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.

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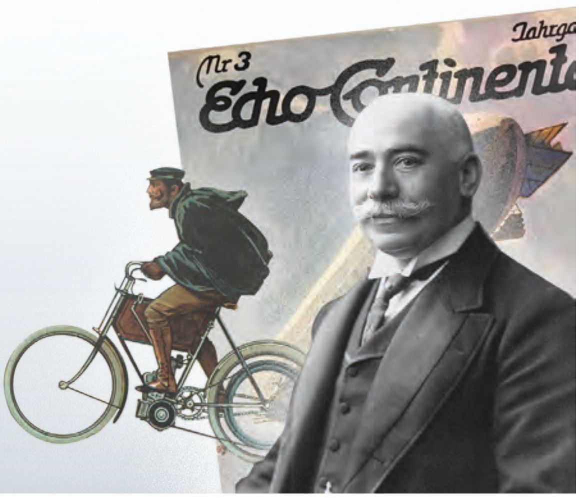


Glossary of Financial Terms

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 US stock exchanges in the place of foreign shares or shares that may not be listed on US stock exchanges.

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

Cash conversion ratio. Ratio of free cash flow excluding acquisitions and divestments of companies and business units, restructuring expenses, restructuring-related expenses and carve-out effects to net income attributable to the shareholders of the parent.

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 Group 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 Continental Group

The Continental Group comprises three group sectors and 21 business units.

Organizational structure
The Continental Group is divided into the group sectors Automotive Technologies, Rubber Technologies and Powertrain Technologies. These sectors comprise five business areas with a total of 21 business units (as of January 1, 2021). A business area or business unit is classified according to product requirements, market trends, customer groups and distribution channels. The business areas and business units have overall responsibility for their business, including their results.

The legally independent Powertrain business area operates under the name Vitesco Technologies. This has no effect on the financial reporting of the Powertrain business area within the Continental Group.

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.

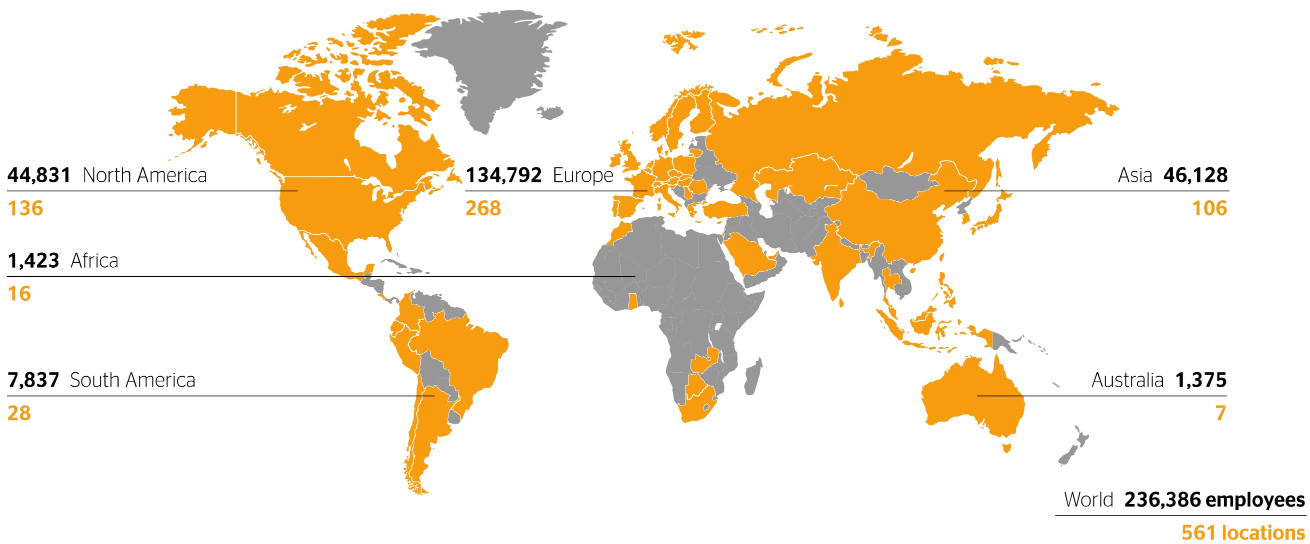
To ensure a unified business strategy, an Automotive Board was established in the Automotive Technologies group sector, with the CEO of Continental AG serving as chairman.

With the exception of Group 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 Continental Group across business areas. These include, in particular, finance, controlling, compliance, law, IT, human relations, sustainability, as well as quality and environment.

Companies and locations
Continental AG is the parent company of the Continental Group. In addition to Continental AG, the Continental Group comprises 563 companies, including non-controlled companies. The Continental team is made up of 236,386 employees at a total of 561 locations in the areas of production, research and development, and administration, in 58 countries and markets. Added to this are the distribution locations, with 955 company-owned tire outlets and a total of around 5,000 franchises and operations with a Continental brand presence.

Customer structure
With a 69% share of consolidated sales, automotive manufacturers are our most important customer group. This industry is accordingly important 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 dealers and end customers represent the largest share of the tire-replacement business. In the ContiTech business area, important customers come from both the automotive industry and other key industries such as railway engineering, machine and plant construction, mining and the replacement business.

561 locations in 58 countries and markets



Structure of the Continental Group

Continental Group
Sales: €37.7 billion; Employees: 236,386

Automotive Technologies Sales: €15.3 billion Employees: 95,551		Rubber Technologies Sales: €15.6 billion Employees: 100,327		Powertrain Technologies Sales: €7.0 billion Employees: 40,102
Autonomous Mobility and Safety	**Vehicle Networking and Information**	**Tires**	**ContiTech**	**Powertrain**
Sales: €7.5 billion Employees: 47,762	Sales: €7.9 billion Employees: 47,789	Sales: €10.2 billion Employees: 56,864	Sales: €5.6 billion Employees: 43,463	Sales: €7.0 billion Employees: 40,102

Automotive Technologies
The **Autonomous Mobility and Safety business area** develops, produces and integrates active and passive safety technologies and controls vehicle dynamics. The product portfolio ranges from electronic and hydraulic brake and chassis control systems to sensors, advanced driver assistance systems, airbag electronics and sensors, electronic air suspension systems and cleaning systems for windscreens and headlights. Autonomous Mobility and Safety has a high level of systems expertise in the interconnectivity of individual components. As a result, products and system functions are created along the "SensePlanAct" chain of effects. These make driving safer and easier and pave the way 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**, with its vision of "Always On," sees the vehicle of the future as a partner that supports its passengers with intelligent and secure solutions – seamlessly networked, user-friendly, convenient and smart. The business area develops and integrates components and end-to-end systems for connected mobility – architecture, hardware, software and services. With solutions for networking, human-machine interaction, user experience, high-performance computing, digital services and system integration for passenger cars, light commercial vehicles and fleets, Vehicle Networking and Information ensures stable and safe connectivity 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
With its premium portfolio in the car, truck, bus, two-wheel and specialty tire segment, the **Tires business area** stands for innovative top performance in tire technology. Services for dealers and fleet management as well as digital tire monitoring and management systems are further areas of focus. The aim is to contribute to safe, economical and sustainable mobility. In the reporting year, 23% of sales related to business with vehicle manufacturers, and 77% related to the tire-replacement business.

