations on the basis of elements selected from a risk perspective.

In order to take the existing forecast uncertainty and the early reporting date for the impairment test into account, we investigated the impact of possible changes in the revenue, the discount rate and the EBIT margin on the recoverable amount (sensitivity analysis) by calculating alternative scenarios and comparing them with the values stated by the Company. The risk-based focus of our analyses here was the five cash-generating units for which we carried out detailed analyses.

Finally, we assessed whether the disclosures in the notes regarding the impairment of goodwill were appropriate and complete.

OUR CONCLUSIONS

The valuation model underlying the impairment test of the goodwill is appropriate and consistent with the applicable measurement principles.

The Company's assumptions and data underlying the measurement are within acceptable ranges and are balanced on the whole.

The related disclosures in the notes are appropriate and complete.

Recoverability of the carrying amount of deferred tax assets

Please refer to Sections 2 and 20 in the notes to the consolidated financial statements for information on the accounting policies applied and the assumptions used.

RISK FOR THE FINANCIAL STATEMENTS

Deferred tax assets of €2,751 million, of which €580 million result from loss and interest carryforwards, are reported in the consolidated financial statements of Continental AG as at December 31, 2020.

For the recognition of the deferred tax assets, Continental estimates to what extent the existing deferred tax assets can be used in the subsequent reporting periods. A requirement for realizing these claims is that sufficient taxable income is generated in the future. If there are reasonable doubts about whether the deferred tax assets that have been identified can be used in the future, deferred tax assets are not recognized and deferred tax assets that have already been created are impaired.

The measurement of the deferred tax assets depends to a large extent on management's assessment and assumptions relating to the operational performance of the country units and the Group's tax planning and is therefore subject to significant uncertainty. Furthermore, any realization depends on the respective tax environment.

In the course of the annual planning process, Continental did not expect global production of passenger cars and light commercial vehicles to increase significantly in the next five years up to 2025 in comparison with pre-crisis levels. This has a negative impact on the future business and earning prospects. Based on Continental's assessment, it can be assumed that the existing deferred tax assets can be used despite the way in which the market has developed, with the result that it remains possible to capitalize the deferred tax assets.

There is a risk for the consolidated financial statements that Continental AG's assessment is not reasonable and that the deferred tax assets that are recognized cannot be recovered.

OUR AUDIT APPROACH

We obtained the support of our tax specialists in the audit in order to assess the tax issues. To begin with, we subjected the temporary differences between the IFRS carrying amounts and the carrying amounts of the respective tax accounts for the Group companies in question to a critical analysis. Furthermore, we reconciled the loss carryforwards with the tax assessment notices and the tax calculations for the current financial year for Group companies and groups of companies consolidated for tax purposes selected on a risk-oriented basis, and we also assessed off-balance sheet corrections.

We evaluated the impairment of the deferred tax assets on the basis of the internal company forecasts of future taxable income drawn up for the Group companies and subjected the underlying assumptions to a critical assessment. In this connection, we reconciled in particular the planning of the future taxable income with the planning drawn up by management and reviewed the consistency of the underlying data. We furthermore satisfied ourselves of the Group companies' planning accuracy by comparing plans from earlier financial years with the results that were actually realized later and analyzing any deviations.

We had Continental AG's assessment of the financial performance of Group companies with an existing history of losses explained to us. If deferred tax assets are recognized at these companies, we satisfied ourselves that the measures to improve results have been implemented and also analyzed the causes of the improvement in earnings and evaluated the sustainability of the taxable profits.

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

Recognition and measurement of the restructuring provisions
Please refer to Sections 2 and 29 in the notes to the consolidated financial statements for information on the accounting policies applied and the assumptions used.

RISK FOR THE FINANCIAL STATEMENTS
Restructuring provisions totaling €1,351 million are recognized in the consolidated financial statements of Continental AG as at December 31, 2020.

If the general and specific recognition criteria of the relevant provisions are met, appropriate provisions must be created for restructuring measures. The measurement of the restructuring provisions, the amounts of which are significant, depends to a large extent on the assessments and assumptions made by the Company's management especially with regard to the design of the redundancy plans, the amount of the severance payments, the laying off of employees and costs for abandoning sites.

The risks for the consolidated financial statements are that the criteria for the recognition of restructuring provisions are not met or that these provisions are not measured correctly.

OUR AUDIT APPROACH
To begin with, we assessed in the course of our audit whether each of the recognition criteria was fulfilled as at December 31, 2020. In this connection, we assessed in particular whether there was a detailed, formal restructuring plan, whether the essential elements of the restructuring measures had been communicated to the employees affected and whether the implementation of the restructuring measures had begun.

We subsequently had the assumptions used as the basis for the measurement of the restructuring provisions explained to us. We assessed the consistency of the assumptions with the detailed, formal restructuring plans. We furthermore compared the assumptions with restructuring measures conducted in the past and subjected contracts and agreements already entered into by the reporting date to a critical analysis.

OUR CONCLUSIONS
Management's assumptions are appropriate.

Other information
The management and the Supervisory Board are responsible for the other information. The other information includes the following elements of the management report, the content of which has not been audited:

- the combined non-financial Group statement that is contained in the "Sustainability and Combined Non-Financial Statement" section in the management report; and
- the group corporate governance statement, which is referred to in the same section of the group management report.

The other information additionally includes the other parts of the annual report. The other information does not include the consolidated financial statements, the group management report information audited for content or our auditor's report thereon.

Our opinions on the consolidated financial statements and on the group 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 above-mentioned information and, in so doing, to consider whether the other information

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

In accordance with our engagement, we conducted a separate business audit of the combined non-financial Group statement. In relation to the nature, scope and results of this business audit, please refer to our unqualified audit opinion of March 2, 2021.

Responsibilities of management and the Supervisory Board for the consolidated financial statements and the group management report
The management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e(1) *HGB* and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition,

management is responsible for such internal control as they have determined 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, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group'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, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group 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 group management report.

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

Auditor's responsibilities for the audit of the consolidated financial statements and of the group 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 group management report as a whole provides an appropriate view of the Group'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 group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 *HGB* and the EU-AR and in compliance with the German generally accepted standards for the audit of financial statements 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 group management report.

We exercise professional judgement 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 group 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 controls.

- 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 group 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 the accounting policies used by management and the reasonableness of the estimates made by management and related disclosures.

- Conclude on the appropriateness of management'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 Group'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 group 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 Group 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 a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e(1) *HGB*.

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

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

- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management 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 issue a statement to those responsible for monitoring to the effect that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be assumed to affect our independence and the safeguards put in place to protect against this.

From the matters that we have discussed with those responsible for monitoring, we determine which matters were most important during the audit of the consolidated financial statements for the current reporting period and are therefore the key audit matters. We describe these matters in the independent auditor's report, unless laws or other legal provisions preclude their public disclosure.

Other Statutory and Legal Requirements

Report on the audit of the electronic reproduction of the consolidated financial statements and of the group management report created for disclosure purposes in accordance with Section 317(3b) *HGB*

In accordance with Section 317(3b) *HGB*, we conducted an audit to obtain reasonable assurance on whether the electronic reproductions of the consolidated financial statements and of the group management report contained in the file "continental_187287.zip" (SHA256-Hashvalue: ff1d6b6632b3219cdb263c093d69c9246 504a461f8e06b2b9535e54af227f97c) that are created for disclosure purposes (also referred to hereinafter as the "ESEF documents"), and which can be retrieved from the protected client portal for the issuers, satisfy the requirements of Section 328(1) *HGB* relating to the electronic reporting format ("ESEF format") in all material respects. In compliance with the German legal requirements, this audit covers only the conversion of the information in the consolidated financial statements and the group management report into the ESEF format and therefore neither the information contained in these reproductions nor other information contained in the above-mentioned file.

In our opinion, the reproductions of the consolidated financial statements and of the group management report contained in the above-mentioned file and created for disclosure purposes meet the requirements of Section 328(1) *HGB* relating to the electronic reporting format in all material respects. Beyond this opinion and our opinions on the accompanying consolidated financial statements and the accompanying group management report for the financial year from January 1 to December 31, 2020, contained in the preceding "Report on the audit of the consolidated financial statements and the group management report," we do not issue any opinion whatsoever on the information contained in these reproductions or on the other information contained in the above-mentioned file.

We conducted our audit of the reproductions of the consolidated financial statements and of the group management report contained in the above-mentioned file in accordance with Section 317(3b) *HGB* and the draft IDW auditing standard: Audit of the electronic reproductions of annual financial statements and management reports created for disclosure purposes in accordance with Section 317(3b) *HGB* (IDW EPS 410). Our responsibility based on this standard is described in more detail below. Our audit practice has applied the requirements for quality assurance systems set out in the IDW quality assurance standard: Requirements for quality assurance in auditing practice (IDW QS 1).

The management of the Company is responsible for drawing up the ESEF documents with the electronic reproductions of the consolidated financial statements and of the group management report pursuant to Section 328(1) sentence 4 no. 1 *HGB* and for marking up the consolidated financial statements pursuant to Section 328(1) sentence 4 no. 2 *HGB*.

In addition, management of the Company is responsible for such internal control as they have determined necessary to enable the creation of the ESEF documents that are free from material violations, whether due to fraud or error, of the requirements of Section 328(1) *HGB* relating to the electronic reporting format.

The management of the Company is furthermore responsible for submitting to the operator of the German Federal Gazette the ESEF documents together with the auditor's report and the accompanying audited consolidated financial statements and the audited group management report as well as other documents to be disclosed.

The Supervisory Board is responsible for overseeing the creation of the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material violations, whether due to fraud or error, of the requirements of Section 328(1) *HGB*. We exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material breaches of the requirements of Section 328(1) *HGB*, 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 opinion;

- obtain an understanding of internal control relevant to the audit of the ESEF documents 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 controls;

- assess the technical validity of the ESEF documents, i.e. whether the file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, as amended as at the balance sheet date, relating to the technical specification for this file;
- assess whether the ESEF documents enable the audited consolidated financial statements and the audited group management report to be reproduced in XHTML with the same contents;
- assess whether the mark-up of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction to be made.

Other disclosures in accordance with Article 10 EU-AR

We were elected as the auditor of the consolidated financial statements by the Annual General Meeting on July 14, 2020. We were engaged by the Audit Committee on November 8, 2020. We have been the auditor of the consolidated financial statements of Continental Aktiengesellschaft without interruption for more than 30 years.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 EU-AR (audit report).

In addition to auditing the financial statements for the Company and the companies it controls, we performed the following services, which have not been included in the consolidated financial statements or in the group management report:

In addition to the audit of the consolidated and annual financial statements as well as the review of the interim financial statements of Continental Aktiengesellschaft, we audited various consolidated and annual financial statements and conducted reviews of interim financial statements at subsidiaries. Project-related IT audits, audits of various IT systems and IT processes as well as migration tests were performed. Furthermore, we performed other assurance services, such as issuing a comfort letter, conducting legal or contractual audits, including the audits pursuant to the *Erneuerbare-Energien-Gesetz* (*EEG* – German Renewable Energy Sources Act), EMIR audits pursuant to Section 20 of the *Wertpapierhandelsgesetz* (*WpHG* – German Securities Trading Act), the audit of the combined non-financial group statement, the audit of transfer prices as well as audits of the use of funds. We have issued assurances on compliance with terms and conditions of contract. Furthermore, workshops on tax issues have been held. Tax advisory services that we have performed additionally include support services in the preparation of tax returns and during tax audits as well as advice on individual items for income tax and value added tax purposes as well as project-related support in the implementation of a tax compliance management system.

Responsible auditor

The auditor responsible for the audit is Andreas Modder.

Hanover, March 2, 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Tonne	Modder
Wirtschaftsprüfer	*Wirtschaftsprüfer*
(German Public Auditor)	(German Public Auditor)

Consolidated Statement of Income

€ millions	See Note	**2020**	2019
Sales	6	**37,722.3**	**44,478.4**
Cost of sales		-29,133.6	-33,893.4
Gross margin on sales		**8,588.7**	**10,585.0**
Research and development expenses	7	-4,330.6	-4,471.8
Selling and logistics expenses		-2,417.3	-2,718.9
Administrative expenses		-1,156.9	-1,110.2
Other income	8	1,711.2	1,774.6
Other expenses	8	-3,045.3	-4,203.2
Income from equity-accounted investees	10	-68.5	-124.3
Other income from investments	10	0.6	0.5
EBIT		**-718.1**	**-268.3**
Interest income	11	98.5	147.2
Interest expense	11	-282.2	-317.3
Effects from currency translation	11	-97.4	-30.5
Effects from changes in the fair value of derivative instruments, and other valuation effects	11	69.1	-119.7
Financial result	11	**-212.0**	**-320.3**
Earnings before tax		**-930.1**	**-588.6**
Income tax expense	12	11.3	-582.4
Net income		**-918.8**	**-1,171.0**
Non-controlling interests		-43.1	-54.0
Net income attributable to the shareholders of the parent		-961.9	-1,225.0
Basic earnings per share in €	38	**-4.81**	**-6.13**
Diluted earnings per share in €	**38**	**-4.81**	**-6.13**

Consolidated Statement of Comprehensive Income

€ millions	2020	2019
Net income	**-918.8**	**-1,171.0**
Reclassification within equity not affecting net income	**—**	**—**
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit plans[1]	-490.5	-808.8
Fair value adjustments[1]	-523.6	-797.6
Reclassification from disposals of pension obligations	—	—
Investment in equity-accounted investees[2]	0.0	0.0
Currency translation[1]	33.1	-11.2
Other investments	-9.0	-3.6
Fair value adjustments[1]	-6.1	—
Investment in equity-accounted investees[2]	-2.9	-3.6
Tax on other comprehensive income	43.4	236.9
Items that may be reclassified subsequently to profit or loss		
Currency translation[1]	-1,048.9	287.4
Difference from currency translation[1]	-1,051.7	279.4
Reclassification adjustments to profit and loss	0.7	0.0
Investment in equity-accounted investees[2]	2.1	8.0
Cash flow hedges	—	-0.9
Fair value adjustments	—	-8.5
Reclassification adjustments to profit and loss	—	7.6
Tax on other comprehensive income	-1.7	0.5
Other comprehensive income	**-1,506.7**	**-288.5**
Comprehensive income	**-2,425.5**	**-1,459.5**
Attributable to non-controlling interests	7.3	-63.8
Attributable to the shareholders of the parent	-2,418.2	-1,523.3

1 Including non-controlling interests.
2 Including taxes.

Consolidated Statement of Financial Position

Assets

€ millions	See Note	**December 31, 2020**	December 31, 2019
Goodwill	14	4,361.6	5,113.5
Other intangible assets	14	1,346.9	1,691.8
Property, plant and equipment	15, 16	13,760.6	14,932.7
Investment property	17	12.2	11.7
Investments in equity-accounted investees	18	351.3	397.7
Other investments	19	123.4	197.6
Deferred tax assets	20	2,751.4	2,174.4
Defined benefit assets	28	82.7	7.8
Long-term contract assets	6	–	0.1
Long-term derivative instruments and interest-bearing investments	32	142.6	54.0
Long-term other financial assets	21	161.0	114.6
Long-term other assets	22	24.2	28.6
Non-current assets		**23,117.9**	**24,724.5**
Inventories	23	4,238.2	4,694.4
Trade accounts receivable	24	7,353.2	7,711.6
Short-term contract assets	6	119.1	89.1
Short-term other financial assets	21	146.8	118.5
Short-term other assets	22	1,352.5	1,406.7
Income tax receivables		234.8	240.5
Short-term derivative instruments and interest-bearing investments	32	114.0	151.5
Cash and cash equivalents	25	2,938.7	3,341.8
Assets held for sale	26	22.8	89.6
Current assets		**16,520.1**	**17,843.7**
Total assets		**39,638.0**	**42,568.2**

Equity and liabilities

€ millions	See Note	**December 31, 2020**	December 31, 2019
Subscribed capital		512.0	512.0
Capital reserves		4,155.6	4,155.6
Retained earnings		11,960.2	13,522.1
Other comprehensive income		–4,365.4	–2,794.4
Equity attributable to the shareholders of the parent		**12,262.4**	**15,395.3**
Non-controlling interests		376.7	480.4
Total equity	27	**12,639.1**	**15,875.7**
Long-term employee benefits	28	6,109.9	5,406.3
Deferred tax liabilities	20	168.6	305.4
Long-term provisions for other risks and obligations	29	1,242.6	666.1
Long-term indebtedness	31	5,144.4	3,375.2
Long-term other financial liabilities	33	6.7	31.7
Long-term contract liabilities	6	7.0	16.7
Long-term other liabilities	35	63.9	20.0
Non-current liabilities		**12,743.1**	**9,821.4**
Short-term employee benefits	28	1,236.5	1,368.7
Trade accounts payable	34	5,933.1	7,111.0
Short-term contract liabilities	6	291.0	234.9
Income tax payables	30	790.1	938.6
Short-term provisions for other risks and obligations	29	1,725.4	1,261.6
Short-term indebtedness	31	2,190.0	4,243.8
Short-term other financial liabilities	33	1,287.9	1,046.3
Short-term other liabilities	35	801.8	666.2
Current liabilities		**14,255.8**	**16,871.1**
Total equity and liabilities		**39,638.0**	**42,568.2**

Consolidated Statement of Cash Flows

€ millions	See Note	2020	2019
Net income		**-918.8**	**-1,171.0**
Income tax expense	12	-11.3	582.4
Financial result	11	212.0	320.3
EBIT		**-718.1**	**-268.3**
Interest paid		-169.4	-157.9
Interest received		32.8	75.0
Income tax paid	12, 30	-885.5	-866.0
Dividends received		31.3	67.3
Depreciation, amortization, impairment and reversal of impairment losses	8, 14, 15, 16	3,751.9	5,245.5
Income from equity-accounted investees and other investments, incl. impairment and reversal of impairment losses	10, 18	22.9	123.8
Gains/losses from the disposal of assets, companies and business operations		-187.7	-15.5
Changes in			
inventories	23	205.6	-49.1
trade accounts receivable	24	140.2	337.8
trade accounts payable	34	-925.0	-544.7
employee benefits and other provisions	28, 29	1,121.5	658.3
other assets and liabilities		293.5	-191.8
Cash flow arising from operating activities		**2,714.0**	**4,414.4**
Cash flow from the disposal of assets	14, 15	57.6	53.9
Capital expenditure on property, plant and equipment, and software	14, 15	-1,942.4	-2,977.5
Capital expenditure on intangible assets from development projects and miscellaneous	14	-183.7	-242.8
Cash flow from the disposal of companies and business operations	5	304.3	1.3
Acquisition of companies and business operations	5	-71.1	-487.6
Cash flow arising from investing activities		**-1,835.3**	**-3,652.7**
Cash flow before financing activities (free cash flow)		**878.7**	**761.7**
Net cash change in short-term indebtedness	31	-2,557.7	-1,049.5
Cash change in long-term indebtedness	31	2,160.7	1,907.5
Other cash changes		81.9	-24.9
Successive purchases	5	-172.8	-71.0
Dividends paid		-600.0	-950.0
Dividends paid to and cash changes from equity transactions with non-controlling interests		-52.7	-32.5
Cash and cash equivalents arising from the first-time consolidation of subsidiaries		–	0.4
Cash flow arising from financing activities		**-1,140.6**	**-220.0**
Change in cash and cash equivalents		**-261.9**	**541.7**
Cash and cash equivalents as at January 1		3,341.8	2,761.4
Effect of exchange-rate changes on cash and cash equivalents		-141.2	38.7
Cash and cash equivalents as at December 31	25	**2,938.7**	**3,341.8**

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, 2019	**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	–	–	-950.0	–	–	–	–	-950.0	-35.7	**-985.7**
Successive purchases	–	–	–	18.0	–	–	–	18.0	-33.3	**-15.3**
Other changes[6]	–	–	–	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**
Net income	–	–	-961.9	–	–	–	–	-961.9	43.1	**-918.8**
Comprehensive income	–	–	0.0	–	-450.6	-999.6	-6.1	-1,456.3	-50.4	**-1,506.7**
Net profit for the period	**–**	**–**	**-961.9**	**–**	**-450.6**	**-999.6**	**-6.1**	**-2,418.2**	**-7.3**	**-2,425.5**
Dividends paid/resolved	–	–	-600.0	–	–	–	–	-600.0	-62.9	**-662.9**
Successive purchases	–	–	–	-114.8	–	–	–	-114.8	-33.5	**-148.3**
Other changes[6]	–	–	–	0.1	–	–	–	0.1	0.0	**0.1**
As at December 31, 2020	**512.0**	**4,155.6**	**11,960.2**	**-302.1**	**-2,817.0**	**-1,232.7**	**-13.6**	**12,262.4**	**376.7**	**12,639.1**

1 Divided into 200,005,983 shares outstanding.
2 Includes an amount of -€114.8 million (PY: €18.0 million) from successive purchases of shares in fully consolidated companies and an amount of €0.1 million (PY: €0.2 million) relating to effects from the first-time consolidation of previously non-consolidated subsidiaries.
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 €2.1 million (PY: €8.0 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 other investments of -€6.1 million (PY: -€3.6 million) as well as the expiry of cash flow hedges for interest and currency hedging of -€0.6 million in the previous year.
6 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 Group are divided into the following segments:

Autonomous Mobility and Safety (until December 31, 2019: primarily the Chassis & Safety division) develops, produces and integrates active and passive safety technologies and controls vehicle dynamics.

