Management Report

The following management report is a combined management report as defined in Section 315 (5) of the German Commercial Code *(Handelsgesetzbuch – HGB)*, as the future opportunities and risks of the Continental Corporation and of the parent company, Continental AG, are inextricably linked.

Glossary of Financial Terms

› The following glossary of financial terms applies to the management report and the consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IASB. International Accounting Standards Board. Independent standardization committee.

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

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

IFRS IC. International Financial Reporting Standards Interpretations Committee.

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

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

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

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

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

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

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

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

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

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

Working capital. Inventories plus trade accounts receivable less trade accounts payable. Sales of trade accounts receivable are not included.

Corporate Profile
Structure of the Corporation

New corporate structure to ensure long-term viability and strengthen competitiveness.

Continental has had a new organizational structure since January 1, 2020. The new structure will enable us to respond even more flexibly to the requirements of various customers, markets, government agencies and companies, and make faster and more efficient use of our opportunities.

Since October 1, 2019, the legally independent Powertrain business area (until December 31, 2019: primarily the Powertrain division) has been operating under the name Vitesco Technologies. This has no effect on the financial reporting of the Powertrain business area within the Continental Corporation. Subject to the approval of the Annual Shareholders' Meeting on April 30, 2020, Vitesco Technologies will be spun off in the course of 2020.

New organizational structure

Continental has been divided into the group sectors Automotive Technologies, Rubber Technologies and Powertrain Technologies since January 1, 2020. These sectors comprise five business areas with 23 business units. A business area or business unit is classified according to technologies, product groups and services. The business areas and business units have overall responsibility for their business, including their results.

Business responsibility

Overall responsibility for managing the company is borne by the Executive Board of Continental Aktiengesellschaft (AG). Each business area is represented by one Executive Board member. An exception is the Powertrain business area, which has had its own management since January 1, 2019, following its transformation into an independent legal entity.

To ensure a unified business strategy in the Automotive Technologies group sector, the Automotive Board was established on April 1, 2019, with a member of the Executive Board as "spokesman." The new board is intended to speed up decision-making processes and generate synergies from the closer ties between the Autonomous Mobility and Safety business area and the Vehicle Networking and Information business area.

With the exception of Corporate Purchasing, the central functions of Continental AG are represented by the chairman of the Executive Board, the chief financial officer and the Executive Board member responsible for Human Relations. They take on the functions required to manage the corporation across business areas. These include, in particular, finance, controlling, compliance, law, IT, sustainability, quality and environment.

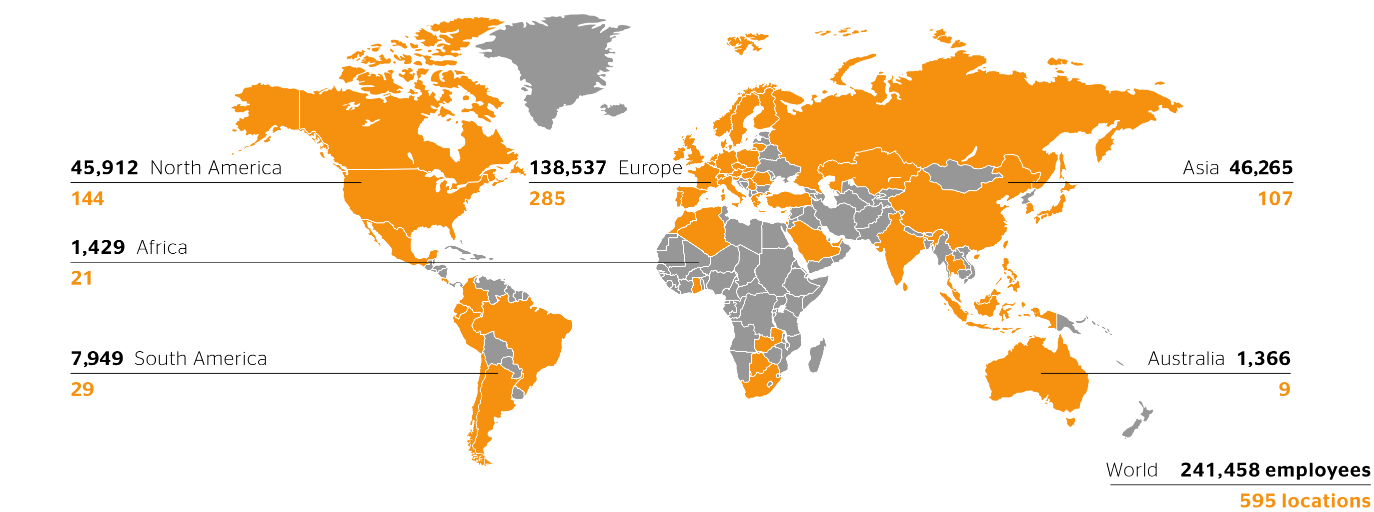
Companies and locations

Continental AG is the parent company of the Continental Corporation. In addition to Continental AG, the corporation comprises 581 companies, including non-controlled companies. The Continental team is made up of 241,458 employees at a total of 595 locations in 59 countries and markets. The postal addresses of companies under our control are defined as locations.

Customer structure

With a 71% share of consolidated sales, the automotive manufacturing business is our largest customer group. The importance of this industry is accordingly high for the growth of the Automotive Technologies and Powertrain Technologies group sectors. In the Tires business area of the Rubber Technologies group sector, sales to end customers represent the largest share of the tire business. In the ContiTech business area, other key industries in addition to the automotive industry are important customers as well, such as railway engineering, machine and plant construction, mining and the replacement business.

595 locations in 59 countries and markets



Structure of the corporation in 2020

Continental Group

Automotive Technologies		Rubber Technologies		Powertrain Technologies
Autonomous Mobility and Safety	Vehicle Networking and Information	Tires	ContiTech	Powertrain

Automotive Technologies (since January 1, 2020):
The **Autonomous Mobility and Safety business area** (until December 31, 2019: primarily the Chassis & Safety division) integrates safety technologies and controls vehicle dynamics to make driving safer and easier. The goal here is to implement "Vision Zero," the vision of accident-free driving. The components and systems expertise of Autonomous Mobility and Safety are prerequisites for autonomous mobility. The business area is divided into four business units:

- Advanced Driver Assistance Systems
- Hydraulic Brake Systems
- Passive Safety and Sensorics
- Vehicle Dynamics

The **Vehicle Networking and Information business area** (until December 31, 2019: primarily the Interior division) develops components and end-to-end systems for connected mobility – hardware, software and services – across the strategic pillars of networking, information and integration. With solutions for networking, human-machine interaction, system integration and high-performance computing for passenger cars, light commercial vehicles and fleets, Vehicle Networking and Information ensures functioning networks and smooth information flows for connected mobility. The business area is divided into three business units:

- Commercial Vehicles and Services
- Connected Car Networking
- Human Machine Interface

Rubber Technologies
(until December 31, 2019: the Rubber Group):
The **Tires business area** (until December 31, 2019: the Tire division) offers the right tires for a broad range of applications – from cars, trucks, buses and specialist vehicles to bicycles and motorcycles. 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 ecologically efficient mobility. In the reporting year, 26% of sales related to business with vehicle manufacturers, and 74% related to the replacement business. The business area is divided into six business units:

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

The **ContiTech business area** (until December 31, 2019: the ContiTech division) develops, manufactures and markets products, systems and intelligent components made of rubber, plastic, metal and fabric. They are used in mining, agriculture, railway engineering, machine and plant construction, the automotive industry and other important sectors of the future. In the reporting year, 50% of sales related to business with vehicle manufacturers, and 50% related to business with other industries and in the replacement market. The business area is divided into seven business units:

Structure of the corporation in 2019

Continental Corporation
Sales: €44.5 billion; Employees: 241,458

Automotive Group Sales: €26.5 billion; Employees: 138,295			Rubber Group Sales: €18.0 billion; Employees: 102,685	
Chassis & Safety Sales: €9.4 billion Employees: 48,434	Powertrain Sales: €7.8 billion Employees: 41,744	Interior Sales: €9.6 billion Employees: 48,117	Tires Sales: €11.7 billion Employees: 56,884	ContiTech Sales: €6.4 billion Employees: 45,801

- Air Spring Systems
- Conveying Solutions (until January 9, 2020: the Conveyor Belt Group)
- Industrial Fluid Solutions
- Mobile Fluid Systems
- Power Transmission Group
- Surface Solutions
- Vibration Control

Powertrain Technologies (since January 1, 2020):
The **Powertrain business area** (until December 31, 2019: the Powertrain division) offers efficient and clean vehicle drive systems. It focuses on intelligent systems and components for the electrification of vehicles, as well as on electronic control units, sensors, actuators and exhaust-gas aftertreatment solutions. The business area is divided into three business units:

- Electronic Controls
- Electrification Technology
- Sensing and Actuation

Interconnected value creation

Research and development (R&D) took place at 88 locations in the reporting year, predominantly in close proximity to our customers to ensure that we can respond flexibly to their various requirements and to regional market conditions. This applies particularly to projects of the Automotive Group and the ContiTech division. The product requirements governing tires are largely similar all around the world. They are adapted according to the specific requirements of each market. In this respect, R&D has a largely centralized structure in the Tires business area. Continental invests between 7% and 8% of sales in R&D each year. For more information, see the Research and Development section.

Continental processes a wide range of raw materials and semi-finished products. The purchasing volume in the reporting year was €29.9 billion in total, €20.1 billion of which was for production materials. The Automotive Group uses primarily steel, aluminum, precious metals, copper and plastics. Key areas when it comes to purchasing materials and semi-finished products include electronics and electromechanical components, which together make up about 43% of the corporation’s purchasing volume of production materials. Furthermore, mechanical components account for nearly a quarter of production materials. Natural rubber and oil-based chemicals such as synthetic rubber and carbon black are key raw materials for the Rubber Group. The total purchasing volume for these materials amounts to around a sixth of the total volume for production materials. For more information, see the Development of Raw Materials Markets section in the economic report.

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

Globally interconnected value creation

R&D	Purchasing	Production	Sales & Distribution
Innovative €3.4 billion in expenditure	**Diverse** €29.9 billion in volumes	**Global** 249 locations	**Local** €44.5 billion in sales

Corporate Strategy

Reorganization for strategic flexibility and long-term success.

Continental has had a new organizational structure since January 1, 2020, in order to actively shape the mobility of the future. This reorganization was in response to the accelerated change in powertrain technology, the growing demand for digital solutions and the increasingly digitalized working environment. For more information, see the Structure of the Corporation section.

Spin-off of the Powertrain business area
We are preparing to fully spin off the Powertrain business area with subsequent listing. This initiative will be voted on at the Annual Shareholders' Meeting on April 30, 2020. The reason for the transformation into an independent legal entity and spin-off is the change in the powertrain business, the development of which is determined chiefly by regulatory emission limit requirements, which vary in the markets that are important to us. Rapid adaptability is therefore essential in order to succeed in this business. Another reason is the increased focus on electric mobility. Considerable investments have already been made here and will continue to be necessary in the future. Furthermore, a legally independent business will be in an even better position to actively support the expected long-term consolidation process.

Transformation 2019–2029 structural program aims to strengthen the company's competitiveness over the long term
We launched the Transformation 2019–2029 structural program in response to declining global automotive production and the growing customer demand for digital solutions. The program also takes into account multiple parallel developments: an increasingly digitalized working environment, the emerging crisis in the automotive industry and the accelerated change in powertrain technology as a result of more stringent emissions legislation.

The program has two main aims: to increase efficiency and productivity through adjustments to the organization and portfolio, and to place a greater focus on key growth areas of the future. As such, we are planning to reduce gross costs by about €500 million annually from 2023. We expect the program to cost around €1.1 billion over its 10-year term. These costs will mostly be incurred between 2019 and 2022. We do not rule out additional projects if the current program does not achieve the desired impact.

Seven strategic dimensions for enhancing the value of the corporation on a sustainable basis
Our seven strategic dimensions have not changed. They complement each other and are geared toward sustainably creating value for all stakeholders.

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

For us, enhancing the value of the corporation on a long-term basis means sustainable success while taking into consideration the cost of capital. Our long-term target is at least 20% ROCE. After 17.0% in 2018, we achieved -1.0% in 2019. The negative effect in EBIT caused by special effects of €3.31 billion (mainly as a result of impairment and restructuring expenses), contributed to this result.

2. Regional sales balance – globally balanced distribution of sales

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

In 2019, our share of sales in Asia was 22%, and in North and South America it totaled 29%.

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

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

In terms of sales in their respective markets, the business areas in Automotive Technologies as well as ContiTech are among the leading providers with the majority of their products. In the tire business, we are number four in the world. Furthermore, we hold top positions in individual segments and markets in this area.

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

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

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

We have production locations in 38 of the 59 countries and markets in which we are represented. In the reporting year, we expanded our production through acquisitions and the construction of new manufacturing facilities. This included opening our new tire plants for passenger tires in Thailand and for truck and bus tires in the U.S.A., increasing manufacturing capacity for agricultural tires in Portugal, laying the foundations for a motorcycle tire factory in Thailand, and beginning the expansion of drive-belt production for the agricultural industry in Germany. In total, the number of our production sites increased in the reporting year from 233 to 249.

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

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

We aim to reduce our dependence on the automotive industry by creating a balanced customer portfolio. To that end, we want to increase our business at an above-average rate in industries outside of the automotive industry, while at the same time achieving further growth with carmakers. In the medium to long term, we want to lift the share of sales with end users and industrial customers outside of the automotive original equipment sector toward a figure of 40%. This will be based on our Tires and ContiTech business areas.

Our activities relating to software products for the end-user market and industries outside the automotive industry will have an increasing effect on our customer portfolio. Examples include advanced traffic management, digital tire monitoring, intelligent solutions for the agricultural sector and for conveyor belts, as well as new technologies that go beyond the vehicle.

The share of sales with end users and industrial customers outside of the automotive original equipment sector remained stable at 29% in 2019.

6. Technological balance – combination of established and pioneering technologies

Our product portfolio should consist of a profitable and viable mix of established and pioneering technologies. We set and follow new trends and standards in high-growth markets and market segments. In established core markets, we continuously enhance our position as one of the leading product and system suppliers. We manage and structure our product and technology portfolio with the goal of being represented and competitive in all phases of the respective product life cycles. At the same time, we systematically promote product innovations and technologies. If an attractive opportunity arises, we purchase future-oriented technological expertise or enter into partnerships with other companies.

7. Great people culture – a culture of inspiration

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

Around 57,000 employees in 52 countries took part in the survey in the reporting year. It revealed, for example, that agreement with our four company values remains high at 86%. The results also showed that clarity about the company's strategic focus and trust in the decisions taken by top management have declined (by three and two percentage points respectively). In addition, clear differences exist between the individual business areas. Modest improvements of two percentage points were recorded in the areas of stress management and work-life balance. Our employees' feedback reflects our strengths and simultaneously highlights the areas we must address in order to continuously enhance our organization and our culture.

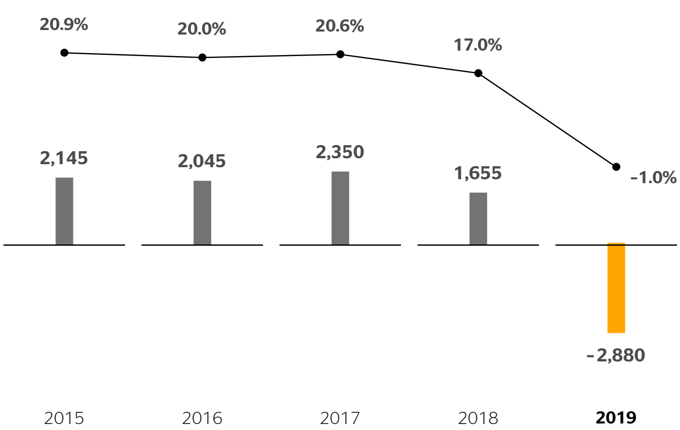
Corporate Management

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

Value management

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

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



EBIT is calculated from the ongoing sales process. The figure is the net total of sales, other income and expenses plus income from equity-accounted investees and from investments but before financial result and income tax expense. In the year under review, consolidated EBIT amounted to -€0.3 billion.

Capital employed is the funds used by the company to generate its sales. At Continental, this figure is calculated as the average of operating assets as at the end of the quarterly reporting periods. In 2019, average operating assets amounted to €26.2 billion.

The return on capital employed (ROCE) represents the ratio of these two calculated values. Comparing a figure from the statement of income (EBIT) with one from the statement of financial position (capital employed) produces an integral analysis. We deal with the problem of the different periods of analysis by calculating the capital employed as an average figure over the ends of quarterly reporting periods. ROCE amounted to -1.0% in 2019.

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

Value is added only if ROCE exceeds the weighted average cost of capital (WACC). We call this value added, produced by subtracting WACC from ROCE multiplied by average operating assets, the Continental Value Contribution (CVC). In 2019, the CVC amounted to -€2,879.6 million.

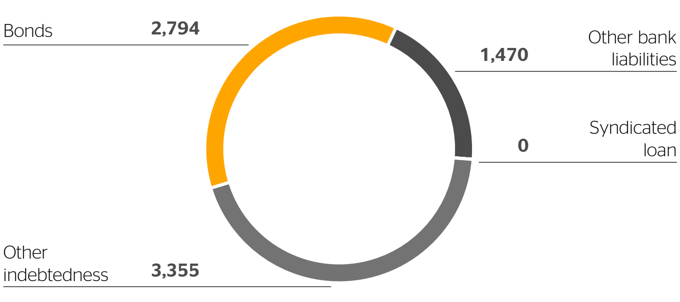
ROCE by division (in %)	2019	2018
Chassis & Safety	-2.3	16.0
Powertrain	-16.9	3.3
Interior	-23.0	17.6
Tires	21.2	29.1
ContiTech	8.7	12.6
Continental Corporation	**-1.0**	**17.0**

Financing strategy

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

The corporate function Finance & Treasury provides the necessary financial framework to finance corporate growth and secure the long-term existence of the company. The company's annual investment requirements are likely to be between 7% and 8% of sales in the coming years.

Composition of gross indebtedness (€7,619 million)



Our goal is to finance ongoing investment requirements from the operating cash flow. Other investment projects, for example acquisitions, should be financed from a balanced mix of equity and debt depending on the ratio of net indebtedness to equity (gearing ratio) and the liquidity situation to achieve constant improvement in the respective capital market environment. In general, the gearing ratio should be below 20% in the coming years and not exceed 60% in general. If justified by extraordinary financing grounds or specific market circumstances, we can rise above this maximum level under certain conditions. The equity ratio should exceed 35%. In the reporting year, it was 37.3% and the gearing ratio 25.6%.

Our gross indebtedness should be a balanced mix of liabilities to banks and other sources of financing on the capital market. For short-term financing in particular, we use a wide range of financing instruments. As at the end of 2019, this mix consisted of bonds (37%), syndicated loan (0%), other bank liabilities (19%) and other indebtedness (44%) based on the gross indebtedness of €7,619.0 million. The committed volume of the syndicated loan, which consists of a revolving tranche, now amounts to €4.0 billion since its renewal in December 2019. It previously amounted to €3.0 billion. The new syndicated loan will run until December 2024, and the interest-rate margin will now also depend on the corporation's sustainability performance. In accordance with the new standard IFRS 16, *Leases*, the application of which has been mandatory since January 1, 2019, all leases must be recognized in the statement of financial position. As a result, lease liabilities included in other indebtedness increased significantly to €1.7 billion as at December 31, 2019. The financing mix is not likely to change significantly.

The company strives to have at its disposal unrestricted liquidity of about €1.5 billion. This is supplemented by committed, unutilized credit lines from banks in order to cover liquidity requirements at all times. These requirements fluctuate during a calendar year owing in particular to the seasonal nature of some business areas. In addition, the amount of liquidity required is also influenced by corporate growth. Unrestricted cash and cash equivalents amounted to €3,114.3 million as at December 31, 2019. There were also committed and unutilized credit lines of €4,702.2 million.

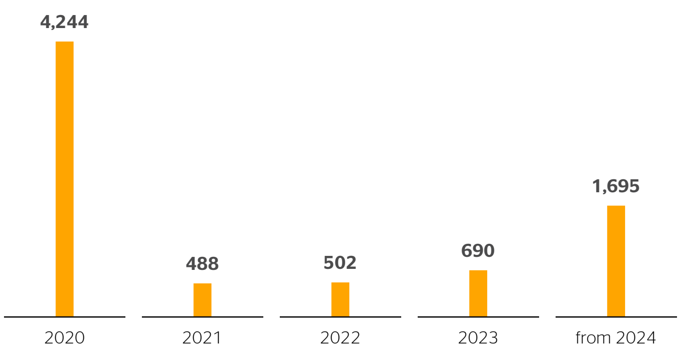
Gross indebtedness amounted to €7,619.0 million as at December 31, 2019. Key financing instruments are the syndicated loan with a revolving credit line of €4.0 billion that has been granted until December 2024 and bonds issued on the capital market.

As at December 31, 2019, this revolving credit line had not been utilized. Around 37% of gross indebtedness is financed on the capital market in the form of bonds. The interest coupons vary between 0.0% and 3.9%. The issue of new bonds in the third and fourth quarters of 2019 with maturities between 2021 and 2025 led to a balanced overall maturity profile of the repayment amounts. In addition to the forms of financing already mentioned, there were also bilateral credit lines with various banks in the amount of €2,210.2 million as at December 31, 2019. Continental's corporate financing instruments currently also include sale-of-receivables programs and commercial paper programs. In 2019, the Continental Corporation had two commercial paper programs in Germany and the U.S.A.

Maturity profile

Continental always strives for a balanced maturity profile of its liabilities in order to be able to repay the amounts due each year from free cash flow as far as possible. Other than short-term maturities, which are usually rolled on to the next year, the repayment of the €600.0-million and €750.0-million bonds maturing in February and September 2020 is also particularly high on the agenda for 2020. The bonds issued in the third and fourth quarters of 2019 require repayments of €200.0 million in 2021, €500.0 million in 2023, €100.0 million in 2024 and €600.0 million in 2025.

Maturities of gross indebtedness (€7,619 million)



Continental's credit rating unchanged
In the reporting period, Continental AG was rated by the three rating agencies Standard & Poor's, Fitch and Moody's, each of which maintained their credit ratings during 2019. In August 2019, Moody's modified its outlook from stable to negative. Our goal remains a credit rating of BBB/BBB+.

Credit rating for Continental AG

	December 31, 2019	December 31, 2018
Standard & Poor's[1]		
Long-term	BBB+	BBB+
Short-term	A-2	A-2
Outlook	stabile	stabile
Fitch[2]		
Long-term	BBB+	BBB+
Short-term	F2	F2
Outlook	stabile	stabile
Moody's[3]		
Long-term	Baa1	Baa1
Short-term	no rating	no rating
Outlook	negative	stabile

1 Contracted rating since May 19, 2000.
2 Contracted rating since November 7, 2013.
3 Contracted rating since January 1, 2019.