As of January 1, 2021, changes have been made to the organizational structure of the Tires business area. In order to ensure greater customer proximity and focus and increase organizational efficiency, the passenger-car business and the commercial-vehicle business have been merged into a single business unit. The Tires business area is now divided into five business units:

- Original Equipment
- Replacement, APAC (Asia and Pacific region)
- Replacement, EMEA (Europe, the Middle East and Africa)
- Replacement, The Americas (North, Central and South America)
- Specialty Tires

The **ContiTech business area** focuses on smart and sustainable solutions beyond rubber and develops digital and intelligent solutions in future-oriented sectors. In doing so, ContiTech draws on its long-standing knowledge of the industry and materials to open up new business opportunities by combining various materials with electronic components and individual services. The products, systems and solutions developed by ContiTech are used both in the automotive industry as well as in railway engineering, machine and plant construction, mining, agriculture and other important sectors of the future. In the reporting year, 48% of sales related to business with automotive manufacturers, and 52% related to business with other industries and in the automotive replacement market.

The Air Spring Systems and Vibration Control business units were consolidated into one business unit – Advanced Dynamics Solutions – on January 1, 2021. The business area is now divided into six business units:

- Advanced Dynamics Solutions
- Conveying Solutions
- Industrial Fluid Solutions
- Mobile Fluid Systems
- Power Transmission Group
- Surface Solutions

Powertrain Technologies

The **Powertrain business area** brings together the full spectrum of Continental's drivetrain technology expertise. Powertrain's aim is to develop innovative, efficient electrification technologies for all types of vehicle. Its portfolio includes 48-volt electrification solutions, electric drives, and power electronics for hybrid and battery-electric vehicles. Furthermore, Powertrain develops and produces high-voltage boxes, electronic controls, sensors, actuators, turbochargers, hydraulic components and pumps as well as solutions for exhaust-gas aftertreatment.

The business area is divided into three business units:

- Electronic Controls
- Electrification Technology
- Sensing and Actuation

Globally 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 Automotive Technologies and Powertrain Technologies, as well as the ContiTech business area. The fundamental product requirements for tires are much the same across 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 generally 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 €24.4 billion in total, €16.7 billion of which was for production materials. Automotive Technologies and Powertrain Technologies use 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 45% of the Continental Group's purchasing volume for 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 Rubber Technologies. 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 Automotive Technologies and Powertrain Technologies as well as in the ContiTech business area are organized across regions. 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 USA and China. Low production costs coupled with large volumes and proximity to our customers 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** €24.4 billion in volumes	**Global** 246 locations	**Local** €37.7 billion in sales

Strategy of the Continental Group

Realigned strategy to address the transformation in the mobility industry.

The transformation in the mobility industry opens up many opportunities. To capitalize on these opportunities, Continental adopted a realigned strategy in the year under review. This is based on three cornerstones:

- Strengthening operational performance
- Differentiating the portfolio
- Turning change into opportunity

1. Strengthening operational performance

By strengthening our operational performance, we can ensure our future viability and competitiveness. We are aligning our cost structure to global market conditions. Measures for this purpose were introduced in September 2019 and are part of our Transformation 2019–2029 structural program.

In addition to adjusting our cost structure, we also want to continuously improve our productivity, for example by increasing the level of automation and digitalization in our production environment. In our plants, our colleagues are already working together with more than 2,000 collaborative robots, including autonomous, driverless transportation systems.

2. Differentiating the portfolio

We will differentiate our product portfolio in a more targeted way in the future. We are concentrating on two key areas: "growth" and "value." By focusing on "growth" we are aiming, above all, to establish a strong position in innovative fields featuring highly dynamic growth, and with "value" we are addressing saturated markets with stable but low growth.

We see above-average growth in connected, assisted and autonomous driving, as well as in new vehicle architectures. In the Tires and ContiTech business areas, our opportunities lie in high-growth regions and digital solutions and services, such as those for fleet and industrial customers.

Our extensive know-how in the area of software gives us a major competitive advantage here. It is software that will make the difference in the future. Crucial to this are, for example, high-performance computers that combine vehicle functions from the areas of safety, assistance, connectivity and entertainment. Continental is the first automotive supplier ever to supply such a central computer for the Volkswagen ID. series. Connectivity, safety and convenience are key to the future of mobility – regardless of how a vehicle is powered.

These fields include products and systems for assisted and autonomous driving, services for automotive manufacturers, end and fleet customers as well as architecture, connectivity and software solutions.

When it comes to "value," our focus is on profitable product areas where we have solid competitive positions in markets with a high degree of maturity. These include, for example, safety solutions, display and control systems, surface materials and the European tire business. Our growth will be only slightly higher than the market here. The emphasis will be on sustaining profitability and generating sufficient funds, which we will use to ensure the competitive expansion of growth areas geared to market and technology leadership that are unable to fully finance their ambitious growth themselves.

The portfolio strategy also includes possible acquisitions, divestments and partnerships. We will regularly review business units focusing on "value" to determine whether they are able to create the best possible value for Continental. We will also assess how profitability can be increased. Divestitures may also be an option. However, this would be pursued only after careful consideration of potential dissynergies. Part of this systematic approach is the planned spin-off of Vitesco Technologies in 2021. Our internal processes have been reorganized for this purpose and the necessary organizational requirements are in place.

1

Strengthen operational performance

- Right-size cost structure
- Commitment to efficiency and quality

2

Differentiate our portfolio

- Win in growth businesses
- Manage value businesses for profitability and cash

3

Turn change into opportunity

- Embrace sustainability
- Focus on passion to win and transparency and ownership

3. Turning change into opportunity

The third cornerstone of our strategy involves turning change into opportunity. We have already laid the foundation for this through our company culture, which is based on our four values of Trust, For One Another, Freedom To Act and Passion To Win. The task now is to strengthen this Passion To Win further in order to turn market opportunities into value even more quickly. We will make clear and transparent decisions to ensure that our actions are appropriate for our respective focus areas. Our aim is to be among the winners of the transformation in our industries and to create value for all stakeholders.

At the end of 2020, we thus laid a solid foundation for sustainability like practically no other company in the supplier industry to date. From 2022, we will make our global business with zero-tailpipe-emission vehicles completely carbon-neutral. By 2050 at the latest, we want to achieve 100% carbon neutrality, 100% emission-free mobility and industry, a 100% circular economy and 100% responsible value chains. In doing so, we will decisively shape the future of sustainable mobility.

For the Continental Group and the individual group sectors (excluding Powertrain Technologies), this means the following: for the Continental Group as a whole, we are aiming for average annual organic growth of around 5% to 8% and an adjusted EBIT margin of between around 8% and 11% in the medium term. Its return on capital employed is expected to amount to around 15% to 20%, and its cash conversion ratio to more than 70%.

The Automotive Technologies group sector will focus on the growing global demand for even safer, more connected and more convenient mobility. We are supplying the technological basis for this, which primarily comprises integrated vehicle architecture and increasingly comprehensive computer programs for controlling mobility systems. These include, for example, our high-performance computers as well as products and systems for assisted and automated driving. We are also in leading market positions in the area of display and control systems as well as safety applications such as braking and restraint systems.