Vehicle Networking and Information (until December 31, 2019: primarily the Interior division) develops and integrates components and end-to-end systems for connected mobility – architecture, hardware, software and services.

With its premium portfolio in the car, truck, bus, two-wheel and specialty tire segment, **Tires** stands for innovative top performance in tire technology. Services for dealers and fleet management as well as digital tire monitoring and management systems are further areas of focus. The aim is to contribute to safe, economical and sustainable mobility.

ContiTech focuses on smart and sustainable solutions beyond rubber and develops digital and intelligent solutions in future-oriented sectors. In doing so, ContiTech draws on its long-standing knowledge of the industry and materials to open up new business opportunities by combining various materials with electronic components and individual services.

Powertrain brings together the full spectrum of Continental's expertise in drivetrain technology. Powertrain's aim is to develop innovative, efficient electrification technologies for all types of vehicle.

Other/holding/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 Group are based on International Financial Reporting Standards (IFRS) as described in Note 2. The Continental Group 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 Continental Group'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 pension provisions – 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 €4,753.4 million (PY: €6,087.7 million) with a group of companies under common control in the year under review.

In 2020, 18% (PY: 19%) of sales were generated in Germany. Other than this, there were no countries except the USA 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 2020

€ millions	Autonomous Mobility and Safety	Vehicle Networking and Information	Tires	ContiTech	Powertrain	Other/ Holding/ Consolidation	Continental Group
External sales	7,490.6	7,818.6	10,093.7	5,513.3	6,806.1	–	37,722.3
Intercompany sales	38.6	37.5	64.9	65.3	161.6	-367.9	–
Sales (total)	**7,529.2**	**7,856.1**	**10,158.6**	**5,578.6**	**6,967.7**	**-367.9**	**37,722.3**
EBIT (segment result)	-97.7	-1,342.5	1,012.3	254.1	-450.8	-93.5	-718.1
in % of sales	-1.3	-17.1	10.0	4.6	-6.5	–	-1.9
thereof income from equity-accounted investees	5.3	-38.4	-1.5	0.4	-34.9	0.6	-68.5
Capital expenditure[1]	498.7	480.6	535.5	179.6	466.0	71.8	2,232.2
in % of sales	6.6	6.1	5.3	3.2	6.7	–	5.9
Depreciation and amortization[2]	570.6	1,368.7	852.6	374.6	573.3	12.1	3,751.9
thereof impairment[3]	9.5	744.1	11.8	25.1	86.3	0.0	876.8
Internally generated intangible assets	20.0	75.0	0.0	0.0	35.4	–	130.4
Significant non-cash expenses/income	-18.2	-30.9	-24.0	-23.2	-90.1	6.3	-180.1
Segment assets	7,145.8	6,395.1	8,906.7	4,251.7	5,675.7	206.4	32,581.4
thereof investments in equity-accounted investees	124.5	57.6	94.1	20.0	46.1	9.0	351.3
Segment liabilities	2,745.7	2,959.6	2,504.4	1,198.2	2,679.8	22.7	12,110.4
Operating assets as at December 31	4,400.1	3,435.5	6,402.3	3,053.5	2,995.9	183.7	20,471.0
Operating assets (average)	4,658.8	4,203.4	7,080.7	3,281.2	3,191.5	121.0	22,536.6
ROCE in %	-2.1	-31.9	14.3	7.7	-14.1	–	-3.2
Number of employees as at December 31[4]	47,762	47,789	56,864	43,463	40,102	406	236,386
Adjusted sales[5]	7,529.2	7,842.3	10,154.4	5,448.2	6,967.7	-367.9	37,573.9
Adjusted operating result (adjusted EBIT)[6]	94.9	-374.7	1,344.1	412.2	-55.6	-88.2	1,332.7
in % of adjusted sales	1.3	-4.8	13.2	7.6	-0.8	–	3.5

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. Expenses from derecognitions of brand values are likewise included.
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 2019

€ millions	Autonomous Mobility and Safety	Vehicle Networking and Information	Tires	ContiTech	Powertrain	Other/ Holding/ Consolidation	Continental Group
External sales	9,348.2	9,540.6	11,671.3	6,303.4	7,614.9	–	44,478.4
Intercompany sales	33.4	54.9	56.7	98.1	187.4	-430.5	–
Sales (total)	**9,381.6**	**9,595.5**	**11,728.0**	**6,401.5**	**7,802.3**	**-430.5**	**44,478.4**
EBIT (segment result)	-120.3	-1,325.3	1,651.6	305.9	-662.1	-118.1	-268.3
in % of sales	-1.3	-13.8	14.1	4.8	-8.5	–	-0.6
thereof income from equity-accounted investees	9.6	-147.0	6.2	0.5	6.7	-0.3	-124.3
Capital expenditure[1]	720.6	683.7	926.2	261.7	657.7	58.7	3,308.6
in % of sales	7.7	7.1	7.9	4.1	8.4	–	7.4
Depreciation and amortization[2]	1,265.6	1,907.7	846.1	364.6	854.6	6.9	5,245.5
thereof impairment[3]	750.0	1,373.2	22.5	12.3	351.9	–	2,509.9
Internally generated intangible assets	2.0	130.5	0.0	0.0	67.9	–	200.4
Significant non-cash expenses/income	-0.1	-179.4	-16.4	-21.9	-40.3	6.5	-251.6
Segment assets	7,379.2	7,521.6	10,073.9	4,776.8	6,063.6	162.0	35,977.1
thereof investments in equity-accounted investees	128.5	63.4	109.2	19.9	68.4	8.3	397.7
Segment liabilities	2,662.4	2,764.4	2,518.7	1,285.5	2,716.3	38.8	11,986.1
Operating assets as at December 31	4,716.8	4,757.2	7,555.2	3,491.3	3,347.3	123.2	23,991.0
Operating assets (average)	5,159.9	5,760.2	7,797.5	3,519.8	3,906.3	34.8	26,178.5
ROCE in %	-2.3	-23.0	21.2	8.7	-16.9	–	-1.0
Number of employees as at December 31[4]	48,434	48,117	56,884	45,801	41,744	478	241,458
Adjusted sales[5]	9,126.8	9,593.9	11,728.0	6,393.7	7,802.3	-430.5	44,214.2
Adjusted operating result (adjusted EBIT)[6]	672.9	442.4	1,705.4	455.4	57.0	-107.6	3,225.5
in % of adjusted sales	7.4	4.6	14.5	7.1	0.7	–	7.3

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 2020

€ millions	Autonomous Mobility and Safety	Vehicle Networking and Information	Tires	ContiTech	Powertrain	Other/ Holding/ Consolidation	Continental Group
Sales	**7,529.2**	**7,856.1**	**10,158.6**	**5,578.6**	**6,967.7**	**-367.9**	**37,722.3**
Changes in the scope of consolidation[1]	–	-13.8	-4.2	-130.4	–	–	-148.4
Adjusted sales	**7,529.2**	**7,842.3**	**10,154.4**	**5,448.2**	**6,967.7**	**-367.9**	**37,573.9**
EBITDA	**472.9**	**26.2**	**1,864.9**	**628.7**	**122.5**	**-81.4**	**3,033.8**
Depreciation and amortization[2]	-570.6	-1,368.7	-852.6	-374.6	-573.3	-12.1	-3,751.9
EBIT	**-97.7**	**-1,342.5**	**1,012.3**	**254.1**	**-450.8**	**-93.5**	**-718.1**
Amortization of intangible assets from purchase price allocation (PPA)	–	65.5	20.3	88.7	9.1	–	183.6
Changes in the scope of consolidation[1]	–	-0.8	0.7	-5.8	–	–	-5.9
Special effects							
Impairment on goodwill	–	654.6	–	–	–	–	654.6
Impairment[3]	6.1	89.4	0.5	17.5	79.2	0.0	192.7
Restructuring[4]	134.8	229.9	292.2	36.0	187.8	–	880.7
Restructuring-related expenses[5]	10.5	3.7	0.2	1.7	10.4	–	26.5
Severance payments[5]	21.4	20.0	17.7	17.5	13.8	0.3	90.7
Gains and losses from disposals of companies and business operations	0.0	-161.5	0.2	2.5	-8.8	–	-167.6
Other[6]	19.8	67.0	–	–	103.7	5.0	195.5
Adjusted operating result (adjusted EBIT)	**94.9**	**-374.7**	**1,344.1**	**412.2**	**-55.6**	**-88.2**	**1,332.7**

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. It does include expenses from derecognitions of brand values of €71.2 million in the Vehicle Networking and Information segment and of €14.5 million in the ContiTech segment.
4 This includes impairment losses totaling €33.7 million (Autonomous Mobility and Safety €3.4 million; Vehicle Networking and Information €0.1 million; Tires €13.0 million; ContiTech €7.7 million; Powertrain €9.5 million) and reversals of impairment losses totaling €4.2 million (Tires €1.7 million; ContiTech €0.1 million; Powertrain €2.4 million).
5 Due to the Transformation 2019–2029 structural program, restructuring-related expenses and severance payments will be recognized as special effects to be adjusted from fiscal 2020.
6 The item "Other" mainly includes expenses of €102.8 million from the transformation of the Powertrain segment into an independent legal entity; expenses totaling €49.9 million in connection with preparations for the repatriation of the business from associate OSRAM CONTINENTAL GmbH, Munich, Germany; and an expense of €37.5 million due to an allowance recognized on the carrying amount of an associate.

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

€ millions	Autonomous Mobility and Safety	Vehicle Networking and Information	Tires	ContiTech	Powertrain	Other/ Holding/ Consolidation	Continental Group
Sales	**9,381.6**	**9,595.5**	**11,728.0**	**6,401.5**	**7,802.3**	**-430.5**	**44,478.4**
Changes in the scope of consolidation[1]	-254.8	-1.6	–	-7.8	–	–	-264.2
Adjusted sales	**9,126.8**	**9,593.9**	**11,728.0**	**6,393.7**	**7,802.3**	**-430.5**	**44,214.2**
EBITDA	**1,145.3**	**582.4**	**2,497.7**	**670.5**	**192.5**	**-111.2**	**4,977.2**
Depreciation and amortization[2]	-1,265.6	-1,907.7	-846.1	-364.6	-854.6	-6.9	-5,245.5
EBIT	**-120.3**	**-1,325.3**	**1,651.6**	**305.9**	**-662.1**	**-118.1**	**-268.3**
Amortization of intangible assets from purchase price allocation (PPA)	–	57.2	20.0	94.6	10.7	–	182.5
Changes in the scope of consolidation[1]	-2.9	1.6	–	0.4	–	–	-0.9
Special effects							
Impairment on goodwill	719.8	1,347.9	–	2.3	223.5	–	2,293.5
Impairment[3]	29.1	25.3	3.5	4.9	48.9	–	111.7
Restructuring[4]	42.7	172.9	32.5	46.5	402.6	–	697.2
Gains and losses from disposals of companies and business operations	–	–	–	0.0	–	–	0.0
Other[5]	4.5	162.8	-2.2	0.8	33.4	10.5	209.8
Adjusted operating result (adjusted EBIT)	**672.9**	**442.4**	**1,705.4**	**455.4**	**57.0**	**-107.6**	**3,225.5**

1 Changes in the scope of consolidation include additions and disposals as part of share and asset deals. Adjustments were made for additions in the reporting year and for disposals in the comparative period of the prior year.
2 Excluding impairment on financial investments.
3 Impairment also includes necessary reversal of impairment losses. This item does not include impairment that arose in connection with a restructuring and impairment on financial investments.
4 This includes impairment losses totaling €104.8 million (Autonomous Mobility and Safety €1.2 million; Tires €19.0 million; ContiTech €5.0 million; Powertrain €79.6 million).
5 The item "Other" mainly includes an expense of €157.9 from an allowance recognized on the carrying amount of associate OSRAM CONTINENTAL GmbH, Munich, Germany, and expenses of €47.4 million from the transformation of the Powertrain segment into an independent legal entity and the organizational realignment of the Automotive Technologies group sector.

Reconciliation of EBIT to net income

€ millions	**2020**	2019
Autonomous Mobility and Safety	-97.7	-120.3
Vehicle Networking and Information	-1,342.5	-1,325.3
Tires	1,012.3	1,651.6
ContiTech	254.1	305.9
Powertrain	-450.8	-662.1
Other/Holding/Consolidation	-93.5	-118.1
EBIT	**-718.1**	**-268.3**
Financial result	-212.0	-320.3
Earnings before tax	**-930.1**	**-588.6**
Income tax expense	11.3	-582.4
Net income	**-918.8**	**-1,171.0**
Non-controlling interests	-43.1	-54.0
Net income attributable to the shareholders of the parent	**-961.9**	**-1,225.0**

Segment report by region

€ millions	**Germany**	**Europe excluding Germany**	**North America**	**Asia**	**Other countries**	**Continental Group**
External sales 2020	**6,801.2**	**11,260.2**	**9,411.3**	**9,007.4**	**1,242.2**	**37,722.3**
External sales 2019	8,349.6	13,102.9	11,628.0	9,752.0	1,645.9	44,478.4
Capital expenditure 2020[1]	**579.2**	**799.5**	**382.8**	**427.9**	**42.8**	**2,232.2**
Capital expenditure 2019[91]	812.9	1,108.3	646.9	691.9	48.6	3,308.6
Segment assets as at December 31, 2020	**9,381.3**	**8,930.9**	**6,927.2**	**7,036.9**	**305.1**	**32,581.4**
Segment assets as at December 31, 2019	10,289.5	9,509.2	8,208.7	7,402.8	566.9	35,977.1
Number of employees as at December 31, 2020[2]	**58,809**	**75,983**	**44,831**	**47,503**	**9,260**	**236,386**
Number of employees as at December 31, 2019[2]	61,474	77,063	45,912	47,631	9,378	241,458

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

Reconciliation to operating assets in 2020

€ millions	Autonomous Mobility and Safety	Vehicle Networking and Information	Tires	ContiTech	Powertrain	Other/ Holding/ Consolidation	Continental Group
Total assets	**7,202.0**	**6,426.5**	**8,970.5**	**4,257.8**	**5,713.9**	**7,067.3**	**39,638.0**
Cash and cash equivalents	–	–	–	–	–	2,938.7	2,938.7
Short- and long-term derivative instruments, interest-bearing investments	–	–	–	–	–	256.6	256.6
Other financial assets	24.0	27.2	13.9	5.6	28.3	23.5	122.5
Less financial assets	**24.0**	**27.2**	**13.9**	**5.6**	**28.3**	**3,218.8**	**3,317.8**
Less other non-operating assets	**32.2**	**4.2**	**49.9**	**0.5**	**9.9**	**655.9**	**752.6**
Deferred tax assets	–	–	–	–	–	2,751.4	2,751.4
Income tax receivables	–	–	–	–	–	234.8	234.8
Less income tax assets	**–**	**–**	**–**	**–**	**–**	**2,986.2**	**2,986.2**
Segment assets	**7,145.8**	**6,395.1**	**8,906.7**	**4,251.7**	**5,675.7**	**206.4**	**32,581.4**
Total liabilities and provisions	**4,460.1**	**4,254.3**	**3,467.7**	**1,967.1**	**3,611.6**	**9,238.1**	**26,998.9**
Short- and long-term indebtedness	–	–	–	–	–	7,334.4	7,334.4
Interest payable and other financial liabilities	–	–	–	–	–	36.4	36.4
Less financial liabilities	**–**	**–**	**–**	**–**	**–**	**7,370.8**	**7,370.8**
Deferred tax liabilities	–	–	–	–	–	168.6	168.6
Income tax payables	–	–	–	–	–	790.1	790.1
Less income tax liabilities	**–**	**–**	**–**	**–**	**–**	**958.7**	**958.7**
Less other non-operating liabilities	**1,714.4**	**1,294.7**	**963.3**	**768.9**	**931.8**	**885.9**	**6,559.0**
Segment liabilities	**2,745.7**	**2,959.6**	**2,504.4**	**1,198.2**	**2,679.8**	**22.7**	**12,110.4**
Operating assets	**4,400.1**	**3,435.5**	**6,402.3**	**3,053.5**	**2,995.9**	**183.7**	**20,471.0**

Reconciliation to operating assets in 2019

€ millions	Autonomous Mobility and Safety	Vehicle Networking and Information	Tires	ContiTech	Powertrain	Other/ Holding/ Consolidation	Continental Group
Total assets	**7,355.0**	**7,471.0**	**10,077.9**	**4,784.0**	**6,026.6**	**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	23.1	17.6	7.6	13.1	18.7	89.7
Less financial assets	**9.6**	**23.1**	**17.6**	**7.6**	**13.1**	**3,566.0**	**3,637.0**
Less other non-operating assets	**-33.8**	**-73.7**	**-13.6**	**-0.4**	**-50.1**	**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**	**7,521.6**	**10,073.9**	**4,776.8**	**6,063.6**	**162.0**	**35,977.1**
Total liabilities and provisions	**4,145.5**	**3,786.7**	**3,399.9**	**1,972.9**	**3,579.6**	**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**	**1,022.3**	**881.2**	**687.4**	**863.3**	**881.0**	**5,818.3**
Segment liabilities	**2,662.4**	**2,764.4**	**2,518.7**	**1,285.5**	**2,716.3**	**38.8**	**11,986.1**
Operating assets	**4,716.8**	**4,757.2**	**7,555.2**	**3,491.3**	**3,347.3**	**123.2**	**23,991.0**

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 Group 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 2020 were prepared by resolution of the Executive Board of February 19, 2021, 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, 2020, have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, pursuant to EU Regulation (EC) No. 1606/2002 in conjunction with Section 315e (1) of the German Commercial Code *(Handelsgesetzbuch – HGB)*. The term IFRS also includes the International Accounting Standards (IAS), 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 2020 have been applied, subject to endorsement by the European Union.

The consolidated financial statements have been 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 Continental Group 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 Continental Group is the same as the reporting date for the consolidated financial statements.

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.

Effects of the COVID-19 pandemic on accounting in the reporting period

As a result of the COVID-19 pandemic, fiscal 2020 was subject to many uncertainties with respect to the economic environment. It is not currently possible to predict the long-term economic consequences of the COVID-19 pandemic and the stabilization measures that have been introduced. On the basis of the information available, a continuous review was carried out in the year under review to identify any need for adjustment in the various areas. The analysis of the effects on the accounting of the Continental Group as at December 31, 2020, resulted in the following findings:

- Financial instruments: An increase in insolvencies and associated credit losses as a result of the COVID-19 pandemic cannot be ruled out. The Continental Group has made allowances in cases where there are reasons in the assessment of credit management that lead to the assumption that it is more probable that the receivables are not collectible. The Continental Group regularly reviews the expected credit loss model pursuant to IFRS 9 in order to identify potential effects on the model and make any necessary adjustments. A review based on the information currently available did not reveal any need for adjustment as at December 31, 2020.