Research and Development

Automating, digitalizing, connecting: for safe, sustainable, convenient and comfortable mobility.

As part of our new organizational structure, the Holistic Engineering and Technologies – or he[a]t – area was set up for research and development within **Automotive Technologies** in January 2020. The unit is responsible for central development activities in the Autonomous Mobility and Safety (AMS) and Vehicle Networking and Information (VNI) business areas. he[a]t will focus on future-oriented topics such as artificial intelligence, central architectures, software and high-performance computer (HPC) platforms, and will ensure global engineering as part of a network. Basic standards will be defined, coordinated and developed centrally so that they can be adapted to customers' needs efficiently and as quickly as possible on a decentralized basis. he[a]t will strengthen our cross-organizational collaboration, shorten innovation cycles and further enhance the flexibility of our innovation processes. In the **Rubber Technologies** group sector, the organization of R&D will remain varied, with a mostly centralized structure in the Tires business area due to the high similarity of tire requirements worldwide and a largely decentralized structure in the ContiTech business area by virtue of the different product segments. In the **Powertrain Technologies** group sector, R&D is consolidated into the Technology and Innovation central function.

Communication in real time

Connected vehicles serve as a basis for real-time traffic reports, road hazard information and future driver assistance features due to their ability to communicate with other vehicles or infrastructure directly. In this way, they ensure greater driving safety and efficiency as well as reduced fuel consumption.

One of Continental's focal points for development in the year under review was the flexible 5G hybrid platform for V2X communication. V2X (vehicle to everything) describes the communication between a vehicle and, for example, other vehicles, traffic infrastructure, people and networks. What makes the platform special is that it facilitates both communication over mobile networks and fast and reliable direct data exchange.

Unlike with communication over mobile networks, the technology used to establish direct V2X communication differs worldwide. With Continental's new hybrid V2X solution, the same hardware and software platform can be used to support either communication standard, reducing not only costs but also complexity for the global application of V2X communication. This enables vehicle manufacturers to overcome the challenges involved when deploying V2X on a global scale.

To test driverless mobility, we are transforming ordinary traffic intersections into highly intelligent test fields equipped with smart sensor technology. Traffic lights and streetlights fitted with sensors exchange data with vehicles in the vicinity to protect pedestrians and cyclists in particular. This technology can, for instance, warn a driver of obscured pedestrians or cyclists when turning. Traffic data from streetlights can also help to reduce emissions, with signal changes at traffic lights being controlled in such a way as to optimize traffic flow and minimize stationary time at intersections.

Server replaces control units

In the future, high-performance servers will take on the processing power of up to 100 of the control units seen in current cars. The high-performance computer (HPC) that we developed enables a high degree of vehicle connectivity and can be used, for example, to install new functions as well as safety updates in the vehicle via a wireless connection. Vehicles will thus be kept up to date more easily and more quickly than they are today. The HPC is to go into production in Volkswagen's ID. electric models.

Human-machine interaction

With the development platform CUbE (Continental Urban Mobility Experience), we are researching and testing the driverless transportation of people and goods and the enhanced interconnectivity of all road users. CUbE is equipped with a number of Continental products and systems, including sensors, brakes, electronic control units, driver assistance systems, surface materials and tires. Our

	2019		2018	
Research and development expenses (net)	€ millions	% of sales	€ millions	% of sales
Chassis & Safety	1,048.7	11.2	1,023.2	10.7
Powertrain	664.1	8.5	672.6	8.7
Interior	1,189.2	12.4	1,064.7	11.0
Tires	299.4	2.6	299.4	2.6
ContiTech	162.8	2.5	149.1	2.3
Continental Corporation	**3,364.2**	**7.6**	**3,209.0**	**7.2**
Capitalization of research and development expenses	**232.4**		**158.0**	
in % of research and development expenses	6.5		4.7	
Depreciation on research and development expenses	**120.4**		**90.0**	

autonomous driving technologies used in CUbE are already being deployed in the U.S.A., Japan, China, Singapore and Germany, with a number of pilot projects being carried out on predetermined public routes, university and exhibition grounds, as well as at our locations. Autonomous shuttle buses and driverless taxis will be a key addition to public transport in the future.

Digital tire management

In-tire sensors deliver information that helps ensure greater safety and fuel efficiency. Conti C.A.R.E. (Connected. Autonomous. Reliable. Electrified.) is the name of our solution that combines wheel and tire technology. Conti C.A.R.E. tires feature sensors that are built into the structure of the tire. The sensors generate and continuously evaluate data on tread depth, possible damage, tire temperature and tire pressure. The data is transmitted to ContiConnect, our online digital platform for passenger cars and commercial vehicles, and then analyzed. If the data deviates from the norm, the fleet manager is automatically informed by e-mail or SMS. Conti C.A.R.E. helps reduce CO_2 emissions, improve tire life and prevent breakdowns. The application is continuously being developed to make driving even safer, easier and more economical. ContiConnect has been awarded the 2020 European Transport Prize for Sustainability *(Europäische Transportpreis für Nachhaltigkeit 2020)* by German magazine Transport.

High performance despite low voltage

Up to now, a full-hybrid vehicle with 48-volt technology was thought to be impossible. For a hybrid vehicle to drive using just electricity, the electric part of the drive system normally requires voltages of up to 800 volts. Now, however, we have developed a 48-volt hybrid system that boasts features similar to those of a high-voltage electric drive system, namely 48-volt high-power technology. The key component here is a new, highly efficient water-cooled electric motor, the peak output of which has been doubled to 30 kW in comparison with that used previously. All-electric driving is therefore possible at speeds of up to 80 to 90 km/h.

The new system, comprising an electric motor complete with integrated power electronics and a battery, reduces fuel consumption and thereby also CO_2 emissions by around 20% compared with similar vehicles fitted with combustion engines. At the same time, the new 48-volt technology is also considerably cheaper than the high-voltage systems used up to now.

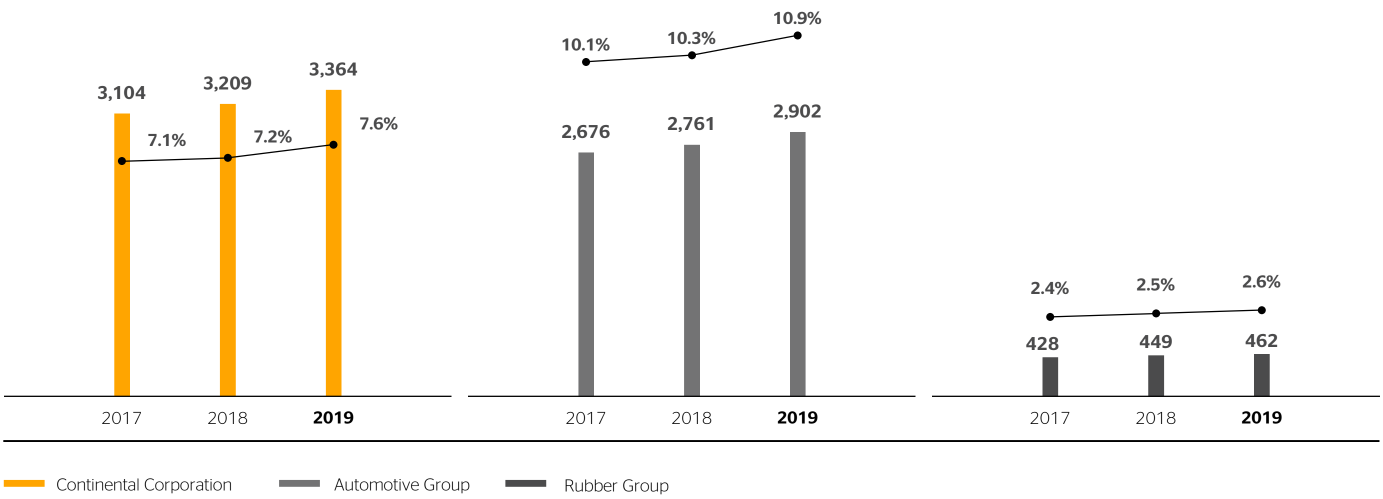
Center for functional printing technologies

At the Freiburg location, we are setting up a technical center in order to develop and bring to market functional printing such as printed electronics together with collaboration partners from science and industry. The opportunities for cost-efficient, fast and sustainable production of intelligent surfaces are wide-ranging and serve as a basis for Industry 4.0. Printed electronics include electronic applications manufactured through printing processes. Instead of common printing inks, this process prints electrically conductive inks on surfaces, and these then act as conducting paths and components. Today, this method is already used to manufacture sensors and solar cells, for example. The result is further business potential in the packaging industry. Functional and personalized packaging will be a key element used to support sales in the future.

Eco-friendly adhesion system for textile reinforcing materials

Continental and Kordsa have developed COKOON™, an eco-friendly adhesive system for bonding textile reinforcing materials with rubber compounds, which are used, for example, in the tire industry as well as in the production of mechanical rubber goods such as hoses and conveyor belts. The new technology enables the bonding activation of textile reinforcing materials without the use of resorcinol and formaldehyde, two chemicals that are classified as harmful to health. The first production tires using this technology are already on the market. The two partners aim to establish COKOON™ as a new standard for adhesive systems, thus replacing those currently in use. For this purpose, an open-source licensing solution has been developed and made available to interested companies for examination. Continental and Kordsa waive any claims to developer or licensing fees. In return, participating companies undertake to make their patents available to other partners free of charge for the further development of the technology.

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



Sustainability and Combined Corporate Non-Financial Statement

Information on Reporting

The following section constitutes the combined corporate non-financial statement in accordance with Sections 289 (3) and 315 (3) of the German Commercial Code *(Handelsgesetzbuch – HGB)* for the Continental Corporation and Continental AG for fiscal 2019.

The *HGB* was used as a framework for the preparation of the combined corporate non-financial statement. The combined corporate non-financial statement therefore includes the main disclosures that are required in accordance with Sections 315b and 315c in conjunction with Sections 289b to 289e *HGB* in order to understand the business development, business performance and position of the company, and the effects of business operations on non-financial matters. The non-financial matters include environmental matters, employee matters, social matters, respect for human rights, and combating corruption and bribery. According to an internal analysis, Continental's combined corporate non-financial statement therefore covers the material topics listed in the following table.

	Material topics of sustainability reporting[1]
Strategic sustainability focus areas	› Clean mobility › Climate protection › Circular economy › Sustainable supply chains
Other sustainability topics	› Green and safe factories › Good working conditions › Product quality › Corporate governance › Innovation and digitalization[2] › Safe mobility[2] › Sustainable profits[2] › Corporate citizenship[2]

1 Unlike in previous years, we no longer report on the topic of human rights separately, but rather consider it from a holistic viewpoint in line with our internal management approach. It is incorporated into the following topics in the corporate non-financial statement: sustainable supply chains (as part of the requirements for our suppliers), green and safe factories (with regard to occupational safety) and good working conditions (with regard to fair treatment of our employees).

2 This topic was identified as being relevant to the sustainable development of the business, but according to an internal analysis was not classified as being relevant to reporting for the combined corporate non-financial statement. It is therefore not part of the combined corporate non-financial statement.

Information on the business model can be found in the Structure of the Corporation and Corporate Strategy sections on pages 38 and 39 and pages 41 and 42, respectively.

Risk reporting is presented in the report on risks and opportunities starting on page 90. Beyond this, no additional non-financial risks were identified in accordance with Sections 289 (3) and 315 (3) *HGB*.

The main medium of our sustainability reporting is the integrated sustainability report. This consolidates the information from the combined corporate non-financial statement, the management report, the consolidated financial statements and other sources, as well as further supplementary information, in a modular format.

The integrated sustainability report is available online at www.continental-sustainability.com (under Downloads).

Our Approach to Sustainability Management

For Continental, sustainability means having a positive impact on society and reducing the negative impact of business operations. Sustainability is an integral part of the corporate strategy at Continental and is based on the four company values of Trust, Passion To Win, Freedom To Act and For One Another.

The Sustainability group function overseen by the board member for Human Relations and Sustainability is responsible for sustainability management, including management of an interdepartmental committee. Sustainability organization is further supplemented by dedicated coordinators in the business areas. Some of the business areas also have their own interdepartmental sustainability committees.

In fiscal 2019, the Executive Board approved a sustainability strategy. The key topics were identified on the basis of a survey of stakeholder groups. The sustainability strategy incorporates the four strategic focus areas of clean mobility, climate protection, circular economy and sustainable supply chains, for which the respective challenges have been defined. The corresponding concepts, goals and key performance indicators are being developed successively. A sustainability scorecard covers not only the four strategic focus areas but also all other sustainability topics, such as green and safe factories, good working conditions, product quality, corporate governance, innovation and digitalization, safe mobility, sustainable profits and corporate citizenship.

The sustainability scorecard represents the formal basis for integrating sustainability into other processes. Sustainability criteria were incorporated into the corporation's new revolving credit line at the end of 2019, for example, the result of this being that the amount of interest payments for use of the credit line is also linked to improved sustainability performance. Information about this can be found in the Corporate Management section under "Financing strategy" on pages 43 and 44.

The sustainability strategy is subject to regular review and is continuously developed. The entire corporate Executive Board is involved in this process.

Development of Strategic Sustainability Focus Areas

Clean mobility

Our concept

Zero-emission driving is vital to the current transformation in the mobility industry and is directly related to sustainability. At the same time, this transformation presents opportunities and risks for Continental. On the one hand, Continental develops and produces pioneering technological solutions that pave the way for zero-emission driving. These include, for example, electrified drive systems, lightweight design solutions, solutions for automated driving, new transport concepts and rolling-resistance-optimized tires, as well as bridging technologies in the form of solutions for clean gasoline and diesel vehicles. In doing so, we rely both on new product developments and on the further development of the existing product portfolio. On the other hand, the speed of the transformation poses enormous challenges, which we are actively addressing with various measures as part of the Transformation 2019–2029 structural program. For more information, see “Good working conditions” on page 51.

In fiscal 2019, Continental decided to pursue the spin-off of its powertrain business (renamed Vitesco Technologies) as a separate company, thus enabling it to operate more independently, flexibly and efficiently and shape the transition from combustion drives to electric mobility and the associated growth opportunities. More information on the corporate strategy and on research and development can be found in this annual report on pages 41 and 42 and pages 46 and 47, respectively.

As an indicator for our product range that contributes to clean mobility, we consider the percentage of products in consolidated sales that demonstrably contribute to energy efficiency or to the reduction of pollutant or carbon dioxide emissions.

Results of the concept

In fiscal 2019, products that demonstrably contribute to energy efficiency or to the reduction of pollutant or carbon dioxide emissions accounted for 42% (PY: around 40%) of consolidated sales, according to our own modeling.

Key figures for clean mobility	**2019**	2018
Percentage of products that demonstrably contribute to energy efficiency or to the reduction of pollutant or carbon dioxide emissions	42	~40[1]

1 In 2018, not reported as key figures but as indicative, rounded statement in the text.

For more information on clean mobility, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Climate protection

Our concept

Continental is fully committed to the Paris climate agreement. We have therefore set ourselves the target of becoming completely carbon-neutral in our operational processes and value chains by 2050. We see the achievement of this target as a key requirement for the corporation’s future viability.

In a first step, we will switch all externally sourced electricity in global production to renewable energy by the end of 2020, including through energy attribute certificates. The aim then is to also make all of Continental’s production processes carbon-neutral by 2040, as well as the entire value chain by 2050. The value chain covers in particular our supply chains, logistics and the use of our products. The most important levers for these targets are the use of renewable energies, the development of new technologies and increases in efficiency.

Results of the concept

In fiscal 2019, electricity from renewable energy sources accounted for around 5.3% of all electricity purchased. Our own CO_2 emissions (Scope 1 and 2 of the Greenhouse Gas (GHG) Protocol) decreased to 3.22 million metric tons (PY: 3.35 million metric tons). These include direct CO_2 emissions from fossil fuels (Scope 1 of the GHG Protocol) and indirect CO_2 emissions from the generation of purchased electricity, steam and heat (Scope 2 of the GHG Protocol). The reduction in 2019 was the result of a decline in energy consumption due mainly to the current economic situation. Reporting on indirect CO_2 emissions along the value chain (Scope 3 of the GHG Protocol), in particular for the use of own products and purchased materials and components, is included in the integrated sustainability report.

Key figures for climate protection[1]	**2019**	2018
Direct CO_2 emissions (Scope 1) in millions of metric tons of CO_2	0.84	0.88
Indirect CO_2 emissions (Scope 2) in millions of metric tons of CO_2[2]	2.38	2.47[3]
Total own CO_2 emissions (Scope 1 and 2) in millions of metric tons of CO_2	**3.22**	3.35[3]

1 Based on the reporting on the environmental data collection system that includes the relevant production and research and development locations (not including fleet consumption). Definitions based on the standards of the Global Reporting Initiative (GRI) and in accordance with the Greenhouse Gas (GHG) Protocol.
2 Scope 2 emissions are calculated on the basis of reported energy use using the location-based method of the GHG Protocol and largely by applying emission factors from Defra (January 2019) and IEA (May 2018).
3 Figure for 2018 was recalculated due to an adjustment in the application of the location-based method of the GHG Protocol.

For more information on climate protection, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Circular economy

Our concept

At Continental, there are a number of different initiatives and projects for implementing a circular economy that are managed at various levels within the corporation. They implement a circular economy with varying degrees of circularity for the demand and use of materials. Examples include the use of recycled materials, the retreading of tires, the reduced use of plastics and operational waste management.

Thinking in terms of resource cycles represents a long-term transformation of resource management and requires environmental awareness and knowledge of interdependencies within the company on the part of employees. For this purpose, a corporate-wide awareness and participation campaign on resource conservation and waste prevention has been developed and will be rolled out in fiscal 2020.

We use the waste recycling rate as an indicator for the circular economy at Continental. It measures the proportion of waste that has been recycled or thermally recovered by external service providers. We have set ourselves the target of increasing the waste recycling rate to 95% by 2030.

Results of the concept

The waste recycling rate in fiscal 2019 rose to 80% (PY: 78%).

Key figures for circular economy[1]	2019	2018
Waste recycling rate in %	80	78

1 Based on the reporting on the environmental data collection system that includes the relevant production and research and development locations. Definitions based on the standards of the Global Reporting Initiative (GRI).

For more information on the circular economy, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Sustainable supply chains

Our concept

In our Business Partner Code of Conduct, we define the fundamental sustainability requirements for our supply chains, including with regard to human rights, working conditions, environmental protection and anti-corruption.

Before even establishing a business relationship, we check potential new suppliers and service providers by means of self-assessment and sometimes on-site audits, which may also include sustainability topics (such as fire protection and occupational safety).

By signing the Business Partner Code of Conduct, suppliers and service providers are also expected to promote the implementation of the sustainability requirements mentioned therein in their own supply chains. Furthermore, we have drafted a special sourcing policy for the purchase of natural rubber to improve conditions in rubber cultivation, which we likewise hand over to the relevant suppliers and with which we require compliance.

We assess compliance with the sustainability requirements of the Business Partner Code of Conduct in particular with the help of self-assessment questionnaires via sustainability platforms EcoVadis and NQC, which represent a generally accepted standard for sustainability assessments of suppliers in our industries. In the event of violations of the Code of Conduct, Continental reserves the right to demand improvements or to terminate the business relationship. Violations can also be reported via the Compliance & Anti-Corruption Hotline, which is available around the clock and worldwide.

Sustainability in the supply chains is coordinated by the relevant purchasing organizations, which are established at Continental by business area and product group with teams in the various countries.

Results of the concept

As at December 31, 2019, valid self-assessment questionnaires from 670 suppliers (PY: more than 750) were available via the two sustainability platforms EcoVadis and NQC. This corresponds to a completion rate of 57% of suppliers selected for this process (PY: more than 60%).

Key figures for sustainable supply chains[1]	Dec. 31, 2019	Dec. 31, 2018
Number of available, valid supplier self-assessment questionnaires	670	>750

1 Based on the self-assessment questionnaires via EcoVadis and NQC.

For more information on sustainable supply chains, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Development of Other Sustainability Topics

Green and safe factories

Our concept

Our corporate policy for environment, safety and health protection (ESH) defines guidelines for green and safe factories. The Environment and Safety & Health group functions are responsible for the related management process, and are supplemented by corresponding ESH functions at various levels of the corporation. At the locations, local ESH managers coordinate operational environmental protection and occupational safety and health on site under the responsibility of location management.

Both the concrete organizational and technical guidelines for the locations are defined in the ESH management manuals.

All persons in our company are to be protected against accidents and work-related illnesses. New targets were defined in 2019 for operational environmental protection. In addition to reducing CO_2 emissions at our locations (see also "Climate protection" on page 49) and increasing the waste recycling rate (see also "Circular economy" on page 50), these include reducing energy use and increasing energy efficiency, as well as reducing water consumption and waste generation.

Local management systems are designed to support the implementation of environmental protection, energy efficiency and occupational safety on site.

Results of the concept

In 2019, the majority of our employees were covered by local management system certifications in the areas of environmental protection (according to ISO 14001 or similar standards), energy efficiency (according to ISO 50001 or similar standards) or occupational safety (according to ISO 45001 or similar standards).

The accident rate – i.e. the number of accidents per million working hours – improved to 3.03 accidents (PY: 3.41).

Key figures for green and safe factories	Dec. 31, 2019	Dec. 31, 2018
Environmental protection management system certifications (ISO 14001 or similar)		
Employees covered in %	82	>80[1]
Energy management system certifications (ISO 50001 or similar)		
Employees covered in %	49	~50[1]
Occupational safety management system certifications (ISO 45001 or similar)		
Employees covered in %	69	~67[1]
Number of accidents per million working hours[2, 3, 4]	3.03	3.41

1 In 2018, not reported as key figures but as indicative, rounded statement in the text.
2 Permanent staff only (own employees).
3 Counted from more than one lost day, i.e. with at least one lost day beyond the day of the accident.
4 Excluding Continental Tire Sales (approx. 2% of the total workforce).

For more information on green and safe factories, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Good working conditions

Our concept

Our vision is to become one of the most attractive and progressive employers in order to meet our future staffing requirements in terms of both quality and quantity.

Continental's Code of Conduct sets out the cornerstones for good working conditions as the basis of our global collaboration. It was expanded at the start of 2019 to include the topics of human rights and fair working conditions.

The strategic goals of HR work are focused on efficiently and effectively bringing together the right people and positions ("Industrialize Best Fit") and at the same time shaping the transition to digitalization, new technologies and new forms of collaboration ("Enable Transformation & Leadership"). Strategic workforce planning, talent selection and development (in particular in the areas of software and IT) on the basis of comprehensive diagnostics, the promotion of employee diversity and lifelong learning, the further development of the management culture and the flexibilization of working hours are therefore essential strategic HR activities. On the topic of human rights and fair working conditions, several pilot projects and training sessions have already taken place within the corporation.