Overall, we expect the Automotive Technologies group sector – in other words, the Autonomous Mobility and Safety as well as Vehicle Networking and Information business areas – to achieve average annual organic growth of around 7% to 11% in the medium term. This assumes that the average annual market growth for passenger cars and light commercial vehicles will be between around 5% and 7%, as forecast. In the medium term, we will therefore exceed this by around 2 to 4 percentage points. The adjusted EBIT margin is expected to be around 6% to 8%, and the return on capital employed to exceed 15%.

In the Rubber Technologies group sector, the Tires business area will focus on further consolidating its position among the world's top tire manufacturers. We want to increase our market share in the growth markets of Asia and North America in particular. In the passenger-car tire segment, the global business with tires for electric mobility and ultra-high performance tires is to be systematically expanded further. We also see further growth for truck and bus tires as well as in the area of specialty tires.

We are pursuing ambitious targets in the area of sustainability. We want to become the most progressive manufacturer in the tire industry by 2030. The focus here will be on climate protection, low-emission mobility, a circular economy and sustainable supply chains. For example, our tires are to be made from 100% sustainable materials by 2050.

The tire market is expected to grow by around 3% to 4% in the medium term, based on the production of passenger cars and light commercial vehicles, the tire replacement market and the production of truck tires. On this basis, we expect to achieve annual growth of around 4% to 5%. In our tire segment, we are aiming in the medium term for an adjusted EBIT margin of around 12% to 16% and a return on capital employed (ROCE) of more than 20%.

The ContiTech business area will pursue the path it has been forging since 2017 in the direction of "smart and sustainable solutions beyond rubber." With the growth-based part of the product portfolio, we want to grow at a rate of around 3 percentage points faster than the market. The potential here results primarily from the increasing demand for digital and intelligent solutions. In this regard, ContiTech can draw on its long-standing and detailed knowledge of the industry and materials. We will also combine various materials with electronic components and individual services. The value-based portfolio includes applications for passenger cars and rail transport as well as the printing and mining industries. For ContiTech overall, we anticipate that medium-term growth will be 1 percentage point higher than the forecast market growth of around 2% to 3% and the EBIT margin will be around 9% to 11%. Its return on capital employed is expected to exceed 20%.

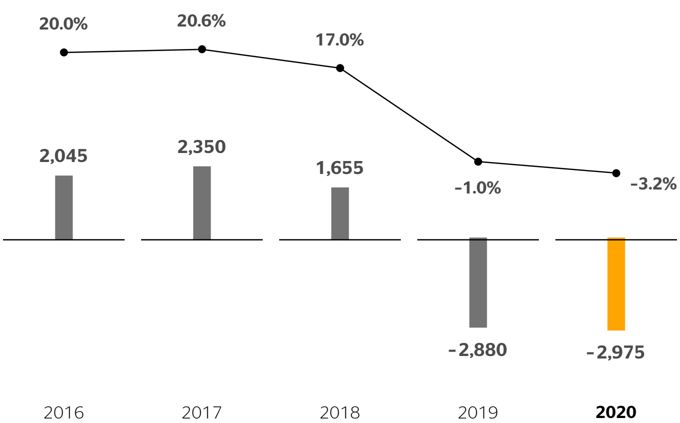
Corporate Management

The goal is the sustained increase in the Continental Group'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 -€0.7 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 2020, average operating assets amounted to €22.5 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 -3.2% in 2020.

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 2020, the CVC amounted to -€2,974.8 million.

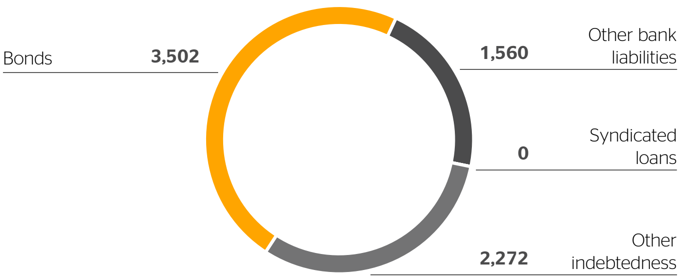
ROCE by business area (in %)	**2020**	2019
Autonomous Mobility and Safety	-2.1	-2.3
Vehicle Networking and Information	-31.9	-23.0
Tires	14.3	21.2
ContiTech	7.7	8.7
Powertrain	-14.1	-16.9
Continental Group	**-3.2**	**-1.0**

Financing strategy

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

The Finance & Treasury corporate function 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 around 7% of sales in the coming years.

Composition of gross indebtedness (€7,334 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 40% in the coming years and not exceed 60% in general. If justified by extraordinary financing reasons or specific market circumstances, we can rise above this level under certain conditions. The equity ratio should exceed 30%. In the reporting year, it was 31.9% and the gearing ratio 32.7%.

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 2020, this mix consisted of bonds (48%), syndicated loans (not utilized), other bank liabilities (21%) and other indebtedness (31%) based on the gross indebtedness of €7,334.4 million. The syndicated loan that was renewed ahead of schedule in December 2019 consists of a revolving tranche of €4.0 billion and has a term of five years. The margin will also depend on the Continental Group's sustainability performance. In November 2020, Continental exercised an option to extend the term by one year. The lending banks then extended this financing commitment until December 2025 at unchanged conditions. In May 2020, Continental strengthened its financial flexibility through an additional syndicated loan of €3.0 billion with a term of 364 days.

If Continental does not exercise an extension option for the syndicated loan of €3.0 billion in 2021, the financing mix will approximate the distribution prior to 2020.

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 €2,639.8 million as at December 31, 2020. There were also committed and unutilized credit lines of €7,780.8 million.

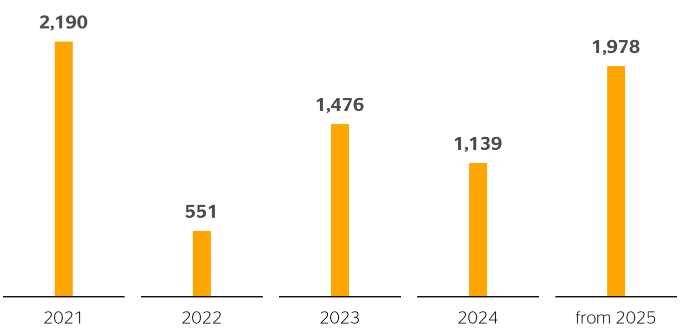
Gross indebtedness amounted to €7,334.4 million as at December 31, 2020. Key financing instruments are the syndicated loan with a revolving credit line of €4.0 billion that has been granted until December 2025, the syndicated loan additionally agreed in May 2020 of €3.0 billion with a term of 364 days, and bonds issued on the capital market.

As at December 31, 2020, the revolving credit lines of €4.0 billion and €3.0 billion had not been utilized. Around 48% of gross indebtedness is financed on the capital market in the form of bonds. The interest coupons vary between 0.0% and 2.5%. The issue of new bonds in the second quarter of 2020 with maturities between 2023 and 2026 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 €2,370.1 million as at December 31, 2020. Continental's corporate financing instruments currently also include sale-of-receivables programs and commercial paper programs. In 2020, Continental had two commercial paper programs in Germany and the USA.