- Goodwill impairment test: Based on the currently determined weighted average cost of capital (WACC), the underlying planning data and the currently expected possible effects of the COVID-19 pandemic, goodwill was impaired by €654.6 million (September 30, 2020: €649.3 million) in the Connected Car Networking cash-generating unit in the Vehicle Networking and Information segment. For further details, please refer to the section on "Impairment."

- Leases: As a result of the COVID-19 pandemic, changes to lease payments may lead to the different accounting treatment of individual leases. All relevant matters have been reviewed and accounted for in accordance with the requirements of IFRS 16. As at December 31, 2020, there was no material need for adjustment.

- Employee benefits: The review of the defined actuarial assumptions for employee benefits, including the interest rate, did not result in any need for adjustment due to the COVID-19 pandemic as at December 31, 2020.

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 share of (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 Continental Group 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 share of earnings or losses is 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 Group 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 Continental Group 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 Continental Group.

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 differences 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, 2020**	December 31, 2019	**2020**	2019
Brazil	BRL	6.38	4.51	5.86	4.42
Switzerland	CHF	1.08	1.09	1.07	1.11
China	CNY	8.03	7.81	7.86	7.73
Czechia	CZK	26.27	25.41	26.43	25.67
United Kingdom	GBP	0.90	0.85	0.89	0.88
Hungary	HUF	364.63	330.55	350.84	325.32
Japan	JPY	126.53	121.78	121.73	122.07
South Korea	KRW	1,335.28	1,294.82	1,344.10	1,304.91
Mexico	MXN	24.38	21.23	24.45	21.56
Malaysia	MYR	4.94	4.59	4.79	4.64
Philippines	PHP	58.99	56.82	56.57	57.97
Romania	RON	4.87	4.78	4.84	4.75
USA	USD	1.23	1.12	1.14	1.12
South Africa	ZAR	18.01	15.72	18.72	16.17

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 Group 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.

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 Automotive Technologies, the Powertrain and ContiTech segments, and the original-equipment business of the Tires segment; please refer to the descriptions of the business areas in the Structure of the Continental Group section of the consolidated 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. 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 Tires segment, the industrial and retail business of the ContiTech segment, and the replacement-parts and retail business of the Autonomous Mobility and Safety, Vehicle Networking and Information, and Powertrain segments; please refer to the descriptions of the business areas in the consolidated 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.

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. Pension provisions, provisions for other post-employment benefits, and 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 Continental Group 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 and government subsidies that are directly attributable to depreciable fixed assets are deducted from the procurement and manufacturing costs of the assets in question. All other monetary grants and subsidies 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 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 Continental Group applies the exemption described in Note 3, it classifies the sublease as an operating lease.

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

Impairment
The Continental Group 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 compared to pre-crisis levels over the next five years until 2025. The expected impact of restructuring measures was also taken into account in this planning process. 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, discount rates and their parameters, and long-term growth rates – goodwill was impaired by €654.6 million (September 30, 2020: €649.3 million) in the Connected Car Networking CGU in the Vehicle Networking and Information segment. This impairment is recognized in other expenses. The changes compared to September 30, 2020, are exclusively attributable to exchange-rate changes.

For this impairment test as at September 30, 2020, the expected cash flows for the CGUs were essentially derived from long-term planning that cover the next five years. For the CGUs High Voltage Power Applications, Low Voltage & Control Unit Applications, and Electronic Controls, a more detailed model with long-term detailed planning was used as a basis due to the specific situation in each case. The cash flows of the CGUs of the Autonomous Mobility and Safety and Vehicle Networking and Information segments were discounted with an interest rate before tax of 10.8%; those of the Tires and ContiTech segments were discounted with an interest rate of 8.9% each; and those of the Powertrain segment were discounted with an interest rate of 10.7%. 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 -0.11% and the market risk premium 7.5%. 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 Autonomous Mobility and Safety segment was 10.0%, in the Vehicle Networking and Information segment 9.0%, in the Tires segment 5.4%, in the ContiTech segment 7.7% and in the Powertrain segment 9.3%. The long-term growth rate was 1.5% for the CGUs of the Autonomous Mobility and Safety and Vehicle Networking and Information segments, 0.5% for those of the Tires and ContiTech segments and 1.0% for those of the Powertrain segment. 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 CGU including its goodwill and the recoverable amount of this CGU. 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 CGU. If the reasons for this cease to apply in the future, impairment losses on goodwill are not reversed.

The expected cash flows of the CGUs 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 CGUs. For the CGUs High Voltage Power Applications, Low Voltage & Control Unit Applications, and Electronic Controls, a more detailed model with long-term detailed planning was used as a basis due to the specific situation in each case.

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

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. The cash flows of the CGUs of the Autonomous Mobility and Safety and Vehicle Networking and Information segments were discounted with an interest rate before tax of 10.4% (PY: 11.1%); those of the Tires and ContiTech segments were discounted with an interest rate of 8.7% each (PY: 9.2%); and those of the Powertrain segment were discounted with an interest rate of 10.4% (PY: 10.7%). 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 -0.17% (PY: 0.2%) and the market risk premium 7.5% (PY: 7.5%). 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 growth rate on average in the detailed planning period for the CGUs in the Autonomous Mobility and Safety segment was 9.3% (PY: 4.0%), in the Vehicle Networking and Information segment 9.0% (PY: 6.1%), in the Tires segment 5.3% (PY: 3.8%), in the ContiTech segment 6.6% (PY: 3.5%) and in the Powertrain segment 7.9% (PY: 5.9%). The long-term growth rate was 1.5% (PY: 1.5%) for the CGUs of the Autonomous Mobility and Safety and Vehicle Networking and Information segments, 0.5% (PY: 0.5%) for those of the Tires and ContiTech segments and 1.0% (PY: 1.0%) for those of the Powertrain segment. These growth rates do not exceed the long-term average growth rates for the markets in which the CGUs operate.

The annual impairment testing of goodwill determined no further requirements for impairment for 2020. The recoverable amount of the CGU affected by impairment during the course of the year, Connected Car Networking, corresponds to at least its value in use at the time the annual impairment test is performed, namely €1,760.5 million.

Assuming a 0.5-percentage-point increase in the discount rate would not result in any impairment of goodwill. There would be no asset impairment. Reducing the long-term growth rate by 0.5 percentage points would not result in any impairment of goodwill. There would be no asset impairment. If sales in perpetuity would decline by 5.0%, consequently reducing free cash flow as a key planning parameter, this would not result in any impairment of goodwill. There would be no asset impairment.

In addition, expenses from the derecognition of a brand value of €71.2 million were recognized in the Vehicle Networking and Information segment.

In the ContiTech segment, a brand value of €14.5 million was derecognized.

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 Vitesco Technologies 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, 2020. 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, as defined in IAS 32, *Financial Instruments: Presentation*, is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

In the Continental Group, 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 Continental Group 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 Continental Group 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 Group.

› 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 Group.

› Other: This business model constitutes a catch-all category. This model occurs in the Continental Group 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 Group.

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 Group 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 Group 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 Group 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 Continental Group 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 Continental Group. 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 under the item income tax expense, but rather as interest income and expense.

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 Continental Group comprise both defined benefit and defined contribution plans.

Pension provisions 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 Continental Group 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 USA 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 Group, 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.

3. New Accounting Pronouncements

In accordance with EU Regulation (EC) No. 1606/2002 in conjunction with Section 315e (1) of the German Commercial Code *(Handelsgesetzbuch – HGB)*, Continental AG has prepared its consolidated financial statements in compliance with 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 EU 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 2020 and have been adopted accordingly:
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 had no significant effect on the 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 had no significant effect on the 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 had no significant effect on the consolidated financial statements of Continental AG.

The amendment to IFRS 16, *Leases (Covid-19-Related Rent Concessions)*, provides a practical expedient that permits lessees not to assess whether rent concessions that meet specified conditions are lease modifications. Lessees that apply this expedient shall account for any change in lease payments resulting from the rent concessions in the same way as they would account for the change if it were not a lease modification pursuant to this standard. The amendment is required to be applied from June 1, 2020, at the latest for annual periods beginning on or after January 1, 2020. The amendment had no effect on the 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 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 EU but will not take effect until a later date:
The amendments to IFRS 4, *Insurance Contracts (Extension of the Temporary Exemption from Applying IFRS 9)*, extend the expiry date for the temporary exemption from IFRS 9, *Financial Instruments*, by two years to annual periods beginning on or after January 1, 2023. The extension maintains the alignment between the expiry date of the temporary exemption and the effective date of IFRS 17, *Insurance Contracts*, which replaces IFRS 4. The amendments are required to be applied for annual periods beginning on or after January 1, 2021. 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*, IFRS 7, *Financial Instruments: Disclosures*, IFRS 4, *Insurance Contracts*, and IFRS 16, *Leases*, *(Interest Rate Benchmark Reform (IBOR Reform) – Phase 2)*, address issues that might affect financial reporting during the reform of an interest rate benchmark, including changes to contractual cash flows or hedging relationships arising from the replacement of an interest-rate benchmark with an alternative benchmark rate (replacement issues). The amendments represent phase 2 of the deliberations regarding the interest-rate benchmark reform after the issuance of the phase 1 amendments. The amendments are required to be applied for annual periods beginning on or after January 1, 2021. 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 EU 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 were originally required to be applied for annual periods beginning on or after January 1, 2022. The amendment to IAS 1, *Presentation of Financial Statements (Classification of Liabilities as Current or Non-current – Deferral of Effective Date)*, defers the effective date of the amendments by one year to annual reporting periods beginning on or after January 1, 2023 as operational relief due to the COVID-19 pandemic. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IAS 16, *Property, Plant and Equipment (Proceeds before Intended Use)*, deal with the accounting of proceeds from selling items produced during the period in which an item of property, plant and equipment is brought to its location and in the condition necessary for it to be capable of operating in the manner intended by management. The amendments prohibit the deduction of such proceeds from the cost of an item of property, plant and equipment. 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.

The amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets (Onerous Contracts – Cost of Fulfilling a Contract)*, specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The cost of fulfilling a contract comprises the costs that relate directly to the contract. This includes the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. 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.

The amendments to IFRS 3, *Business Combinations (Reference to the Conceptual Framework)*, replace a reference to the *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (issued in March 2018). As the replacement of the reference was made without the intention to make significant changes to the requirements of IFRS 3, the amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities. The amendments also clarify the existing guidance for contingent assets. 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. In June 2020, further amendments and clarifications were made to IFRS 17 in order to simplify the requirements of the standard and facilitate the transition to the new regulations. The standard and the consequential amendments to other standards were originally required to be applied for annual periods beginning on or after January 1, 2021. The amendments to IFRS 17 defer the effective date of IFRS 17 (including the amendments to IFRS 17 and the consequential amendments to other standards) by two years to annual reporting periods beginning on or after January 1, 2023. The standard and the consequential amendments to other standards are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

Under the IASB's annual improvements project, *Improvements to IFRSs, May 2020, Cycle 2018–2020*, the following amendments will become effective at a later date:

- The amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards (Subsidiary as a First-time Adopter)*, extends the exemption relating to the measurement of assets and liabilities for a subsidiary that becomes a first-time adopter later than its parent. The amendment also extends the exemption to cumulative translation differences in equity.
- The amendment to IFRS 9, *Financial Instruments (Fees in the "10 per cent" Test for Derecognition of Financial Liabilities)*, clarifies which fees an entity includes in the 10 per cent test for derecognition of financial liabilities. An entity derecognizes the original financial liability and recognizes a new financial liability when there is an exchange between an existing borrower and lender of debt instruments with substantially different terms; or a substantial modification of the terms of an existing financial liability or a part of it. To identify whether the terms are substantially different, the 10 per cent test must be carried out. The amendment to IFRS 9 clarifies that in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
- The amendment to *Illustrative Examples* accompanying IFRS 16, *Leases (Lease Incentives)*, deletes in Illustrative Example 13 the reimbursement relating to leasehold improvements that was included as part of the fact pattern. The example did not explain clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in IFRS 16.
- The amendment to IAS 41, *Agriculture (Taxation in Fair Value Measurements)*, removes the requirement in IAS 41 to exclude cash flows from taxation when measuring fair value.

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.

4. Companies Consolidated and Information on Subsidiaries and Investments

Companies consolidated
In addition to the parent company, the number of companies consolidated includes 563 (PY: 581) domestic and foreign companies that Continental Aktiengesellschaft incorporates according to the regulations of IFRS 10 or that are classified as joint arrangements or associates. Of these, 444 (PY: 451) are fully consolidated and 119 (PY: 130) are accounted for using the equity method.

The number of companies consolidated has decreased by a total of 18 since the previous year. Six new companies were founded and two companies were acquired. Sixteen companies were sold and one company was liquidated. The number of companies consolidated also decreased by nine as a result of mergers.

The disposals in 2020 essentially resulted from the sale of SAS Autosystemtechnik GmbH & Co. KG., accounted for using the equity method.

A total of 36 (PY: 38) companies whose assets and liabilities, expenses and income – individually and combined – are not material for the earnings, financial and net assets position of the Continental Group, are not included in consolidation. Thirty-one (PY: 34) of these are affiliated companies, three (PY: three) of which are currently inactive. Five (PY: four) further companies not included in consolidation are associates. These units are active.

Information on subsidiaries and investments
As at December 31, 2020, non-controlling interests were not of significance to the Continental Group. There are no significant restrictions in terms of access to or the use of assets of the Continental Group 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 associate, 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 42.

5. Acquisition and Disposal of Companies and Business Operations

Acquisition of companies and business operations

In the Autonomous Mobility and Safety segment, there was an acquisition of additional shares in an already fully consolidated company for a purchase price of €2.8 million. The resulting difference of €0.5 million between the purchase price and the carrying amount of the acquired shares was recognized in other comprehensive income. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Group as at December 31, 2020.

In the Vehicle Networking and Information segment, the 50% shareholding in SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany, was sold to Faurecia Automotive GmbH, Stadthagen, Germany, with effect from January 30, 2020, for an amount of €245.4 million (taking into account a purchase price adjustment). The transaction thus resulted in a gain from disposal of €157.0 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Group as at December 31, 2020.

An asset deal took place in the Tires segment. The purchase price of €0.3 million in total was paid in cash. The purchase price allocation mainly resulted in intangible assets of €0.2 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Group as at December 31, 2020.

In the ContiTech segment, as a result of the final purchase price settlement for the acquisition of Merlett Tecnoplastic S.p.A., Daverio, Italy, in 2019, the purchase price increased by €0.3 million. The final purchase price allocation resulted in a decrease in goodwill of €2.5 million to a total of €4.7 million, due among other things to an increase in the valuation of other intangible assets of €0.2 million, an increase in the valuation of property, plant and equipment of €7.1 million and a decrease in the valuation of inventories of €2.3 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Group as at December 31, 2020.

In the ContiTech segment, there was a loss of €2.5 million from the disposal of a company. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Group as at December 31, 2020.

In the Powertrain segment, a 50% shareholding in an equity-accounted investee was acquired for a purchase price of €11.7 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Group as at December 31, 2020.

In the Powertrain segment, parts of the Sensing and Actuation business unit were sold to an earlier established and equity-accounted investee. This transaction resulted in income of €8.8 million. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Group as at December 31, 2020.

In the Powertrain segment, the remaining shares in an already fully consolidated company were acquired for a purchase price of €170.0 million. The resulting difference of €114.2 million between the purchase price and the carrying amount of the acquired shares was recognized in other comprehensive income. Other than this, there was no material effect on the earnings, financial and net assets position of the Continental Group as at December 31, 2020.

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

€ millions	2020	2019
Sales	37,722.3	44,478.4
Other revenues from research and development	948.8	1,107.6
Other revenues	64.3	75.5
Revenues from contracts with customers	**38,735.4**	**45,661.5**
Other ancillary business	85.5	109.6
Government grants[1]	66.2	81.5
Sale of fixed assets	26.0	31.8
Revenues from franchising and trademarks	21.8	20.5
Sale of energy and scrap	19.0	10.7
Gains from sale of a company	248.1	0.0
Others	5.2	3.7
Revenues from other sources	**471.8**	**257.8**
Total revenues	**39,207.2**	**45,919.3**

1 Government grants in connection with the COVID-19 pandemic are not included in this presentation. Please see Note 13.

Sales from contracts with customers from January 1 to December 31, 2020

€ millions	Autonomous Mobility and Safety	Vehicle Networking and Information	Tires	ContiTech	Powertrain	Other/ Holding/ Consolidation	Continental Group
Germany	1,254.3	1,990.8	1,348.6	1,035.9	1,374.2	-202.6	6,801.2
Europe excluding Germany	1,703.0	2,192.5	4,137.0	1,440.6	1,834.7	-47.6	11,260.2
North America	1,905.5	1,781.2	2,661.5	1,613.9	1,532.6	-83.4	9,411.3
Asia	2,556.1	1,752.8	1,453.4	1,119.8	2,151.5	-26.2	9,007.4
Other countries	110.3	138.8	558.1	368.4	74.7	-8.1	1,242.2
Sales by region	**7,529.2**	**7,856.1**	**10,158.6**	**5,578.6**	**6,967.7**	**-367.9**	**37,722.3**
Automotive original-equipment business	7,527.9	6,986.2	2,344.4	2,699.1	6,721.7	-226.2	26,053.1
Industrial/replacement business	1.3	869.9	7,814.2	2,879.5	246.0	-141.7	11,669.2
Sales by customer type	**7,529.2**	**7,856.1**	**10,158.6**	**5,578.6**	**6,967.7**	**-367.9**	**37,722.3**

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

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

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

Information on contract assets and contract liabilities

Contract assets primarily arise in the project business from customer-specific goods or services for customers, but are only of minor significance in the Continental Group. Please see Note 2. 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, 2020	December 31, 2019
Contract assets	119.1	89.2

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, 2020	December 31, 2019
Contract liabilities	298.0	251.6

Of the contract liabilities of €251.6 million accounted for at the beginning of the year, €236.1 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	2021	2022 onward
Revenue from research and development	305.2	249.8
Other revenues	95.8	48.0
Total	**401.0**	**297.8**

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. The research and development expenses include government grants totaling €56.4 million (PY: €68.6 million).

	2020					
€ millions	**Autonomous Mobility and Safety**	**Vehicle Networking and Information**	**Tires**	**ContiTech**	**Powertrain**	**Continental Group**
Research and development expenses	-1,372.0	-1,550.8	-268.0	-174.7	-965.1	-4,330.6
Revenue from research and development	363.1	266.1	–	25.0	294.6	948.8
Research and development expenses (net)	**-1,008.9**	**-1,284.7**	**-268.0**	**-149.7**	**-670.5**	**-3,381.8**

	2019					
€ millions	**Autonomous Mobility and Safety**	**Vehicle Networking and Information**	**Tires**	**ContiTech**	**Powertrain**	**Continental Group**
Research and development expenses	-1,468.1	-1,452.0	-299.4	-194.6	-1,057.7	-4,471.8
Revenue from research and development	419.4	262.8	–	31.8	393.6	1,107.6
Research and development expenses (net)	**-1,048.7**	**-1,189.2**	**-299.4**	**-162.8**	**-664.1**	**-3,364.2**

8. Other Income and Expenses

€ millions	2020	2019
Other income	1,711.2	1,774.6
Other expenses	-3,045.3	-4,203.2
Other income and expenses	**-1,334.1**	**-2,428.6**

Other income

€ millions	2020	2019
Income from research and development	948.8	1,107.6
Income from the disposal of companies and business operations	170.3	0.0
Income in connection with specific warranties, restructuring measures and pending losses	93.8	116.3
Income from the reimbursement of customer tooling expenses	64.3	75.5
Income from the reversal of impairment on financial assets and contract assets	55.1	37.2
Income from the disposal of property, plant and equipment	26.0	31.8
Income from the reversal of provisions for litigation and environmental risks	25.8	34.0
Compensation from customers and suppliers	22.6	34.5
Reversal of impairment losses on property, plant and equipment	12.2	0.0
Income from the reversal of provisions for severance payments	6.8	4.7
Bargain purchase effect	–	2.2
Miscellaneous	285.5	330.8
Other income	**1,711.2**	**1,774.6**

Other income decreased by €63.4 million to €1,711.2 million (PY: €1,774.6 million) in the reporting period.