Those responsible for the projects' implementation are the HR functions at the company and business area level, which work together in a global network.

Results of the concept

To evaluate employee satisfaction and therefore also our HR work, for example, we use the results of our employee survey OUR BASICS Live 2019. The "Sustainable engagement" category, which measures the level of motivation and sense of belonging among our corporation's employees, rose to 81% (PY: 80%), which was once again a very good result in spite of the economic situation.

The corporate-wide sickness absence rate was on a par with the previous year at 3.37% (PY: 3.27%). Unforced fluctuation, which measures the voluntary departure of employees from the Continental Corporation, amounted to 6.00% and was likewise similar to the previous year (PY: 6.25%).

According to a preliminary analysis, up to 20,000 jobs worldwide are expected to be affected by changes under the Transformation 2019–2029 structural program over the next 10 years. We are preparing the employees affected for the technological changes and associated professional and personal challenges that they will face through structured retraining measures that are conducive to employment. In addition, we will meet our social commitments based on our company values by offering employees – where necessary and feasible – prospects in other companies within the corporate network, including through an internal job market, within the scope of the general legal framework.

Information about personnel expenses in fiscal 2019, i.e. wages and salaries, social security contributions and pension and post-employment benefit costs, can be found in Note 9 of the notes to the consolidated financial statements on page 148. Employee benefits such as pensions, post-employment benefits and long-term bonus payments are broken down in Note 27 of the notes to the consolidated financial statements starting on page 168.

Key figures for good working conditions	**2019**	2018
OUR BASICS Live Sustainable Engagement in %	81	80
Sickness absence rate in %[1]	3.37	3.27
Unforced fluctuation in %[1]	6.00	6.25

1 Permanent staff only (own employees).

For more information on good working conditions, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Product quality

Our concept

We strive to be recognized by our customers as a benchmark in quality. Product recalls, product liability claims and proceedings as a result of quality defects must be avoided in order to prevent losses of sales and of customer and market acceptance. Warranty and product liability claims pose risks to the business. Detailed reporting in this respect is included in the report on risks and opportunities starting on page 90.

The decisive factor in becoming a benchmark in quality is a quality-oriented company culture. Our quality policy sets out guidelines for product and process quality at Continental. The Quality and Environment group function as well as the quality functions at various levels in the corporation, which work together in a global network, are responsible for the quality policy and its implementation.

The achievement of a quality-oriented company culture is supported by the establishment and certification of quality management systems in accordance with recognized standards such as ISO 9001 or IATF 16949 at our production locations.

Results of the concept

In 2019, the majority of our employees were covered by a local management system certification in the area of quality according to ISO 9001 or similar standards.

Information about the scope of warranty and product liability claims in fiscal 2019 can be found in Note 35 (Litigation and Compensation Claims) of the notes to the consolidated financial statements.

Key figures for product quality	**Dec. 31, 2019**	Dec. 31, 2018
Quality management system certifications (ISO 9001 or similar)		
Employees covered in %	86	-90[1]

1 In 2018, not reported as key figures but as indicative, rounded statement in the text.

For more information on product quality, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Corporate governance

Our concept

Good, responsible corporate governance geared toward sustainable, long-term value creation and in the interests of all stakeholder groups is the measure that governs the actions of the Executive Board and Supervisory Board of Continental AG. Further information on corporate governance can be found in the corporate governance report and in the corporate governance declaration pursuant to Section 161 *AktG* on pages 16 and 17 of this annual report.

Employee diversity, in particular with regard to internationality and a balanced gender ratio, is a key aspect of our corporate governance. We have set ourselves the target of increasing the proportion of women in management positions at the executive and senior executive level to 16% by 2020, and to 25% by 2025. Further information on our diversity strategy can be found on page 21 of this annual report.

To prevent corruption and antitrust violations in particular, the Executive Board has established the global compliance organization together with the Compliance group function and regional subfunctions. This structure is supplemented by compliance coordinators in the countries and at the locations. The fundamental principles of compliance management are set out in the central compliance handbook. Continental has a compliance management system, which is based on a comprehensive analysis of potential compliance risks for the core areas of antitrust law and corruption prevention. Further information on compliance can be found in the detailed compliance report on page 22 of this annual report.

Results of the concept

In 2019, Continental increased its proportion of women in management positions to 15.8% (PY: 14.8%).

The effectiveness of the compliance management system was confirmed in 2016 in accordance with the IDW PS 980 audit standard.

Key figures for corporate governance[1,2]	**Dec. 31, 2019**	Dec. 31, 2018
Proportion of women in management positions in %	15.8	14.8

1 Based on the employees recorded in the HR data system (approx. 97%).
2 Relates to executives and senior executives.

For more information on corporate governance, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Information on the development of other key sustainability topics

More information on innovation and digitalization, safe mobility and sustainable profits can be found in the Research and Development and the Corporate Management sections of this annual report, on pages 46 and 47 and pages 43 and 44, respectively.

For more information on these topics, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

For information on corporate citizenship, see the integrated sustainability report at www.continental-sustainability.com (under Downloads).

Reasonable Assurance Report of the Independent Auditor Regarding the Combined Corporate Non-financial Statement

To the Supervisory Board of Continental AG, Hanover

We have performed an independent reasonable assurance engagement on the combined corporate non-financial statement of Continental AG, Hanover, and the corporation (further "Continental"), in section "Sustainability and Combined Corporate Non-Financial Statement" as well as the by reference qualified parts "Structure of the Corporation", "Corporate Strategy" and "Report on Risks and Opportunities" of the combined management report (further: "Statement") according to §§ 315b and 315c in conjunction with 289b to 289e German Commercial Code *(HGB)* for the business year from January 1 to December 31, 2019.

Management's Responsibility
The legal representatives of Continental are responsible for the preparation of the Statement in accordance with §§ 315b and 315c in conjunction with 289b to 289e *HGB*.

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the Statement and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, this responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the Statement in a way that is free of – intended or unintended – material misstatements.

Independence and quality assurance on the part of the auditor
We are independent from the entity in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

Our audit firm applies the national statutory provisions and professional pronouncements for quality assurance, in particular the Professional Code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

Responsibilities of the auditor
Our responsibility is to express a conclusion on the Statement based on our work performed within our reasonable assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" published by the IAASB. This standard requires that we plan and perform the assurance engagement so as to obtain reasonable assurance that the Statement of the company for the period from January 1 to December 31, 2019, has been prepared, in all material respects, in accordance with Sections 315b and 315c in conjunction with Sections 289b to 289e *HGB*. We do not, however, provide a separate audit opinion for each disclosure. The choice of audit procedures is at the due discretion of the auditor.

Within the scope of our engagement, we performed assurance procedures and other activities such as:

- Inquiries of personnel on corporate level who are responsible for the materiality analysis, in order to gain an understanding of the processes for determining material sustainability topics and respective reporting boundaries
- A risk analysis, including a media search, to identify relevant information on sustainability performance in the reporting period.
- Evaluation of the design and implementation of systems and processes for determining, processing and monitoring disclosures relating to environmental, employee and social matters, respect for human rights, and combating corruption and bribery, including the consolidation of data.
- Inquiries of personnel at the corporation and division level who are responsible for determining disclosures on concepts, due diligence processes, results and risks as well as for conducting internal controls and consolidating disclosures
- Performing control-based assurance procedures to assess the design and effectiveness of internal controls used to collect and process non-financial disclosures and data, including the consolidation of data at the corporation and division level.
- Substantive assurance procedures, in particular using internal and external documentation in order to determine in detail whether the disclosures correspond to relevant underlying sources
- Analytical evaluation of data and trends of quantitative information, which are reported by all sites for consolidation at the corporate level
- Evaluation of local data collection, reporting processes and reliability of reported data on site level at sites Lousado in Portugal, Toulouse, Foix, and Boussens in France as well as Northeim and Hanover (Vahrenwald) in Germany
- Assessment of the overall presentation of the disclosures

Audit opinion
In our opinion the Statement of Continental for the business year from January 1 to December 31, 2019 is prepared, in all material respects, in accordance with §§ 315b and 315c in conjunction with 289b to 289e *HGB*.

Restriction of use/clause on general engagement terms
This report is issued for purposes of the Supervisory Board of Continental AG, Hanover, only. We assume no responsibility with regard to any third parties.

Our assignment for the Supervisory Board of Continental AG, Hanover and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this report, each recipient confirms notice of provisions of the General Engagement Terms (including the limitation of our liability for negligence to €4 million as stipulated in No. 9) and accepts the validity of the General Engagement Terms with respect to us.

Munich, March 3, 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft

Hell ppa. Mathias

Economic Report
General Conditions

Macroeconomic Development

Global economic growth noticeably slowed in fiscal 2019. In its January 2020 World Economic Outlook Update (WEO Update), the International Monetary Fund (IMF) indicated that the global economy grew by 2.9% in the year under review, compared with growth of 3.6% in the previous year. As a result of the slowdown in many countries over the course of the year, the IMF's forecast of 3.5% growth from January 2019 was not achieved.

Economic momentum in the eurozone was dampened in the year under review by worldwide trade conflicts and uncertainty over the United Kingdom's exit from the E.U. According to the latest figures from the statistical agency Eurostat, the eurozone economy achieved gross domestic product (GDP) growth of 1.2% in 2019 and thus fell short of the IMF forecast of 1.6% from January 2019. Within the eurozone, the German economy recorded particularly weak figures. According to initial calculations by the German Federal Statistical Office, its GDP increased by only 0.6% in 2019 compared with 2018 when adjusted for prices. This fell considerably short of the forecast of 1.3% issued by the IMF in January 2019.

Relatively stable GDP growth rates were observed – according to the January 2020 WEO Update – for the U.S.A. at 2.3%, China at 6.1% and Japan at 1.0%. In its January 2019 WEO Update, the IMF had anticipated growth of 2.5% for the U.S.A., 6.2% for China and 1.1% for Japan in 2019.

The Indian economy recorded a significant decline in growth in 2019 due to the liquidity crisis experienced by large non-regulated financial institutions, or shadow banks, and the associated credit crunch. In January 2020, the IMF estimated that GDP increased by 4.8% in 2019, having forecast growth of 7.5% a year earlier.

The Brazilian and Russian economies saw weaker development than expected by the IMF in 2019. In accordance with the January 2020 WEO Update, Brazil's GDP growth came to 1.2% in the year under review – rather than the IMF's forecast of 2.5% from January 2019. Russia also fell short of the IMF's forecast of 1.6% from January 2019, with GDP growth of 1.1% according to the January 2020 WEO Update.

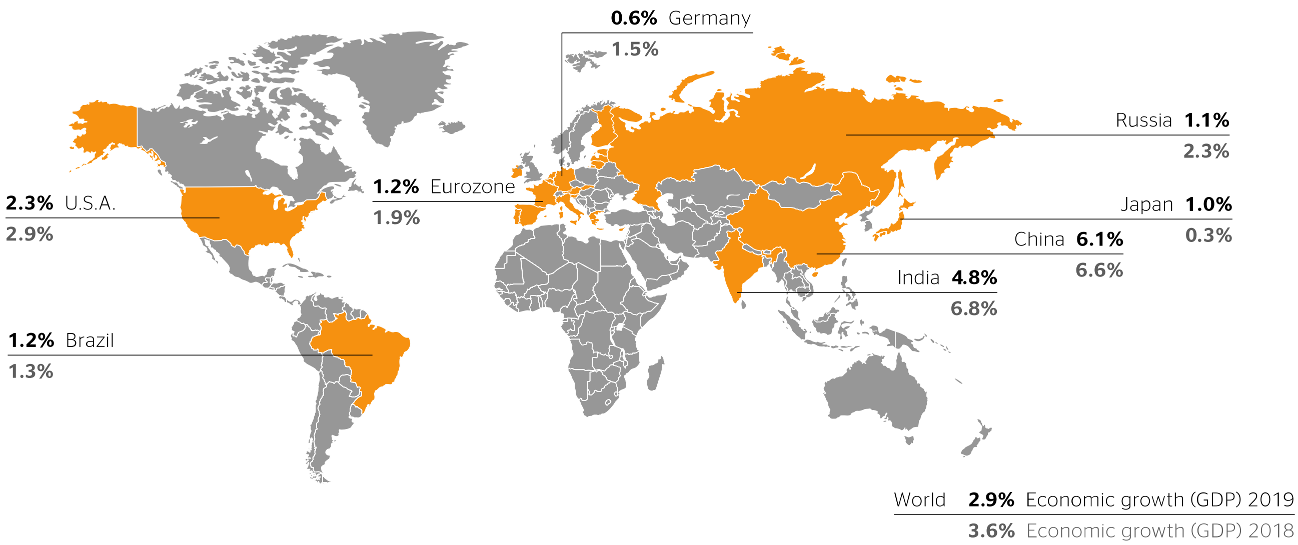
Development of Key Customer Sectors

The most important market segment for Continental is the global supply business with the manufacturers of passenger cars and commercial vehicles, accounting for 71% of sales in fiscal 2019.

The second-biggest market segment for Continental is global replacement-tire business for passenger cars and commercial vehicles. Because passenger cars and light commercial vehicles weighing less than 6 metric tons make up a considerably higher share of vehicle production and replacement-tire business, their development is particularly important to our economic success.

Continental's biggest sales region is still Europe, which accounted for 48% of sales in the year under review, followed by North America with 26% and Asia with 22%.

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



Sources: IMF – World Economic Outlook Update January 2020, Eurostat, statistical offices of the respective countries, Bloomberg.

Development of new passenger-car registrations

Preliminary figures show that global demand for passenger cars fell by 5% in 2019, in particular because of a slump in demand in China and India. In China, the trade conflict with the U.S.A. weighed on consumer sentiment in the year under review, and, according to preliminary data from the German Association of the Automotive Industry (Verband der Automobilindustrie, VDA), demand for passenger cars fell by almost 10% as a result. In India, the credit crunch experienced by shadow banks resulted in a sharp decrease in sales volumes of around 13%. In the U.S.A., sales volumes of light vehicles fell, in particular due to the sharp decline in demand for sedans, by more than 1%. The European car market (EU-28 and EFTA) exceeded the previous year's level by 1%; in Russia, on the other hand, passenger-car registrations fell by 2%. In Japan, the sales volume of passenger cars was down by 2% year-on-year. Demand in Brazil developed very positively with a rise of around 8%.

Development of production of passenger cars and light commercial vehicles

Due to the decline in demand in the major markets, the production of passenger cars and light commercial vehicles weighing less than 6 metric tons decreased by approximately 6% to 88.9 million units in 2019 on the basis of preliminary figures.

In Europe, the production of passenger cars and light commercial vehicles decreased in 2019 by 4% on the basis of preliminary figures. In particular, plants in Germany, France, Italy and the United Kingdom posted significantly lower levels of utilization.

In North America, the production of passenger cars and light commercial vehicles decreased by 4% to 16.3 million units in the reporting year on the basis of preliminary figures. In the U.S.A., Canada and Mexico, production declined. Due to the strike at American manufacturer General Motors and the resulting production standstill, there was a decline in volumes, particularly in the fourth quarter.

In Asia, the production of passenger cars and light commercial vehicles also decreased in the year under review. In China, production fell due to a slump in demand by around 8% year-on-year according to preliminary data. Other countries also saw significant declines in production, such as India, Iran and Thailand. By contrast, Japan and South Korea each posted only slight declines in production. On the basis of preliminary figures, Asia recorded an overall year-on-year decline in production of 7% in 2019, which was primarily due to the decline in China.

In South America, the recovery in demand from previous years stalled in 2019, and the production of passenger cars and light commercial vehicles fell by 4% as a result. Production growth in Brazil was unable to offset the decline in the other South American countries.

Development of production of medium and heavy commercial vehicles

The reduced demand in many countries led to a decline in global production of medium and heavy commercial vehicles of 6% in 2019 according to preliminary figures.

In Europe, the slowdown in economic growth led to a decline in demand for trucks in 2019, particularly in the second half of the year. Production of commercial vehicles weighing more than 6 metric tons declined by 9% year-on-year in 2019 on the basis of preliminary figures.

In North America, the production of medium and heavy commercial vehicles was expanded in the year under review. However, declines in order intake led to lower plant utilization levels in the fourth quarter of 2019. For 2019 as a whole, preliminary figures show that the production of commercial vehicles weighing more than 6 metric tons in North America increased – as a result of the strong first nine months – by 1% compared to the high prior-year figure.

In Asia, the production of medium and heavy commercial vehicles was around 8% below the previous year's level in the reporting year, based on the information currently available. In China in particular, there was a significant decline in the production of medium-weight commercial vehicles.

In South America, Brazil's ongoing economic recovery in the reporting year led to rising demand for trucks and an increase in the production of medium and heavy commercial vehicles of more than 20% compared to the prior-year basis, according to preliminary data.

Vehicle production and sales volumes in the tire-replacement business

	Vehicle production				Replacement sales of tires			
	of passenger cars and light commercial vehicles in millions of units		of medium and heavy commercial vehicles in thousands of units		for passenger cars and light commercial vehicles in millions of units		for medium and heavy commercial vehicles in millions of units	
	2019	2018	2019	2018	2019	2018	2019	2018
Europe	20.8	21.7	603	662	363	369	25.7	25.6
North America	16.3	17.0	646	638	305	297	24.2	27.1
South America	3.3	3.4	172	142	68	68	14.3	14.6
Asia	47.3	50.8	2,031	2,215	472	458	92.0	90.9
Other markets	1.2	1.3	0	0	50	49	8.5	8.3
Worldwide	**88.9**	**94.2**	**3,452**	**3,657**	**1,258**	**1,241**	**164.7**	**166.4**

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

Development of replacement-tire markets for passenger cars and light commercial vehicles
According to preliminary data, global sales volumes of replacement tires for passenger cars and light commercial vehicles weighing less than 6 metric tons grew by 1% year-on-year in 2019.

Global market growth was curbed in particular by the weak development in Europe, Continental's most important market for replacement tires. Particularly in Germany, Russia and Italy, sales volumes were markedly lower than the previous year's level. Preliminary figures indicate that the decline in Europe came to 2% over the reporting year.

After a relatively strong first half of the year, the growth in sales figures of replacement tires for passenger cars and light commercial vehicles in North America slowed considerably in the second half of 2019. Preliminary figures indicate that sales volumes over the reporting year as a whole increased by a further 2% compared to the strong prior-year basis.

In Asia, demand for replacement tires for passenger cars and light commercial vehicles rose by 3% in the reporting year on the basis of preliminary data and estimates. The most important driver was the positive development of the Chinese market, with growth of 4%.

In South America, following subdued demand in the first half of 2019, there was a significant rise in demand for replacement tires for passenger cars and light commercial vehicles in the second half of the year. Overall, sales volumes for 2019 as a whole remained at the previous year's level according to preliminary figures.

Development of replacement-tire markets for medium and heavy commercial vehicles
Worldwide, preliminary data shows that global demand for replacement tires for medium and heavy commercial vehicles fell by 1% year-on-year in 2019.

In Europe, preliminary figures indicate that demand for replacement tires for commercial vehicles weighing more than 6 metric tons rose by 1% in the reporting year.

According to preliminary data, demand for replacement tires for medium and heavy commercial vehicles in North America, our other core market for replacement commercial-vehicle tires alongside Europe, fell by 11% in 2019. The primary reason for this strong decline was the high comparative basis from the previous year, in which purchases were brought forward due to the introduction of import tariffs.

In Asia, sales volumes of replacement tires for medium and heavy commercial vehicles were up 1% in 2019 according to preliminary figures and estimates. China and Japan in particular recorded an increase in demand.

In South America, preliminary figures indicate that sales volumes of replacement tires for commercial vehicles fell by 2% in the reporting year. This was primarily due to the decline in demand for replacement truck tires in Brazil compared to the high comparative basis from the previous year.

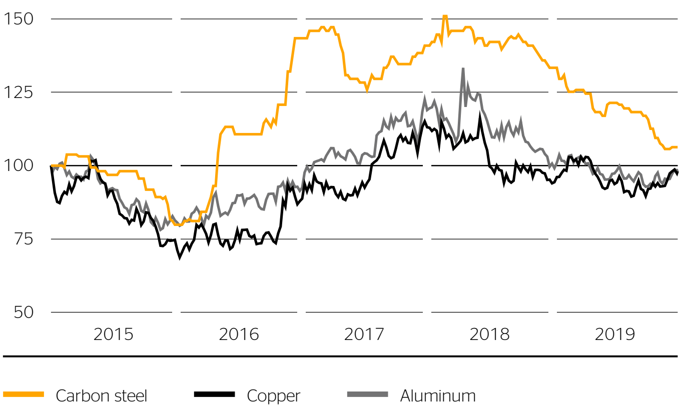
Development of Raw Materials Markets

Raw materials such as steel, aluminum, copper, precious metals and plastics are key input materials for a wide range of different electronic, electromechanical and mechanical components. We and in particular our suppliers need these components to manufacture products and systems for the automotive industry. Consequently, developments in the prices of raw materials influence Continental's production costs either directly or, in most cases, indirectly, via changes in costs at our suppliers.

Carbon steel and stainless steel are input materials for many of the mechanical components such as stamped, turned, drawn and die-cast parts integrated by Continental into its products. Steel wire is used in particular in tire production as steel cord but also, for example, in conveyor belts or in rubber belts to increase tensile strength. Aluminum is used by Continental in particular for die-cast parts and stamped and bent components, while copper is used in particular in electric motors and mechatronic components. Precious metals such as gold, silver, platinum and palladium are used by Continental and by our suppliers to coat a wide range of components. Both Continental and our suppliers require various plastic granulates, known as resins, as technical thermoplastics primarily for manufacturing housing components.

In the reporting year, the slowing economic momentum over the course of the year resulted in diminishing demand for raw materials and in a decline in prices for many raw materials. On a euro basis, prices for carbon steel fell in 2019 by more than 10% on average for the year. The annual average price for copper decreased by around 8% on a U.S. dollar basis in 2019, while the annual average price for aluminum fell by more than 10% on a U.S. dollar basis. By contrast, prices for precious metals rose in 2019, with the listings for gold and palladium increasing particularly sharply. On average for the year, on a U.S. dollar basis, the price of gold increased by 10% and the price of palladium by 50%.

Steel, copper and aluminum indexed to January 1, 2015



Sources:
Carbon steel: Hot-rolled coil Northern Europe ex works, from Kallanish Commodities (€ per metric ton).
Copper and aluminum: Rolling three-month contracts from the London Metal Exchange (U.S. $ per metric ton).