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 a €200.0-million bond maturing in April 2021 is also high on the agenda for 2021. The bonds issued in the second quarter of 2020 as well as the bonds issued in the previous year require repayments of €1,250.0 million in 2023, €725.0 million in 2024, €600.0 million in 2025 and €750.0 million in 2026.

Maturities of gross indebtedness (€7,334 million)



Continental's credit rating lowered

In the reporting period, Continental AG was rated by the three rating agencies Standard & Poor's, Fitch and Moody's, each of which adjusted their long-term credit ratings downward by one notch in spring 2020. In March 2020, Moody's modified its rating to Baa2 and left its outlook of negative unchanged. Standard & Poor's likewise followed suit in March and has since assigned Continental a BBB rating with negative outlook. Fitch adjusted its rating in April 2020 to BBB with stable outlook. Our goal remains a credit rating of BBB/BBB+.

Credit rating for Continental AG

	December 31, 2020	December 31, 2019
Standard & Poor's[1]		
Long-term	BBB	BBB+
Short-term	A-2	A-2
Outlook	negative	stable
Fitch[2]		
Long-term	BBB	BBB+
Short-term	F2	F2
Outlook	stable	stable
Moody's[3]		
Long-term	Baa2	Baa1
Short-term	no rating	no rating
Outlook	negative	negative

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

Research and Development

Future technologies are characterized by their high degree of connectivity, safety and convenience.

The future of mobility and other industries will be determined primarily by software innovations – for more safety, convenience and an intuitive user experience. Software will make a significant contribution to a future without traffic accidents. More than 90% of innovations in cars already come from software development. In industrial plants, software can be used to reduce unplanned downtimes and establish predictive maintenance intervals.

High-performance computer and Cooperation Portal recognized with awards

Increasing functionality and connectivity are pushing conventional distributed vehicle architectures with 100 or more electronic control units to their limits. Within a new and more centralized architecture design, Continental's Body High-Performance Computer (Body HPC) replaces specific electronic control units and acts as a central "electronic brain" to manage data within the vehicle and beyond. It also acts as an application server that allows for cyber security features or wireless updates, for example. The vehicle remains state of the art, and the user can install new functions just like on a smartphone. The Body HPC is already used in the Volkswagen ID.3 model, and will be used in further models in Volkswagen's ID. series in the future as well.

While Continental's HPC simplifies the electronic architecture of a vehicle, implementing it is actually a highly complex task. An HPC like the one in the VW ID.3 is software-intensive and requires flexible development beyond what one company can offer: 19 different companies thus contributed toward the development of the software for this alone.

To effectively and efficiently shape such complex collaboration, Continental developed the Cooperation Portal, which automates processes, ensures higher software quality and saves time with regard to development. The European Association of Automotive Suppliers (CLEPA) has given special recognition to this and presented Continental with the 2020 CLEPA Innovation Award.

Digital tire monitoring in real time

Continental has developed ContiConnect Live, the next generation of the digital tire-monitoring solution. It complements the ContiPressureCheck systems for monitoring tire pressure and temperature, as well as ContiConnect Yard, the reader station that records all the necessary data when the vehicle passes by the station on the company premises. With ContiConnect Live, the data on tire pressure and temperature is sent to the cloud in real time using a central telematics unit. In addition, the unit transmits the location of the vehicle via GPS and records the operating hours of the tires. The data from the cloud can be accessed via a web portal, which provides a detailed vehicle view including alarm, pressure and temperature history, as well as GPS data and operating hours. If the data is not ideal, fleet managers are informed by text message or email, minimizing punctures and increasing the safety of drivers and vehicles.

Fleet managers therefore have a faster and more convenient overview of the condition of their vehicles regardless of location. By evaluating the information, the fleet benefits from reduced downtimes, extended operating hours and lower maintenance costs. ContiConnect Live is available for all specialty tires from Continental equipped with sensor technology.

LiDAR technology portfolio expanded

Continental has supplemented its LiDAR portfolio by acquiring a minority stake in AEye, Inc., a US company specializing in LiDAR. Along with cameras and radars, LiDAR sensors count among the key technologies for automated driving. Continental has more than 20 years of experience in LiDAR sensors. AEye has developed a long-range LiDAR technology combining an amplifiable 1550 nanometer laser with a patented, feedback-controlled microelectromechanical system (MEMS) as a scanner.

	2020		2019	
Research and development expenses (net)	€ millions	% of sales	€ millions	% of sales
Autonomous Mobility and Safety	1,008.9	13.4	1,048.7	11.2
Vehicle Networking and Information	1,284.7	16.4	1,189.2	12.4
Tires	268.0	2.6	299.4	2.6
ContiTech	149.7	2.7	162.8	2.5
Powertrain	670.5	9.6	664.1	8.5
Continental Group	**3,381.8**	**9.0**	**3,364.2**	**7.6**
Capitalization of research and development expenses	**173.0**		**232.4**	
in % of research and development expenses	4.9		6.5	
Depreciation on research and development expenses	**197.1**		**120.4**	

This technology can be configured using software and thus optimized for almost any vehicle model and application. The LiDAR sensor from AEye is perfectly suited for use in passenger cars and commercial vehicles thanks to its high dynamic spatial resolution and long range. Vehicles are detected at a distance of over 300 meters and pedestrians at over 200 meters. Even small, low-reflecting objects like bricks can be detected at a distance of 160 meters. Continental will industrialize this LiDAR technology to meet the needs of the automotive industry, with production scheduled to begin at the end of 2024.

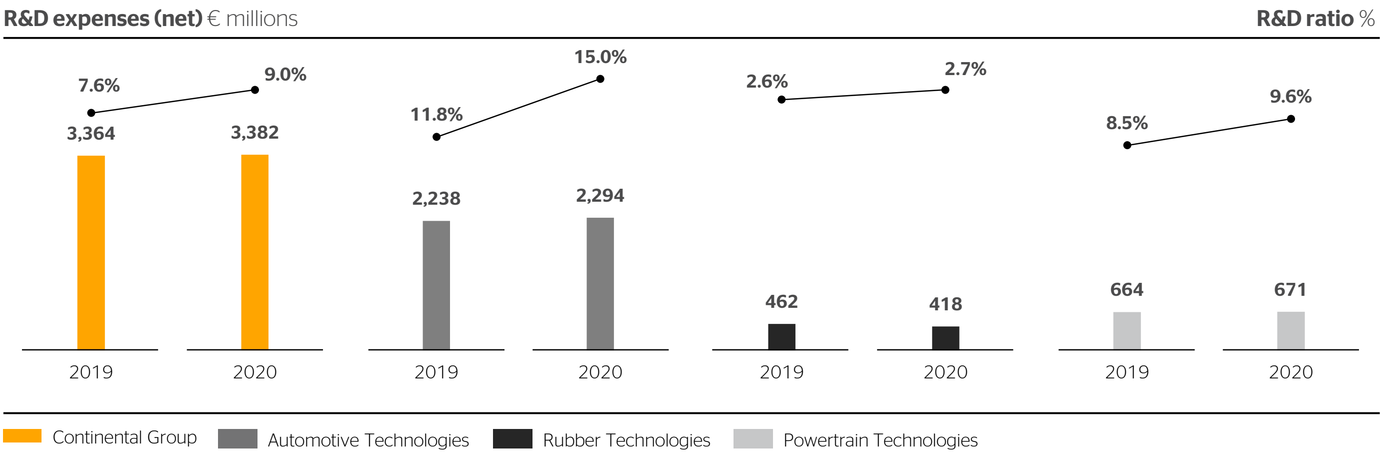
Sensor-based inspection service for conveyor belt systems
Continental has developed a service solution for monitoring conveyor belt systems to enable the early identification of weak points along a conveyor belt section before damage occurs and unplanned and costly downtimes result. The solution, offering a combination of visual and acoustic inspection, enables efficient, data-supported planning of maintenance intervals by applying sensor-supported technologies to replace the conventional and usually very complex manual process. These technologies make the inspection more precise, reduce the amount of verification required and enable predictive maintenance.