Income from research and development decreased by €158.8 million to €948.8 million (PY: €1,107.6 million).

Disposals of companies and business operations resulted in income of €170.3 million (PY: €0.0 million) in 2020.

Income of €93.8 million (PY: €116.3 million) resulted in the reporting period in connection with specific warranties, restructuring measures and pending losses.

Reimbursement of customer tooling expenses resulted in income of €64.3 million (PY: €75.5 million) in 2020.

Income from the reversal of impairment on financial assets and contract assets was €55.1 million (PY: €37.2 million).

Income of €26.0 million (PY: €31.8 million) was generated from the disposal of property, plant and equipment in the period under review.

The reversal of provisions for litigation and environmental risks resulted in income totaling €25.8 million (PY: €34.0 million).

Compensation from customers and suppliers resulted in income totaling €22.6 million (PY: €34.5 million) in the reporting period.

Reversal of impairment losses on property, plant and equipment resulted in income of €12.2 million (PY: €0.0 million) in 2020.

Income of €6.8 million (PY: €4.7 million) arose from the reversal of provisions for severance payments in the reporting period.

The "Miscellaneous" item also includes income from insurance compensation due to damage to property, plant and equipment caused by force majeure. In addition, government grants amounting to €9.8 million (PY: €12.9 million) that were not intended for investments in non-current assets were received and recognized in profit or loss in the "Miscellaneous" item.

Other expenses

€ millions	2020	2019
Expenses from specific warranties, restructuring measures and pending losses	1,249.7	952.7
Impairment on goodwill	654.6	2,293.5
Impairment on property, plant and equipment, and intangible assets	234.4	216.4
Additions to provisions for litigation and environmental risks	219.0	80.6
Expenses from impairment on financial assets and contract assets	118.6	75.3
Expenses from severance payments	97.5	61.9
Compensation to customers and suppliers	62.7	11.2
Expenses from customer tooling	60.7	60.2
Expenses from currency translation	23.2	75.3
Losses on the disposal of property, plant and equipment, and from scrapping	21.4	27.3
Losses on the disposal of companies and business operations	2.7	0.0
Incidental acquisition costs from acquisitions of companies and business operations	0.1	5.4
Miscellaneous	300.7	343.4
Other expenses	**3,045.3**	**4,203.2**

Other expenses decreased by €1,157.9 million to €3,045.3 million (PY: €4,203.2 million) in the reporting period.

Expenses totaling €1,249.7 million (PY: €952.7 million) resulted in the reporting period from specific warranty provisions, restructuring measures and pending losses.

Within the context of the annual planning process, global production of passenger cars and light commercial vehicles was not expected to increase substantially compared to pre-crisis levels over the next five years until 2025. The expected impact of restructuring measures was also taken into account in this planning process. 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, discount rates and their parameters, and long-term growth rates – goodwill was impaired by €654.6 million (PY: €2,293.5 million). Please see Note 2 for information on impairment.

Impairment on property, plant and equipment, and intangible assets amounted to €234.4 million (PY: €216.4 million) in the reporting period. This included expenses from derecognitions of brand values totaling €85.7 million (PY: —).

In connection with provisions for litigation and environmental risks, there were expenses of €219.0 million (PY: €80.6 million).

Expenses from impairment on financial assets and contract assets were €118.6 million (PY: €75.3 million).

Personnel adjustments not related to restructuring led to expenses from severance payments of €97.5 million (PY: €61.9 million).

Compensation to customers and suppliers that is not attributable to warranties resulted in expenses of €62.7 million (PY: €11.2 million) in the reporting period.

Expenses from customer tooling of €60.7 million (PY: €60.2 million) arose in 2020.

In the year under review, expenses of €23.2 million (PY: €75.3 million) were incurred as a result of currency translation from operating receivables and liabilities in foreign currencies not classified as indebtedness.

Losses on the disposal of property, plant and equipment, and from scrapping amounted to €21.4 million (PY: €27.3 million) in 2020.

Expenses of €2.7 million (PY: €0.0 million) resulted from the disposal of companies and business operations.

Incidental acquisition costs of €0.1 million (PY: €5.4 million) were incurred for the acquisition of companies and business operations.

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	2020	2019
Wages and salaries	9,616.0	9,532.9
Social security contributions	1,715.8	1,838.4
Pension and post-employment benefit costs	436.9	378.7
Personnel expenses	**11,768.7**	**11,750.0**

Compared to the 2019 reporting year, personnel expenses rose by €18.7 million to €11,768.7 million (PY: €11,750.0 million). The average number of employees in 2020 was 235,480 (PY: 244,137). As at the end of the year, there were 236,386 (PY: 241,458) employees in the Continental Group.

The year-on-year decline in personnel expenses due to the lower number of employees was more than offset by provisions for restructuring measures. Please also see the comments in the management report.

10. Income from Investments

€ millions	2020	2019
Income from equity-accounted investees	-68.5	-124.3
Other income from investments	0.6	0.5
Income from investments	**-67.9**	**-123.8**

Income from investments includes, in particular, the share of income from equity-accounted investees in the amount of -€68.5 million (PY: -€124.3 million). Income from equity-accounted investees includes the creation of a provision for capital commitments to an associate in the amount of €45.0 million.

Furthermore, an expense in the amount of €37.5 million was recorded in the Powertrain segment due to an allowance recognized on the carrying amount of an associate.

11. Financial Result

€ millions	2020	2019
Interest and similar income	33.7	66.5
Expected income from long-term employee benefits and from pension funds	64.8	80.7
Interest income	**98.5**	**147.2**
Interest and similar expenses	-129.1	-120.6
Interest expenses from lease liabilities	-28.5	-32.1
Interest expense for long-term provisions and liabilities	1.9	-3.2
Interest expense from long-term employee benefits	-126.5	-161.4
Interest expense	**-282.2**	**-317.3**
Effects from currency translation	**-97.4**	**-30.5**
Effects from changes in the fair value of derivative instruments	60.6	-12.7
Other valuation effects	8.5	-107.0
Effects from changes in the fair value of derivative instruments, and other valuation effects	**69.1**	**-119.7**
Financial result	**-212.0**	**-320.3**

The negative financial result improved by €108.3 million year-on-year to €212.0 million (PY: €320.3 million) in 2020. This is attributable primarily to the sum of the effects from currency translation and from changes in the fair value of derivative instruments, and other valuation effects.

Interest income decreased by €48.7 million year-on-year to €98.5 million (PY: €147.2 million) in 2020. Expected income from long-term employee benefits and from pension funds totaled €64.8 million in this period (PY: €80.7 million). This did not include the interest income from the plan assets of the pension contribution funds.

Interest expense totaled €282.2 million in 2020 and was thus €35.1 million lower than the previous year's figure of €317.3 million. The interest expense from long-term employee benefits totaled €126.5 million (PY: €161.4 million) in this period. This did not include the interest expense from the defined benefit obligations of the pension contribution funds. At €155.7 million, interest expense resulting mainly from bank borrowings, capital market transactions and other financing instruments was largely unchanged from the prior-year figure of €155.9 million. Interest expense on lease liabilities accounted for €28.5 million of this (PY: €32.1 million).

The bonds issued by Continental AG and Conti-Gummi Finance B.V., Maastricht, Netherlands, resulted in expenses of €50.0 million (PY: bonds issued by Continental AG and Continental Rubber of America, Corp., Wilmington, Delaware, USA, resulted in expenses of €32.4 million). The increase resulted primarily from the issue of euro bonds with a total volume of €1,400.0 million in the second half of 2019 and with a total volume of €2,125.0 million in the second quarter of 2020. In addition to a floating-rate €200.0-million bond from Continental AG, the other bonds issued by Continental AG and Conti-Gummi Finance B.V., Maastricht, Netherlands, have a fixed interest rate of between 0.000% p.a. and 2.500% p.a. A countereffect is attributable to the repayment of euro bonds. These were the €500.0-million bond from Continental Rubber of America, Corp., Wilmington, Delaware, USA, that matured on February 19, 2019, and the €600.0-million and €750.0-million euro bonds from Continental AG that matured on February 5, 2020, and September 9, 2020, respectively.

Effects from currency translation resulted in a negative contribution to earnings of €97.4 million (PY: €30.5 million) in the reporting year. This was countered by effects from changes in the fair value of derivative instruments, and other valuation effects, which resulted in income of €69.1 million (PY: expense of €119.7 million). Other valuation effects accounted for €8.5 million of this (PY: expense of €107.0 million). Whereas in the previous year expenses of €108.2 million arose from allowances for doubtful accounts on loans to associates as well as from the creation of a provision for loan commitments to these companies, income of €2.2 million resulted from the reversal of these allowances in the reporting year. Taking into account the sum of the effects from currency translation and changes in the fair value of derivative instruments, earnings in 2020 were negatively impacted by €36.8 million (PY: €43.2 million).

12. Income Tax Expense

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

€ millions	2020	2019
Current taxes (domestic)	–181.1	–175.1
Current taxes (foreign)	–573.4	–894.1
Deferred taxes (domestic)	494.3	173.4
Deferred taxes (foreign)	271.5	313.4
Income tax expense	**11.3**	**–582.4**

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

€ millions	2020	2019
Earnings before tax	**–930.1**	**–588.6**
Non-tax-deductible impairment of goodwill[1]	456.3	1,631.7
Earnings before tax and impairment of goodwill	**–473.8**	**1,043.1**
Expected tax expense at the domestic tax rate	145.5	–320.2
Non-recognition of deferred tax assets unlikely to be realized	–232.1	–117.4
Incentives and tax holidays[2]	204.6	195.3
Non-deductible expenses and non-imputable withholding taxes	–188.8	–387.4
Foreign tax rate differences	145.3	146.2
Initial recognition of deferred tax assets likely to be realized	83.3	7.1
Local income tax with different tax base	–59.3	–90.7
Taxes for previous years	–57.3	–79.3
Effects from changes in enacted tax rate	–31.1	15.0
Realization of previously non-recognized deferred taxes	5.9	22.2
Change in permanent differences	–2.9	36.6
Other	–1.8	–9.8
Income tax expense	**11.3**	**–582.4**
Effective tax rate in %	**2.4**	**55.8**

1 Earnings before tax are not adjusted for the total goodwill impairment in the amount of €654.6 million (PY: €2,293.5 million). A portion totaling €198.3 million (PY: €661.8 million) resulted in the reversal of deferred tax liabilities and therefore must be excluded from the reconciliation.
2 Includes the tax effect from equity-accounted investees. The figures from the comparative period have been adjusted accordingly.

The average domestic tax rate in 2020 was 30.7% (PY: 30.7%). 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: 14.9%).

The reduction in the tax expense from foreign tax rate differences 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 €232.1 million (PY: €117.4 million), of which €35.1 million (PY: €3.9 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 20.

The tax effects from government incentives and tax holidays decreased slightly in comparison to the previous year. In addition to the ongoing utilization of incentives in Europe and Asia, the utilization of government incentives in the USA had a further positive impact. In the year under review, local income taxes of €59.3 million (PY: €90.7 million) were incurred with a different tax base. This was attributable primarily to the alternative minimum tax in the USA.

The effects from the change in enacted 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, 2020**	December 31, 2019
Income tax expense (acc. to consolidated statement of income)	**11.3**	**-582.4**
Tax income on other comprehensive income	41.7	237.5
Remeasurement of defined benefit plans	43.4	236.9
Investment in equity-accounted investees	0.0	0.1
Currency translation	-1.7	0.3
Cash flow hedges	–	0.2
Total income tax expense	**53.0**	**-344.9**

13. Grants in Connection with the COVID-19 Pandemic

Government grants paid to the Continental Group as a result of the COVID-19 pandemic totaled €111.0 million (PY: –) in the year under review and were recognized in income. These primarily include reimbursements of social security contributions in the amount of €67.9 million (PY: –), the majority of which relate to short-time work income.

Notes to the Consolidated Statement of Financial Position

14. 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, 2019					
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**
Net change in 2020					
Book value	**5,113.5**	335.5	1,331.8	24.5	**1,691.8**
Exchange-rate changes	**-94.8**	-4.3	-42.7	-0.3	**-47.3**
Additions	**–**	130.4	87.3	26.2	**243.9**
Additions from the first-time consolidation of subsidiaries	**-2.5**	–	0.4	–	**0.4**
Transfers	**–**	-4.2	13.2	-8.2	**0.8**
Disposals	**–**	0.0	-0.6	-0.6	**-1.2**
Depreciation	**–**	-131.8	-323.2	–	**-455.0**
Impairment[2]	**-654.6**	–	-86.5	–	**-86.5**
Book value	**4,361.6**	**325.6**	**979.7**	**41.6**	**1,346.9**
As at December 31, 2020					
Cost	**9,860.1**	717.7	3,130.3	41.6	**3,889.6**
Accumulated depreciation	**-5,498.5**	-392.1	-2,150.6	–	**-2,542.7**
Book value	**4,361.6**	**325.6**	**979.7**	**41.6**	**1,346.9**

1 Excluding development expenses for internally generated software.
2 Expenses from derecognitions of brand values are likewise included.

The final purchase price allocation for the acquisition of a company in 2019 resulted in a decrease of goodwill of €2.5 million in 2020. Acquisitions of companies in the previous year resulted in an addition to goodwill totaling €137.1 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, 2020**		December 31, 2019
Vehicle Dynamics	802.8	Vehicle Dynamics	808.7
Hydraulic Brake Systems	140.2	Hydraulic Brake Systems	143.5
Passive Safety and Sensorics	586.6	Passive Safety & Sensorics	592.7
Advanced Driver Assistance Systems	363.2	Advanced Driver Assistance Systems	366.1
Continental Engineering Services	16.9	Continental Engineering Services	17.5
Autonomous Mobility and Safety	**1,909.7**	**Chassis & Safety**	**1,928.5**
		Instrumentation & Driver HMI[1]	0.0
Connected Car Networking	–	Infotainment & Connectivity[1]	0.0
Human Machine Interface	–	Body & Security[1]	757.9
Commercial Vehicles and Services[2]	710.6	Commercial Vehicles & Aftermarket[2]	630.2
Vehicle Networking and Information	**710.6**	**Interior**	**1,388.1**
Original Equipment Passenger and Light Truck Tires (PLT)	2.0	Passenger and Light Truck Tire Original Equipment	2.0
Replacement, EMEA (Europe, the Middle East and Africa) PLT	139.6	Passenger and Light Truck Tire Replacement Business, EMEA	140.0
Replacement, APAC (Asia and Pacific region) PLT	195.1	Passenger and Light Truck Tire Replacement Business, APAC	193.6
Replacement, The Americas (North, Central and South America) PLT	15.5	Passenger and Light Truck Tire Replacement Business, The Americas	16.9
Commercial Vehicle Tires	53.5	Commercial Vehicles Tires	57.2
Tires	**405.7**	**Tires**	**409.7**
Air Spring Systems	22.1	Air Spring Systems	22.7
Surface Solutions	116.3	Surface Solutions	116.8
Special Technologies and Solutions	1.9	Special Technologies and Solutions	1.9
Conveying Solutions	106.8	Conveyor Belt Group[3]	112.0
Mobile Fluid Systems	48.7	Mobile Fluid Systems	50.3
Industrial Fluid Solutions	141.4	Industrial Fluid Solutions	154.6
Power Transmission Group	44.1	Power Transmission Group	48.6
Vibration Control	69.1	Vibration Control	74.4
ContiTech	**550.4**	**ContiTech**	**581.3**
Electronic Controls	472.1	Engine & Drivetrain Systems[4]	485.2
Sensing and Actuation	313.1	Powertrain Components[5]	320.7
Powertrain	**785.2**	**Powertrain**	**805.9**
Continental Group	**4,361.6**	**Continental Group**	**5,113.5**

1 Since January 2020: Connected Car Networking and Human Machine Interface.
2 Since January 2020: Commercial Vehicles and Services; as part of the reorganization of the Vehicle Networking and Information segment, goodwill of €96.0 million from Body & Security was allocated to Commercial Vehicles and Services.
3 Since January 2020: Conveying Solutions.
4 Since January 2020: Electronic Controls.
5 Since January 2020: Sensing and Actuation.

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 €76.6 million (PY: €85.2 million). Under IAS 38, *Intangible Assets*, €130.4 million (PY: €200.4 million) of the total development costs incurred in 2020 qualified for recognition as an asset.

Amortization of other intangible assets amounted to €455.0 million (PY: €370.9 million). Of this, €364.0 million (PY: €296.7 million) is included in the consolidated statement of income under the cost of sales and €91.0 million (PY: €74.2 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 €41.0 million (PY: €112.2 million). These relate in particular to 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 €123.2 million (PY: €164.4 million), which are amortized on a straight-line basis as scheduled.

15. Property, Plant and Equipment

The additions to property, plant and equipment from changes in the scope of consolidation in the amount of €7.2 million resulted primarily from the higher valuation of the property, plant and equipment as part of the final purchase price allocation for the acquisition of Merlett Tecnoplastic S.p.A., Daverio, Italy, in 2019. Please see Note 5.

In the Autonomous Mobility and Safety segment, in addition to the capital expenditure at German locations, production capacity was expanded at European best-cost locations, as well as in North America and Asia. In particular, production capacity was increased in the Vehicle Dynamics and Advanced Driver Assistance Systems business units. Important additions related to the creation of new production facilities for electronic brake systems.

In the Vehicle Networking and Information segment, investments were made in the expansion of production capacity in Europe as well as in Asia and North America. Investments focused primarily on the expansion of production capacity for the Human Machine Interface and Connected Car Networking business units. Important additions related to the construction of the new plant in Aguascalientes, Mexico. In addition, production capacity for operation and display solutions was expanded.

In the Tires segment, production capacity was expanded and established in Europe, North America and Asia. There were major additions relating to the new plant buildings in Clinton, Mississippi, USA, and Rayong, Thailand. Quality assurance and cost-cutting measures were implemented as well.

In the ContiTech segment, investments focused on the expansion of production capacity in selected growth markets for the Mobile Fluid Systems, Surface Solutions and Conveying Solutions business units. In Pune, India, an investment was made in the establishment of an additional production site for the Surface Solutions business unit. In addition, investments were made in all business units to rationalize existing production processes.

The capital expenditure in the Powertrain segment was primarily attributable to production equipment for the manufacture of new products and the implementation of new technologies. Production capacity was increased in particular in China, Germany, Hungary, the USA and Czechia. An investment was also made in Debrecen, Hungary, in the construction of a new plant.

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

Government investment grants of €23.7 million (PY: €38.4 million) were deducted directly from cost.

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

Please see Note 26 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 €46.0 million (PY: €12.3 million).