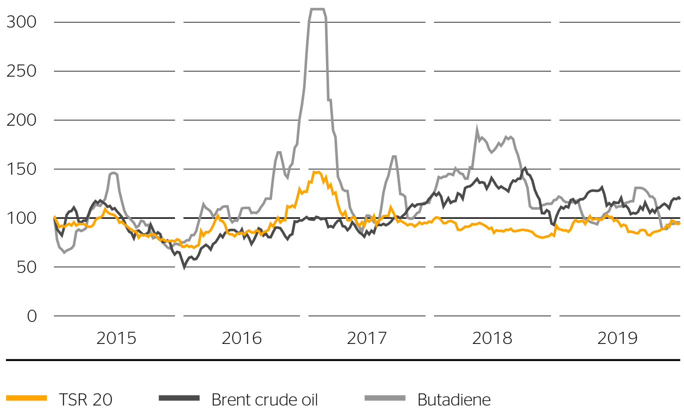
Continental uses various types of natural rubber and synthetic rubber for the production of tires and industrial rubber products. It also uses relatively large quantities of carbon black as a filler material and of steel cord and nylon cord as structural materials. Due to the large quantities and direct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

The price of crude oil – the most important basic building block for synthetic-rubber input materials such as butadiene and styrene as well as for carbon black and various other chemicals – rose sharply in the first half of 2019 following the rapid decline in the fourth quarter of 2018. From mid-May 2019, the listings fell once again, however. The average price of Brent crude oil for the year decreased by around 10% year-on-year on a U.S. dollar basis. As a result, the price of various input materials for synthetic rubber, such as butadiene and styrene, fell year-on-year in the year under review. By contrast, the prices for carbon black increased significantly due to limited production capacity.

Prices for natural rubber rose considerably in the first half of 2019. The primary reason for this was the recovering demand for tires in China. Declining demand for tires in Europe and North America over the course of the year led to prices for natural rubber falling even further over the course of the third quarter of 2019. In the fourth quarter, an outbreak of fungal disease affecting rubber trees had a negative impact on the rubber harvest in Southeast Asia. The scarce supply led to an increase in listings for natural rubber in November and December. The average price for the year for natural rubber TSR 20 was up 3% year-on-year on a U.S. dollar basis. The average price of ribbed smoked sheets (RSS) for the year rose by 6% on a U.S. dollar basis.

The weaker euro led to an increase in the average price of raw material imports to Europe by around five percentage points in the reporting year. The introduction of tariffs on steel imports by the U.S.A. weighed on the purchase of raw materials in 2019.

TSR 20, crude oil and butadiene indexed to January 1, 2015

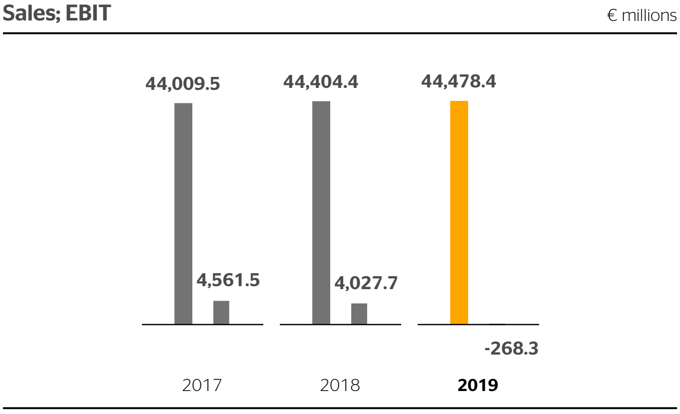


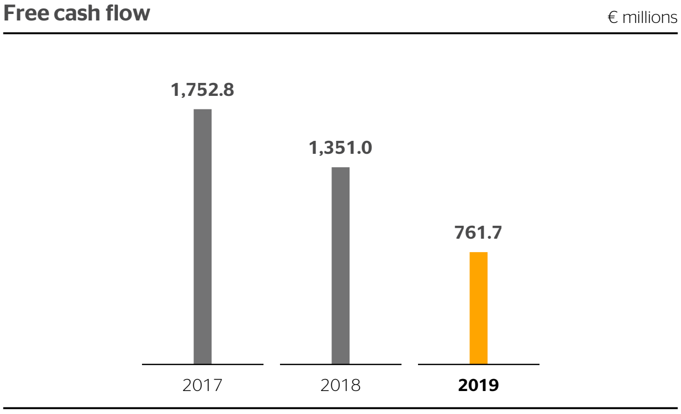
Sources:
TSR 20: Rolling one-month contracts from the Singapore Exchange (U.S. $ cents per kg).
Crude oil: Europe Brent Forties Oseberg Ekofisk price from Bloomberg (U.S. $ per barrel).
Butadiene: South Korea export price (FOB) from PolymerUpdate.com (U.S. $ per metric ton).

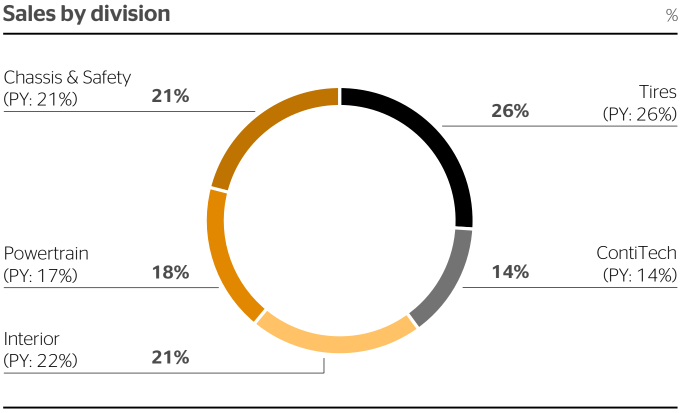
Overall, the described price developments for raw materials led, in particular in the Rubber Group, to costs in 2019, which, due to the difficult market conditions in the customer sectors, were passed on to our customers only in individual markets and to a very limited extent. The decline in the price of metals reduced production costs for the reporting year only to a limited extent. Depending on the product, there is generally a gap of several months between purchasing raw materials, their delivery and their use in production. In addition, such changes in costs at our suppliers, depending on the contractual arrangement, are in most cases passed on to us after a certain amount of time or redefined in upcoming contract negotiations.

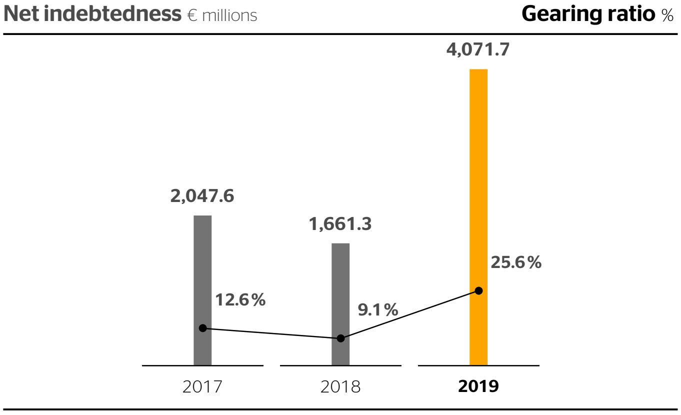
Earnings, Financial and Net Assets Position

› Sales up 0.2% at €44.5 billion
› Organic sales down 2.6%
› Basic earnings per share at -€6.13









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

Earnings Position

- Sales up 0.2%
- Sales down 2.6% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT down 21.5%

Continental Corporation in € millions	2019	2018	Δ in %
Sales	44,478.4	44,404.4	0.2
EBITDA	4,977.2	6,235.7	-20.2
in % of sales	11.2	14.0	
EBIT	-268.3	4,027.7	-106.7
in % of sales	-0.6	9.1	
Net income attributable to the shareholders of the parent	-1,225.0	2,897.3	-142.3
Basic earnings per share in €	-6.13	14.49	-142.3
Diluted earnings per share in €	-6.13	14.49	-142.3
Research and development expenses (net)	3,364.2	3,209.0	4.8
in % of sales	7.6	7.2	
Depreciation and amortization[1]	5,245.5	2,208.0	137.6
thereof impairment[2]	2,509.9	20.7	
Operating assets as at December 31	23,991.0	23,753.7	1.0
Operating assets (average)	26,178.5	23,640.5	10.7
ROCE	-1.0	17.0	
Capital expenditure[3]	3,308.6	3,124.4	5.9
in % of sales	7.4	7.0	
Number of employees as at December 31[4]	241,458	243,226	-0.7
Adjusted sales[5]	43,867.7	44,374.2	-1.1
Adjusted operating result (adjusted EBIT)[6]	3,233.9	4,117.0	-21.5
in % of adjusted sales	7.4	9.3	

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

Sales up 0.2%
Sales down 2.6% before changes in the scope of consolidation and exchange-rate effects

Consolidated sales climbed by €74.0 million or 0.2% year-on-year in 2019 to €44,478.4 million (PY: €44,404.4 million). Before changes in the scope of consolidation and exchange-rate effects, sales declined by 2.6%. In a declining market, the Rubber Group was able to achieve a slight increase in sales, which was almost offset, however, by the sales decrease in the Automotive Group. Changes in the scope of exchange-rate effects and consolidation contributed to the increase in sales by almost the same amount.

Adjusted EBIT down 21.5%

The corporation's adjusted EBIT declined by €883.1 million or 21.5% year-on-year in 2019 to €3,233.9 million (PY: €4,117.0 million), equivalent to 7.4% (PY: 9.3%) of adjusted sales.

The corporation's adjusted EBIT for the fourth quarter of 2019 decreased by €260.3 million or 23.1% compared with the same quarter of the previous year to €867.1 million (PY: €1,127.4 million), equivalent to 8.0% (PY: 10.0%) of adjusted sales.

The regional distribution of sales in 2019 was as follows:

Sales by region in %	2019	2018
Germany	19	20
Europe excluding Germany	30	29
North America	26	25
Asia	22	22
Other countries	3	4

EBIT down 106.7%
EBIT was down by €4,296.0 million year-on-year in 2019 to -€268.3 million (PY: €4,027.7 million), a decrease of 106.7%. The return on sales fell to -0.6% (PY: 9.1%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €182.5 million (PY: €173.0 million) in the year under review.

ROCE amounted to -1.0% (PY: 17.0%).

Special effects in 2019
The transformation of the Powertrain division into an independent legal entity and the organizational realignment of the Automotive Group resulted in expense totaling €47.4 million (Chassis & Safety €3.0 million; Powertrain €30.9 million; Interior €3.0 million; holding €10.5 million).

Within the context of the annual planning process, global production of passenger cars and light commercial vehicles was not expected to improve substantially in the coming years (2020–2024). Due to this triggering event and other significant assumptions made when calculating the value in use of a cash-generating unit (CGU) – such as free cash flows, the discount rate and its parameters, and the long-term growth rate – goodwill was impaired by €2,293.5 million. The Interior division accounted for €1,347.9 million of this, the Chassis & Safety division for €719.8 million, and the Powertrain division for €223.5 million. There was also impairment of goodwill of €2.3 million in the ContiTech division.

Overall, impairment on property, plant and equipment resulted in expense totaling €111.7 million (Chassis & Safety €29.1 million; Powertrain €48.9 million; Interior €25.3 million; Tires €3.5 million; ContiTech €4.9 million).

In addition, restructuring expenses and the reversal of restructuring provisions that were no longer required resulted in a total negative special effect of €697.2 million (Chassis & Safety €42.7 million; Powertrain €402.6 million; Interior €172.9 million; Tires €32.5 million; ContiTech €46.5 million). This included impairment on property, plant and equipment in the amount of €104.8 million (Chassis & Safety €1.2 million; Powertrain €79.6 million; Tires €19.0 million; ContiTech €5.0 million). This additionally resulted in restructuring-related expenses of €3.3 million (Chassis & Safety €1.5 million; Powertrain €1.0 million; ContiTech €0.8 million).

Moreover, closure of the location in Dearborn, Michigan, U.S.A., resulted in an expense of €1.5 million in the Powertrain division.

In the Interior division, an expense of €1.9 million resulted from a subsequent purchase price adjustment to the acquisition of shares in associate OSRAM CONTINENTAL GmbH, Munich, Germany. The carrying amount for this associate was also impaired. This resulted in expense of €157.9 million in the Interior division.

A business combination resulted in a gain of €2.2 million in the Tire division.

Total consolidated expense from special effects in 2019 amounted to €3,312.2 million. Chassis & Safety accounted for €796.1 million of this, Powertrain for €708.4 million, Interior for €1,708.9 million, Tires for €33.8 million, ContiTech for €54.5 million and the holding for €10.5 million.

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

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

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

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

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

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

Total consolidated income from special effects in 2018 amounted to €80.2 million. Interior accounted for €155.2 million of this and ContiTech for €0.1 million. Total expense from special effects amounted to €2.8 million for Chassis & Safety, €71.1 million for Powertrain and €1.2 million for Tires.

Procurement

The purchasing volume remained constant year-on-year at €29.9 billion in 2019, of which approximately €20.1 billion was attributable to production materials. Prices for the Automotive Group's production materials were lower than in the previous year. The prices of key input materials and many raw materials for the Rubber Group peaked in the first half of 2019. As a result, the price level continuously declined in most material groups. Average prices for the Tire division's raw materials during the year were above the previous year's level, in particular because of exchange-rate effects and the time lag between procurement, delivery and deployment. For the ContiTech division, raw material prices also increased year-on-year.

Reconciliation of EBIT to net income

€ millions	**2019**	2018	Δ in %
Chassis & Safety	–120.3	782.5	–115.4
Powertrain	–662.1	119.8	–652.7
Interior	–1,325.3	988.1	–234.1
Tires	1,651.6	1,882.1	–12.2
ContiTech	305.9	396.2	–22.8
Other/consolidation	–118.1	–141.0	
EBIT	**–268.3**	**4,027.7**	**–106.7**
Financial result	–320.3	–177.8	–80.1
Earnings before tax	**–588.6**	**3,849.9**	**–115.3**
Income tax expense	–582.4	–891.6	34.7
Net income	**–1,171.0**	**2,958.3**	**–139.6**
Non-controlling interests	–54.0	–61.0	11.5
Net income attributable to the shareholders of the parent	**–1,225.0**	**2,897.3**	**–142.3**
Basic earnings per share in €	–6.13	14.49	–142.3
Diluted earnings per share in €	–6.13	14.49	–142.3

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

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

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

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Sales	**9,588.0**	**7,741.0**	**9,707.2**	**11,352.2**	**6,344.7**	**-328.7**	**44,404.4**
Changes in the scope of consolidation[1]	–	147.0	-140.4	–	-8.0	-28.8	-30.2
Adjusted sales	**9,588.0**	**7,888.0**	**9,566.8**	**11,352.2**	**6,336.7**	**-357.5**	**44,374.2**
EBITDA	**1,213.3**	**574.6**	**1,389.2**	**2,495.2**	**701.4**	**-138.0**	**6,235.7**
Depreciation and amortization[2]	-430.8	-454.8	-401.1	-613.1	-305.2	-3.0	-2,208.0
EBIT	**782.5**	**119.8**	**988.1**	**1,882.1**	**396.2**	**-141.0**	**4,027.7**
Amortization of intangible assets from purchase price allocation (PPA)	0.0	11.4	51.1	19.3	91.2	–	173.0
Changes in the scope of consolidation[1]	–	17.8	-20.8	–	-0.5	–	-3.5
Special effects							
Impairment[3]	1.5	16.0	1.2	1.2	0.1	–	20.0
Restructuring[5]	–	22.8	-3.0	0.0	0.2	–	20.0
Gains and losses from disposals of companies and business operations	-3.0	–	-154.8	0.0	-0.4	–	-158.2
Other	4.3	32.3	1.4	0.0	0.0	–	38.0
Adjusted operating result (adjusted EBIT)	**785.3**	**220.1**	**863.2**	**1,902.6**	**486.8**	**-141.0**	**4,117.0**

1 Changes in the scope of consolidation include additions and disposals as part of share and asset deals. Adjustments were made for additions in the reporting year and for disposals in the comparative period of the prior year.
2 Excluding impairment on financial investments.
3 Impairment also includes necessary reversal of impairment losses. This item does not include impairment that arose in connection with a restructuring and impairment on financial investments.
4 This includes impairment losses totaling €104.8 million (Chassis & Safety €1.2 million; Powertrain €79.6 million; Tires €19.0 million; ContiTech €5.0 million).
5 This includes impairment losses totaling €3.5 million (Powertrain €3.3 million; ContiTech €0.2 million) and a reversal of impairment losses of €2.8 million in the Interior division.

Research and development

Research and development expenses (net) rose by €155.2 million or 4.8% year-on-year to €3,364.2 million (PY: €3,209.0 million), corresponding to 7.6% (PY: 7.2%) of sales.

In the Automotive Group, costs in connection with initial product development projects in the original equipment business are capitalized. Costs are capitalized as at the time at which we are named as a supplier and have successfully achieved a specific pre-release stage. Capitalization ends with the approval for unlimited volume production. The costs of customer-specific applications, pre-production prototypes and testing for products already being sold do not qualify as development expenditure that may be recognized as an intangible asset. Capitalized development expenses are amortized on a straight-line basis over a useful life of three to seven years and recognized in the cost of sales. In Continental's opinion, the assumed useful life reflects the period for which an economic benefit is likely to be derived from the corresponding development projects. €232.4 million (PY: €158.0 million) of the development costs incurred in 2019 qualified for recognition as an asset.

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

This results in a capitalization ratio of 6.5% (PY: 4.7%) for the corporation.

Depreciation and amortization

Depreciation and amortization increased by €3,037.5 million to €5,245.5 million (PY: €2,208.0 million), equivalent to 11.8% of sales. This included impairment totaling €2,509.9 million (PY: €20.7 million).

Financial result

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

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

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

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

Income tax expense

Income tax expense for fiscal 2019 amounted to €582.4 million (PY: €891.6 million). The tax rate adjusted for the permanent effects of the goodwill impairment was 55.8%, compared to 23.2% in the previous year.

As in the previous year, foreign tax rate differences, incentives and tax holidays had positive effects in the year under review. The tax rate was negatively impacted by non-cash allowances on deferred tax assets totaling €117.4 million (PY: €79.6 million), of which €3.9 million (PY: €16.4 million) was for previous years. Furthermore, as in the previous year, the tax rate was negatively affected by non-deductible expenses and non-imputable foreign withholding tax.

Net income attributable to the shareholders of the parent

Net income attributable to the shareholders of the parent declined by €4,122.3 million in 2019 to -€1,225.0 million (PY: €2,897.3 million). Basic earnings per share amounted to -€6.13 (PY: €14.49), the same amount as diluted earnings per share.

Employees

The number of employees in the Continental Corporation fell by 1,768 from 243,226 in 2018 to 241,458. Counter to the acquisition of Kathrein Automotive, lower production volumes in the Automotive Group led to a reduction in the overall number of employees by 1,721. The number of employees in the Rubber Group was almost unchanged year-on-year.

Employees by region in %	**2019**	2018
Germany	25	26
Europe excluding Germany	32	32
North America	19	18
Asia	20	20
Other countries	4	4

Financial Position

› **Free cash flow before acquisitions at €1.2 billion**
› **Cash flow arising from investing activities at €3.7 billion**
› **Net indebtedness at €4.1 billion**

Reconciliation of cash flow
EBIT declined by €4,296.0 million to -€268.3 million after €4,027.7 million in 2018.

Interest payments resulting in particular from bonds increased by €27.5 million to €157.9 million (PY: €130.4 million).

Income tax payments rose by €17.9 million to €866.0 million (PY: €848.1 million).

The cash-effective increase in working capital led to a cash outflow of €256.0 million (PY: cash inflow of €60.2 million). This resulted from the €49.1 million increase in inventories (PY: €358.4 million). The decline in operating receivables of €337.8 million (PY: increase of €11.5 million) was more than offset by the decline in operating liabilities of €544.7 million (PY: increase of €430.1 million).

Cash flow from operating activities fell by €562.8 million year-on-year to €4,414.4 million (PY: €4,977.2 million) in 2019, corresponding to 9.9% (PY: 11.2%) of sales.

Cash flow arising from investing activities amounted to an outflow of €3,652.7 million (PY: €3,626.2 million). Capital expenditure on property, plant and equipment, and software was down €146.9 million from €3,124.4 million to €2,977.5 million before the capitalization of borrowing costs. The net amount from the acquisition and disposal of companies and business operations resulted in a total cash outflow of €486.3 million (PY: €404.8 million) in 2019. This cash outflow was mainly attributable to the acquisition of the anti-vibration systems business of Cooper-Standard Automotive Inc., Novi, Michigan, U.S.A., and of Kathrein Automotive GmbH, Hildesheim, Germany.

Free cash flow for fiscal 2019 amounted to €761.7 million (PY: €1,351.0 million). This corresponds to a decrease of €589.3 million compared with the previous year. The recognition of depreciation on the reportable right-of-use assets in cash flow from operating activities, as part of the first-time adoption of IFRS 16, *Leases*, resulted in a corresponding improvement in free cash flow of €345.5 million compared to the previous year.

Capital expenditure (additions)
Capital expenditure for property, plant and equipment, and software amounted to €3,308.6 million in 2019 (PY: €3,124.4 million). €331.0 million of the year-on-year increase of €184.2 million resulted from the adoption of IFRS 16, *Leases*. Capital expenditure amounted to 7.4% (PY: 7.0%) of sales.

Financing and indebtedness
As at the end of 2019, gross indebtedness amounted to €7,619.0 million (PY: €4,606.9 million), up €3,012.1 million on the previous year's level.

Based on quarter-end values, 66.5% (PY: 54.7%) of gross indebtedness after hedging measures had fixed interest rates on average over the year.

The carrying amount of the bonds increased by €898.6 million from €1,895.2 million in the previous year to €2,793.8 million as at the end of fiscal 2019. This build-up is attributable to several euro bond issues totaling €1,400.0 million by Continental AG in the second half of 2019 under Continental's Debt Issuance Programme (DIP). Continental utilized the favorable market and interest rate environment to successfully issue two listed euro bonds in September 2019 and make two private placements with investors in Germany and abroad in October 2019. The issue price of the €500.0-million bond issued on September 12, 2019, amounted to 99.804%. This bond has a term of four years and an interest rate of 0.000% p.a. The issue price of the €600.0-million bond issued on September 27, 2019, amounted to 99.802%. This bond has a term of five years and nine months and an interest rate of 0.375% p.a. One of the two private placements has a nominal volume of €100.0 million, a term of five years and a fixed interest rate of 0.231% p.a. The second private placement, which has an 18-month term, has a nominal volume of €200.0 million and a variable interest rate. The only bond that matured in 2019, the €500.0-million euro bond from Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., was redeemed on February 19, 2019, at a rate of 100.000%. This bond bore interest at a rate of 0.500% p.a. and had a term of three years and three months.

Bank loans and overdrafts amounted to €1,470.4 million (PY: €1,239.0 million) as at December 31, 2019, and were therefore up €231.4 million on the previous year's level.