The new service offering comprises a hybrid solution that takes into account different applications and sections. First, open sections are inspected from the air using a camera-equipped drone that monitors the conveyor belt system. Once the drone has left the inspected section, it returns to an autonomous charging station to transfer the collected data to the designated cloud via an IoT (Internet of Things) module. The image data is then processed and analyzed using an artificial intelligence (AI)-based algorithm. Second, regular maintenance is carried out in covered sections or underground conveyors using fixed microphones, which record frequency deviations in the system's numerous idlers. The acoustic data is also uploaded to the cloud, where it is processed and analyzed using AI.

The service solution has been successfully tested in initial field trials, and the system is scheduled to be put into operation in the course of 2021.

First transmission control system with overmolding electronics
Thanks to a new, globally unique manufacturing process, Vitesco Technologies has developed a transmission control unit known as overmolding control electronics. In the conventional design of an electronic control unit, the electronics are located within a housing. By contrast, the electronic components of an overmolding electronic control unit, which are arranged on a printed circuit board as usual, are completely embedded in plastic. New, high-precision injection molding processes as well as particularly resistant plastics make it possible to produce this type of electronic control unit for the very first time in the automotive industry.

The overmolding manufacturing process offers several advantages: As the sensitive high-tech components are completely enclosed in plastic, they are extremely robust and can withstand even strong vibrations. What's more, an overmolding component is not only lighter than a comparable electronic control unit in a conventional housing, but also significantly thinner. The new transmission control unit is seven millimeters thick, making it currently the thinnest electronic control technology on the market. By way of comparison, the electronic control unit used up to now was 1.5 centimeters thick. Another advantage is that an overmolding component can be manufactured using considerably fewer production steps than a housed electronic control unit. The new technology therefore reduces complexity and is considerably more cost-effective.



Sustainability and Combined Non-Financial Statement

The following section constitutes the combined non-financial statement in accordance with Sections 315b and 315c in conjunction with Sections 289b to 289e of the German Commercial Code *(Handelsgesetzbuch – HGB)*, for the Continental Group and Continental AG combined, for fiscal 2020. The statement has been issued an unqualified opinion by the independent auditor, which can be found on pages 60 and 61.

Information on Reporting

The *HGB* was used as a framework for the preparation of the combined non-financial statement. The combined 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, the combined non-financial statement therefore covers the material topics listed in the following table. Some of these were renamed in 2020 with the adoption of the new sustainability ambition (see “Sustainability Management”). The newly named topics and what these used to be called are listed in the table.

	Material topics of sustainability reporting[1]
Four focus areas of sustainability	› Carbon neutrality (previously: climate protection)
	› Emission-free mobility and industries (previously: clean mobility)
	› Circular economy
	› Responsible value chain (previously: sustainable supply chains)
Eight sustainability essentials	› Good working conditions
	› Green and safe factories
	› Innovation and digitalization[2]
	› Benchmark in quality (previously: product quality)
	› Safe mobility[2]
	› Long-term value creation (previously: sustainable profits)[2]
	› Sustainable management practice (previously: corporate governance)
	› Corporate citizenship[2]

1 Since 2019, 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 this combined non-financial statement: responsible value chain (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 non-financial statement. It is therefore not part of the combined non-financial statement.

For information on the business model required for the combined non-financial statement, see the Structure of the Continental Group and Strategy of the Continental Group sections on pages 44 and 45 and pages 47 and 48, respectively.

Risk reporting is presented in the report on risks and opportunities starting on page 99. Beyond this, no additional non-financial risks were identified in accordance with Sections 289 (3) No. 3–4 and 315 (3) *HGB*.

The main medium of our sustainability reporting is the integrated sustainability report. This consolidates the information from the combined 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/downloads.

Sustainability Management

Continental’s sustainability ambition

In fiscal 2020, the Executive Board adopted a new sustainability ambition with the aim of advancing the company’s transformation process in the area of sustainability. In the four focus areas of sustainability, we are committed to our strong, visionary ambitions, which we want to achieve by 2050 at the latest together with our partners along the value chain. The ambitions are set out in the following sections on carbon neutrality, emission-free mobility and industries, circular economy, and responsible value chain. Continental’s entire sustainability ambition can also be found at www.continental-sustainability.com/downloads. The sustainability ambition is based upon existing programs and processes, which it complements and gradually develops further.

Sustainability management

The Executive Board member for Human Relations and Sustainability serves as chief sustainability officer (CSO). The Sustainability group function overseen by the CSO is responsible for sustainability management, including management of an interdepartmental committee. Sustainability organization is further supplemented by dedicated coordinators in the group sectors and business areas. Some of these organizational units also have their own interdepartmental sustainability committees.

In fiscal 2019, Continental introduced a sustainability scorecard for the Continental Group in order to measure progress in the area of sustainability. The scorecard defines the current key performance indicators for individual sustainability topics and represents the formal basis for integrating sustainability into other corporate processes. In fiscal 2020, for example, key performance indicators for sustainability were integrated into the long-term remuneration components (long-term incentive plan – LTI) of the Executive Board and global managers. For more information, see the remuneration report starting on page 27 of this annual report.

Development of Material Sustainability Topics

Carbon neutrality

Our ambition

As set out in our sustainability ambition, we strive to be 100% carbon-neutral along our entire value chain with regard to products, operations and supply by 2050 at the latest, together with our partners along the value chain.

Concept

The transformation toward carbon neutrality is to be achieved in four steps and in particular through the use of renewable energy, the development of new technologies, and increases in efficiency:

- Since 2020: zero emissions from externally sourced electricity in global production through a complete switch to renewable energy, including through special electricity supply agreements (power purchase agreements) and the purchase of energy attribute certificates
- From 2022: carbon neutrality of the allocated business with zero-tailpipe-emission vehicles
- Corporate target by 2040: carbon neutrality of all our own production processes
- Corporate target by 2050: carbon neutrality along the entire value chain

The targets have been validated by the Science Based Targets initiative (SBTi). On the basis of the method used, the linear derivations for 2030 from the targets for 2040 and 2050 were confirmed as being compliant with the Paris climate agreement.