Please see Note 16 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, 2019					
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[2]	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**
Net change in 2020					
Book value	3,187.1	6,892.6	839.3	2,329.4	**13,248.4**
Exchange-rate changes	-160.4	-317.0	-30.5	-94.6	**-602.5**
Additions	103.4	564.0	144.1	1,070.4	**1,881.9**
Additions from the first-time consolidation of subsidiaries	7.1	–	0.1	–	**7.2**
Amounts disposed of through disposal of subsidiaries	-1.9	-1.5	-0.1	0.0	**-3.5**
Reclassification to/from assets held for sale	-2.3	-5.4	0.0	–	**-7.7**
Transfers	325.3	1,101.2	150.8	-1,578.9	**-1.6**
Disposals	-8.3	-35.6	-4.9	-3.0	**-51.8**
Depreciation	-218.8	-1,569.3	-281.6	–	**-2,069.7**
Impairment[3]	-11.4	-106.3	-6.9	-2.6	**-127.2**
Book value	**3,219.8**	**6,522.7**	**810.3**	**1,720.7**	**12,273.5**
As at December 31, 2020					
Cost	5,637.0	21,077.2	3,344.0	1,752.4	**31,810.6**
Accumulated depreciation	-2,417.2	-14,554.5	-2,533.7	-31.7	**-19,537.1**
Book value	**3,219.8**	**6,522.7**	**810.3**	**1,720.7**	**12,273.5**

1 Investment property is shown separately in Note 17.
2 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.
3 Impairment also includes necessary reversal of impairment losses.

16. Leases

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

Continental Group 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 €289.7 million for the reporting year (PY: €331.0 million). These resulted mainly from additions to land and buildings in the amount of €239.2 million (PY: €277.9 million) and from additions to other equipment, factory and office equipment in the amount of €48.8 million (PY: €50.2 million). There were no additions within the right-of-use assets from changes in the scope of consolidation in the reporting year (PY: €14.3 million). Please see Note 5.

The right-of-use assets reported as at December 31, 2020 in the amount of €1,487.1 million (PY: €1,684.3 million) correspond to approximately 10.8% (PY: 11.3%) of all property, plant and equipment of the Continental Group. The weighted average lease term is approximately five years (PY: approx. five years) for right-of-use assets for land and buildings, approximately three years (PY: approx. three years) for right-of-use assets for technical equipment and machinery, and approximately three years (PY: approx. 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 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**
Net change in 2020				
Book value	1,591.8	7.9	84.6	**1,684.3**
Exchange-rate changes	-52.1	-0.2	-3.6	**-55.9**
Additions	239.2	1.7	48.8	**289.7**
Additions from the first-time consolidation of subsidiaries	–	–	–	**–**
Transfers	0.1	0.3	-0.4	**0.0**
Disposals	-68.3	-0.1	-4.0	**-72.4**
Depreciation	-299.3	-3.8	-47.0	**-350.1**
Impairment[1]	-8.5	–	–	**-8.5**
Book value	**1,402.9**	**5.8**	**78.4**	**1,487.1**
As at December 31, 2020				
Cost	1,965.3	12.2	144.1	**2,121.6**
Accumulated depreciation	-562.4	-6.4	-65.7	**-634.5**
Book value	**1,402.9**	**5.8**	**78.4**	**1,487.1**

1 Impairment also includes necessary reversal of impairment losses.

Lease liabilities

As at the end of the reporting period, lease liabilities amounted to €1,543.0 million (PY: €1,715.0 million). Future cash outflows resulting from leases are shown in the following table:

€ millions	**2020**	2019
Less than one year	344.1	346.3
One to two years	286.2	299.2
Two to three years	231.2	250.8
Three to four years	176.9	203.0
Four to five years	147.3	156.2
More than five years	463.5	589.7
Total undiscounted lease liabilities	**1,649.2**	**1,845.2**
Lease liabilities as at December 31	**1,543.0**	**1,715.0**
Current	319.0	318.3
Non-current	1,224.0	1,396.7

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

€ millions	**2020**	**2019**
Interest expenses on lease liabilities	28.5	32.1
Expenses relating to short-term leases	41.6	69.5
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	8.4	12.0
Expenses from variable lease payments not included in the measurement of lease liabilities	1.5	0.5
Income from subleasing right-of-use assets	0.6	0.3

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

€ millions	**2020**	**2019**
Cash outflow for leases	420.3	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, 2020, 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, the Continental Group 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 €680.2 million (PY: €638.0 million) from such options were not included in the measurement of lease liabilities. Potential future cash outflows of €1.9 million (PY: €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 €160.1 million (PY: €216.7 million).

The Continental Group estimates the potential cash outflow from residual value guarantees, which were not included in the measurement of the lease liability as at the reporting date, at €0.4 million (previous year: €0.0 million).

Continental Group as lessor

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

Operating leases

Lease income from operating leases in which the Continental Group acts as lessor amounted to €0.9 million (PY: €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	**2020**	**2019**
Less than one year	0.6	0.8
One to two years	0.5	0.3
Two to three years	0.5	0.3
Three to four years	0.0	0.3
Four to five years	0.0	0.0
More than five years	0.0	0.0
Total undiscounted lease payments	**1.6**	**1.7**

17. Investment Property

€ millions	**2020**	2019
Cost as at January 1	20.7	22.3
Accumulated depreciation as at January 1	-9.0	-10.3
Net change		
Book value as at January 1	**11.7**	**12.0**
Exchange-rate changes	-0.3	0.0
Additions	0.3	–
Reclassifications	0.8	0.0
Depreciation	-0.3	-0.3
Book value as at December 31	**12.2**	**11.7**
Cost as at December 31	21.2	20.7
Accumulated depreciation as at December 31	-9.0	-9.0

The fair value – determined using the gross rental method – of land and buildings accounted for as investment property as at December 31, 2020, amounted to €16.2 million (PY: €16.5 million). Rental income in 2020 amounted to €2.9 million (PY: €2.8 million), while associated maintenance costs of €1.3 million (PY: €1.4 million) were incurred.

18. Investments in Equity-accounted Investees

€ millions	2020	2019
As at January 1	**397.7**	**644.9**
Additions	19.5	27.4
Disposals	-9.2	–
Changes in the consolidation method, and transfers	–	-88.4
Share of income	21.2	33.6
Impairment	-44.7	-157.9
Dividends received	-30.7	-66.8
Changes in other comprehensive income	-0.8	4.5
Exchange-rate changes	-1.7	0.4
As at December 31	**351.3**	**397.7**

Investments in equity-accounted investees include carrying amounts of joint ventures in the amount of €215.5 million (PY: €204.5 million) and of associates in the amount of €135.8 million (PY: €193.2 million).

A material joint venture of the Tires segment in the Passenger and Light Truck Tire Original Equipment (PLT) 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 Financiere 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 in material joint ventures are held within the Autonomous Mobility and Safety and Vehicle Networking and Information segments:

- 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, which was jointly controlled by Continental Automotive GmbH, Hanover, Germany, and Faurecia Automotive GmbH, Stadthagen, Germany, was sold to Faurecia Automotive GmbH, Stadthagen, Germany, as planned at the beginning of 2020. The carrying amount of the equity-accounted investee of €88.4 million was already classified as "held for sale" in the third quarter of 2019 and included in the "Assets held for sale" item.

The figures taken from the last two available sets of IFRS-compliant financial statements (2019 and 2018) for the material joint ventures above are as follows. Amounts are stated at 100%. Furthermore, the share of net assets has been reconciled to the respective carrying amount of the investment. All investments are accounted for using the equity method.

€ millions	MC Projects B.V. 2019	MC Projects B.V. 2018	Shanghai Automotive Brake Systems Co., Ltd. 2019	Shanghai Automotive Brake Systems Co., Ltd. 2018	SAS Autosystemtechnik GmbH & Co. KG 2019	SAS Autosystemtechnik GmbH & Co. KG 2018
Dividends received	5.0	4.0	20.5	21.9	15.0	15.0
Current assets	146.8	150.4	258.2	284.3	532.1	490.2
thereof cash and cash equivalents	36.6	39.8	61.1	68.6	51.3	64.7
Non-current assets	164.6	105.3	110.3	111.5	212.9	136.9
Total assets	311.3	255.7	368.5	395.8	745.0	627.1
Current liabilities	110.4	102.5	176.8	194.3	519.0	485.1
thereof other short-term financial liabilities	0.0	0.0	–	–	0.0	0.0
Non-current liabilities	53.0	5.4	10.5	13.4	81.6	4.6
thereof long-term financial liabilities	1.3	1.3	–	–	–	–
Total liabilities	163.4	107.9	187.3	207.7	600.6	489.7
Sales	165.5	165.8	418.4	529.0	738.8	633.4
Interest income	0.2	0.1	0.6	0.4	0.3	0.3
Interest expense	0.5	0.1	–	–	3.3	0.2
Depreciation and amortization	17.5	13.4	16.9	15.7	43.4	28.1
Earnings from continued operations	16.2	18.9	34.0	48.6	35.6	47.0
Other comprehensive income	–	–	–	–	-0.1	-1.5
Income tax expense	-5.7	-6.5	4.1	7.2	18.9	17.8
Earnings after tax	10.2	14.6	34.0	48.6	35.2	45.8
Net assets	148.0	147.8	181.2	188.1	144.5	137.4
Share of net assets	74.0	73.9	88.8	92.2	72.2	68.7
Goodwill	–	–	10.6	10.6	20.3	20.3
Exchange-rate changes	–	–	-1.4	-9.4	–	–
Change in other comprehensive income for the prior year	–	–	–	–	-0.7	0.3
Share earnings for prior years	3.9	4.6	–	0.0	–	–
Carrying amount[1]	77.9	78.4	98.0	93.4	88.4	89.2

1 SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany, was included in the "Assets held for sale" item in the third quarter of 2019. From this point in time onward, the share of income was no longer recognized.

IAV GmbH Ingenieurgesellschaft Auto und Verkehr, Berlin, Germany, is a material associate. Continental Automotive GmbH, Hanover, Germany, and Vitesco Technologies GmbH, Hanover, Germany, each hold 10% 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 Electronic Controls business unit.

OSRAM CONTINENTAL GmbH, Munich, Germany, along with its subsidiaries is another material associate of Continental in the Vehicle Networking and Information 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.

On December 29, 2020, Continental and Osram reached an agreement on the termination of the joint venture. The objective is to return the two incorporated business units to their respective participating companies, subject to the approval of the relevant antitrust authorities. As part of this agreement, Continental Automotive GmbH, Hanover, Germany will sell its 50% share in OSRAM CONTINENTAL GmbH, Munich, Germany to OSRAM GmbH, Munich, Germany. The ongoing difficult market situation no longer allows the former joint expectations of profitable growth for the joint venture to be realized. Due to this planned termination, we have reclassified this investment as “held for sale.”

Both shareholders have agreed to make further capital contributions until the termination is completed to ensure the financing of OSRAM CONTINENTAL GmbH, Munich, Germany. Owing to the continued unclear expectations with regard to the future business development of the associate, we have recognized a provision of €45.0 million for these capital commitments.

The figures taken from the last two available sets of IFRS-compliant financial statements (2018 and 2019) 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, 2020, to December 31, 2020, and from January 1, 2019, to December 31, 2019. These disclosure periods differ from the associate’s fiscal year, which ends as at September 30. Amounts are stated at 100%. Furthermore, the share of net assets has 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	2019	2018	2020	2019
Dividends received	0.0	0.0	–	–
Current assets	343.9	352.1	55.0	74.8
Non-current assets	334.4	241.6	115.0	216.1
Total assets	678.4	593.7	170.0	290.9
Current liabilities	280.1	300.5	204.5	159.4
Non-current liabilities	147.4	61.5	14.9	18.2
Total liabilities	427.5	362.0	219.5	177.6
Sales	1,001.7	907.4	267.0	285.6
Earnings from continued operations	36.1	8.5	-167.9	-106.9
Other comprehensive income	0.1	-0.1	–	–
Earnings after tax	35.9	8.4	-167.9	-106.9
Net assets	250.9	231.7	-49.4	113.3
Share of net assets	50.2	46.3	-24.7	56.7
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	3.3	0.0	–	–
Other adjustments	-0.1	-0.2	–	–
Accumulated impairment[1]	–	–	-157.9	-157.9
Carrying amount	66.1	59.0	0.0	0.0

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 (2019 and 2018) for the joint ventures and associates that are not material to the Continental Group are summarized as follows. Amounts are stated in line with the proportion of ownership interest.

	Associates		Joint ventures	
€ millions	2019	2018	2019	2018
Earnings from continued operations	23.8	20.9	-7.9	-5.4
Earnings after tax	**23.8**	**20.9**	**-7.9**	**-5.4**

19. Other Investments

€ millions	December 31, 2020	December 31, 2019
Investments in unconsolidated affiliated companies	14.2	14.7
Other participations	109.2	182.9
Other investments	**123.4**	**197.6**

Other investments are accounted for at fair value. Changes are recognized in other comprehensive income.

With regard to year-on-year changes in the carrying amount, -€33.5 million (PY: –) resulted from a reclassification to other financial assets, €31.8 million (PY: €2.1 million) from disposals, -€7.0 million (PY: –) from changes in fair value and -€1.9 million (PY: €0.6 million) from exchange-rate effects. The disposals from other financial assets are attributable to a capital repayment of an investment in the amount of €31.8 million. There were no changes in the carrying amount from additions (PY: €6.2 million).

Dividends received from other investments amounted to €0.6 million in the reporting year (PY: €0.5 million).

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

20. Deferred Taxes

Deferred taxes developed as follows:

	Dec. 31, 2020						Dec. 31, 2019
€ 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	533.5	-869.3	-335.8	42.8	-1.0	-8.2	-369.4
Property, plant and equipment	196.1	-512.4	-316.3	-20.6	-1.7	8.9	-302.9
Inventories	306.4	-99.4	207.0	15.2	0.4	-4.8	196.2
Other assets	319.7	-325.9	-6.2	-24.5	–	1.1	17.2
Employee benefits less defined benefit assets	1,516.4	-14.3	1,502.1	182.9	–	31.4	1,287.8
Provisions for other risks and obligations	423.9	-9.0	414.9	223.0	–	-9.2	201.1
Indebtedness and other financial liabilities	517.9	-62.9	455.0	15.3	–	-8.7	448.4
Other differences	254.4	-234.4	20.0	75.5	–	-6.7	-48.8
Allowable tax credits	61.8	–	61.8	26.2	–	-14.9	50.5
Tax losses carried forward and limitation of interest deduction	580.3	–	580.3	230.0	–	-38.6	388.9
Deferred taxes (before offsetting)	**4,710.4**	**-2,127.6**	**2,582.8**	**765.8**	**-2.3**	**-49.7**	**1,869.0**
Offsetting (IAS 12.74)	-1,959.0	1,959.0	–				–
Net deferred taxes	**2,751.4**	**-168.6**	**2,582.8**				**1,869.0**

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 economic impact of the COVID-19 pandemic and the company's adopted restructuring measures.

Deferred tax assets were up €577.0 million at €2,751.4 million (PY: €2,174.4 million). This was primarily attributable to a €191.4 million increase in tax losses carried forward and limitation of interest deduction, and a €210.9 million increase in deferred taxes on other provisions.

Deferred tax liabilities declined by €136.8 million year-on-year to €168.6 million (PY: €305.4 million). This was influenced primarily by a €81.6 million decline in deferred tax liabilities on intangible assets.

As at December 31, 2020, the corporate tax losses, in Germany and abroad, carried forward amounted to €4,950.2 million (PY: €3,701.4 million). The majority of the Continental Group'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, 2020**	December 31, 2019
Temporary differences	110.0	75.4
Tax losses carried forward and limitation of interest deduction	603.4	447.4
Allowable tax credits	71.9	67.2
Total unrecognized deferred tax assets	**785.3**	**590.0**

As at December 31, 2020, some Continental Group companies and tax groups that reported a loss in the current or previous year recognized total deferred tax assets of €1,732.2 million (PY: €915.8 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 €1,070.1 million (PY: €943.0 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 held for sale and related liabilities are included in the "Other assets" and "Other differences" items.

21. Other Financial Assets

	December 31, 2020		December 31, 2019	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Amounts receivable from related parties	2.3	–	2.9	0.6
Loans to third parties	–	64.0	–	69.8
Amounts receivable from employees	19.7	–	25.7	–
Other amounts receivable	124.8	97.0	89.9	44.2
Other financial assets	**146.8**	**161.0**	**118.5**	**114.6**

Amounts receivable 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.

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

In particular, other amounts receivable 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 32 for information on the default risks in relation to other financial assets.

22. Other Assets

	December 31, 2020		December 31, 2019	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Trade accounts receivable from the sale of customer tools	201.3	–	244.6	–
Tax refund claims (incl. VAT and other taxes)	613.3	–	706.3	–
Prepaid expenses	197.5	–	203.3	–
Other[1]	340.4	24.2	252.5	28.6
Other assets	**1,352.5**	**24.2**	**1,406.7**	**28.6**

1 The changes in the “Other” item result primarily from the change in the accounting policy for revenue recognition for subsidiaries in China.

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

The trade accounts receivable from the sale of customer tools related to costs that have not yet been invoiced. The year-on-year decline of €43.3 million resulted mainly from a decrease in the Vehicle Networking and Information and ContiTech segments.

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

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

Impairment totaling €13.7 million (PY: €10.6 million) was recognized for the probable default risk on other assets. Expenses of €3.1 million (PY: income of €1.9 million) arose in the reporting period.

23. Inventories

€ millions	**December 31, 2020**	December 31, 2019
Raw materials and supplies	1,369.5	1,474.3
Work in progress	827.2	840.1
Finished goods and merchandise	2,041.5	2,380.0
Inventories	**4,238.2**	**4,694.4**

Write-downs recognized on inventories increased by €54.9 million to €551.2 million (PY: €496.3 million).

24. Trade Accounts Receivable

€ millions	December 31, 2020	December 31, 2019
Trade accounts receivable	7,512.6	7,840.1
Allowances for doubtful accounts	–159.4	–128.5
Trade accounts receivable	**7,353.2**	**7,711.6**

The carrying amounts of the trade accounts receivable, net of allowances for doubtful accounts, are their fair values. Please see Note 32 for information on the default risks in relation to trade accounts receivable.

The Continental Group 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 €537.4 million (PY: €702.4 million) are approximately equivalent to their fair value. The respective liabilities with a carrying amount of €296.0 million (PY: €468.6 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 €400.0 million (PY: €665.0 million).

25. Cash and Cash Equivalents

Cash and cash equivalents include all liquid funds and demand deposits. Cash equivalents are short-term, highly liquid financial investments that can be readily converted into known cash amounts and are subject to an insignificant risk of changes in value. As at the reporting date, cash and cash equivalents amounted to €2,938.7 million (PY: €3,341.8 million). Of that, €2,639.8 million (PY: €3,114.3 million) was unrestricted.

For information on the interest-rate risk and the sensitivity analysis for financial assets and liabilities, please see Note 32.

26. Assets Held for Sale

€ millions	December 31, 2020	December 31, 2019
Individual assets held for sale	22.8	89.6
Assets of a disposal group	–	–
Assets held for sale	**22.8**	**89.6**

Assets held for sale of €22.8 million (PY: €89.6 million) include in particular a production line of from Budapest, Hungary, in the amount of €18.7 million.

27. Equity

Number of shares outstanding	2020	2019
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, 2020, of €6,038.9 million (PY: €5,856.0 million), as reported in the annual financial statements prepared in accordance with the German Commercial Code. The Supervisory Board and Executive Board will propose a suspension of the dividend for fiscal 2020 to the Annual Shareholders' Meeting. Retained earnings are to be carried forward to new account.

28. Employee Benefits

The following table outlines the employee benefits:

	December 31, 2020		December 31, 2019	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	–	5,528.8	–	4,851.7
Provisions for other post-employment benefits	–	205.7	–	215.9
Provisions for similar obligations	4.3	59.1	3.4	60.0
Other employee benefits	–	303.8	–	255.3
Liabilities for workers' compensation	34.7	12.5	35.8	23.4
Liabilities for payroll and personnel-related costs	756.3	–	882.7	–
Termination benefits	60.1	–	46.8	–
Liabilities for social security	182.6	–	179.6	–
Liabilities for vacation	198.5	–	220.4	–
Employee benefits	**1,236.5**	**6,109.9**	**1,368.7**	**5,406.3**
Defined benefit assets (difference between pension obligations and related funds)		**82.7**		**7.8**

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.