The previous syndicated loan, which was due in April 2021, was renewed ahead of schedule in December 2019. In doing so, the previous volume of the revolving tranche was increased from €3,000.0 million to €4,000.0 million. This credit line is now available to Continental until December 2024. In addition to improved conditions, sustainability components are included in the calculation of interest for the credit line for the first time. If the corporation achieves the performance improvements in sustainability as set out in detail in the loan agreement, this will reduce the interest rate; non-achievement will result in interest rate increases. The revolving loan had not been utilized as at December 31, 2019. In the previous year, it had been utilized by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in the amount of €157.2 million.

On March 20, 2019, Continental AG commissioned four banks to market promissory note bank loans. The transaction was successfully completed as planned at the end of April 2019. The four promissory note bank loans issued have a total volume of €500.0 million and terms of three or five years. Fixed coupons were agreed upon for 76% of the volume.

Other indebtedness increased by €1,882.1 million to €3,354.8 million (PY: €1,472.7 million) as at the end of 2019. This increase was primarily attributable to the rise in lease liabilities. The new IFRS 16 standard, *Leases*, the application of which has been mandatory since January 1, 2019, resulted in the recognition of all leases in the statement of financial position and thus an increase in lease liabilities. These amounted to €1,715.0 million on December 31, 2019 (PY: €12.3 million). Commercial paper issuances resulted in a carrying amount of €938.4 million (PY: €814.5 million). As at the end of 2019, the utilization of sale-of-receivables programs, at €468.6 million (PY: €469.2 million), was on a par with the previous year. As at the end of 2019, four (PY: four) sale-of-receivables programs with a total financing volume of €665.0 million were used within the Continental Corporation.

Cash and cash equivalents, derivative instruments and interest-bearing investments were up by €601.7 million at €3,547.3 million (PY: €2,945.6 million).

Net indebtedness increased by a considerable €2,410.4 million as compared to the end of 2018 to €4,071.7 million (PY: €1,661.3 million). The gearing ratio rose year-on-year to 25.6% (PY: 9.1%).

As at December 31, 2019, Continental had liquidity reserves totaling €8,044.0 million (PY: €6,265.5 million), consisting of cash and cash equivalents of €3,341.8 million (PY: €2,761.4 million) and committed, unutilized credit lines totaling €4,702.2 million (PY: €3,504.1 million).

The restrictions that may impact the availability of capital are also understood to comprise all existing restrictions on the cash and cash equivalents. In the Continental Corporation, the aforementioned cash and cash equivalents are restricted with regard to pledged amounts and balances in countries with foreign-exchange restrictions or other barriers to accessing liquidity. Taxes to be paid on the transfer of cash assets from one country to another are not usually considered to represent a restriction on cash and cash equivalents. As at December 31, 2019, unrestricted cash and cash equivalents totaled €3,114.3 million (PY: €2,587.7 million).

Reconciliation of net indebtedness

€ millions	December 31, 2019	December 31, 2018
Long-term indebtedness	3,375.2	1,449.0
Short-term indebtedness	4,243.8	3,157.9
Long-term derivative instruments and interest-bearing investments	–54.0	–32.4
Short-term derivative instruments and interest-bearing investments	–151.5	–151.8
Cash and cash equivalents	–3,341.8	–2,761.4
Net indebtedness	**4,071.7**	**1,661.3**

Reconciliation of change in net indebtedness

€ millions	2019	2018
Change in net indebtedness due to the first-time adoption of IFRS 16, *Leases*	1,730.1	n. a.
Net indebtedness at the beginning of the reporting period	**3,391.4**	**2,047.6**
Cash flow arising from operating activities	4,414.4	4,977.2
Cash flow arising from investing activities	–3,652.7	–3,626.2
Cash flow before financing activities (free cash flow)	**761.7**	**1,351.0**
Dividends paid	–950.0	–900.0
Dividends paid to and cash changes from equity transactions with non-controlling interests	–32.5	–45.4
Non-cash changes	–339.7	24.9
Other	–93.7	–19.3
Exchange-rate effects	–26.1	–24.9
Change in net indebtedness	**–680.3**	**386.3**
Net indebtedness at the end of the reporting period	**4,071.7**	**1,661.3**

Net Assets Position

- › Equity at €15.9 billion
- › Equity ratio at 37.3%
- › Gearing ratio at 25.6%

Total assets

At €42,568.2 million (PY: €40,445.4 million), total assets as at December 31, 2019, were €2,122.8 million higher than on the same date in the previous year. Goodwill, at €5,113.5 million, was down by €2,119.9 million compared to the previous year's figure of €7,233.4 million. Other intangible assets climbed by €125.5 million to €1,691.8 million (PY: €1,566.3 million). Property, plant and equipment increased by €2,557.2 million to €14,932.7 million (PY: €12,375.5 million). A sum of €1,684.3 million of this resulted from the adoption of IFRS 16, *Leases*. Deferred tax assets were up €710.0 million at €2,174.4 million (PY: €1,464.4 million). Inventories rose by €173.3 million to €4,694.4 million (PY: €4,521.1 million), while trade accounts receivable fell by €146.6 million to €7,711.6 million (PY: €7,858.2 million). Short-term other assets increased by €282.5 million to €1,406.7 million (PY: €1,124.2 million). At €3,341.8 million, cash and cash equivalents were up €580.4 million from €2,761.4 million on the same date in the previous year.

Non-current assets

Non-current assets rose by €1,065.8 million year-on-year to €24,724.5 million (PY: €23,658.7 million). In relation to the individual items of the statement of financial position, this was primarily due to the rise in property, plant and equipment of €2,557.2 million to €14,932.7 million (PY: €12,375.5 million), the €710.0 million increase in deferred tax assets to €2,174.4 million (PY: €1,464.4 million), the €125.5 million rise in other intangible assets to €1,691.8 million (PY: €1,566.3 million), the €2,119.9 million reduction in goodwill to €5,113.5 million (PY: €7,233.4 million) and the €247.2 million decrease in investments in equity-accounted investees to €397.7 million (PY: €644.9 million).

Current assets

Short-term assets increased by €1,057.0 million to €17,843.7 million (PY: €16,786.7 million). In the year under review, inventories rose by €173.3 million to €4,694.4 million (PY: €4,521.1 million), while trade accounts receivable fell by €146.6 million to €7,711.6 million (PY: €7,858.2 million). Cash and cash equivalents increased by €580.4 million to €3,341.8 million (PY: €2,761.4 million).

Equity

Equity was €2,457.6 million lower than in the previous year at €15,875.7 million (PY: €18,333.3 million). This was due primarily to the decline in retained earnings of €2,175.1 million. The gearing ratio worsened from 9.1% to 25.6%. The equity ratio fell to 37.3% (PY: 45.3%). The adoption of IFRS 16, *Leases*, contributed significantly to the decline.

Non-current liabilities

At €9,821.4 million, non-current liabilities were up €3,423.2 million from €6,398.2 million in the previous year. This was mainly attributable to the €1,926.2 million increase in long-term indebtedness to €3,375.2 million (PY: €1,449.0 million), the €999.3 million rise in long-term employee benefits to €5,406.3 million (PY: 4,407.0 million) and the €502.4 million increase in long-term provisions for other risks and obligations to €666.1 million (PY: €163.7 million). The change in long-term indebtedness was due to various effects. As a result, the IFRS 16 standard, *Leases*, the application of which has been mandatory since January 1, 2019, resulted in the recognition of all leases in the statement of financial position and thus an increase in lease liabilities. The long-term share amounted to €1,396.7 million on December 31, 2019 (PY: €9.9 million). Long-term indebtedness was also increased by the issuance of the promissory note bank loans at the end of April 2019 with a total volume of €500.0 million and terms of three or five years.

Current liabilities

At €16,871.1 million, current liabilities were up €1,157.2 million from €15,713.9 million in the previous year. Short-term indebtedness increased by €1,085.9 million to €4,243.8 million (PY: €3,157.9 million) and short-term provisions for other risks and obligations by €195.5 million to €1,261.6 million (PY: €1,066.1 million). By contrast, trade accounts payable decreased by €414.6 million to €7,111.0 million (PY: €7,525.6 million) and short-term employee benefits by €85.5 million to €1,368.7 million (PY: €1,454.2 million).

Operating assets

Operating assets increased by €237.3 million year-on-year to €23,991.0 million (PY: €23,753.7 million) as at December 31, 2019.

Total working capital was up €435.6 million at €5,513.2 million (PY: €5,077.6 million). This development was due to the €414.6 million decrease in operating liabilities to €7,111.0 million (PY: €7,525.6 million) and the €152.3 million decline in operating receivables to €7,929.8 million (PY: €8,082.1 million). Inventories also increased by €173.3 million to €4,694.4 million (PY: €4,521.1 million).

Non-current operating assets were up €313.1 million year-on-year at €22,445.1 million (PY: €22,132.0 million). Goodwill decreased by €2,119.9 million to €5,113.5 million (PY: €7,233.4 million). This change resulted primarily from impairment losses of €2,293.5 million, which were countered by additions of €137.1 million and exchange-rate effects of €36.4 million. Property, plant and equipment increased by €2,557.2 million to €14,932.7 million (PY: €12,375.5 million) due to investing activities. A sum of €1,684.3 million of this resulted from the adoption of IFRS 16, *Leases*. Other intangible assets climbed by €125.5 million to €1,691.8 million (PY: €1,566.3 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €182.5 million (PY: €173.0 million) reduced the value of intangible assets.

The acquisition of 100% of the shares in Kathrein Automotive GmbH, Hildesheim, Germany, contributed €172.8 million to the increase in the Interior division's operating assets.

Operating assets rose in the Tire division by a total of €20.6 million, with €20.4 million of this coming from several asset deals, two share deals and one purchase price adjustment, and €0.2 million from a reversal of a purchase price liability.

Two asset deals and two share deals contributed €337.8 million to an increase in the ContiTech division's operating assets.

The increase mainly resulted from the acquisition of the anti-vibration systems business of Cooper-Standard Automotive Inc., Novi, Michigan, U.S.A., and the acquisition of Merlett Tecnoplastic S.p.A., Daverio, Italy.

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

Exchange-rate effects increased the corporation's total operating assets by €284.2 million (PY: €61.7 million).

Average operating assets rose by €2,538.0 million to €26,178.5 million as compared to the previous year (€23,640.5 million).

Consolidated statement of financial position

Assets in € millions	**December 31, 2019**	December 31, 2018
Goodwill	5,113.5	7,233.4
Other intangible assets	1,691.8	1,566.3
Property, plant and equipment	14,932.7	12,375.5
Investments in equity-accounted investees	397.7	644.9
Long-term miscellaneous assets	2,588.8	1,838.6
Non-current assets	**24,724.5**	**23,658.7**
Inventories	4,694.4	4,521.1
Trade accounts receivable[1]	7,711.6	7,858.2
Short-term miscellaneous assets[1]	2,095.9	1,646.0
Cash and cash equivalents	3,341.8	2,761.4
Current assets	**17,843.7**	**16,786.7**
Total assets	**42,568.2**	**40,445.4**

Equity and liabilities in € millions	**December 31, 2019**	December 31, 2018
Total equity	**15,875.7**	**18,333.3**
Non-current liabilities	**9,821.4**	**6,398.2**
Trade accounts payable[1]	7,111.0	7,525.6
Short-term other provisions and liabilities[1]	9,760.1	8,188.3
Current liabilities	**16,871.1**	**15,713.9**
Total equity and liabilities	**42,568.2**	**40,445.4**
Net indebtedness	**4,071.7**	**1,661.3**
Gearing ratio in %	**25.6**	**9.1**

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

1 To increase transparency, receivables from and liabilities to related parties have been reclassified from changes in other assets and liabilities to changes from trade accounts receivable and payable, beginning in the 2019 fiscal year. The figures from the comparative period have been adjusted accordingly.

Reconciliation to operating assets in 2019

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

Reconciliation to operating assets in 2018

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

Automotive Group

Automotive Group in € millions	2019	2018	Δ in %
Sales	26,523.3	26,855.8	-1.2
EBITDA	1,920.2	3,177.1	-39.6
in % of sales	7.2	11.8	
EBIT	-2,107.7	1,890.4	-211.5
in % of sales	-7.9	7.0	
Research and development expenses (net)	2,902.0	2,760.5	5.1
in % of sales	10.9	10.3	
Depreciation and amortization[1]	4,027.9	1,286.7	213.0
thereof impairment[2]	2,475.1	19.2	
Operating assets as at December 31	12,821.3	14,336.3	-10.6
Operating assets (average)	14,826.4	14,095.6	5.2
ROCE	-14.2	13.4	
Capital expenditure[3]	2,062.0	2,019.1	2.1
in % of sales	7.8	7.5	
Number of employees as at December 31[4]	138,295	140,016	-1.2
Adjusted sales[5]	26,376.3	26,833.4	-1.7
Adjusted operating result (adjusted EBIT)[6]	1,166.3	1,868.6	-37.6
in % of adjusted sales	4.4	7.0	

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

The Automotive Group comprises three divisions:

› The **Chassis & Safety** division (21% of consolidated sales) integrates safety technologies and controls vehicle dynamics to enable safe, easy driving.

› The **Powertrain** division (18% of consolidated sales) offers efficient and clean vehicle drive systems. It focuses on intelligent systems and components for the electrification of vehicles, as well as on electronic control units, sensors, actuators and exhaust-gas after-treatment solutions.

› The **Interior** division (21% of consolidated sales) develops components and end-to-end systems for connected mobility – hardware, software and services – across the strategic pillars of networking, information and integration.

The 11 business units in total generated 60% of consolidated sales in the year under review.

Key raw materials for the Automotive Group are steel, aluminum, plastics, copper and precious metals. One point of focus when it comes to purchasing materials and semi-finished products is electronics and electromechanical components, which together make up roughly 43% of the corporation's purchasing volume for production material.

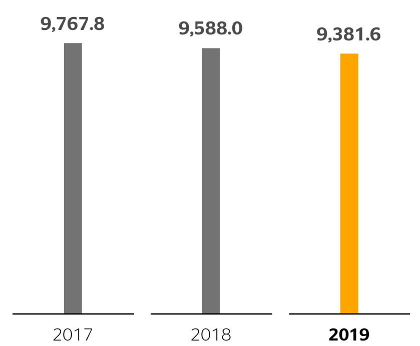
Development of the Chassis & Safety Division

- **Sales down 2.2%**
- **Sales down 4.2% before changes in the scope of consolidation and exchange-rate effects**
- **Adjusted EBIT down 13.9%**

Sales volumes
In the Vehicle Dynamics business unit, the number of electronic brake systems sold in 2019 was markedly lower than the previous year's level. In the Hydraulic Brake Systems business unit, sales figures for brake boosters were also down significantly year-on-year. Sales of brake calipers with integrated electric parking brakes increased year-on-year, partly compensating for the considerable decline in sales figures for conventional brake calipers. In the Passive Safety & Sensorics business unit, the sales volume of air-bag control units decreased year-on-year. Unit sales of advanced driver assistance systems were up substantially year-on-year.

Sales down 2.2%
Sales down 4.2% before changes in the scope of consolidation and exchange-rate effects
Sales in the Chassis & Safety division declined by 2.2% year-on-year to €9,381.6 million (PY: €9,588.0 million) in 2019. Before changes in the scope of consolidation and exchange-rate effects, sales declined by 4.2%.

Sales € millions



Adjusted EBIT down 13.9%
The Chassis & Safety division's adjusted EBIT declined by €109.4 million or 13.9% year-on-year in 2019 to €675.9 million (PY: €785.3 million), equivalent to 7.2% (PY: 8.2%) of adjusted sales.

EBIT down 115.4%
In comparison to the previous year, the Chassis & Safety division posted a decrease in EBIT of €902.8 million, or 115.4%, to -€120.3 million (PY: €782.5 million) in 2019. The return on sales fell to -1.3% (PY: 8.2%).

Please see our comments on pages 61 and 62 regarding the special effects for 2019 and 2018.

ROCE amounted to -2.3% (PY: 16.0%).

Procurement
The procurement market for Chassis & Safety was stable overall in 2019. Price developments on the raw material markets painted a mixed picture. The markets fell overall, however, as a result of the global economic slowdown. In particular in the area of industrial metals (primary aluminum) and flat steels as well as steel scrap, prices fell due to overcapacities on the market. Demand for electronic components within the division rose due to the above-average business growth in the Advanced Driver Assistance Systems business unit. Overall, the quality level for purchased parts was further improved.

Research and development
Research and development expenses (net) rose by €25.5 million or 2.5% year-on-year to €1,048.7 million (PY: €1,023.2 million), corresponding to 11.2% (PY: 10.7%) of sales.

Depreciation and amortization
Depreciation and amortization rose by €834.8 million compared to fiscal 2018 to €1,265.6 million (PY: €430.8 million) and amounted to 13.5% (PY: 4.5%) of sales. This included impairment totaling €750.0 million in 2019 (PY: €1.5 million).

Operating assets
Operating assets in the Chassis & Safety division fell by €273.7 million year-on-year to €4,716.8 million (PY: €4,990.5 million) as at December 31, 2019.

Working capital was down €18.4 million at €505.8 million (PY: €524.2 million). This change was chiefly attributable to the €88.2 million decline in operating receivables to €1,614.2 million (PY: €1,702.4 million) and the €69.5 million decrease in operating liabilities to €1,722.9 million (PY: €1,792.4 million), in contrast to a €0.3 million rise in inventories to €614.5 million (PY: €614.2 million).

Non-current operating assets were down €235.4 million year-on-year at €5,032.2 million (PY: €5,267.6 million). Goodwill decreased by €715.5 million to €1,928.5 million (PY: €2,644.0 million), with €719.8 million of this decrease resulting from impairment of goodwill and €2.0 million from a subsequent purchase price adjustment.

Chassis & Safety in € millions	2019	2018	Δ in %
Sales	9,381.6	9,588.0	-2.2
EBITDA	1,145.3	1,213.3	-5.6
in % of sales	12.2	12.7	
EBIT	-120.3	782.5	-115.4
in % of sales	-1.3	8.2	
Research and development expenses (net)	1,048.7	1,023.2	2.5
in % of sales	11.2	10.7	
Depreciation and amortization[1]	1,265.6	430.8	193.8
thereof impairment[2]	750.0	1.5	
Operating assets as at December 31	4,716.8	4,990.5	-5.5
Operating assets (average)	5,159.9	4,887.1	5.6
ROCE	-2.3	16.0	
Capital expenditure[3]	720.6	749.7	-3.9
in % of sales	7.7	7.8	
Number of employees as at December 31[4]	48,434	49,509	-2.2
Adjusted sales[5]	9,381.6	9,588.0	-2.2
Adjusted operating result (adjusted EBIT)[6]	675.9	785.3	-13.9
in % of adjusted sales	7.2	8.2	

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

This was countered by exchange-rate effects of €6.3 million. Property, plant and equipment increased by €453.8 million to €2,867.1 million (PY: €2,413.3 million) due to investing activities. Other intangible assets climbed by €25.5 million to €102.7 million (PY: €77.2 million).

Operating assets in the Chassis & Safety division changed by €3.2 million as a result of a reversal of a purchase price liability and by -€2.0 million following a subsequent purchase price adjustment.

Exchange-rate effects increased the Chassis & Safety division's total operating assets by €37.9 million in the fiscal year (PY: €30.3 million).

Average operating assets in the Chassis & Safety division climbed by €272.8 million to €5,159.9 million as compared to fiscal 2018 (€4,887.1 million).

Capital expenditure (additions)
Additions to the Chassis & Safety division fell by €29.1 million year-on-year to €720.6 million (PY: €749.7 million). Capital expenditure amounted to 7.7% (PY: 7.8%) of sales.

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

Employees
The number of employees in the Chassis & Safety division fell by 1,075 to 48,434 (PY: 49,509). This was due to the adjustment to lower production volumes. Research and development was further expanded, however, particularly in the Advanced Driver Assistance Systems business unit.

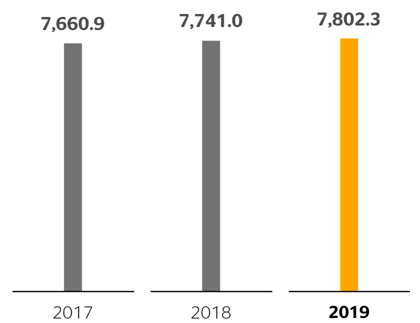
Development of the Powertrain Division

- › **Sales up 0.8%**
- › **Sales down 2.5% before changes in the scope of consolidation and exchange-rate effects**
- › **Adjusted EBIT down 74.1%**

Sales volumes
In the Engine & Drivetrain Systems business unit, sales volumes of engine control units and turbochargers increased in fiscal 2019, while those of pumps stagnated at the previous year's level. Sales volumes of injectors and transmission control units were down year-on-year. In the Hybrid Electric Vehicle business unit, sales volumes of power electronics and 48-volt drive systems were up year-on-year, whereas the sales volume of power stabilization products and battery systems fell year-on-year. In the Powertrain Components business unit, sales volumes of exhaust-gas sensors and SCR systems rose as a result of emissions legislation. Sales volumes of fuel delivery modules, mechatronic sensors for combustion engines and catalytic converters were down year-on-year.

Sales up 0.8%
Sales down 2.5% before changes in the scope of consolidation and exchange-rate effects
Sales in the Powertrain division rose by 0.8% year-on-year to €7,802.3 million (PY: €7,741.0 million) in 2019. Before changes in the scope of consolidation and exchange-rate effects, sales declined by 2.5%.

Sales € millions



Adjusted EBIT down 74.1%
The Powertrain division's adjusted EBIT was down by €163.1 million or 74.1% year-on-year in 2019 to €57.0 million (PY: €220.1 million), equivalent to 0.7% (PY: 2.8%) of adjusted sales.

EBIT down 652.7%
In comparison to the previous year, the Powertrain division posted a decline in EBIT of €781.9 million, or 652.7%, to -€662.1 million (PY: €119.8 million) in 2019. The return on sales fell to -8.5% (PY: 1.5%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €10.7 million (PY: €11.4 million).

Please see our comments on pages 61 and 62 regarding the special effects for 2019 and 2018.

ROCE amounted to -16.9% (PY: 3.3%).

Procurement
In contrast to the previous year, few shortages were posted on the procurement market in 2019. In the raw materials sector, price developments painted an extremely mixed picture. Prices for steel long products and recycled aluminum (secondary aluminum) thus came under pressure, for example as a result of the diminishing demand for cars. A significant rise was recorded in the same period for precious metals (gold and palladium). The reasons for this were the massive demand for gold due to geopolitical tensions and an ever increasing supply deficit for palladium, which is primarily used in catalytic converters for gasoline engines. The procurement cooperation with the Schaeffler Group was again successfully continued.