Results of the concept

As a key performance indicator for the implementation of our concept with respect to carbon neutrality, we consider our own CO_2 emissions in accordance with Scope 1 and 2 of the Greenhouse Gas (GHG) Protocol. These include direct CO_2 emissions from fossil fuels (Scope 1 of the GHG Protocol) and indirect CO_2 emissions from purchased electricity, steam and heat (Scope 2 of the GHG Protocol). Our own CO_2 emissions amounted to 0.99 million metric tons in fiscal 2020 (PY: 3.22 million metric tons). The previous year's figure is not comparable due to a change in the method for calculating Scope 2 emissions from a location-based method to a market-based method in accordance with the GHG Protocol. In fiscal 2020, Continental switched all externally sourced electricity at the relevant production and research and development locations to 100% renewable energy as planned (RE100 project) and adapted its calculation method accordingly. This means that there are no longer any CO_2 emissions associated with externally purchased electricity at the relevant production and research and development locations. This led to an overall reduction in own CO_2 emissions of almost 70%. To a lesser extent, the decline in production related to the COVID-19 pandemic also contributed to a reduction in energy consumption and the associated CO_2 emissions.

Key performance indicators for carbon neutrality	**2020**	2019
Direct CO_2 emissions (Scope 1) in millions of metric tons of CO_2[1, 2, 3]	0.78	0.84
Indirect CO_2 emissions (Scope 2) in millions of metric tons of CO_2[1, 2]	0.21[4]	2.38[5]
Total own CO_2 emissions (Scope 1 and 2) in millions of metric tons of CO_2[1, 2]	**0.99**[6]	**3.22**[6]

1 Definitions in accordance with the GHG Protocol. CO_2 emission factors correspond to CO_2 equivalents (CO_2e).
2 Includes the relevant production and research and development locations.
3 CO_2 emissions from fleet consumption are only partially and not systematically included.
4 Calculated using the market-based calculation method of the GHG Protocol. Where contract-specific emission factors were not available, the standard emission factors from Defra (November 2019) were used.
5 Calculated using the location-based calculation method of the GHG Protocol.
6 Figures for 2020 and 2019 not comparable due to the implementation of the RE100 project and the associated change in the method for calculating Scope 2 emissions from a location-based method to a market-based method in accordance with the GHG Protocol.

For more information on carbon neutrality, including reporting on indirect CO_2 emissions along the value chain (Scope 3 of the GHG Protocol), see the integrated sustainability report at www.continental-sustainability.com/downloads.

Emission-free mobility and industries

Our ambition

As set out in our sustainability ambition, we strive for 100% emission-free mobility and industry by 2050 at the latest, together with our partners along the value chain. "Emission-free" refers to zero emissions of greenhouse gases and nitrogen oxides (NO_x), for example, but does not include harmless emissions such as water vapor, non-toxic biodegradable particulate emissions or minimal noise emissions.

Concept

With technological solutions, Continental is shaping the transformation toward emission-free mobility and emission-free industries. In doing so, we rely both on new product developments and on the further development of the existing product portfolio. Emission-free mobility includes, for example: electrified drive systems, lightweight design solutions, automated driving solutions, new transport concepts, and rolling-resistance-optimized tires.

For more information on this topic, see the Strategy of the Continental Group section on pages 47 and 48, the Research and Development section on pages 52 and 53, and the report on risks and opportunities starting on page 99 of this annual report.

Results of the concept

We consider our allocated business with zero-tailpipe-emission vehicles to be a key performance indicator for the implementation of our concept with respect to emission-free mobility and industries. The new key performance indicator introduced in fiscal 2020 expresses the paradigm shift from more efficient mobility to emission-free mobility and comprised €0.83 billion of consolidated sales. It refers to business with vehicles without drive emissions that can be clearly allocated via the vehicle manufacturer, the vehicle platform or the product specification, for example. Additionally, there are also business activities that cannot be clearly allocated to emission-free vehicles and are therefore not reported. This currently includes a major part of the replacement business, for example. The new key performance indicator replaces the previous key performance indicator "percentage of products that demonstrably contribute to energy efficiency or to the reduction of pollutant or carbon dioxide emissions."

Key performance indicator for emission-free mobility and industries	**2020**	2019
Allocated business with zero-tailpipe-emission vehicles in € billions[1, 2]	0.83	n.a.

1 Definition: allocated business with zero-tailpipe-emission vehicles measures both pure business and attributable business, e.g. in the case of combined vehicle platforms. The figure includes the entire business with products for vehicles transporting goods and people.
2 The calculation was also based on external data sources and internal planning data. In the tire trade organization business (e.g. Vergölst) and business with car dealerships, there is no allocation at the individual customer level.

For more information on emission-free mobility and industries, see the integrated sustainability report at www.continental-sustainability.com/downloads.

Circular economy

Our ambition

As set out in our sustainability ambition, we strive for 100% closed resource and product cycles by 2050 at the latest, together with our partners along the value chain.

Concept

Continental is realizing the transformation toward a circular economy by means of numerous initiatives and projects, which are managed at various levels within the Continental Group. Examples include the use of recycled materials, the retreading of tires, the reduced use of plastics, as well as operational waste management.

For operational waste management, we have set ourselves the following target:

- Corporate target by the end of 2030: increase in the waste recycling quota to 95%. The waste recycling quota measures the proportion of waste that has been sent for material recycling, thermal recovery or any other form of recycling or reuse.

Results of the concept

We currently consider the waste recycling quota to be a key performance indicator for the circular economy. In fiscal 2020, this was at 81% (PY: 80%) and therefore on a par with the previous year.

A specially developed, corporate-wide awareness and participation campaign on resource conservation and waste prevention, which was initially rolled out as planned at the start of fiscal 2020, had to be suspended after a short time as a result of the COVID-19 pandemic.

Key performance indicator for circular economy	**2020**	2019
Waste recycling quota in %[1, 2]	81	80

1 Definition: proportion of waste that has been sent for material recycling, thermal recovery or any other form of recycling or reuse.
2 Includes the relevant production and research and development locations.

For more information on the circular economy, see the integrated sustainability report at www.continental-sustainability.com/downloads.

Responsible value chain

Our ambition

As set out in our sustainability ambition, we strive for 100% responsible business partnerships and sourcing by 2050 at the latest, together with our partners along the value chain.

Concept

Our understanding of a responsible value chain refers to our supply chain and customer relationships and to our own locations.

The transformation toward a fully and universally responsible value chain begins with concrete requirements that we already set out for our direct suppliers: in our Business Partner Code of Conduct, as well as in our sourcing policy for the purchase of sustainable natural rubber, we define the fundamental requirements for our suppliers, and for their suppliers in turn, including with regard to human rights, working conditions, environmental protection and anti-corruption. Violations of our regulations can also be reported via the Compliance & Anti-Corruption Hotline, which is available around the clock and worldwide. In the event that violations of our binding regulations are identified, we demand improvements and reserve the right to terminate the business relationship. We assess our suppliers with the help of self-assessment questionnaires via the generally accepted sustainability platforms for our industries, EcoVadis and NQC. Before even establishing a business relationship, we also check potential new suppliers and service providers by means of self-assessments as well as on-site audits, which may also include sustainability topics (such as fire protection and occupational safety).

Responsible sourcing is the responsibility of the relevant purchasing organizations, which are established at Continental by business area and product group with teams in the various countries. In fiscal 2020, a corporate purchasing network was established, which regularly deals with responsible sourcing topics as well.