As part of the intended spin-off of the Powertrain segment under the name of Vitesco Technologies, the pension plans for employees of the Powertrain segment were separated and will in the future be continued independently.

Defined benefit plans

Defined benefit plans include pension plans, termination indemnities regardless of the reason for the end of employment and other post-employment benefits. As a result of the significant increase in the number of employees in recent years and the high level of acquisition activity, pension obligations essentially relate to active employees. The defined benefit pension plans cover 164,503 beneficiaries, including 121,066 active employees, 17,405 former employees with vested benefits, and 26,032 retirees and surviving dependents. The pension obligations are concentrated in four countries: Germany, the USA, the United Kingdom and Canada, which account for more than 90% of total pension obligations.

The weighted average term of the defined benefit pension obligations is around 21 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 separation of the pension plans for employees of the Powertrain segment also resulted in a separation of the associated CTAs.

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, 2020. 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.

USA

Owing to its acquisition history, Continental has various defined benefit plans in the USA, 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 and cash balance commitments. 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 USA.

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 Continental Group. The legal and regulatory framework for the plans is based on the US 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 2020, another extraordinary allocation to the US pension plans of US $92.3 million was made.

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 UK focuses on reducing risks and includes the option of partially or completely funding by purchasing annuities.

The funding conditions are defined by the UK 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 most recent technical valuations of the four defined benefit pension plans took place with their valuation dates between December 2017 and March 2019 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 necessary data clarifications and preparatory work progressed considerably in 2020, and finalization is expected in 2021.

- Mannesmann UK Pension Scheme (assessment as at March 31, 2019): As part of the assessment, an agreement was resolved on a minimum annual endowment of GBP 75,000 for the period from April 1, 2019, to September 30, 2019; a minimum monthly endowment of GBP 100,000 for the period from October 1, 2019, to March 31, 2020; a minimum monthly endowment of GBP 150,000 for the period from April 1, 2020, to March 31, 2021; a minimum monthly endowment of GBP 175,000 for the period from April 1, 2021, to March 31, 2023; and a minimum monthly endowment of GBP 200,000 for the period from April 1, 2023, to August 31, 2026.

- 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 USA, Canada and the UK 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 USA, Canada, the UK and other countries, as well as the amounts for the Continental Group as a whole, are shown in the following tables.

In a first step taken in 2020 to establish a pension plan for the Powertrain segment, the decision was made to fund the plan in principle via an external insurer ("windup"). A suitable insurer has yet to be selected.

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

	2020						2019					
€ millions	**Germany**	**USA**	**Canada**	**UK**	**Other**	**Total**	Germany	USA	Canada	UK	Other	Total
Defined benefit obligations as at January 1	**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**
Exchange-rate differences	—	-106.4	-8.5	-21.8	-12.6	**-149.3**	—	21.3	7.3	20.8	2.6	52.0
Current service cost	276.2	3.9	1.7	2.2	28.1	**312.1**	221.8	4.1	1.6	2.2	26.9	256.6
Service cost from plan amendments	—	—	—	0.7	1.2	**1.9**	—	—	—	—	0.8	0.8
Curtailments/settlements	—	—	—	—	-0.4	**-0.4**	—	—	—	—	-0.7	-0.7
Interest on defined benefit obligations	69.0	36.3	3.5	7.7	9.1	**125.6**	87.5	44.2	3.9	10.0	11.0	156.6
Actuarial gains/losses from changes in demographic assumptions	—	-8.1	—	6.0	-6.1	**-8.2**	—	-8.5	—	-4.7	-0.6	-13.8
Actuarial gains/losses from changes in financial assumptions	543.3	119.3	9.1	43.0	-10.5	**704.2**	759.5	125.7	10.0	47.3	41.5	984.0
Actuarial gains/losses from experience adjustments	5.9	5.8	-0.2	-2.4	-0.6	**8.5**	32.0	-4.1	1.6	-1.7	-1.1	26.7
Net changes in the scope of consolidation	—	—	—	—	0.0	**0.0**	1.6	—	—	—	21.1	22.7
Employee contributions	—	—	0.3	0.1	-0.6	**-0.2**	—	—	0.3	0.2	-0.6	-0.1
Other changes	—	—	-0.1	—	-0.4	**-0.5**	—	—	—	—	-0.2	-0.2
Benefit payments	-105.9	-63.4	-5.0	-24.7	-22.0	**-221.0**	-102.5	-62.5	-6.3	-14.5	-19.0	-204.8
Defined benefit obligations as at December 31	**6,570.2**	**1,139.0**	**125.6**	**426.1**	**386.9**	**8,647.8**	**5,781.7**	**1,151.6**	**124.8**	**415.3**	**401.7**	**7,875.1**

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

	2020						2019					
€ millions	**Germany**	**USA**	**Canada**	**UK**	**Other**	**Total**	Germany	USA	Canada	UK	Other	Total
Fair value of fund assets as at January 1	**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**
Exchange-rate differences	—	-106.4	-7.1	-21.0	-6.7	**-141.2**	—	19.0	6.0	20.5	1.1	46.6
Interest income from pension funds	29.7	34.3	3.0	7.5	4.2	**78.7**	29.6	39.9	3.3	10.5	5.9	89.2
Actuarial gains/losses from fund assets	21.6	118.8	7.7	40.4	3.0	**191.5**	45.8	145.2	10.9	5.3	1.8	209.0
Employer contributions	50.7	98.3	2.7	8.0	11.0	**170.7**	42.1	11.8	2.4	7.5	15.3	79.1
Employee contributions	—	—	0.3	0.1	0.2	**0.6**	—	—	0.3	0.2	0.2	0.7
Net changes in the scope of consolidation	—	—	—	—	—	**—**	—	—	—	—	—	—
Other changes	—	-1.6	-0.4	—	-0.2	**-2.2**	—	-1.6	-0.3	—	-0.6	-2.5
Benefit payments	-22.3	-63.4	-5.0	-24.7	-12.4	**-127.8**	-24.2	-62.5	-6.3	-14.5	-10.2	-117.7
Fair value of fund assets as at December 31	**1,368.2**	**1,157.5**	**105.9**	**408.8**	**162.8**	**3,203.2**	**1,288.5**	**1,077.5**	**104.7**	**398.5**	**163.7**	**3,032.9**

The carrying amount of pension provisions increased by €602.2 million as compared to the previous year, primarily because of actuarial losses in all countries. The defined benefit assets increased by €74.9 million year-on-year. This was due chiefly to the additional allocation to the US pension plans in the reporting year.

€8,498.3 million (PY: €7,707.8 million) of the defined benefit obligations as at December 31, 2020, related to plans that are fully or partially funded, and €149.5 million (PY: €167.3 million) related to plans that are unfunded.

The €772.7 million increase in the defined benefit obligations as compared to December 31, 2019, resulted in particular from actuarial losses from changes in financial assumptions.

The fund assets in Germany include the CTA assets amounting to €1,016.4 million (PY: €941.4 million), pension contribution fund assets of €223.9 million (PY: €234.7 million), insurance annuity contracts amounting to €127.6 million (PY: €112.0 million) and further plan assets of €0.3 million (PY: €0.4 million).

In the year under review, fund assets increased by €170.3 million to €3,203.9 million, primarily because of actuarial gains in the reporting year as well as an allocation to plan assets in the USA. On December 21, 2020, €81.4 million was transferred to the corresponding plan assets.

Actuarial gains and losses on fund assets in Germany resulted from actuarial gains of €21.0 million (PY: €45.9 million) from the CTAs.

In the Continental Group, 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, 2020, 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 €223.9 million as at December 31, 2019 (PY: €234.7 million). The pension contribution funds have tariffs with an interest rate of 2.6%. Under the German Company Pensions Law, Continental is ultimately liable for the implementation path of the pension contribution fund. It therefore constitutes a defined benefit pension plan that 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, 2020						December 31, 2019					
€ millions	**Germany**	**USA**	**Canada**	**UK**	**Other**	**Total**	Germany	USA	Canada	UK	Other	Total
Funded status[1]	**-5,202.0**	**18.5**	**-19.7**	**-17.3**	**-224.1**	**-5,444.6**	**-4,493.2**	**-74.1**	**-20.1**	**-16.8**	**-238.0**	**-4,842.2**
Asset ceiling	–	–	-1.4	–	-0.1	**-1.5**	–	–	-0.9	–	-0.8	-1.7
Carrying amount	**-5,202.0**	**18.5**	**-21.1**	**-17.3**	**-224.2**	**-5,446.1**	**-4,493.2**	**-74.1**	**-21.0**	**-16.8**	**-238.8**	**-4,843.9**

1 Difference between fund assets and defined benefit obligations.

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

	December 31, 2020						December 31, 2019					
€ millions	**Germany**	**USA**	**Canada**	**UK**	**Other**	**Total**	Germany	USA	Canada	UK	Other	Total
Defined benefit assets	–	74.8	1.5	–	6.4	**82.7**	–	3.9	1.5	–	2.4	7.8
Pension provisions	-5,202.0	-56.3	-22.6	-17.3	-230.6	**-5,528.8**	-4,493.2	-78.0	-22.5	-16.8	-241.2	-4,851.7
Carrying amount	**-5,202.0**	**18.5**	**-21.1**	**-17.3**	**-224.2**	**-5,446.1**	**-4,493.2**	**-74.1**	**-21.0**	**-16.8**	**-238.8**	**-4,843.9**

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:

	2020					2019				
%	**Germany[1]**	**USA**	**Canada**	**UK**	**Other**	Germany[1]	USA	Canada	UK	Other
Discount rate	0.81	2.40	2.47	1.40	2.43	1.21	3.30	3.00	2.00	2.43
Long-term salary growth rate	3.00	0.00	1.06	1.32	2.36	3.00	0.00	2.86	3.56	3.32

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, 2020, for the key countries: Germany 1.75% (PY: 1.75%), Canada 1.6% (PY: 1.6%) and the United Kingdom 3.12% (PY: 3.2%). For the USA, the long-term pension trend does not constitute a significant measurement parameter.

Net pension cost can be summarized as follows:

	2020						2019					
€ millions	**Germany**	**USA**	**Canada**	**UK**	**Other**	**Total**	Germany	USA	Canada	UK	Other	Total
Current service cost	276.2	3.9	1.7	2.2	28.1	**312.1**	221.8	4.1	1.6	2.2	26.9	256.6
Service cost from plan amendments	–	–	–	0.7	1.2	**1.9**	–	–	–	–	0.8	0.8
Curtailments/settlements	–	–	–	–	-0.4	**-0.4**	–	–	–	–	-0.7	-0.7
Interest on defined benefit obligations	69.0	36.3	3.5	7.7	9.1	**125.6**	87.5	44.2	3.9	10.0	11.0	156.6
Expected return on the pension funds	-29.7	-34.3	-3.0	-7.4	-4.2	**-78.6**	-29.6	-39.9	-3.3	-10.5	-5.9	-89.2
Effect of change of asset ceiling	–	–	–	–	0.0	**0.0**	–	–	–	–	0.1	0.1
Other pension income and expenses	–	1.5	0.5	–	-1.3	**0.7**	–	1.7	0.3	–	–	2.0
Net pension cost	**315.5**	**7.4**	**2.7**	**3.2**	**32.5**	**361.3**	**279.7**	**10.1**	**2.5**	**1.7**	**32.2**	**326.2**

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

The table below shows the changes in actuarial gains and losses that are reported directly in equity:

	2020						2019					
€ millions	**Germany**	**USA**	**Canada**	**UK**	**Other**	**Total**	Germany	USA	Canada	UK	Other	Total
Actuarial gains/losses from defined benefit obligations	-549.2	-117.0	-8.9	-46.6	17.2	**-704.5**	-791.5	-113.2	-11.6	-40.9	-39.8	-997.0
Actuarial gains/losses from fund assets	21.6	118.8	7.7	40.4	3.0	**191.5**	45.8	145.2	10.9	5.3	1.8	209.0
Actuarial gains/losses from asset ceiling	–	–	-0.4	–	0.5	**0.1**	–	–	-0.4	–	0.2	-0.2
Actuarial gains/losses	**-527.6**	**1.8**	**-1.6**	**-6.2**	**20.7**	**-512.9**	**-745.7**	**32.0**	**-1.1**	**-35.6**	**-37.8**	**-788.2**

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. The decrease in the discount factor in all countries in the 2020 reporting period as compared to 2019 resulted in actuarial losses in all countries. The actuarial loses in the previous fiscal year likewise resulted from a decrease in interest rates compared to the prior year.

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, 2020					December 31, 2019				
€ millions	**Germany[1]**	**USA**	**Canada**	**UK**	**Other**	Germany[1]	USA	Canada	UK	Other
0.5% increase										
Effects on service and interest cost	-20.4	-2.4	0.0	0.6	-0.1	-20.7	-2.4	-0.1	0.8	-0.4
Effects on benefit obligations	-668.5	-64.7	-8.7	-36.8	-19.8	-566.4	-63.1	-8.7	-35.5	-21.6
0.5% decrease										
Effects on service and interest cost	23.6	2.0	0.1	-1.7	0.1	24.1	2.2	0.0	-0.9	0.4
Effects on benefit obligations	789.0	71.5	9.8	41.3	21.8	665.9	69.6	9.8	39.8	23.8

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, 2020				December 31, 2019			
€ millions	**Germany**	**USA[1]**	**Canada**	**UK**	Germany	USA[1]	Canada	UK
0.5% increase								
Effects on benefit obligations	5.9	–	0.9	2.4	5.5	–	1.0	2.2
0.5% decrease								
Effects on benefit obligations	-8.7	–	-0.8	-2.3	-8.4	–	-0.9	-2.0

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, 2020				December 31, 2019			
€ millions	**Germany**	**USA[1]**	**Canada**	**UK**	Germany	USA[1]	Canada	UK
0.5% increase								
Effects on benefit obligations	221.6	—	4.2	24.6	199.9	—	4.2	24.6
0.5% decrease								
Effects on benefit obligations	-200.1	—	-3.8	-23.8	-180.9	—	-3.8	-23.7

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.

The change to the process for determining the discount rates implemented as at June 30, 2020, led to the recognition of higher discount rates as at December 31, 2020. Applying the previous process for determining the discount rates would have resulted in a further increase in long-term employee benefits of €546.1 million as at December 31, 2020.

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 €335.9 million (PY: €284.6 million) increase in the value of the benefit obligations, and that figure would be broken down as follows: Germany €278.2 million (PY: €231.3 million), USA €37.3 million (PY: €34.5 million), United Kingdom €16.9 million (PY: €15.6 million) and Canada €3.5 million (PY: €3.2 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 Continental Group'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 2020 and 2019 are as follows:

%	**2020**					2019				
Asset class	**Germany[1]**	**USA**	**Canada**	**UK**	**Other**	Germany[1]	USA	Canada	UK	Other
Equity instruments	6	6	49	10	12	5	21	48	7	13
Debt securities	54	92	38	32	74	52	78	51	29	74
Real estate	12	–	–	1	1	13	–	–	1	2
Absolute return[2]	17	–	–	10	–	17	–	–	16	–
Cash, cash equivalents and other	11	2	13	5	13	13	1	1	5	11
Annuities[3]	–	–	–	42	–	–	–	–	42	–
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 2020 and 2019 as well as the expected contributions for 2021:

€ millions	2021 (expected)	**2020**	2019
Germany	41.4	50.7	42.1
USA	7.0	98.3	11.8
Canada	2.1	2.7	2.4
UK	7.4	8.0	7.3
Other	17.7	11.0	15.3
Total	**75.6**	**170.7**	**78.9**

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	USA	Canada	UK	Other	**Total**
Benefits paid						
2019	102.5	62.5	6.3	14.5	19.0	**204.8**
2020	105.9	63.4	5.0	24.7	22.0	**221.0**
Benefit payments as expected						
2021	139.0	61.7	5.3	10.5	21.2	**237.7**
2022	134.3	62.0	5.4	10.8	22.1	**234.6**
2023	138.9	62.3	6.0	11.4	22.2	**240.8**
2024	149.3	62.6	5.9	12.1	23.1	**253.0**
2025	158.4	62.8	6.4	12.5	27.6	**267.7**
Total of years 2026 to 2030	901.4	309.2	33.1	76.5	158.3	**1,478.5**

The pension payments from 2019 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	2020	2019	2018	2017	2016
Defined benefit obligations	8,647.8	7,875.1	6,595.3	6,379.7	6,528.7
Fund assets	3,203.2	3,032.7	2,728.5	2,549.1	2,684.4
Funded status	–5,444.6	–4,843.9	–3,866.8	–3,830.6	–3,844.3
Experience adjustments to plan liabilities	704.5	997.0	–2.4	–39.1	596.3
Experience adjustments to plan assets	191.5	209.0	–104.5	77.2	65.4

Other post-employment benefits

Certain subsidiaries – primarily in the USA 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 USA 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 around 12 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	2020	2019
Defined benefit obligations as at January 1	**215.9**	**194.9**
Exchange-rate differences	–18.5	5.5
Current service cost	1.3	1.3
Service cost from plan amendments	–	–0.3
Curtailments/settlements	–1.9	–0.1
Interest on healthcare and life insurance benefit obligations	6.6	8.1
Actuarial gains/losses from changes in demographic assumptions	–0.6	–0.5
Actuarial gains/losses from changes in financial assumptions	18.4	15.5
Actuarial gains/losses from experience adjustments	–1.7	–1.8
Net changes in the scope of consolidation	–	7.5
Benefit payments	–13.8	–14.2
Defined benefit obligations/net amount recognized as at December 31	**205.7**	**215.9**

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

%	2020	2019
Discount rate	2.48	3.31
Rate of increase in healthcare and life insurance benefits in the following year	0.82	4.04
Long-term rate of increase in healthcare and life insurance benefits	0.68	3.29

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

€ millions	2020	2019
Current service cost	1.3	1.3
Service cost from plan amendments	-1.8	-0.3
Curtailments/settlements	-0.1	-0.1
Interest on healthcare and life insurance benefit obligations	6.6	8.1
Net cost	**6.0**	**9.0**

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	2020	2019
0.5% increase		
Effects on service and interest cost	0.1	0.1
Effects on benefit obligations	2.1	2.1
0.5% decrease		
Effects on service and interest cost	-0.1	-0.1
Effects on benefit obligations	-1.9	-1.9

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	2020	2019
0.5% increase		
Effects on service and interest cost	0.6	0.5
Effects on benefit obligations	-10.8	-10.7
0.5% decrease		
Effects on service and interest cost	-0.5	-0.5
Effects on benefit obligations	12.1	11.9

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	
2019	14.2
2020	13.8
Benefit payments as expected	
2021	14.1
2022	14.0
2023	14.0
2024	14.1
2025	14.0
Total of years 2026 to 2030	58.5

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	**2020**	2019	2018	2017	2016
Defined benefit obligations	205.7	215.9	194.9	209.3	232.6
Funded status	–205.7	–215.9	–194.9	–209.3	–232.6
Experience adjustments to plan liabilities	16.1	13.2	–15.6	6.3	–2.1

Obligations similar to pensions
Some companies of the Continental Group 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 €1.7 million (PY: €4.9 million).

Defined contribution pension plans
The Continental Group offers its employees pension plans in the form of defined contribution plans, particularly in the USA, the UK, Japan and China. Not including social security contributions, expenses from defined contribution pension plans amounted to €84.6 million (PY: €88.3 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: 0.0%). Provisions for anniversary and other long-service benefits were calculated using a discount rate of 0.45% (PY: 1.2%). In accordance with the option under IAS 19, *Employee Benefits*, the interest component is reported in the financial result.

Variable remuneration elements
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) in accordance with the remuneration system valid until 2019 (herein after "2019 remuneration system"). In the financial report as at September 30, 2020, the LTI plan from the new remuneration system was described as the Continental long-term incentive plan (CLIP 2020). In the following, this will be referred to as the 2020 LTI plan.