Research and development
Research and development expenses (net) fell by €8.5 million or 1.3% year-on-year to €664.1 million (PY: €672.6 million), corresponding to 8.5% (PY: 8.7%) of sales.

Depreciation and amortization
Depreciation and amortization rose by €399.8 million compared to fiscal 2018 to €854.6 million (PY: €454.8 million) and amounted to 11.0% (PY: 5.9%) of sales. This included impairment totaling €351.9 million in 2019 (PY: €19.3 million).

Operating assets
Operating assets in the Powertrain division decreased by €210.4 million year-on-year to €3,347.3 million (PY: €3,557.7 million) as at December 31, 2019.

Working capital was up €240.8 million at €619.7 million (PY: €378.9 million). Inventories increased by €57.0 million to €632.4 million (PY: €575.4 million). Operating receivables rose by €54.5 million to €1,441.5 million (PY: €1,387.0 million) as at the reporting date. Total operating liabilities were down €129.3 million at €1,454.2 million (PY: €1,583.5 million).

Powertrain in € millions	2019	2018	Δ in %
Sales	7,802.3	7,741.0	0.8
EBITDA	192.5	574.6	-66.5
in % of sales	2.5	7.4	
EBIT	-662.1	119.8	-652.7
in % of sales	-8.5	1.5	
Research and development expenses (net)	664.1	672.6	-1.3
in % of sales	8.5	8.7	
Depreciation and amortization[1]	854.6	454.8	87.9
thereof impairment[2]	351.9	19.3	
Operating assets as at December 31	3,347.3	3,557.7	-5.9
Operating assets (average)	3,906.3	3,582.2	9.0
ROCE	-16.9	3.3	
Capital expenditure[3]	657.7	691.0	-4.8
in % of sales	8.4	8.9	
Number of employees as at December 31[4]	41,744	42,601	-2.0
Adjusted sales[5]	7,802.3	7,888.0	-1.1
Adjusted operating result (adjusted EBIT)[6]	57.0	220.1	-74.1
in % of adjusted sales	0.7	2.8	

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

Non-current operating assets were up €98.8 million year-on-year at €3,835.7 million (PY: €3,736.9 million). Goodwill fell to €805.7 million (PY: €993.9 million), with €223.5 million of this decrease resulting from impairment of goodwill. This was countered by exchange-rate effects of €3.8 million. At €2,743.3 million, property, plant and equipment was €287.2 million above the previous year's level of €2,456.1 million. Other intangible assets decreased by €11.9 million to €179.8 million (PY: €191.7 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €10.7 million (PY: €11.4 million) reduced the value of intangible assets.

Exchange-rate effects increased the Powertrain division's total operating assets by €25.9 million in the fiscal year (PY: €19.0 million).

Average operating assets in the Powertrain division climbed by €324.1 million to €3,906.3 million as compared to fiscal 2018 (€3,582.2 million).

Capital expenditure (additions)

Additions to the Powertrain division decreased by €33.3 million year-on-year to €657.7 million (PY: €691.0 million). Capital expenditure amounted to 8.4% (PY: 8.9%) of sales.

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

Employees

The number of employees in the Powertrain division fell by 857 compared with the previous year to 41,744 (PY: 42,601). This was due to the adjustment to lower production volumes and optimizations in the production unit.

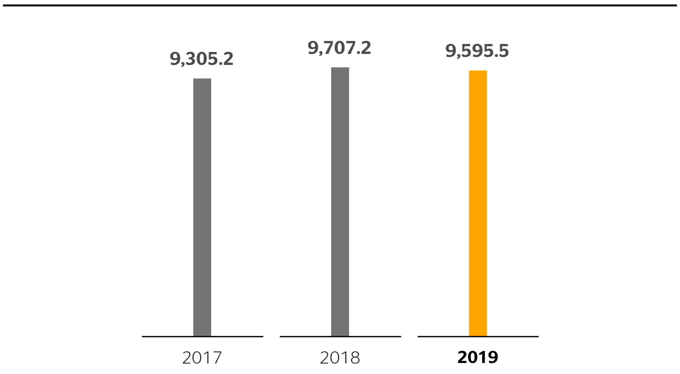
Development of the Interior Division

- Sales down 1.2%
- Sales down 2.5% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT down 49.8%

Sales volumes
Sales volumes in the Body & Security business unit were slightly above the previous year's level in fiscal 2019. This increase was due to the integration of the new Intelligent Antenna Systems business area in February 2019. The decline in sales volumes was more than offset in all regions as a result. Sales figures in the Infotainment & Connectivity business unit considerably exceeded the previous year's figure. The growth was posted in particular in the connectivity area. Sales volumes in the Commercial Vehicles & Aftermarket business unit were below the previous year's level overall. While commercial-vehicles business posted a slight increase, replacement-parts and aftermarket business fell short of the previous year's figures due to the transfer of parts of this business to the Powertrain division. In the Instrumentation & Driver HMI business unit, sales volumes in 2019 were lower than in the same period of the previous year. This development is primarily attributable to the weak Chinese market.

Sales down 1.2%
Sales down 2.5% before changes in the scope of consolidation and exchange-rate effects
Sales in the Interior division fell by 1.2% year-on-year to €9,595.5 million (PY: €9,707.2 million) in 2019. Before changes in the scope of consolidation and exchange-rate effects, sales declined by 2.5%.

Sales € millions



Adjusted EBIT down 49.8%
The Interior division's adjusted EBIT decreased by €429.8 million or 49.8% year-on-year in 2019 to €433.4 million (PY: €863.2 million), equivalent to 4.6% (PY: 9.0%) of adjusted sales.

EBIT down 234.1%
In comparison to the previous year, the Interior division posted a decline in EBIT of €2,313.4 million, or 234.1%, to -€1,325.3 million (PY: €988.1 million) in 2019. The return on sales fell to -13.8% (PY: 10.2%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €57.2 million (PY: €51.1 million).

Please see our comments on pages 61 and 62 regarding the special effects for 2019 and 2018.

ROCE amounted to -23.0% (PY: 17.6%).

Procurement
In 2019, the allocation of specific components by suppliers, which had put a significant strain on the supply situation in the two previous years, was ended. The security of supply was ensured. In the interests of active risk management, the process of nominating alternative supply options for key components was further advanced. The percentage of electronic components continued to increase. Overall, the quality level for supplier parts was increased further.

Research and development
Research and development expenses (net) rose by €124.5 million or 11.7% year-on-year to €1,189.2 million (PY: €1,064.7 million), corresponding to 12.4% (PY: 11.0%) of sales.

Depreciation and amortization
Depreciation and amortization rose by €1,506.6 million compared to fiscal 2018 to €1,907.7 million (PY: €401.1 million) and amounted to 19.9% (PY: 4.1%) of sales. This included impairment totaling €1,373.2 million in 2019 (PY: reversal of impairment losses of €1.6 million).

Operating assets
Operating assets in the Interior division fell by €1,030.9 million year-on-year to €4,757.2 million (PY: €5,788.1 million) as at December 31, 2019.

Working capital was down €38.7 million at €686.5 million (PY: €725.2 million). Inventories decreased by €14.7 million to €867.6 million (PY: €882.3 million). Operating receivables fell by €87.5 million to €1,558.4 million (PY: €1,645.9 million) as at the reporting date. Operating liabilities were down €63.5 million at €1,739.5 million (PY: €1,803.0 million).

Non-current operating assets were down €856.5 million year-on-year at €4,848.5 million (PY: €5,705.0 million). Goodwill fell to €1,388.1 million (PY: €2,709.7 million), with €1,347.9 million of this decrease resulting from impairment of goodwill. This was countered by exchange-rate effects of €18.9 million and a share deal in the amount of €38.9 million. At €2,391.9 million, property, plant and equipment was €609.8 million above the previous year's level

Interior in € millions	2019	2018	Δ in %
Sales	9,595.5	9,707.2	-1.2
EBITDA	582.4	1,389.2	-58.1
in % of sales	6.1	14.3	
EBIT	-1,325.3	988.1	-234.1
in % of sales	-13.8	10.2	
Research and development expenses (net)	1,189.2	1,064.7	11.7
in % of sales	12.4	11.0	
Depreciation and amortization[1]	1,907.7	401.1	375.6
thereof impairment[2]	1,373.2	-1.6	
Operating assets as at December 31	4,757.2	5,788.1	-17.8
Operating assets (average)	5,760.2	5,626.3	2.4
ROCE	-23.0	17.6	
Capital expenditure[3]	683.7	578.4	18.2
in % of sales	7.1	6.0	
Number of employees as at December 31[4]	48,117	47,906	0.4
Adjusted sales[5]	9,448.5	9,566.8	-1.2
Adjusted operating result (adjusted EBIT)[6]	433.4	863.2	-49.8
in % of adjusted sales	4.6	9.0	

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

of €1,782.1 million. Other intangible assets climbed by €127.0 million to €823.2 million (PY: €696.2 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €57.2 million (PY: €51.1 million) reduced the value of intangible assets.

The acquisition of 100% of the shares in Kathrein Automotive GmbH, Hildesheim, Germany, contributed €172.8 million to the increase in the Interior division's operating assets.

Exchange-rate effects increased the Interior division's total operating assets by €67.8 million in the fiscal year (PY: €13.0 million).

Average operating assets in the Interior division climbed by €133.9 million to €5,760.2 million as compared to fiscal 2018 (€5,626.3 million).

Capital expenditure (additions)
Additions to the Interior division rose by €105.3 million year-on-year to €683.7 million (PY: €578.4 million). Capital expenditure amounted to 7.1% (PY: 6.0%) of sales.

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

Employees
The number of employees in the Interior division rose by 211 to 48,117 (PY: 47,906). The rise in staff numbers as a result of the acquisition of Kathrein Automotive as well as the construction of new production sites in Budapest, Hungary; Kaunas, Lithuania; and Aguascalientes, Mexico, was partially offset by the decline in production volumes, particularly in China.

Rubber Group

Rubber Group in € millions	**2019**	2018	Δ in %
Sales	18,012.9	17,603.1	2.3
EBITDA	3,168.2	3,196.6	-0.9
in % of sales	17.6	18.2	
EBIT	1,957.5	2,278.3	-14.1
in % of sales	10.9	12.9	
Research and development expenses (net)	462.2	448.5	3.1
in % of sales	2.6	2.5	
Depreciation and amortization[1]	1,210.7	918.3	31.8
thereof impairment[2]	34.8	1.5	
Operating assets as at December 31	11,046.5	9,556.2	15.6
Operating assets (average)	11,317.3	9,618.1	17.7
ROCE	17.3	23.7	
Capital expenditure[3]	1,187.9	1,087.3	9.3
in % of sales	6.6	6.2	
Number of employees as at December 31[4]	102,685	102,763	-0.1
Adjusted sales[5]	17,549.2	17,595.1	-0.3
Adjusted operating result (adjusted EBIT)[6]	2,175.2	2,389.4	-9.0
in % of adjusted sales	12.4	13.6	

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

The Rubber Group comprises two divisions:

› The **Tire** division (26% of consolidated sales) offers the right tires for a broad range of applications – from cars, trucks, buses and specialist vehicles to bicycles and motorcycles. 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 ecologically efficient mobility.

› The **ContiTech** division (14% of consolidated sales) develops, manufactures and markets products, systems and intelligent components made of rubber, plastic, metal and fabric. They are used in mining, agriculture, railway engineering, machine and plant construction, the automotive industry and other important sectors of the future.

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

In the first half of 2019, the Rubber Group faced significantly higher prices for crude oil and natural rubber. A strained situation on the markets for chemicals, textiles and steel resulted in additional price increases. By contrast, the market for butadiene, an input material for synthetic rubber, eased in comparison to the previous year.

Development of the Tire Division

- Sales up 3.3%
- Sales down 0.2% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT down 10.2%

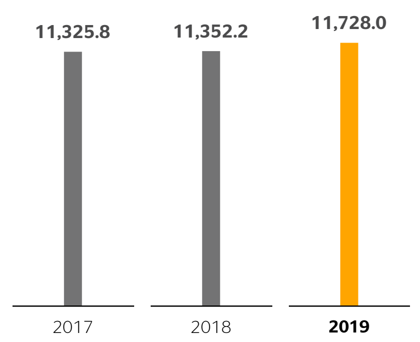
Sales volumes

In 2019, sales figures for passenger and light truck tires were 5% below the previous year's level in original equipment business and on par with the previous year's figure in the tire replacement business. Sales figures in commercial-vehicle tire business were slightly below the level of the previous year. The Tire division therefore sold around 152 million tires in 2019.

Sales up 3.3%
Sales down 0.2% before changes in the scope of consolidation and exchange-rate effects

Sales in the Tire division rose by 3.3% year-on-year to €11,728.0 million (PY: €11,352.2 million) in 2019. Before changes in the scope of consolidation and exchange-rate effects, sales declined by 0.2%.

Sales € millions



Adjusted EBIT down 10.2%

The Tire division's adjusted EBIT fell by €194.3 million or 10.2% year-on-year in 2019 to €1,708.3 million (PY: €1,902.6 million), equivalent to 14.9% (PY: 16.8%) of adjusted sales.

EBIT down 12.2%

In comparison to the previous year, the Tire division posted a decline in EBIT of €230.5 million, or 12.2%, to €1,651.6 million (PY: €1,882.1 million) in 2019. The return on sales fell to 14.1% (PY: 16.6%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €20.0 million (PY: €19.3 million).

Please see our comments on pages 61 and 62 regarding the special effects for 2019 and 2018.

ROCE amounted to 21.2% (PY: 29.1%).

Procurement

Prices for key raw materials rose steadily from the end of the previous year onward. In particular, the prices of raw materials such as natural rubber and crude oil were very volatile because of geopolitical and speculative influences. The increase in the oil price also caused prices for other oil-based input materials such as carbon black to rise. In the second half of 2019, prices for oil and butadiene were quoted much lower again. In the markets for chemicals, textiles and steel, too, the price level progressively declined over the course of the year. The price for butadiene recorded a downward trend throughout the year. Average prices for 2019 as a whole were above the previous year's level, in particular because of currency effects and the time lag between procurement, delivery and deployment.

Research and development

Research and development expenses (net) remained unchanged at €299.4 million (PY: €299.4 million), corresponding to 2.6% of sales as in the previous year.

Depreciation and amortization

Depreciation and amortization rose by €233.0 million compared to fiscal 2018 to €846.1 million (PY: €613.1 million) and amounted to 7.2% (PY: 5.4%) of sales. This included an impairment loss totaling €22.5 million in 2019 (PY: €1.2 million).

Operating assets

Operating assets in the Tire division increased by €1,119.9 million year-on-year to €7,555.2 million (PY: €6,435.3 million) as at December 31, 2019.

Working capital was up €211.6 million at €2,662.6 million (PY: €2,451.0 million). This development was due primarily to the €139.8 million decrease in operating liabilities to €1,356.7 million (PY: €1,496.5 million). Inventories increased by €148.4 million to €1,793.4 million (PY: €1,645.0 million). Operating receivables fell by €76.6 million to €2,225.9 million (PY: €2,302.5 million).

Non-current operating assets were up €878.7 million year-on-year at €5,877.2 million (PY: €4,998.5 million). Goodwill increased by €17.5 million to €409.7 million (PY: €392.2 million). This increase resulted from a purchase price adjustment of €13.3 million, a share deal of €3.0 million and exchange-rate effects of €1.2 million. Property, plant and equipment increased by €900.5 million to €5,187.6 million (PY: €4,287.1 million). Other intangible assets fell by €29.1 million to €116.8 million (PY: €145.9 million), with €10.2 million of this decrease resulting from a purchase price adjustment and €1.5 million from four asset deals and two share deals. This was countered by amortization of intangible assets from purchase price allo-

Tires in € millions	**2019**	2018	Δ in %
Sales	11,728.0	11,352.2	3.3
EBITDA	2,497.7	2,495.2	0.1
in % of sales	21.3	22.0	
EBIT	1,651.6	1,882.1	-12.2
in % of sales	14.1	16.6	
Research and development expenses (net)	299.4	299.4	0.0
in % of sales	2.6	2.6	
Depreciation and amortization[1]	846.1	613.1	38.0
thereof impairment[2]	22.5	1.2	
Operating assets as at December 31	7,555.2	6,435.3	17.4
Operating assets (average)	7,797.5	6,471.2	20.5
ROCE	21.2	29.1	
Capital expenditure[3]	926.2	837.1	10.6
in % of sales	7.9	7.4	
Number of employees as at December 31[4]	56,884	55,840	1.9
Adjusted sales[5]	11,468.7	11,352.2	1.0
Adjusted operating result (adjusted EBIT)[6]	1,708.3	1,902.6	-10.2
in % of adjusted sales	14.9	16.8	

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

cation (PPA) in the amount of €20.0 million (PY: €19.3 million). Operating assets rose in the Tire division by a total of €20.6 million, with €20.4 million of this coming from several asset deals, two share deals and one purchase price adjustment, and €0.2 million from a reversal of a purchase price liability.

Exchange-rate effects increased the Tire division's total operating assets by €120.5 million in the fiscal year (PY: reduction of €14.8 million).

Average operating assets in the Tire division increased by €1,326.3 million to €7,797.5 million compared with fiscal 2018 (€6,471.2 million).

Capital expenditure (additions)

Additions to the Tire division rose by €89.1 million year-on-year to €926.2 million (PY: €837.1 million). Capital expenditure amounted to 7.9% (PY: 7.4%) of sales.

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

Employees

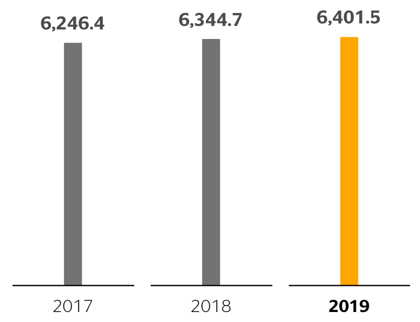
The number of employees in the Tire division increased by 1,044 to 56,884 (PY: 55,840). At the production companies, the adjustment to demand-driven production at the plants in Lousado, Portugal; Timisoara, Romania; Púchov, Slovakia; Rayong, Thailand; Sumter, South Carolina, U.S.A.; and Mount Vernon, Illinois, U.S.A., led to an increase in staff numbers. In addition, the increase in the number of employees at distribution and retail companies was attributable in particular to the acquisition of Reifen John GmbH & Co KG, Salzburg, Austria.

Development of the ContiTech Division

- Sales up 0.9%
- Sales down 3.4% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT down 4.1%

Sales up 0.9%
Sales down 3.4% before changes in the scope of consolidation and exchange-rate effects
Sales in the ContiTech division rose by 0.9% year-on-year to €6,401.5 million (PY: €6,344.7 million) in 2019. Before changes in the scope of consolidation and exchange-rate effects, sales declined by 3.4%. In accordance with the generally subdued market environment in the automotive sector, sales fell short of the previous year. In the industrial business, sales posted slight growth year-on-year.

Sales € millions



Adjusted EBIT down 4.1%
The ContiTech division's adjusted EBIT was down by €19.9 million or 4.1% year-on-year in 2019 to €466.9 million (PY: €486.8 million), equivalent to 7.5% (PY: 7.7%) of adjusted sales.

EBIT down 22.8%
In comparison to the previous year, the ContiTech division posted a decline in EBIT of €90.3 million, or 22.8%, to €305.9 million (PY: €396.2 million) in 2019. The return on sales fell to 4.8% (PY: 6.2%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €94.6 million (PY: €91.2 million).

Please see our comments on pages 61 and 62 regarding the special effects for 2019 and 2018.

ROCE amounted to 8.7% (PY: 12.6%).

Procurement
As a result of rising demand on the raw materials markets, the ContiTech division registered increasing prices for many raw materials in a very volatile environment. In particular, prices for carbon black, other filler materials and textiles were up significantly year-on-year. Overall, average material prices rose year-on-year, partially as a result of exchange-rate effects.

Research and development
Research and development expenses (net) rose by €13.7 million or 9.2% year-on-year to €162.8 million (PY: €149.1 million), corresponding to 2.5% (PY: 2.3%) of sales.

Depreciation and amortization
Depreciation and amortization rose by €59.4 million compared to fiscal 2018 to €364.6 million (PY: €305.2 million) and amounted to 5.7% (PY: 4.8%) of sales. This included impairment totaling €12.3 million in 2019 (PY: €0.3 million).

Operating assets
Operating assets in the ContiTech division increased by €370.4 million year-on-year to €3,491.3 million (PY: €3,120.9 million) as at December 31, 2019.

Working capital was up €35.0 million at €1,092.3 million (PY: €1,057.3 million). Inventories decreased by €17.7 million to €786.5 million (PY: €804.2 million). Operating receivables rose by €45.6 million to €1,089.5 million (PY: €1,043.9 million) as at the reporting date. Operating liabilities fell by €7.1 million to €783.7 million (PY: €790.8 million).

Non-current operating assets were up €357.5 million at €2,750.8 million (PY: €2,393.3 million). Goodwill increased by €87.6 million to €581.3 million (PY: €493.7 million), with €83.8 million of this increase resulting from two asset deals and two share deals and €6.1 million from exchange-rate effects. This was countered by impairment of goodwill of €2.3 million. At €1,653.5 million, property, plant and equipment was €234.4 million above the previous year's level of €1,419.1 million. Other intangible assets climbed by €14.9 million to €468.1 million (PY: €453.2 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €94.6 million (PY: €91.2 million) reduced the value of intangible assets.

Two asset deals and two share deals contributed €337.8 million to an increase in the ContiTech division's operating assets. The increase mainly resulted from the acquisition of the anti-vibration systems business of Cooper-Standard Automotive Inc., Novi, Michigan, U.S.A., and the acquisition of Merlett Tecnoplastic S.p.A., Daverio, Italy.

Exchange-rate effects increased the ContiTech division's total operating assets by €32.5 million in the fiscal year (PY: €15.1 million).

Average operating assets in the ContiTech division climbed by €372.9 million to €3,519.8 million as compared to fiscal 2018 (€3,146.9 million).

ContiTech in € millions	**2019**	2018	Δ in %
Sales	6,401.5	6,344.7	0.9
EBITDA	670.5	701.4	–4.4
in % of sales	10.5	11.1	
EBIT	305.9	396.2	–22.8
in % of sales	4.8	6.2	
Research and development expenses (net)	162.8	149.1	9.2
in % of sales	2.5	2.3	
Depreciation and amortization[1]	364.6	305.2	19.5
thereof impairment[2]	12.3	0.3	
Operating assets as at December 31	3,491.3	3,120.9	11.9
Operating assets (average)	3,519.8	3,146.9	11.8
ROCE	8.7	12.6	
Capital expenditure[3]	261.7	250.2	4.6
in % of sales	4.1	3.9	
Number of employees as at December 31[4]	45,801	46,923	–2.4
Adjusted sales[5]	6,197.1	6,336.7	–2.2
Adjusted operating result (adjusted EBIT)[6]	466.9	486.8	–4.1
in % of adjusted sales	7.5	7.7	

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

Capital expenditure (additions)
Additions to the ContiTech division increased by €11.5 million year-on-year to €261.7 million (PY: €250.2 million). Capital expenditure amounted to 4.1% (PY: 3.9%) of sales.