We describe the transformation toward a fully and universally responsible value chain with regard to our own locations in the following sections on good working conditions and green and safe factories in particular.

We continue to develop our approach further in dialog with external stakeholders and support the development of industry-wide standards, for example through our active participation in industry dialog with the German government on human rights in the automotive industry and through the Global Platform for Sustainable Natural Rubber (GPSNR).

Results of the concept
In fiscal 2020, we assessed our sourcing processes with regard to management capacities for the implementation of human rights due diligence, and from this we derived necessary measures together in the corporate purchasing network. The measurement is performed on the basis of a recognized external tool for self-assessment from the German Global Compact Network.

In the prioritized area of activity for the sourcing of sustainable natural rubber, the piloted approaches for traceability have been further expanded upon as part of the Rubberway project and collaboration with the German Society for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit – GIZ) in Indonesia. With regard to other critical raw materials in our supply chain, we have also – specially for conflict minerals as well as cobalt – reorganized management and reporting and firmly established processes, roles and responsibilities within the company.

The total number of valid available self-assessment questionnaires completed by suppliers via the two sustainability platforms EcoVadis and NQC is used as a key performance indicator for the implementation of our concept with respect to the responsible value chain. As at December 31, 2020, valid self-assessment questionnaires from 696 suppliers (PY: 670) were available. This corresponds to a completion rate of 59% of suppliers selected for this process (PY: 57%).

Key performance indicator for responsible value chain	**2020**	2019
Number of available, valid supplier self-assessment questionnaires (as at Dec. 31)[1]	696	670[2]

1 Based on the self-assessment questionnaires completed by suppliers via the sustainability platforms EcoVadis and NQC. In fiscal 2020, a change was made to the definition of validity with regard to supplier self-assessment questionnaires by Continental. This will always last for two years, irrespective of the platform used.
2 Figures for 2020 and 2019 only comparable to a limited extent due to a change in definition.

For more information on the responsible value chain, see the integrated sustainability report at www.continental-sustainability.com/downloads.

Good working conditions
Our ambition
As set out in our sustainability ambition, we provide inspiring, healthy and fair working conditions.

Concept
Continental's Code of Conduct sets out the cornerstones for good working conditions as the basis of our global collaboration, including human rights and fair working conditions. Employees regularly receive training on the Code of Conduct.

In order to meet our future staffing requirements in terms of both quality and quantity, our vision is to become one of the most attractive and progressive employers. The strategic goals of HR work are therefore 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, suitable 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.

According to a preliminary analysis, up to 30,000 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.

Those responsible for the projects' implementation are the HR functions at the group sector and business area level, which work together in a global network. A special network of country coordinators for working relationships is also part of this organization.

Results of the concept
With the adoption of remote working back in fiscal 2016, we laid a central foundation on which to successfully combat the challenges associated with the COVID-19 pandemic in fiscal 2020 and enable employees to work from home.

We use the Sustainable Engagement index from our annual employee survey OUR BASICS Live as a key performance indicator for the implementation of our concept with respect to good working conditions. The index measures employee approval on topics such as whether they personally back the company values and whether they are proud to work for Continental. In fiscal 2020, the Sustainable Engagement index was 82% (PY: 81%) and therefore on a par with the previous year. Other key performance indicators are the sickness rate and the unforced fluctuation rate. The sickness rate measures sickness-related absence relative to contractually agreed working times, and the unforced fluctuation rate measures the voluntary departure of employees from the company relative to the average number of employees. In 2020, the sickness rate was up slightly compared with the previous year at 3.5% (PY: 3.4%), while the unforced fluctuation rate was down at 4.6% (PY: 6.0%). The decrease applies to all regions.

Information about personnel expenses in fiscal 2020 (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. Employee benefits such as pensions, post-employment benefits and long-term bonus payments are broken down in Note 28 of the notes to the consolidated financial statements.

Key performance indicators for good working conditions	2020	2019
OUR BASICS Live Sustainable Engagement index in %	82	81
Sickness rate in %[1, 2]	3.5	3.4
Unforced fluctuation rate in %[2, 3, 4]	4.6	6.0

1 Definition: sickness-related absence relative to contractually agreed working times.
2 Excluding temporary staff (i.e. permanent staff only).
3 Definition: voluntary departure of employees from the company relative to the average number of employees.
4 In fiscal 2020, the key performance indicator was renamed. This was previously called "unforced fluctuation."

For more information on good working conditions, see the integrated sustainability report at www.continental-sustainability.com/downloads.

Green and safe factories

Our ambition

As set out in our sustainability ambition, we conduct our business processes in a safe and responsible manner based on systematic management and protecting people and the environment.

Concept

Our company policy for environment, safety and health protection (ESH) defines corporate-wide guidelines for green and safe factories. On this basis, ESH targets for the Continental Group are in place: all persons in our company are to be protected against accidents and work-related sickness, and health is to be actively promoted. CO_2 emissions, energy use, water consumption and waste generation at the locations are to be reduced, and the waste recycling quota and energy efficiency at the locations increased.

Local management systems are used to drive the implementation of these corporate targets. The concrete organizational and technical guidelines for local management systems can be found in the relevant ESH management manuals.

The Environment and Safety & Health group functions are responsible for the related strategic, corporate-wide ESH management process, and are supplemented by corresponding ESH functions in the individual business areas. Operational environment, safety and health protection on site is the responsibility of location management and is coordinated by local ESH managers in each case.

Results of the concept

As a key performance indicator for the implementation of our concept with respect to green and safe factories, we use the corporate-wide employee coverage quota with regard to certified local management systems in the areas of the environment, energy and occupational safety. On this basis, the majority of our employees throughout the Continental Group were covered by certified management systems as at December 31, 2020. The environmental management system certification covered 82% of employees (PY: 82%), the energy management system certification covered 51% of employees (PY: 49%), and the safety and health management system certification covered 69% of employees (PY: 69%). The accident rate – i.e. the number of accidents per million working hours – is also used as a key performance indicator with respect to green and safe factories. The accident rate improved to 2.9 accidents per million working hours in fiscal 2020 (PY: 3.0 accidents per million working hours).

In order to address the COVID-19 pandemic, the existing corporate-wide pandemic preparedness plan ("pandemic plan") was activated in fiscal 2020, which contributed to pandemic-proof production. An emergency organizational system was set up at company level under the leadership of the Group Security group function, which incorporates the relevant corporate functions. Regional crisis teams were also established at country level. In addition, we launched medical counseling and mental health programs for our employees and their families, such as a global hotline. Another measure was the establishment of three production lines for the manufacture of surgical masks.

Key performance indicators for green and safe factories	2020	2019
Environmental protection management system certifications (ISO 14001) Employee coverage quota (as at Dec. 31) in %	82	82
Energy management system certifications (ISO 50001) Employee coverage quota (as at Dec. 31) in %	51	49
Occupational safety and health management system certifications (ISO 45001 or similar) Employee coverage quota (as at Dec. 31) in %	69	69
Accident rate (number of accidents per million working hours)[1, 2]	2.9	3.0[3]

1 Definition: number of accidents during working hours per million paid working hours. Counted from more than one lost day, i.e. with at least one lost day beyond the day of the accident.
2 Excluding temporary staff (i.e. permanent staff only) and way-to-work accidents.
3 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/downloads.