The LTI plans for the years starting from 2014 and the deferral of the performance bonus from the 2019 remuneration system are classified as cash-settled share-based payments; hence they are recognized at fair value in accordance with IFRS 2, *Share-based Payment*.

Long-term incentive plans (LTI plans)

Expenses of €33.5 million from the addition of provisions for the TIP bonus and the 2020 LTI plan (PY: income of €8.2 million from the reversal of provisions) were recognized in the respective function costs.

- 2014 to 2019 LTI plan: From 2014 to 2019, senior executives of the Continental Group and members of the Executive Board were granted an LTI bonus. This bonus was intended to allow for participation in the long-term, sustainable increase in the Continental Group's value and profitability. The LTI bonus depended on job grade and degree of target achievement and was issued in annual tranches.
- 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, began retroactively as at January 1, 2015, and was 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. After the expiry of the 2016/19 LTI tranche in December 2019, the bonus was not paid out in 2020, as the fair value of the tranche as at the payment date was €0.0 million.
- 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 specified 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 Group 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 payment amount.

- 2019 Transformation Incentive Plan (TIP): In 2019, the Continental Group offered its senior executives the possibility of participating in the long-term, sustainable increase in the Continental Group'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 (basic holding), 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 basic holding 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 basic holding. 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 basic holding. 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 payment amount.

› 2020 LTI plan: In 2020, a new 2020 LTI plan was granted to the Executive Board, senior executives and executives. With the resolution of the Annual Shareholders' Meeting of Continental AG on July 14, 2020, the new system of remuneration for members of the Executive Board was approved. The term of the 2020 LTI plan, which was resolved on March 17, 2020, by the Supervisory Board for the members of the Executive Board, and on March 2, 2020, by the Executive Board for senior executives and executives, begins retroactively as at January 1, 2020, and is four years for the Executive Board and three years for senior executives and executives.

For each beneficiary of the 2020 LTI plan, the Supervisory Board (for the members of the Executive Board) or the Executive Board (for senior executives and executives) agrees an allotment value in euros for the LTI. At the start of the first fiscal year of the term of the LTI plan, this allotment value is converted into a basic holding of virtual shares. The allotment value is divided by the arithmetic mean of Continental AG's closing share prices in Xetra trading on the Frankfurt Stock Exchange (or a successor system) in the last two months prior to the start of the term of the respective LTI plan (issue price). The basic holding is multiplied by a performance index (PI) in order to determine the final holding of virtual shares. The performance index corresponds to the product from the relative total shareholder return (TSR) on Continental shares and a sustainability score. The relative TSR is calculated from the relative performance of the Continental TSR in comparison with the TSR on the STOXX Europe 600 Automobiles & Parts (SXAGR). The Continental TSR corresponds to the sum of the average Continental share price in the last month of the term (final share price) and all dividends distributed during the term relative to the average share price in the first month of the term (initial share price). The SXAGR TSR is determined using the same method.

Performance criteria and goals of the sustainability score are targets for CO_2 emissions, recycling quotas and the review of good working conditions for employees in the Continental Group (e.g. based on sick leave, accident rates and employee satisfaction).

The 2020 LTI plan can total at most 200% of the defined initial share price (executives and senior executives) or issue price (Executive Board). The issue price is the average price of the two months before the start of the term.

The final holding of virtual shares is multiplied by the payout ratio in order to determine the gross amount of the LTI to be paid out in euros (hereinafter "payout amount"). The payout ratio is the sum of 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 two months prior to the next ordinary Annual Shareholders' Meeting that follows the end of the term of the LTI plan and the dividends paid out per share during the term of the LTI plan.

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 (benchmark index). The Monte Carlo simulation takes into account the average value accumulation of the Continental share prices and the benchmark index 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 payment amount.

The following TSR parameters were used as at the measurement date of December 31, 2020:

› Constant zero rates as at the measurement date of December 31, 2020:
2017 LTI plan: -0.73% as at the expected payment date;
2018 LTI plan: -0.73% as at the due date and -0.74% as at the expected payment date;
2019 LTI plan: -0.75% as at the due date and -0.76% as at the expected payment date. 2019 TIP bonus: -0.73% as at the due date, -0.74% as at the end of the payment share price period and -0.74% as at the payment date.
2020 LTI plan (senior executives and executives): -0.75% as at the due date and -0.76% as at the end of the payment share price period;
2020 LTI plan (Executive Board): -0.76% as at the due date and -0.77% as at the end of the payment share price period.

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

- Dividend payments as the arithmetic mean based on publicly available estimates for 2021 until 2023; the dividend of Continental AG amounted to €3.00 per share in 2020, and Continental AG distributed a dividend of €4.75 per share in 2019.

- Historical volatilities on the basis of daily Xetra closing rates for Continental shares and the benchmark index based on the respective remaining term for LTI tranches, the 2019 TIP bonus and the 2020 LTI plan. The volatility for the 2018 LTI plan is 53.65% and for the 2019 LTI plan 43.12%. The volatility for the 2019 TIP bonus is 53.65% as at the due date and 48.36% as at the end of the payment share price period. The volatility for the 2020 LTI plan is 43.12% for senior executives and executives and 39.30% for the Executive Board. The historical benchmark index volatilities for the 2020 LTI plan are 35.28% for senior executives and executives and 31.21% for the Executive Board.

- Historical correlations on the basis of daily Xetra closing rates for the benchmark index based on the respective remaining term of the components of the 2019 TIP bonus and the 2020 LTI plan. The correlation for the 2019 TIP bonus is 0.8958 as at the due date. The correlation for the 2020 LTI plan is 0.8793 for senior executives and executives and 0.8632 for the Executive Board.

The fair values of the tranches as at the grant date, assuming full vesting, were €63.1 million for the 2020 LTI plan (senior executives and executives) and €5.9 million for the 2020 LTI plan (Executive Board).

- The fair values of the tranches developed as follows:
  2017 LTI plan: €0.0 million (PY: €0.0 million), the vesting level is 100%;
  2018 LTI plan: €0.0 million (PY: €0.0 million), the vesting level is 75%;
  2019 LTI plan: €0.0 million (PY: €0.0 million), the vesting level is 50%;
  2019 TIP bonus: €24.2 million (PY: €21.8 million), the vesting level is 56%;
  2020 LTI plan (senior executives and executives): €62.8 million, the vesting level is 33%;
  2020 LTI plan (Executive Board): €5.7 million, the vesting level is 25%.

In total, no expenses or income for the 2016 to 2019 LTI plans were recorded in the reporting year. The lower liabilities for payroll and personnel-related costs in the previous year resulted in income of €6.5 million for the 2016 LTI plan, €3.4 million for the 2017 LTI plan and €0.5 million for the 2018 LTI plan. Expenses of €11.1 million (PY: €2.4 million) were incurred for the 2019 TIP bonus in 2020. Expenses of €20.9 million were incurred for the 2020 LTI plan for senior executives and executives, and €1.4 million for the 2020 LTI plan for Executive Board members.

Performance bonus (deferral) under the 2019 remuneration system

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 payment amount.

Income of €0.1 million from the reversal of provisions from virtual shares (PY: expenses from virtual shares of €0.2 million) was recognized in the respective function costs.

The following parameters were used as at the measurement date of December 31, 2020:

- Constant zero rates as at the measurement date of December 31, 2020:
  2017 tranche: -0.74% as at the due date and as at the expected payment date;
  2018 tranche: -0.74% as at the due date and as at the expected payment date;
  2019 tranche: -0.76% 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 2021 and 2022; the dividend of Continental AG amounted to €3.00 per share in 2020, and Continental AG distributed a dividend of €4.75 per share in 2019.

- Historical 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 2017 tranche is 37.04%, for the 2018 tranche 48.36% and for the 2019 tranche 41.89%.

As at December 31, 2020, commitments with a fair value of €4.9 million are attributable to Executive Board members active at the end of the reporting period; this is equivalent to 37,882 virtual shares (PY: €7.1 million; 55,631 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. No provision was recognized for the reporting period (PY: €83.2 million).

29. Provisions for Other Risks and Obligations

	December 31, 2020		December 31, 2019	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Restructuring provisions	433.0	918.0	96.5	502.6
Litigation and environmental risks	132.2	197.9	116.3	103.2
Warranties	767.2	29.9	741.4	–
Other provisions	393.0	96.8	307.4	60.3
Provisions for other risks and obligations	**1,725.4**	**1,242.6**	**1,261.6**	**666.1**

The provisions for other risks developed as follows:

€ millions	**Restructuring provisions**	**Litigation and environmental risks**	**Warranties**	**Other provisions**
As at January 1, 2020	**599.1**	**219.5**	**741.4**	**367.7**
Additions	870.2	219.0	588.7	334.2
Utilizations	-75.7	-62.0	-394.1	-129.8
Reclassifications	10.6	–	–	-0.2
Net changes in the scope of consolidation	–	–	–	–
Reversals	-45.3	-25.8	-105.9	-67.8
Interest	–	0.8	–	-0.9
Exchange-rate changes	-7.9	-21.4	-33.0	-13.4
As at December 31, 2020	**1,351.0**	**330.1**	**797.1**	**489.8**

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 Tires, Vehicle Networking and Information, and Powertrain segments.

The utilization of restructuring provisions relates to the implementation of restructuring measures adopted in previous years and incorporated for the first time in 2020.

The additions to the provisions for litigation and environmental risks relate in particular to risks in connection with disputes over industrial property rights and, as in the previous year, product liability risks from tire activities in the USA. Please see Note 36.

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

The changes in provisions for warranties include utilization of €394.1 million (PY: €301.1 million) and reversals of €105.9 million (PY: €182.2 million), which are offset by additions of €588.7 million (PY: €599.1 million), especially for specific individual cases within the Autonomous Mobility and Safety, Vehicle Networking and Information, and Powertrain segments.

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.

30. Income Tax Liabilities

Income tax liabilities developed as follows:

€ millions	**2020**	2019
As at January 1	**938.6**	**750.7**
Additions	521.4	694.0
Utilizations and advance payments for the current fiscal year	-608.1	-477.8
Reversals	-40.8	-34.5
Net changes in the scope of consolidation	0.0	3.2
Exchange-rate changes	-21.0	3.0
As at December 31	**790.1**	**938.6**

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.

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

	December 31, 2020			December 31, 2019		
€ millions	**Total**	**Short-term**	**Long-term**	Total	Short-term	Long-term
Bonds	**3,501.7**	200.0	3,301.7	2,793.8	1,348.7	1,445.1
Bank loans and overdrafts[1]	**1,559.8**	964.3	595.5	1,470.4	960.3	510.1
Derivative instruments	**15.5**	15.5	–	13.3	13.3	–
Lease liabilities	**1,543.0**	319.0	1,224.0	1,715.0	318.3	1,396.7
Liabilities from sale-of-receivables programs	**296.0**	296.0	–	468.6	468.6	–
Other indebtedness[2]	**418.4**	395.2	23.2	1,157.9	1,134.6	23.3
Indebtedness	**7,334.4**	**2,190.0**	**5,144.4**	**7,619.0**	**4,243.8**	**3,375.2**

1 Thereof €11.3 million (PY: €12.4 million) secured by land charges, mortgages and similar securities.
2 Other indebtedness in 2020 included a carrying amount of €263.4 million (PY: €938.4 million) from commercial paper issuances.

Continental's key bond issues

€ millions Issuer/type	**Amount of issue Dec. 31, 2020**	**Carrying amount Dec. 31, 2020**	**Stock market value Dec. 31, 2020**	Amount of issue Dec. 31, 2019	Carrying amount Dec. 31, 2019	Stock market value Dec. 31, 2019	Coupon p.a.	Issue/maturity and fixed interest until	Issue price
CAG[1] euro bond	–	–	–	600.0	599.8	600.2	0.000%	2016/02.2020	99.410%
CAG[1] euro bond	–	–	–	750.0	748.9	767.3	3.125%	2013/09.2020	99.228%
CAG[1] euro bond	500.0	498.4	500.5	500.0	497.8	496.5	0.000%	2019/09.2023	99.804%
CGF[2] euro bond	750.0	745.1	793.5	–	–	–	2.125%	2020/11.2023	99.559%
CGF[2] euro bond	625.0	621.0	647.4	–	–	–	1.125%	2020/09.2024	99.589%
CAG[1] euro bond	600.0	597.8	605.1	600.0	597.3	598.7	0.375%	2019/06.2025	99.802%
CAG[1] euro bond	750.0	739.4	837.6	–	–	–	2.500%	2020/08.2026	98.791%
Total	**3,225.0**	**3,201.7**	**3,384.1**	**2,450.0**	**2,443.8**	**2,462.7**			

1 CAG, Continental Aktiengesellschaft, Hanover.
2 CGF, Conti-Gummi Finance B.V., Maastricht, Netherlands.

The carrying amount of the bonds increased by €707.9 million from €2,793.8 million in the previous year to €3,501.7 million as at the end of fiscal 2020. This build-up is mainly attributable to three euro bond issues by Continental AG and Conti-Gummi Finance B.V., Maastricht, Netherlands. In the second quarter of 2020, the Continental Group placed euro bonds totaling €2,125.0 million under its Debt Issuance Programme (DIP). The issue price of the €750.0-million bond issued by Continental AG on May 27, 2020, amounted to 98.791%. This bond has a term of six years and three months and an interest rate of 2.500% p.a. The €750.0-million and €625.0-million bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, on May 27, 2020, and June 25, 2020, have a term of three years and six months and four years and three months, respectively. The issue price of the bonds with a fixed interest rate of 2.125% p.a. and 1.125% p.a. amounted to 99.559% and 99.589%. In addition, the €600.0-million and €750.0-million euro bonds from Continental AG that matured on February 5 and September 9 in fiscal 2020 were redeemed at a rate of 100.00%. The €600.0-million bond bore interest at a rate of 0.000% p.a. and had a term of three years and two months. The €750.0-million bond bore interest at a rate of 3.125% p.a. and had a term of seven years.

The 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 3.900% p.a. and a term of 12 years was redeemed early at a rate of 100.000% at the end of August 2020. The carrying amount of the bonds also includes two private placements issued by Continental AG in October 2019. 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.

Credit lines and available financing from banks
Bank loans and overdrafts amounted to €1,559.8 million (PY: €1,470.4 million) as at December 31, 2020, and were therefore up €89.4 million on the previous year's level. On December 31, 2020, there were credit lines and available financing from banks in the amount of €9,370.1 million (PY: €6,210.2 million). A nominal amount of €7,780.8 million of this had not been utilized as at the end of the reporting period (PY: €4,702.2 million). The syndicated loans of the Continental Group described below accounted for €7,000.0 million of this (PY: €4,000.0 million). Besides this, 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.

The syndicated loan that was renewed ahead of schedule in December 2019 consists of a revolving tranche of €4,000.0 million and has a term of five years. In November 2020, Continental exercised an option to extend the term by one year. The lending banks then extended this financing commitment until December 2025 at unchanged conditions. The calculation of interest for the credit line also considers what are termed sustainability components that are linked to the sustainability strategy of the Continental Group. If the Continental Group 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. The loan agreement contains no obligation to comply with financial covenants. 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. As in the previous year, this revolving loan had not been utilized as at December 31, 2020. In addition to the existing syndicated loan, a further syndicated loan in the amount of €3,000.0 million was agreed in May 2020. The new credit line is intended to strengthen Continental's financial flexibility in the wake of the COVID-19 pandemic and therefore has a short term of 364 days. The loan agreement is based on the agreement for the existing syndicated loan of €4,000.0 million and provides for exclusive use by Continental AG. This financing commitment had likewise not been utilized as at December 31, 2020.

In the year under review, the Continental Group utilized its commercial paper programs, its sale-of-receivables programs and its various bank lines to meet short-term credit requirements.

Please see Note 32 for the maturity structure of indebtedness.

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, 2020**		**Exchange-rate changes**	**Reclassifications**	**Changes in fair value**	**Changes in the scope of consolidation**	**Other**	Dec. 31, 2019
Change in derivative instruments and interest-bearing investments	256.5	35.0	-12.2	—	72.6	—	-44.4	205.5
Change in short-term indebtedness	-2,190.0	2,522.7	60.3	-500.5	-15.6	—	-13.1	-4,243.8
Change in long-term indebtedness	-5,144.4	-2,160.7	46.9	500.5	—	—	-155.9	-3,375.2

		Cash	Non-cash					
€ millions	**Dec. 31, 2019**		**Exchange-rate changes**	**Reclassifications**	**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

32. 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, 2020**	**Fair value as at Dec. 31, 2020**	thereof Level 1	thereof Level 2	thereof Level 3
Other investments[1]	FVOCIwoR	109.2	109.2	–	–	109.2
Derivative instruments and interest-bearing investments						
Derivative instruments not accounted for as effective hedging instruments	FVPL	70.1	70.1	–	70.1	–
Debt instruments	FVPL	79.6	79.6	68.4	11.2	–
Debt instruments	at cost	106.9	106.9	–	–	–
Trade accounts receivable						
Trade accounts receivable	at cost	6,946.6	6,946.6	–	–	–
Bank drafts	FVOCIwR	399.8	399.8	–	399.8	–
Trade accounts receivable	FVPL	6.8	6.8	–	6.8	–
Other financial assets						
Other financial assets	FVPL	63.9	63.9	–	63.9	–
Other financial assets	FVOCIwoR	33.5	33.5	–	–	33.5
Other financial assets	at cost	210.4	210.4	–	–	–
Cash and cash equivalents						
Cash and cash equivalents	at cost	2,591.8	2,591.8	–	–	–
Cash and cash equivalents	FVPL	346.9	346.9	346.9	–	–
Financial assets		**10,965.5**	**10,965.5**	**415.3**	**551.8**	**142.7**
Indebtedness without lease liabilities						
Derivative instruments not accounted for as effective hedging instruments	FVPL	15.5	15.5	–	15.5	–
Other indebtedness	at cost	5,775.9	5,976.9	3,384.1	945.8	–
Trade accounts payable	at cost	5,933.1	5,933.1	–	–	–
Other financial liabilities	at cost	1,294.5	1,294.5	–	–	–
Financial liabilities without lease liabilities		**13,019.0**	**13,220.0**	**3,384.1**	**961.3**	**–**
Aggregated according to categories as defined in IFRS 9:						
Financial assets (FVOCIwR)		399.8				
Financial assets (FVOCIwoR)		142.7				
Financial assets (FVPL)		567.3				
Financial assets (at cost)		9,855.7				
Financial liabilities (FVPL)		15.5				
Financial liabilities (at cost)		13,003.5				

1 For increased transparency, investments in non-consolidated affiliated companies are no longer shown under financial instruments. The figures from the comparative period have been adjusted accordingly.

€ 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[1]	FVOCIwoR	182.9	182.9	–	–	182.9
Derivative instruments and interest-bearing investments						
Derivative instruments not accounted for as effective hedging instruments[2]	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	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	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		**11,674.9**	**11,674.9**	**429.7**	**387.7**	**182.9**
Indebtedness without lease liabilities						
Derivative instruments not accounted for as effective hedging instruments[2]	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	at cost	7,111.0	7,111.0	–	–	–
Other financial liabilities	at cost	1,078.0	1,078.0	–	0.4	–
Financial liabilities without lease liabilities		**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)		182.9				
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 For increased transparency, investments in non-consolidated affiliated companies are no longer shown under financial instruments. The figures from the comparative period have been adjusted accordingly.
2 Including positive fair values of €0.0 million and negative fair values of €0.1 million for short-term embedded derivatives.

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

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

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

Financial instruments allocated to the FVOCIwoR measurement category are classified as such because they are held over a long term for strategic purposes.

For financial instruments accounted for at FVOCIwoR for which there are no quoted prices in active markets for identical instruments (level 1) or for similar instruments, or for which there are no applicable measurement methods 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. Financial instruments accounted for at FVOCIwoR are centrally monitored with regard to any changes to the key non-observable input factors and continuously checked for changes in value. In fiscal 2020, two other investments were written down by a total of €13.4 million and another was written up by €6.4 million.