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

Employees
The number of employees in the ContiTech division fell by 1,122 to 45,801 (PY: 46,923). This was primarily due to the adjustment to lower production volumes and the implementation of efficiency and structural programs, which were partially offset by the rise in staff numbers through the acquisition of the anti-vibration systems business of Cooper-Standard Automotive Inc., Novi, Michigan, U.S.A., and the acquisition of Merlett Tecnoplastic S.p.A., Daverio, Italy.

Continental AG – Short Version in Accordance with *HGB*

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

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

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

Total assets increased by €2,393.9 million year-on-year to €23,427.0 million (PY: €21,033.1 million). On the assets side, the change is due primarily to the €2,027.5 million increase in financial investments, the €499.8 million rise in cash and cash equivalents and the €52.8 million increase in property, plant and equipment. This was countered by a €202.3 million decrease in receivables from affiliated companies to €6,785.4 million (PY: €6,987.7 million). Investments rose by €2,027.5 million year-on-year to €15,481.9 million (PY: €13,454.4 million) and now account for 66.1% of total assets (PY: 64.0%). The increase resulted primarily from further contributions to subsidiaries of €3,050.0 million as part of the transformation of the Powertrain division into an independent legal entity. This was countered by impairment of €1,094.9 million.

Property, plant and equipment increased by €52.8 million year-on-year to €75.0 million (PY: €22.2 million). The increase resulted primarily from the purchase of a parcel of land and the capitalized assets under construction for the construction of the new headquarters in Hanover.

At €67.8 million (PY: €42.8 million), prepaid expenses and deferred charges were up €25.0 million. The increase resulted primarily from expenses in connection with the renegotiated revolving credit line, expenses in connection with the placement of two euro bonds and other prepaid expenses.

Net assets and financial position of Continental AG	**December 31, 2019**	December 31, 2018
Assets in € millions		
Intangible assets	27.7	19.1
Property, plant and equipment	75.0	22.2
Investments	15,481.9	13,454.4
Non-current assets	**15,584.6**	**13,495.7**
Inventories	–	0.0
Receivables and other assets	6,822.5	7,042.3
Cash and cash equivalents	952.1	452.3
Current assets	**7,774.6**	**7,494.6**
Prepaid expenses and deferred charges	**67.8**	**42.8**
Total assets	**23,427.0**	**21,033.1**
Shareholders' equity and liabilities in € millions		
Subscribed capital	512.0	512.0
Capital reserves	4,179.1	4,179.1
Revenue reserves	54.7	54.7
Accumulated profits brought forward from the previous year	808.5	570.4
Net income	5,047.5	1,188.1
Shareholders' equity	**10,601.8**	**6,504.3**
Provisions	**952.9**	**936.4**
Liabilities	**11,871.5**	**13,591.9**
Deferred income	**0.8**	**0.5**
Total equity and liabilities	**23,427.0**	**21,033.1**
Gearing ratio in %	39.4	94.8
Equity ratio in %	45.3	30.9

On the equity and liabilities side, the change is primarily due to the €4,097.5 million increase in total equity. By contrast, accounts payable fell by €1,720.4 million year-on-year to €11,871.5 million (PY: €13,591.9 million).

Bonds increased by €1,524.3 million year-on-year to €3,732.2 million (PY: €2,207.9 million). This increase is primarily due to the issuance of two euro bonds in September 2019 with a total nominal volume of €1,100.0 million. In addition, two private placements with a total nominal volume of €300.0 million were carried out in October 2019. Short-term commercial paper issuances resulted in a carrying amount of €923.5 million (PY: €800.0 million).

Bank loans and overdrafts increased by €445.9 million to €741.7 million (PY: €295.8 million). This increase is primarily due to promissory note bank loans borrowed in April 2019 with a total volume of €500.0 million.

Trade accounts payable increased by €39.4 million to €100.3 million (PY: €60.9 million). By contrast, liabilities to affiliated companies fell by €3,730.8 million year-on-year to €7,291.6 million (PY: €11,022.4 million).

Provisions rose by €16.5 million year-on-year to €952.9 million (PY: €936.4 million), due to the €21.8 million rise in pension provisions to €232.4 million (PY: €210.6 million) and the €51.1 million increase in restructuring provisions to €675.5 million (PY: €624.4 million). By contrast, other provisions fell by €56.4 million year-on-year to €45.0 million (PY: €101.4 million).

Total equity rose from €6,504.3 million in the previous year to €10,601.8 million. The decrease as a result of the dividend payment for fiscal 2018 in the amount of €950.0 million was offset by the net income of €5,047.5 million generated in fiscal 2019. The equity ratio rose from 30.9% to 45.3% as a result of the increase in total equity.

Sales increased by €39.0 million to €299.4 million (PY: €260.4 million), primarily due to the increase in sales from corporate services.

Net investment income rose by €3,831.3 million year-on-year to €5,294.0 million (PY: €1,462.7 million). As in the previous year, it mainly consisted of profit and loss transfers from the subsidiaries. The income from profit transfers resulted particularly from Continental Caoutchouc-Export-GmbH, Hanover, in the amount of €5,284.6 million, which, through the transfer of profits from CAS-One Holdinggesellschaft mbH, Hanover, received a special dividend from CGH Holding B.V., Maastricht, Netherlands, of €5,100.0 million; Continental Automotive GmbH, Hanover, in the amount of €214.1 million; UMG Beteiligungsgesellschaft mbH, Hanover, in the amount of €88.5 million; and Formpolster GmbH, Hanover, in the amount of €728.8 million. In addition, investment income from Teves AG & Co. OHG, Frankfurt am Main, of €47.8 million was received. This was countered by impairment of €1,094.9 million on the carrying amounts of affiliated companies.

The negative net interest result improved by €33.7 million year-on-year to €31.8 million in fiscal 2019 (PY: €65.5 million). Interest expenses fell by €27.2 million to €80.9 million (PY: €108.1 million), primarily due to the repayment of the euro bond with a nominal value of €750.0 million and an interest rate of 3.0% p.a. on July 16, 2018.

Interest income climbed by €6.5 million year-on-year to €49.1 million (PY: €42.6 million). €5.4 million of this was interest and similar income from affiliated companies, and €1.1 million interest and similar income from other companies.

The tax expense of €59.2 million (PY: tax income of €0.2 million) resulted primarily from current corporation and trade tax for fiscal 2019 as well as from non-imputable foreign withholding tax.

After taking income tax expense into account, Continental AG posted net income for the year of €5,047.5 million (PY: €1,188.1 million). The after-tax return on equity was 47.6% (PY: 18.3%).

Taking into account the accumulated profits brought forward from the previous year of €808.5 million, retained earnings amounted to €5,856.0 million. The Supervisory Board and the Executive Board will propose to the Annual Shareholders' Meeting the distribution of a dividend of €4.00 per share. With 200,005,983 shares entitled to dividends, the total distribution will thus amount to €800,023,932.00. The remaining amount is to be carried forward to new account.

We expect further income from profit and loss transfers and investment income from the subsidiaries within the scope of the holding activities of Continental AG in fiscal 2020. Furthermore, Continental AG will continue to provide a financing function for its subsidiaries.

Earnings position of Continental AG in € millions	2019	2018
Sales	299.4	260.4
Cost of sales	-287.6	-252.9
Gross margin on sales	**11.8**	**7.5**
General administrative expenses	-177.2	-193.7
Other operating income	67.5	25.5
Other operating expenses	-73.4	-59.4
Net investment income	5,294.0	1,462.7
Income from other securities and long-term loans	16.2	11.6
Amortization of investments and of securities under current assets	-0.4	-0.8
Net interest result	-31.8	-65.5
Result from activities	**5,106.7**	**1,187.9**
Income tax expense	-59.2	0.2
Net income	**5,047.5**	**1,188.1**
Accumulated profits brought forward from the previous year	808.5	570.4
Retained earnings	**5,856.0**	**1,758.5**

Other Information
Dependent Company Report

Final declaration from the Executive Board's report on relations with affiliated companies pursuant to Section 312 of the German Stock Corporation Act *(Aktiengesetz – AktG)*
In fiscal 2019, Continental AG was a dependent company of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, as defined under Section 312 *AktG*. In line with Section 312 (1) *AktG*, the Executive Board of Continental AG has prepared a report on relations with affiliated companies, which contains the following final declaration:

"We declare that the company received an appropriate consideration for each transaction and measure listed in the report on relations with affiliated companies from January 1 to December 31, 2019, under the circumstances known to us at the time the transactions were made or the measures taken or not taken. To the extent the company suffered any detriment thereby, the company was granted the right to an appropriate compensation before the end of the 2019 fiscal year. The company did not suffer any detriment because of taking or refraining from measures."

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

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

2. Shareholdings exceeding 10% of voting rights
For details of the equity interests exceeding 10% of the voting rights (reported level of equity interest), please refer to the notice in accordance with the German Securities Trading Act *(Wertpapierhandelsgesetz – WpHG)* under Note 40 to the consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

a) The agreement concluded on December 3, 2019, for a syndicated revolving credit facility of €4.0 billion grants each creditor the right to terminate the agreement prematurely and to demand repayment of the loans granted by it if one person or several persons acting in concert acquire control of Continental AG and subsequent negotiations concerning a continuation of the loan do not lead to an agreement. The term "control" is defined as the holding of more than 50% of the voting rights or if Continental AG concludes a domination agreement as defined under Section 291 *AktG* with Continental AG as the company dominated.

b) The bonds issued by Continental AG in September 2013 at a nominal amount of €750 million, the €600-million bond issued by Continental AG in November 2016, the bonds issued by Continental AG in September 2019 at a nominal amount of €500 million and €600 million, and the bonds issued by Continental AG in October 2019 at a nominal amount of €100 million and €200 million entitle each bondholder to demand that the respective issuer redeem or acquire the bonds held by the bondholder at a price established in the bond conditions in the event of a change of control at Continental AG. The bond conditions define a change of control as the sale of all or substantially all of the company's assets to third parties that are not affiliated with the company, or as one person or several persons acting in concert, pursuant to Section 2 (5) of the German Takeover Act *(Wertpapiererwerbs- und Übernahmegesetz – WpÜG)*, holding more than 50% of the voting rights in Continental AG by means of acquisition or as a result of a merger or other form of combination with the participation of Continental AG. For the €750-million bond issued in September 2013, the holding of voting rights by Schaeffler GmbH (operating as IHO Verwaltungs GmbH following legal restructuring within the corporation in 2015), its legal successors, or its affiliated companies does not constitute a change of control within the meaning of the bond conditions.

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

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

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

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

Remuneration of the Executive Board

The total remuneration of the members of the Executive Board comprises a number of remuneration components. Specifically, these components comprise fixed remuneration, variable remuneration elements including components with a long-term incentive effect, additional benefits and retirement benefits. Further details including individual remuneration are specified in the remuneration report contained in the corporate governance report starting on page 23. The remuneration report is a part of the management report.

Corporate Governance Declaration Pursuant to Section 289f *HGB*

The corporate governance declaration pursuant to Section 289f of the German Commercial Code *(Handelsgesetzbuch – HGB)* is available to our shareholders in the Company/Corporate Governance section of Continental's website.

Report on Risks and Opportunities

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

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

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

Risk and Opportunity Management and Internal Control System

In order to operate successfully as a company in a complex business environment and to ensure the effectiveness, efficiency and propriety of accounting and compliance with the relevant legal and sub-legislative regulations, Continental has created a governance system that encompasses all relevant business processes. The governance system comprises the internal control system, the risk management system and the compliance management system, which is described in detail in the corporate governance declaration on page 22. The risk management system in turn also includes the early risk identification system in accordance with Section 91 (2) of the German Stock Corporation Act *(Aktiengesetz – AktG)*.

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

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

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

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

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

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

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

Risk reporting

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

Risk assessment and reporting

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

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

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

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

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

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

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

Risk management

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

Material Risks

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

Financial Risks

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

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

In order to finance its current business activities as well as its investments and payment obligations, Continental concluded a new syndicated loan agreement in December 2019 from which risks may arise. Under the terms of the syndicated loan agreement, the lenders have the right to demand repayment of the loan in the event of a change of control at Continental AG.

The requirements for and consequences of a change in control in accordance with the terms of the bonds or the syndicated loan agreement are described in detail in the Additional Disclosures and Notes Pursuant to Section 289a and Section 315a *HGB* section on pages 87 and 88. The loans and bonds cited here could also immediately become due and payable if other financing agreements of more than €75.0 million are not repaid on time or are prematurely called for repayment.

The committed volume of the syndicated loan consists of a revolving tranche of €4.0 billion (due in December 2024). This had not been utilized as at the end of fiscal 2019.

Continental is exposed to risks associated with changes in currency exchange rates and hedging.

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

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

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

In order to quantify the possible effects of transaction-related exchange-rate risks from financial instruments on the earnings position of the Continental Corporation, transaction currencies with a significant exchange-rate risk within the next 12 months were identified based on current net exposure. If the exchange rates of these currencies all develop disadvantageously for Continental at the same time, then the hypothetical negative effect on the corporation's earnings position, calculated based on a 10% change in the current closing rate, would amount to between €400 million and €500 million.

Risks Related to the Markets in which Continental Operates

Continental could be exposed to material risks in connection with a global financial and economic crisis.
Continental generates a large percentage (71%) of its sales from automobile manufacturers (original equipment manufacturers, OEMs). The remainder of Continental's sales is generated from the replacement or industrial markets, mainly in the replacement markets for passenger-car and truck tires, and to a lesser extent in the non-automotive end markets of the other divisions.

The automotive markets in Europe and North America, and in particular in China, are currently developing much more weakly than in the past, while also displaying increasing volatility and uncertainty. If this prolonged market weakness continues or is intensified by a general economic downturn, it would likely adversely affect Continental's sales and earnings. In 2019, Continental's five largest OEM customers (Daimler, Fiat-Chrysler, Ford, Renault-Nissan-Mitsubishi and VW) generated approximately 39% of sales. If one or more of Continental's OEM customers is lost or terminates a supply contract prematurely, the original investments made by Continental to provide such products or outstanding claims against such customers could be wholly or partially lost.

Based on a scenario analysis that assumes a decline in the global production of passenger cars and light commercial vehicles to 80 million units in 2020, and taking account restructuring measures required as a result, we anticipate a decline of around 1 percentage point in the adjusted EBIT margin.

Continental operates in a cyclical industry.
Global production of vehicles and, as a result, sales to OEMs (from whom Continental currently generates 71% of its sales) are subjected to major fluctuations in some cases. They depend, among other things, on general economic conditions, disposable income and household consumer spending and preferences, which can be affected by a number of factors, including fuel costs as well as the availability and cost of consumer financing. As the volume of automotive production fluctuates, the demand for Continental's products also fluctuates, as OEMs generally do not commit to purchasing minimum quantities from their suppliers or to fixed prices. It is difficult to predict future developments in the markets Continental serves, which also makes it harder to estimate the requirements for production capacity. As Continental's business is characterized by high fixed costs, it is thus exposed to the risk that fixed costs are not fully covered in the event of falling demand and the resulting underutilization of its facilities (particularly in the Automotive Group). Conversely, should the markets in which Continental operates once again grow faster than anticipated, there could be insufficient capacity to meet customer demand. To reduce the impact of the potential risk resulting from this dependence on the automotive industry, Continental is strengthening its replacement business and industrial business, including by means of acquisitions.

Continental is reliant on certain markets.
In 2019, Continental generated 48% of its total sales in Europe and 19% in Germany alone. By comparison, 26% of Continental's total sales in 2019 were generated in North America, 22% in Asia, and 4% in other countries. Therefore, in the event of an economic downturn in Europe, particularly in Germany, for example, Continental's business and earnings situation could be affected more extensively than that of its competitors. Furthermore, the automotive and tire markets in Europe and North America are largely saturated. To minimize these risks, Continental is striving to improve the regional sales balance, particularly by generating more sales in emerging markets and especially in Asia, as described in the Corporate Strategy section. However, the established markets in Europe and North America as well as the growth markets, particularly in China, are currently developing much more weakly than in the past while also displaying increasing volatility and uncertainty, which makes it more difficult to plan and implement suitable measures to reduce regional market dependencies.

Continental is exposed to risks associated with the market trends and developments that may greatly affect the demand for Continental's products and systems.
Continental currently generates 71% of its sales from OEMs, mainly in its Automotive Group. Global production of vehicles and, as a result, business with OEM customers are currently subject to a number of market trends and technological developments that may greatly affect the mix of products and systems sold by Continental to OEMs.

- Due to increasingly stringent consumption and emission standards throughout the industrial world, including the E.U. and Asia, car manufacturers are increasingly being forced to develop environmentally compatible technologies aimed at lowering fuel consumption as well as CO_2 and particulate emissions. Since emission standards in Europe and other countries will consist of increasingly stringent reduction targets in the future, the number of hybrid vehicles and all-electric vehicles is expected to increase significantly over the next few years. Demand for products and systems for combustion engines is likely to fall as a result.
- The trend toward more electronic and digitalized products may negatively affect demand for established analog/mechanical products and systems.

As a result of the market trends and technological developments described previously, the vehicle mix sold by Continental's customers, as well as the vehicle equipment, has changed considerably in the last few years and may also continue to change in the future. Continental is reacting to this development with a balanced and innovative product portfolio.

Continental could be affected by the consequences of the outbreak of the new coronavirus (SARS-CoV-2).
Due to the spread of the new coronavirus (SARS-CoV-2), Continental is exposed to procurement- as well as sales-related risks. The suspension of production imposed by the Chinese government is affecting Continental's production sites and those of its suppliers and customers in China, and consequently in other countries. This is having an impact on the availability of raw materials and components as well as on our sales volumes. Beyond this, the negative macroeconomic effects of this situation cannot yet be predicted. In spite of risk-minimizing measures, such as switching to alternative sources of supply, Continental's business and earnings situation could be exposed to significant adverse effects if the outbreak cannot be swiftly contained or stemmed to a considerable extent.

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

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

Risks Related to Continental's Business Operations

Continental is exposed to risks in connection with its pension commitments.
Continental provides defined benefit pension plans in Germany, the U.S.A., the U.K. and certain other countries. As at December 31, 2019, the pension obligations amounted to €7,875.1 million. These existing obligations are financed predominantly through externally invested pension plan assets. In 2006, Continental established legally independent trust funds under contractual trust arrangements (CTAs) for the funding of pension obligations of certain subsidiaries in Germany. In 2007, Continental assumed additional CTAs in connection with the acquisition of Siemens VDO. As at December 31, 2019, Continental's net pension obligations (defined benefit obligations less the fair value of plan assets) amounted to €4,842.2 million.

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

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

If the discount rates used to calculate net pension obligations were to decrease by 0.5 percentage points at the end of the year, ceteris paribus, this would lead to a rise in net pension obligations of €800 million to €900 million, which would not be reduced by taking measures to minimize risk. However, this would not affect EBIT.

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

The quantifiable risks from warranty and product liability claims as at December 31, 2019, taking into account provisions, amounted to between €100 million and €200 million.

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

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

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

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

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

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

Legal and Environmental Risks

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

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

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

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

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

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

In October 2012, Continental Automotive Systems US, Inc., Auburn Hills, Michigan, U.S.A., and two of Continental's South Korean subsidiaries became aware of investigations by the U.S. Department of Justice (DOJ) and the Korean Fair Trade Commission (KFTC) in connection with the suspected involvement in violations of U.S. and South Korean antitrust law in instrument cluster business. CAE successfully appealed against the fine of KRW 45,992 million (around €36 million) that the KFTC had originally imposed on Continental Automotive Electronics LLC, Bugang-myeon, South Korea (CAE), in this case on December 23, 2013. On May 21, 2018, the KFTC subsequently adjusted the fine to KRW 32,101 million (around €25 million). This decision is final. On November 24, 2014, CAE and Continental Automotive Korea Ltd., Seongnam-si, South Korea, entered into an agreement with the DOJ that was confirmed by the competent U.S. court on April 1, 2015. Under this agreement, the two companies admitted to charges of violating U.S. antitrust law and agreed to pay a fine of U.S. $4.0 million (around €3.6 million). In the proceedings relating to class action lawsuits filed in the U.S.A. for alleged damages resulting from the antitrust violations, settlements totaling U.S. $5.0 million (around €4.5 million) were concluded in 2018. The risk of investigations by other antitrust authorities into this matter and further claims for damages by further alleged victims remain unaffected by the fines imposed. Continental has conducted internal audits in certain business units to check compliance with antitrust law. These audits revealed anticompetitive behavior with respect to product groups. Continental took measures to end this behavior. There is a risk that antitrust authorities may conduct investigations due to this behavior and impose fines and that third parties, especially customers, may file claims for damages. The amount of such fines and any subsequent claims is unknown from the current perspective, but could be significant. It also cannot be ruled out that future internal audits may reveal further actual or potential violations of antitrust law that in turn could result in fines and claims for damages. In addition, alleged or actual antitrust behavior could seriously disrupt the relationships with business partners.

In September 2014, the European Commission conducted a search at a subsidiary of Continental. On February 21, 2018, the Commission imposed a fine of €44.0 million on Continental AG; Continental Teves AG & Co. oHG, Frankfurt am Main, Germany; and Continental Automotive GmbH, Hanover, Germany; for the unlawful exchange of information. This involved specific brake components. Continental has set aside provisions that cover this fine. Continental cannot rule out the possibility that customers will claim for damages with reference to the commission's decision. At this point in time, it is not possible to say whether such claims will be submitted and, if they are, how much the damages will be – irrespective of whether or not the claims are justified. As a result, it cannot be ruled out that the resulting expenses will exceed the provisions that have been set aside for this purpose. In accordance with IAS 37.92 and GAS 20.154, no further disclosures will be made with regard to the proceedings and the related measures so as not to adversely affect the company's interests.

Continental is exposed to risks from legal disputes.
Companies from the Continental Corporation are involved in a number of legal and arbitration proceedings and could become involved in other such proceedings in the future. These proceedings could involve substantial claims for damages or payments, particularly in the U.S.A. For more information on legal disputes, see Note 35 of the notes to the consolidated financial statements.

Material Opportunities

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

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

There are opportunities for Continental if the sales markets develop better than anticipated.
If demand for automobiles and replacement tires develops better than we have anticipated, particularly on the European market, this would have positive effects on Continental's sales and earnings due to the high share of sales generated in this region (48%).

There are opportunities for Continental if there is a stable price level on the raw materials markets relevant to us.
Continental's earnings situation is affected to a significant extent by the cost of raw materials, electronic components and energy. For the Automotive Group divisions, this particularly relates to the cost of electronic components as well as metals and plastics. If we succeed even better than before in offsetting possible cost increases or compensating for them through higher prices for our products, this would then have a positive effect on Continental's earnings. The earnings situation of the Rubber Group divisions is significantly impacted by the cost of oil and of natural and synthetic rubber. If prices for natural rubber in particular decline again, and at the same time the prices for synthetic rubber stabilize at the low level at the end of 2019, this could have a positive impact on Continental's earnings.

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

Additional legal regulations with the aim of further improving traffic safety would also provide an opportunity for a rise in demand for Continental's products. We are already among the leading providers of electronic brake systems as well as control electronics for airbags and seat belts. Based on our broad product portfolio for active vehicle safety, we have developed more advanced safety systems over the past years, including emergency brake assist, lane departure warning and blind spot detection systems, as well as the head-up display. At present, these systems are mainly optionally installed in luxury vehicles, but they are increasingly being installed in other classes of vehicle too. Further volume growth is expected as a result of more stringent requirements in various regional safety tests, since an increasing number of safety systems have been recognized as having achieved the very highest level of safety. In addition, more and more legal requirements in individual countries are being expanded to include active safety systems.

There are opportunities for Continental from digitalization and particularly from the intelligent interconnection of vehicles with each other and with the internet.
By intelligently connecting advanced driver assistance systems and driver information systems with each other and with the internet, we are laying the foundations for gradually making automated driving possible in the coming years. We also plan to implement fully automated driving in the current decade by means of collaborations with leading providers from the technology and internet sector. To this end, we are developing new system, service and software solutions that can offer substantial growth potential for Continental with positive effects on its future sales and attainable margins. This also includes the intelligent use of automotive data. This digitalization opens up new markets for mobility services.

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

The trend toward automated driving presents Continental with opportunities.
In recent years, the trend from assisted driving to fully automated driving has continued. Some OEMs expect to be able to provide this function in just a few years. A key requirement for fully automated driving is that vehicles be equipped with sensors. Today, an average of two sensors for assisted driving are installed per vehicle. Merely for partly automated driving, an average of 16 sensors are required, including radar, laser and camera sensors. OEMs estimate that more than 40 sensors are needed in order to realize fully automated driving. Since Continental is already one of the leading providers of advanced driver assistance systems, the increasing volume of sensors and electronic control units for automated driving could result in considerable sales and earnings opportunities.

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

Statement on Overall Risk and Opportunities Situation

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

The duration of the current market weakness and the extent to which the automotive industry is drawn into ongoing trade disputes in the future remain to be seen, as does the extent to which the effects of the coronavirus impact our business in the current year.

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

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

Report on Expected Developments
Future General Conditions

Forecast of Macroeconomic Development

In February 2020, the International Monetary Fund (IMF) lowered its 2020 growth forecast for the global economy from its World Economic Outlook Update (WEO Update) in January by 0.1 percentage points to 3.2%. This is due to the expected economic damage from the current coronavirus outbreak.

According to the IMF, the higher year-on-year growth will be driven in particular by emerging and developing economies. Most notably, it forecasts an increase in gross domestic product (GDP) of 5.8% in India, 2.2% in Brazil and 1.9% in Russia, according to its WEO Update. But in many other emerging and developing economies, too, the IMF expects growth to increase slightly in 2020. Growth in the Chinese economy is likely to slow further, however, in particular due to the expected negative effects of the coronavirus. In February 2020, the IMF lowered its GDP forecast for China from 6.0% to 5.6% for the current year.

For the eurozone, the IMF anticipates that GDP will rise by 1.3% in 2020 according to its WEO Update. A key factor here is the German economy, for which the IMF estimates GDP growth of 1.1%.

For the U.S.A., the IMF predicts a decline in GDP growth to 2.0% for 2020 in its WEO Update. The IMF expects the effects of U.S. fiscal and monetary policy to subside and anticipates a more restrictive budget policy.

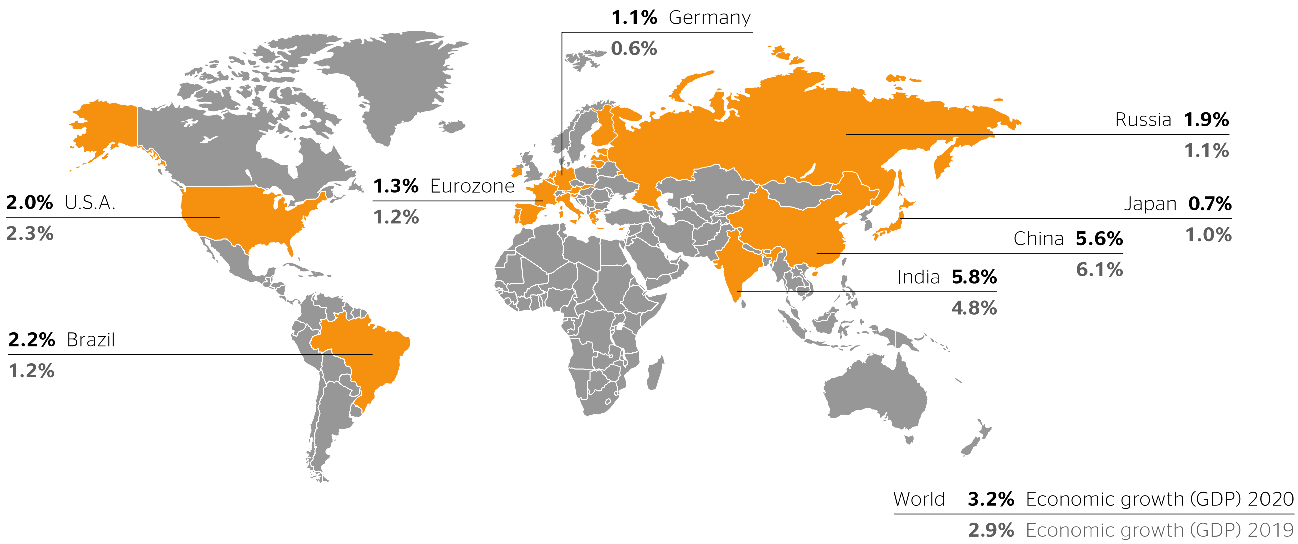
For Japan, the IMF believes that the expansive fiscal policy measures announced by the Japanese government at the start of December 2019 will have only a limited positive effect. For 2020, it forecasts moderate growth of 0.7% in its WEO Update.

Key opportunities for the global economy identified by the IMF in its WEO Update include in particular stronger-than-expected economic growth in major emerging markets and positive effects from the ongoing expansionary monetary policy in many countries. In addition, the partial agreement in the trade conflict between the U.S.A. and China could have a positive impact on business and consumer sentiment.

According to its WEO Update, the IMF sees key risks in growing geopolitical tensions, in particular between the U.S.A. and Iran, and in an escalation of various trade conflicts. Due to the high level of public and private debt, this could lead to an abrupt deterioration in general sentiment, companies' propensity to invest and financial market conditions.

As of February 2020, the IMF anticipates that the economic damage caused by the spread of the coronavirus will be manageable. Its amendments in February assume that China's economy will return to normal in the second quarter of 2020 and that a global pandemic can be avoided.

Year-on-year economic growth (GDP) in 2020



Sources: IMF, Eurostat, statistical offices of the respective countries, Bloomberg.

Forecast for Key Customer Sectors

Forecast for production of passenger cars and light commercial vehicles
We currently expect the global production of passenger cars and light commercial vehicles weighing less than 6 metric tons to decline by 2% to 5% year-on-year in 2020. This estimate takes into account the expected impact of the coronavirus on production volumes in the first quarter of 2020. We currently assume that production will decline by more than 10% year-on-year. Our market forecast does not, however, include possible further disruptions to production and the supply chain as well as demand as a result of the continuing spread of the coronavirus. Such disruptions cannot be gauged at the current time.

For China, we anticipate that production volumes will fall by 5% in the current year if the consequences of the coronavirus outbreak remain limited to the first quarter of 2020. Based on current data, we expect production to decline by at least 30% year-on-year in the first quarter of 2020. For the year as a whole, we currently expect a decrease in production of 5% to 10% compared to the previous year.

For Europe, we anticipate a decrease in production volumes of 3% to 5% in 2020. A recovery in demand is not yet in sight. Moreover, the entry into force of new CO_2 emissions standards in the European Union (E.U.) are also likely to affect manufacturers' production volumes in the current year. In North America, we currently expect production to decrease by 0% to 2%.

Forecast for production of medium and heavy commercial vehicles
According to our estimates, the global production of commercial vehicles weighing more than 6 metric tons will fall by 5% to 10% year-on-year in 2020.

We expect production in the U.S.A. and Europe to decline in particular as a result of a sharp decrease in order intake. We therefore forecast a slump in production in North America of 15% to 25%, and a decline in Europe of 5% to 15%.

In China, we likewise expect subdued demand due to the spread of the coronavirus and a decline in production volumes of 5% to 10%.

Forecast for replacement-tire markets for passenger cars and light commercial vehicles
The low growth in sales volumes of replacement tires for passenger cars and light commercial vehicles weighing less than 6 metric tons is not expected to continue in 2020. On a global level, we anticipate a decline of 0% to 2%.

In China, quarantine measures to contain the coronavirus are expected to cause the number of kilometers driven to decline, with demand for replacement tires likely to fall sharply in the first quarter of 2020 as a result. In the following quarters, we expect the situation to stabilize at the previous year's level. For 2020 as a whole, we anticipate a 5% to 10% decline in demand in China.

In Europe, we expect a 0% to -1% change in demand for replacement tires for passenger cars and light commercial vehicles in 2020. In North America, we anticipate a slight increase of between 0% to 1%.

Forecast for replacement-tire markets for medium and heavy commercial vehicles
Currently, global demand for replacement tires for commercial vehicles weighing more than 6 metric tons is likely to decline by 0% to 2% in 2020.

In China in particular, demand in the first quarter of 2020 is likely to be affected by quarantine measures to contain the coronavirus. For 2020 as a whole, we expect demand for replacement tires for medium and heavy commercial vehicles to decrease by 5% to 10%.

In Europe, we anticipate a -1% to 1% change in sales volumes. We also expect demand in North America to change by -1% to 1%.

2020 forecast for changes compared to 2019 in vehicle production and sales volumes in the tire-replacement business

	Vehicle production		Replacement sales of tires	
	of passenger cars and light commercial vehicles	of medium and heavy commercial vehicles	for passenger cars and light commercial vehicles	for medium and heavy commercial vehicles
Europe	-3% to -5%	-5% to -15%	0% to -1%	-1% to 1%
North America	0% to -2%	-15% to -25%	0% to 1%	-1% to 1%
China	-5% to -10%	-5% to -10%	-5% to -10%	-5% to -10%
Worldwide	**-2% to -5%**	**-5% to -10%**	**0% to -2%**	**0% to -2%**

Sources: Own estimates.

Outlook for the Continental Corporation

Forecast process

In January 2019, Continental announced its initial expectations regarding the most important production and sales markets for the new fiscal year. This formed the basis of our forecast for the corporation's key performance indicators, which we published at the same time. These included sales and the adjusted EBIT margin for the corporation. In addition, we provided information on the assessment of important factors influencing EBIT. These included the expected negative or positive effect of the estimated development of raw materials prices for the current year, the expected development of special effects and the amount of amortization from purchase price allocations. We thus allowed investors, analysts and other interested parties to estimate the corporation's expected EBIT. Furthermore, we published an assessment of the development of interest income and expenses as well as the tax rate for the corporation, which in turn allowed the corporation's expected net income to be estimated. We also published a forecast of the capital expenditures planned for the current year and the free cash flow before acquisitions and the effects of transforming the Powertrain division into an independent legal entity.

In the 2018 Annual Report, we supplemented this forecast for the corporation with a forecast of the sales and adjusted EBIT margins of the two core business areas: the Automotive Group and the Rubber Group. We then published this forecast in March 2019 as part of our annual financial press conference and the publication of our annual report for 2018.

Our forecast for the current year, like every year, was reviewed continually. Possible changes to the forecast were described at the latest in the financial report for the respective quarter.

The medium-term forecast prepared by Continental in 2015 had to be withdrawn at the end of July 2019 due to the strong and foreseeable sustained decrease in global vehicle production. Continental currently expects that the global production of passenger cars and light commercial vehicles weighing less than 6 metric tons will not increase substantially until 2024.

Comparison of the past fiscal year against forecast

Our original forecast for fiscal 2019, which we published in full in March 2019, was based on the expectation that the global production of passenger cars and light commercial vehicles would be at roughly the same level as in 2018. At the same time, we anticipated that global demand for replacement tires for passenger cars and light commercial vehicles would grow by 2%.

Based on these market assumptions – and provided that exchange rates remained constant – we anticipated total sales of between around €45 billion and €47 billion and an adjusted EBIT margin of approximately 8% to 9% in fiscal 2019. For the Automotive Group, assuming constant exchange rates, we anticipated sales of approximately €27 billion to €28 billion with an adjusted EBIT margin of around 6% to 7%. For the Rubber Group, assuming constant exchange rates and an adverse effect from rising raw material prices of around €50 million, we anticipated sales of approximately €18 billion to €19 billion with an adjusted EBIT margin of around 12% to 13%. In 2019, we expected the negative financial result before effects from currency translation, effects from changes in the fair value of derivative instruments, and other valuation effects to be in the region of €220 million. The tax rate – including the tax effects of transforming the Powertrain division into an independent legal entity – was expected to be around 27% in 2019. For 2019, taking into account expenses relating to the transformation of the Powertrain division into an independent legal entity, we expected negative special effects to total €200 million. The amortization of purchase price allocations was forecast at around €200 million. The capital expenditure ratio before financial investments was estimated at about 8% of sales due to the recognition of leases as a result of the first-time adoption of IFRS 16. Free cash flow before acquisitions and before the effects of transforming the Powertrain division into an independent legal entity was expected to total around €1.4 billion to €1.6 billion. All aspects of the forecast were confirmed in the reporting on the first quarter of 2019.

On July 22, 2019, we announced that a number of factors had led to an adjustment of the forecast for fiscal 2019. Specifically, these were lower sales expectations for the second half of 2019 due to the decline in global production of passenger cars and light commercial vehicles, reduced volumes for certain products of the Automotive Group as a result of changes in customer demand, and potential warranty claims in the Automotive Group.

The forecast for consolidated sales in 2019 – assuming constant exchange rates compared with the first half of 2019 – was reduced to around €44 billion to €45 billion, while the forecast for the corporation's adjusted EBIT margin was lowered to a range of around 7.0% to 7.5%. The expectation for sales in the Automotive Group was reduced to around €26 billion to €26.5 billion, and the adjusted EBIT margin was specified in the range of around 4.2% to 4.8%. The sales forecast for the Rubber Group was narrowed to roughly €18 billion to €18.5 billion, and the adjusted EBIT margin was specified in the range of around 12.0% to 12.5%. The capital expenditure ratio before financial investments, including IFRS 16, was adjusted to below 8% of sales. Free cash flow before acquisitions, including IFRS 16 and before the effects of transforming the Powertrain division into an independent legal entity, was then expected to be in the range of around €1.2 billion to €1.4 billion. All other elements of the previous forecast remained unchanged.

On October 22, 2019, we announced that an impairment of around €2.5 billion would be recognized in the third quarter of 2019. This impairment mainly resulted from the assumption that global production of passenger cars and light commercial vehicles was not expected to increase substantially until 2024. There were also restructuring provisions of €97 million in the first nine months of 2019, which were incurred in the scope of the Transformation 2019–2029 structural program announced on September 25, 2019 Further expenses for restructuring provisions related to this program were expected to be recognized in the fourth quarter of 2019. The

Comparison of fiscal 2019 against forecast

	Corporation					Automotive Group		Rubber Group	
	Sales (€ billions)	Adjusted EBIT margin	Negative special effects (€ billions)	Investments (in % of sales)	Free cash flow[3] (€ billions)	Sales (€ billions)	Adjusted EBIT margin	Sales (€ billions)	Adjusted EBIT margin
First forecast for 2019 on January 14, 2019	~45-47[1]	~8-9%	~0.2	~8%	~1.4-1.6				
Annual financial press conference on March 7, 2019	~45-47[1]	~8-9%	~0.2	~8%	~1.4-1.6	~27-28[1]	~6-7%	~18-19[1]	~12-13%
Forecast adjustment on July 22, 2019	~44-45[2]	~7.0-7.5%	~0.2	<8%	~1.2-1.4	~26-26.5[2]	~4.2-4.8%	~18-18.5[2]	~12.0-12.5%
Forecast adjustment on October 22, 2019	~44-45[2]	~7.0-7.5%	>2.8	<8%	~1.2-1.4	~26-26.5[2]	~4.2-4.8%	~18-18.5[2]	~12.0-12.5%
2019 Annual Report	**44.5[2]**	**7.4%**	**3.3**	**7.4%**	**1.3**	**26.5[2]**	**4.4%**	**18.0[2]**	**12.4%**

1 Assuming exchange rates remain constant year-on-year.
2 Reported sales including exchange-rate effects. The positive exchange-rate effect on the corporation's sales amounted to €648 million in 2019. Around two-thirds of this was attributable to the Automotive Group, and the other third to the Rubber Group.
3 Before acquisitions and the effects of transforming the Powertrain division into an independent legal entity.

impairment and the restructuring provisions did not affect the key financial indicators used in the outlook for 2019. But after incurring around €200 million in negative special effects and taking into account expenses relating to the transformation of the Powertrain division into an independent legal entity, we then anticipated negative special effects of at least €2.8 billion for fiscal 2019. All other elements of the revised forecast from July 22, 2019 were confirmed.

Continental achieved consolidated sales of €44.5 billion and a consolidated adjusted EBIT margin of 7.4% in fiscal 2019. The Automotive Group generated sales of €26.5 billion and an adjusted EBIT margin of 4.4%. The Rubber Group generated sales of €18.0 billion and an adjusted EBIT margin of 12.4%.

The negative financial result before effects from currency translation, effects from changes in the fair value of derivative instruments, and other valuation effects decreased to €170.1 million in 2019, which was below our forecast of around €220 million from January 2019.

Negative special effects for fiscal 2019, including the restructuring provisions recognized in the fourth quarter, totaled €3.3 billion.

Despite the negative earnings before tax of €588.6 million, income tax expense amounted to €582.4 million in the reporting year because the goodwill impairment and the expenses associated with the transformation of the Powertrain division into an independent legal entity were mostly not tax deductible.

The capital expenditure ratio increased to 7.4% in 2019. This increase was chiefly attributable to the recognition of leases as a result of the first-time adoption of IFRS 16.

Free cash flow before acquisitions and before the effects of transforming the Powertrain division into an independent legal entity amounted to €1.3 billion in 2019. This metric was therefore within the reduced range from July 22, 2019.

Order situation

The order situation in the Automotive Group was noticeably weaker in the reporting period compared with the previous year due to the global decline in demand for passenger cars. Incoming orders for the three Automotive divisions were therefore well below the record levels achieved in the two previous years. Altogether, the Chassis & Safety, Powertrain and Interior divisions acquired orders for a total value of roughly €33 billion for the entire duration of the deliveries. These lifetime sales are based primarily on assumptions regarding production volumes of the respective vehicle or engine platforms, the agreed cost reductions and the development of key raw materials prices. The volume of orders calculated in this way represents a reference point for the resultant sales achievable in the medium term that may, however, be subject to deviations if these factors change. Should the assumptions prove to be accurate, the lifetime sales are a good indicator for the sales volumes that can be achieved in the Automotive Group in four to five years.

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

Outlook for fiscal 2020

For 2020, we do not anticipate any recovery in the economic environment. We expect global production of passenger cars and light commercial vehicles to decline for the third successive in succession. Global automotive production is expected to decrease by around 2% to 5% year-on-year in 2020. From today's perspective, the decline in incoming orders suggests the global production of medium and heavy commercial vehicles is likely to slump by 10% to 15% compared to the previous year in 2020. These estimates take into account the expected impact of the coronavirus on production volumes in the first quarter of 2020. We currently assume that production will decline by more than 10% year-on-year. In China, the decrease is likely to be at least 30% in this period. Our market forecast does not, however, include possible further disruptions to production and the supply chain as well as demand as a result of the continuing spread of the coronavirus. Such disruptions cannot be gauged at the current time.

Based on these production assumptions, we currently expect our Automotive divisions to realize sales of around €25.5 billion to €26.5 billion for the 2020 fiscal year – net of changes in the scope of consolidation and assuming constant exchange rates – and an adjusted EBIT margin of around 3% to 4%. The planned spin-off of Vitesco Technologies in the course of the second half of 2020 has not yet been taken into account and would – depending on the timing of the spin-off – lead to a correspondingly lower sales target for our Automotive divisions and the Continental Corporation.

We expect our Rubber divisions to achieve sales of around €17 billion to €18 billion – assuming constant exchange rates – and an adjusted EBIT margin of around 10% to 11% in fiscal 2020. In addition to the aforementioned production assumptions for the vehicle manufacturer business, the basis for this is our forecasts for the development of replacement-tire markets. We expect a decline of 0% to 2% in global demand for replacement tires for both passenger cars and light commercial vehicles as well as medium and heavy commercial vehicles in 2020. We also anticipate a further weakening of the industrial business, which will affect our ContiTech business area. For our Rubber divisions, we anticipate higher fixed costs, depreciation and amortization in 2020. These increases result primarily from the considerable expansion of capacity in recent years in the Tire division. The utilization of the new capacity and the generation of related sales will lead to economies of scale only in the upcoming years when the utilization of the new plants' capacity increases. We expect the intense competitive pressure, particularly in the European market, to continue amid rising wage costs. From our perspective, raw material prices are likely to remain roughly unchanged in fiscal 2020 compared with the previous year.

We expect the Continental Corporation to achieve total sales – assuming constant exchange rates – in the range of around €42.5 billion to €44.5 billion and an adjusted EBIT margin of around 5.5% to 6.5% in fiscal 2020.

For 2020, taking into account expenses relating to the Transformation 2019–2029 structural program, among other factors, we expect negative special effects to total around €600 million.

Amortization from purchase price allocations is again expected to total approximately €200 million and affect mainly the ContiTech and Vehicle Networking and Information (until December 31, 2019: primarily the Interior division) business areas.

In 2020, we expect the negative financial result to be in the region of €200 million before effects from currency translation, effects from changes in the fair value of derivative instruments, and other valuation effects. The tax rate is expected to be around 27% in 2020.

The capital expenditure ratio is expected to be around 7.5% of sales in fiscal 2020.

In 2020, we are planning on free cash flow of approximately €0.7 billion to €1.1 billion, before acquisitions and before the effects of transforming the Powertrain division into an independent legal entity.