Please see Note 19 for information on the changes in carrying amounts of other investments. For reasons of materiality, there is no need for a sensitivity analysis.

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 measured at cost, 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 and other financial liabilities were determined by discounting all future cash flows at the applicable interest rates for the corresponding residual maturities, taking into account a company-specific credit spread, provided their carrying amounts as at the reporting date are not approximately equivalent to their fair values.

The Continental Group 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 2020, 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	**2020**	2019	**2020**	2019	**2020**	2019
Financial assets (at cost)	25.7	31.1	-14.0	-97.2	11.7	-66.1
Financial assets and liabilities (FVPL)	2.4	8.7	140.6	-31.6	143.0	-22.9
Financial assets (FVOCI)	–	-1.7	0.6	0.6	0.6	-1.1
Financial liabilities (at cost)	-108.9	-96.9	-41.0	-54.1	-149.9	-151.0

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

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

Collateral

As at December 31, 2020, a total of €579.5 million (PY: €745.8 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 assigned as collateral for liabilities from sale-of-receivables programs. 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 Group 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 Continental Group. 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 consolidated management report.

1. Default risks

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 Group 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. The Continental Group held an immaterial amount of collateral as at December 31, 2020. There are 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 corporate-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 2020.

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, 2020, for trade accounts receivable and contract assets whose creditworthiness was not impaired[1]:

€ millions	**December 31, 2020**	December 31, 2019
not overdue	6,863.6	7,006.7
0–29 days	290.6	398.4
30–59 days	98.2	146.0
60–89 days	34.7	57.5
90–119 days	22.2	33.9
120 days or more	93.7	116.7
As at December 31	**7,403.0**	**7,759.2**

1 The difference of €228.7 million (December 31, 2019: €170.1 million) from the tables in Notes 6 and 24 results from trade accounts receivable and contract assets whose creditworthiness was impaired.

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

€ millions	2020	2019
As at January 1	**128.5**	**109.5**
Additions	116.3	75.3
Utilizations	-18.2	-21.2
Reversals	-53.7	-37.2
Amounts disposed of through disposal of subsidiaries	0.0	0.0
Exchange-rate changes	-13.5	2.1
As at December 31	**159.4**	**128.5**

As at December 31, 2020, valuation allowances for trade accounts receivable whose creditworthiness was impaired amounted to €142.3 million (PY: €113.5 million).

Of the impaired receivables written down in the reporting period, €1.0 million (PY: €0.7 million) is still subject to enforcement measures.

Other financial assets

Valuation allowances equivalent to the gross carrying amount totaling €2.9 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, none (PY: €1.0 million) are 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, the Continental Group generally uses banks that it has classified as core banks on the basis of defined criteria. As a general rule, these banks should 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 other 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), provided such information is available. In addition, the Continental Group 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 €2.2 million were reversed in the reporting year (PY: €50.3 million recognized). In addition, the provision of €57.4 million recognized in the previous year for credit commitments to these companies was utilized in the reporting year in the amount of €46.5 million. The resulting valuation allowances of €94.0 million (PY: €50.3 million) and provisions for loan commitments of €11.2 million (PY: €57.4 million) after exchange-rate effects as at December 31, 2020, correspond to the respective gross carrying amounts of the adjusted loans and the outstanding nominal amounts of the loan commitments. 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 Continental Group'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 Continental Group'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, 2020.

As at December 31, 2020, 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 -€168.8 million (PY: -€533.1 million) and the US dollar in the amount of -€500.3 million (PY: -€291.2 million). The main local currencies accounting for the aforementioned euro-foreign currency transactions are the Chinese renminbi at -€160.1 million, the Czech koruna at €126.8 million and the Mexican peso at -€68.7 million (PY: the Chinese renminbi at -€176.8 million, the Czech koruna at -€166.3 million and the Brazilian real at -€65.4 million). The main local currencies accounting for the US dollar-foreign currency transactions are the Chinese renminbi at -€198.7 million, the Czech koruna at -€107.0 million and the Romanian leu at -€99.7 million (PY: the Chinese renminbi at -€195.2 million, the South Korean won at -€151.8 million and the euro at €119.0 million). Of these amounts, the positive values constitute net receivables and the negative values net liabilities.

Financial foreign-currency risks

In addition to operational foreign-currency risk, currency risks also result from the Continental Group'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, 2020, the net exposure in the major currencies amounted to €158.7 million (PY: -€121.2 million) for the euro and €1,336.9 million (PY: €687.5 million) for the US dollar. The main local currencies accounting for the aforementioned euro-foreign currency transactions are the Czech koruna at €412.8 million, the Brazilian real at -€183.3 million and the Romanian leu at -€174.4 million (PY: the Czech koruna at €363.6 million, the Brazilian real at -€289.3 million and the Hungarian forint at -€226.3 million). The main local currencies accounting for the US dollar-foreign currency transactions are the euro at €870.4 million, the Mexican peso at €324.3 million and the Philippine peso at €96.4 million (PY: the Mexican peso at €328.9 million, the Philippine peso at €172.8 million and the euro at €107.5 million). These currency risks are generally hedged against through the use of derivative instruments, particularly currency forwards, currency swaps and cross-currency interest-rate swaps. 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, 2020, 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, hence their assignment to the measurement category FVPL. Corresponding currency forwards and currency swaps are reported as at December 31, 2020 in the statement of financial position under the item "Short-term derivative instruments and interest-bearing investments" in the amount of €15.9 million (PY: €7.5 million) and under the item "Short-term financial liabilities" in the amount of €15.5 million (PY: €13.3 million). Their nominal volume comes to €1,648.4 million as at December 31, 2020 (PY: €1,275.6 million). In addition, as at December 31, 2020, there are cross-currency interest-rate swaps with a total nominal volume of €500.0 million (PY: –), which are reported under "Long-term derivative instruments and interest-bearing investments" in the amount of €54.2 million (PY: –).

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

Until August 2017, the Continental Group 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 hedges)

In 2015, the Continental Group 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, USA, on November 19, 2015. In doing so, first the currency risks of Continental Rubber of America, Corp., Wilmington, Delaware, USA, were hedged against by the denomination in euros and, second, the euro-based fixed interest rate was exchanged for a US-dollar-based fixed interest rate. These cash flow hedges expired together with the maturity of the bond on February 19, 2019.

In 2019, the cash flow hedges did not result in an ineffectiveness to be recognized in profit or loss. Changes in fair value and reclassifications to profit or loss in 2019 can be seen in the statement of comprehensive income under the item "Cash flow hedges."

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

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. In the Continental Group, 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. For those financial instruments with transaction currencies that differ from the functional currencies, a 10% appreciation or depreciation of the respective functional currency of the subsidiaries in relation to the identified different transaction currencies is assumed to determine the sensitivities. Hedging transactions are valued on the basis of a 10% percent change in the underlying forward or spot rates from the perspective of the local currency of the hedging Continental Group company. 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 US dollar, as major transaction currencies, on the difference from currency translation and from financial instruments in equity and on net income.

	2020		2019	
€ millions	**Total equity**	**Net income**	Total equity	Net income
Local currency +10%				
Total	**–**	**79.6**	**–**	**73.5**
thereof EUR	–	3.9	–	49.0
thereof USD	–	6.3	–	-32.8
Local currency -10%				
Total	**–**	**-79.6**	**–**	**-73.5**
thereof EUR	–	-3.9	–	-49.0
thereof USD	–	-6.3	–	32.8

3. Interest-rate management

Variable interest agreements and, in principle, short-term financial instruments 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 Continental Group's interest-bearing net indebtedness is the subject of these activities based on the reporting date. 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 instruments for hedging against interest-rate risks as at December 31, 2020. The Continental Group 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 Group's derivative instruments, is as follows:

€ millions	2020	2019
Fixed-interest instruments		
Financial assets	68.9	87.4
Financial liabilities	5,556.4	5,266.0
Floating-rate instruments		
Financial assets	3,056.3	3,452.4
Financial liabilities	1,762.5	2,339.7

Fair value sensitivity analysis

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. The main effects resulted from the changes in the US dollar and euro interest rates. There were no changes in equity in 2020 or in the previous year. The effects on the financial result are presented below; tax effects were not taken into account in the analysis:

- An increase in US dollar interest rates of 100 basis points in 2020 would have led to a change in the financial result of €13.3 million (PY: –).
- A decrease in US dollar interest rates of 100 basis points would have led to a change in the financial result of -€13.8 million (PY: –).
- An increase in euro interest rates of 100 basis points in 2020 would have led to a change in the financial result of -€15.4 million (PY: –).
- A decrease in euro interest rates of 100 basis points would have led to a change in the financial result of €16.0 million (PY: –).

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	**2020**	2019	**2020**	2019
Total	**14.4**	**11.5**	**-16.9**	**-14.3**
thereof EUR	-3.5	-1.6	0.9	-1.3
thereof CNY	6.0	9.4	-6.0	-9.4
thereof USD	4.4	-0.8	-4.4	0.8
thereof INR	1.1	0.9	-1.1	-0.9
thereof BRL	1.1	0.9	-1.1	-0.9
thereof THB	0.8	0.3	-0.8	-0.3
thereof AUD	0.6	0.4	-0.6	-0.4
thereof JPY	0.6	0.4	-0.6	-0.4
thereof RON	0.5	0.5	-0.5	-0.5
thereof CAD	-0.8	-1.7	0.8	1.7

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: €4.0 billion), the additional syndicated loan with a committed volume of €3.0 billion (PY: –) that runs until May 2021, and other bilateral loans. Furthermore, approximately 48% (PY: 37%) 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 Group 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 31.

The financial liabilities without lease liabilities of €13,019.0 million (PY: €14,093.0 million) result in the following undiscounted cash outflows over the next five years and thereafter:

Dec. 31, 2020/€ millions	2021	2022	2023	2024	2025	thereafter	**Total**
Other indebtedness incl. interest payments	1,894.0	332.4	1,314.2	1,008.5	637.2	816.1	**6,002.4**
Derivative instruments	15.5	–	–	–	–	–	**15.5**
Trade accounts payable	5,933.1	–	–	–	–	–	**5,933.1**
Other financial liabilities	1,287.9	6.6	–	–	–	–	**1,294.5**

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	7,111.0	–	–	–	–	–	**7,111.0**
Other financial liabilities	1,046.3	32.4	–	–	–	–	**1,078.7**

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

In the analysis, foreign-currency amounts were translated into euros using the current 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, 2020			December 31, 2019		
€ millions	**Carrying amounts[1]**	**Respective financial instruments not netted**	**Net amount**	Carrying amounts[1]	Respective financial instruments not netted	Net amount
Financial assets	70.1	11.1	59.0	7.5	2.3	5.2
Financial liabilities	15.5	11.1	4.4	13.2	2.3	10.9

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.

33. Other Financial Liabilities

	December 31, 2020		December 31, 2019	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Liabilities to related parties	45.0	0.5	–	0.5
Interest payable	16.0	–	13.8	–
Liabilities for selling expenses	1,209.6	–	1,027.4	–
Purchase prices payable on company acquisitions	3.0	–	0.1	24.5
Miscellaneous financial liabilities	14.3	6.2	5.0	6.7
Other financial liabilities	**1,287.9**	**6.7**	**1,046.3**	**31.7**

The increase in liabilities to related parties results from capital commitments made to an associate.

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 decrease in purchase prices payable on company acquisitions mainly results from purchase price payments for acquisitions made in previous years in Germany and Czechia.

The increase in short-term miscellaneous financial liabilities mainly results from the outstanding dividend payments of a Japanese subsidiary.

34. Trade Accounts Payable

Trade accounts payable amounted to €5,933.1 million (PY: €7,111.0 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 32.

35. Other Liabilities

	December 31, 2020		December 31, 2019	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Liabilities for VAT and other taxes	289.8	–	320.9	–
Deferred income	17.5	38.3	25.3	8.3
Miscellaneous liabilities[1]	494.5	25.6	320.0	11.7
Other liabilities	**801.8**	**63.9**	**666.2**	**20.0**

1 Miscellaneous liabilities also include other liabilities to related parties. Please see Note 41.

Other Disclosures

36. 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 USA 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 USA 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.

Disputes over industrial property rights
Continental could be liable to pay compensation for infringements or could be forced to purchase licenses to continue using technology from third parties. Continental, for example, supplies telecommunication modules that transmit vehicle data, enable voice and internet functionality, and are compatible with cellular communication standards. In this respect, there is a risk that Continental or its suppliers may be denied their own direct license to use patents relating to these standards (standard essential patents), especially in the field of telecommunications standards such as 3G, 4G or 5G, and that Continental may become dependent on licenses and the conditions under which they are granted to customers.

Regulatory proceedings
In May 2005, the Brazilian competition authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Industria 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 €1.9 million) on CBIA, which was then reduced to BRL 10.8 million (around €1.7 million). CBIA denies the accusation that it has infringed Brazilian antitrust law. Although the court of first instance appealed to by CBIA upheld the decision, on CBIA's further appeal the next higher court annulled this decision and remanded the matter. In case an infringement of Brazilian antitrust law is found, third parties may, in addition, claim damages from CBIA.

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

As a result of investigations by the US Department of Justice (DOJ) and the Korea Fair Trade Commission (KFTC) in connection with the suspected involvement in violations of US and South Korean antitrust law in the instrument cluster business, which came to light in 2012, the KFTC imposed a fine on Continental Automotive Electronics LLC, Bugang-myeon, South Korea (CAE), at the end of 2013, the final amount of which was set in 2018 at KRW 32,101 million (around €24 million). In the USA, CAE and Continental Automotive Korea Ltd., Seongnam-si, South Korea, agreed to pay a fine of US $4.0 million (approximately €3.3 million) in 2015. In the proceedings relating to class action lawsuits filed in the USA and Canada for alleged damages resulting from the antitrust violations, settlements totaling US $5.0 million (around €4.1 million) were concluded in the USA in 2018 and Can $0.6 million (around €0.4 million) in Canada in 2020. 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.

As a result of investigations that came to light in 2014, the European 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; on February 21, 2018, 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.

The public prosecutor's office in Hanover searched locations of Continental AG and certain subsidiaries as part of investigations in connection with the use of illegal defeat devices in VW diesel engines. Continental is cooperating fully with the Hanover public prosecutor's office. There is a risk that fines will be imposed on these companies as a result of the allegations. The amount of such fines is unknown from the current perspective, but could be significant. Also in view of the full cooperation of Continental, no further disclosures can be made with regard to the ongoing investigations, so as not to adversely affect the company's interests.

37. Contingent Liabilities and Other Financial Obligations

€ millions	**December 31, 2020**	December 31, 2019
Liabilities on guarantees	19.2	20.3
Liabilities on warranties	53.6	24.7
Risks from taxation and customs	39.9	14.6
Other financial obligations	16.1	17.7
Other contingent liabilities	5.2	10.0
Contingent liabilities and other financial obligations	**134.0**	**87.3**

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 Continental Group.

The Continental Group 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 Group is legally liable.

Open purchase commitments for property, plant and equipment amounted to €569.9 million (PY: €781.9 million).

38. Earnings per Share

Basic earnings per share rose in 2020 to -€4.81 (PY: -€6.13), 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	**2020**	2019
Net income attributable to the shareholders of the parent	-961.9	-1,225.0
Weighted average number of shares issued	200.0	200.0
Basic earnings per share in €	**-4.81**	**-6.13**

39. Events After the End of the Reporting Period

There were no significant events after December 31, 2020.

40. Auditor's Fees

For fiscal 2020, a global fee of €14.6 million (PY: €13.4 million) was agreed for the audit of the consolidated financial statements and the separate financial statements of the subsidiaries.

The following fees were recognized in corporate expenses for the auditor elected by the Annual Shareholders' Meeting.

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

€ millions	**2020**	2019
Audit of financial statements	6.5	5.9
Other assurance services	2.8	5.4
Tax advisory services	0.3	0.2
Other services provided to the parent company or its subsidiaries	0.0	0.0
Total	**9.6**	**11.5**

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.

41. Transactions with Related Parties

Remuneration of the Executive Board and the Supervisory Board
The remuneration of the Continental Group'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	**2020**	2019
Short-term benefits	8,723	8,757
Service cost relating to post-employment benefits	7,593	6,227
Termination benefits	516	977
Share-based payment	6,171	-5,700
Total	**23,003**	**10,261**

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 Group.

The total remuneration granted to the Executive Board of Continental AG in 2020 amounted to €15.8 million (PY: €16.9 million). That total remuneration also includes, in addition to short-term benefits of €8.7 million (PY: €8.8 million), a newly granted long-term incentive plan totaling €6.6 million (PY: €7.1 million) and the equity deferral of the performance bonus of €0.5 million. In 2020, in accordance with the old remuneration system, the long-term component of the variable remuneration from 2019 (amounting to €1.0 million) was converted into 11,789 virtual shares of the company.

Moreover, former members of the Executive Board and their surviving dependents received payments totaling €7.1 million (PY: €7.5 million). Provisions for pension obligations for former members of the Executive Board and their surviving dependents amounted to €170.4 million (PY: €147.5 million). Remuneration paid to the members of Continental AG's Supervisory Board, including meeting fees, totaled €4.8 million in the past fiscal year (PY: €3.7 million).

As in 2019, no advances or loans were granted to members of Continental AG's Executive Board or Supervisory Board in 2020.

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

	Income		Expenses		Accounts receivable		Accounts payable	
€ millions	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Non-consolidated companies								
Ordinary business activities	18.7	16.9	4.8	5.9	5.8	6.0	2.7	3.2
Others	0.7	0.5	0.0	0.0	5.1	5.8	2.1	0.6
Equity-accounted investees								
Ordinary business activities	163.8	351.2	65.0	93.8	107.4	116.0	211.9	154.6
Financing	5.0	2.6	0.3	108.5	48.5	51.6	108.3	171.4
Others	0.0	0.0	45.0	0.0	0.1	0.1	–	0.0
Schaeffler Group								
Ordinary business activities	90.7	94.3	90.6	104.9	19.5	23.0	20.1	22.5
Others	–	0.0	–	0.0	–	0.0	–	0.0
Other related parties								
Ordinary business activities	–	–	0.0	0.0	–	–	–	–
Total	**278.9**	**465.5**	**205.7**	**313.1**	**186.4**	**202.5**	**345.1**	**352.3**

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 other transactions with related companies are primarily the result of the creation of a provision for capital commitments to an associate in the amount of €45.0 million.

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, USA, 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).

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Harris Associates Investment Trust, Boston, Massachusetts, USA, notified us that its share of voting rights in Continental AG on October 23, 2020, amounted to 2.99%.

AVGP Limited, St Helier, Jersey, notified us that its share of voting rights in Continental AG on December 1, 2020, amounted to 2.93%.

- 2.93% of these voting rights (5,859,732 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, USA, on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- 46.00% of the voting rights in Continental AG are attributed to Mrs. Maria-Elisabeth Schaeffler-Thumann on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.
- 46.00% of the voting rights in Continental AG are attributed to Mr. Georg F. W. Schaeffler on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

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

In 2020 and until February 19, 2021, 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 46.00% 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 2020 and until February 19, 2021, 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.

42. List of Shareholdings of the Continental Group

Further information on equity investments can be found in the list of the Continental Group'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 Continental Group'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 & Services GmbH	Schwalbach am Taunus
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 Vibration Control GmbH	Hanover
ContiTech-Universe Verwaltungs-GmbH	Hanover
co-pace GmbH	Hanover
Eddelbüttel + Schneider GmbH	Hamburg
Elektrobit Automotive GmbH	Erlangen
Formpolster GmbH	Hanover

Company	Registered office
Hornschuch Group GmbH	Weißbach
Hornschuch-Markt GmbH	Weißbach
Hornschuch Stolzenau 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 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

43. 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 2020, and is available to our shareholders online at www.continental.com in the Company section under Corporate Governance.

44. Report on Subsequent Events

As at February 19, 2021, 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, 2020.