Benchmark in quality

Our ambition

As set out in our sustainability ambition, we are recognized by our customers and society as being a benchmark in quality by ensuring safe and sustainable products.

Concept

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. Product recalls, product liability claims and proceedings as a result of quality defects represent a business risk. We want to avoid this business risk due to the resulting losses of sales, costs, and loss of customer and market acceptance. Detailed reporting in this respect is included in the report on risks and opportunities starting on page 99.

Local management systems on site are used to support the implementation of these corporate targets. The concrete organizational and technical guidelines for local management systems can be found in the relevant quality management manuals.

The Total Quality Management (TQM) group function as well as the quality functions at various levels in the Continental Group, which work together in a global network, are responsible for the strategic, corporate-wide quality management process.

Results of the concept

As a key performance indicator for the implementation of our concept with respect to benchmark in quality, we use the corporate-wide employee coverage quota with regard to certified local quality management systems. The majority of our employees throughout the Continental Group, namely 91%, were covered by certified quality management systems as at December 31, 2020 (PY: 86%). The number of new field quality events also represents a key performance indicator with respect to benchmark in quality, which we newly defined in 2020 and are reporting on externally for the first time. A field quality event is a risk-minimizing measure for a product manufactured and/or sold by Continental on the basis of a safety-related defect and/or non-compliance with regulations that was initiated by Continental, a customer and/or an authority. As at December 31, 2020, 18 new field quality events had been identified.

Information about the scope of warranty and product liability claims in fiscal 2020 can be found in Note 36 (Litigation and Compensation Claims) of the notes to the consolidated financial statements, on pages 209 and 210.

Key performance indicators for benchmark in quality	**2020**	2019
Quality management system certifications (ISO 9001 or similar)		
Employee coverage quota (as at Dec. 31) in %	91	86
New field quality events (as at Dec. 31)[1]	18	n.a.

1 Definition: a field quality event is a risk-minimizing measure for a product manufactured and/or sold by Continental based on a safety-related defect and/or non-compliance with regulations that was initiated by Continental, a customer and/or an authority.

For more information on benchmark in quality, see the integrated sustainability report at www.continental-sustainability.com/downloads.

Sustainable management practice

Our ambition

As set out in our sustainability ambition, we implement effective management processes, fair business practices and responsible corporate governance with a balanced view of different perspectives.

Concept

Continental AG's Corporate Governance Principles are intended to help achieve responsible, value-driven management within the company and the Continental Group.

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 corporate-wide 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.

We are also committed to promoting employee diversity, which we understand as internationality, a balanced gender ratio, and a range of experiences and age categories. We have set ourselves the corporate-wide target of increasing the share of female executives and senior executives. We intend to achieve this in particular by promoting cultural change in the organization through the expansion of women's networks and the holding of diversity workshops and specific events:

- Corporate target by 2020: share of female executives and senior executives of 16%
- Corporate target by 2025: share of female executives and senior executives of 25%

For more information on sustainable management practice, see the corporate governance report starting on page 12 of this annual report. For more information on compliance, see the detailed compliance report on page 22 of this annual report, as well as the report on risks and opportunities starting on page 99. For more information on our diversity concept, see the corporate governance report starting on page 21 of this annual report.

Results of the concept

The design, implementation and effectiveness of the compliance management system was confirmed by an independent auditor in fiscal 2016 in accordance with the IDW PS 980 audit standard.

A key performance indicator for the implementation of our concept with respect to sustainable management practice is gender diversity, which measures the share of female executives and senior executives. As at December 31, 2020, Continental had increased its share of female executives and senior executives to 16.1% (PY: 15.8%) and therefore successfully met its corporate target of 16% for fiscal 2020.

Key performance indicator for sustainable management practice	**2020**	2019
Gender diversity – share of female executives and senior executives (as at Dec. 31) in %[1]	16.1	15.8

1 In fiscal 2020, the key performance indicator was renamed. This was previously called "proportion of women in management positions."

For more information on sustainable management practice, see the integrated sustainability report at www.continental-sustainability.com/downloads.

Information on the development of other key sustainability topics
Information on the development of topics that have been identified as being relevant to the sustainable development of the business, but according to an internal analysis were not classified as being relevant to reporting for the combined non-financial statement, can be found in the locations specified below:

- Innovation and digitalization: the Research and Development section on pages 52 and 53 of this annual report and in the integrated sustainability report
- Safe mobility: the Research and Development section on pages 52 and 53 of this annual report and in the integrated sustainability report
- Long-term value creation: the Corporate Management section on pages 49 and 50 of this annual report and in the integrated sustainability report
- Corporate citizenship: in the integrated sustainability report

The integrated sustainability report is available online at www.continental-sustainability.com/downloads.

Independent Auditor's Report

Reasonable assurance report of the independent auditor regarding the combined non-financial statement
To the Supervisory Board of Continental Aktiengesellschaft, Hanover

We have performed a reasonable assurance engagement on the consolidated non-financial statement combined for Continental Aktiengesellschaft (further "Continental" or the "Company") and the Continental Group in accordance with Sections 315b and 315c of the German Commercial Code (*HGB*) in conjunction with Sections 289b to 289e *HGB* which is included in chapter "Sustainability and Consolidated Non-Financial Statement" of the consolidated management report as well as in the sections "Structure of the Continental Group," "Strategy of the Continental Group" and "Report on Risks and Opportunities" of the consolidated management report, which are qualified as a part by reference, (further "combined non-financial statement") for the period from January 1 to December 31, 2020 (Appendix 1).

Management's responsibility
The legal representatives of the Company are responsible for the preparation of the combined non-financial statement in accordance with Sections 315b and 315c *HGB* in conjunction with Sections 289b to 289e *HGB*.

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the combined non-financial statement and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, the legal representatives are responsible for the internal controls they deem necessary for the preparation of the combined non-financial statement that is free of – intended or unintended – material misstatements.

Practitioner's responsibility
It is our responsibility to express a conclusion on the combined non-financial statement based on our work performed within a reasonable assurance engagement.

We conducted our work in the form of a reasonable assurance engagement 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 IAASB. Accordingly, we have to comply with our professional duties and to plan and perform the assurance engagement in such a way that we, respecting the principle of materiality, reach our conclusion with a reasonable level of assurance. The audit of the combined non-financial statement encompasses the performance of audit procedures to obtain evidence for the information included in the combined non-financial statement. The choice of audit procedures is subject to the auditor's own judgment.

Within the scope of our engagement we performed, amongst others, the following audit procedures:

- Inquiries of group-level personnel who are responsible for the materiality analysis in order to understand the processes for determining material topics and respective reporting boundaries for Continental

- A risk analysis, including media research, to identify relevant information on Continental's sustainability performance in the reporting period

- Reviewing the suitability of internally developed definitions

- Evaluation of the design and the implementation of systems and processes for the collection, processing and monitoring of disclosures, including data consolidation, on environmental, employee and social matters, respect for human rights, and anti-corruption and bribery matters

- Inquiries of group-level personnel who are responsible for determining disclosures on concepts, due diligence processes, results and risks, performing internal control functions and consolidating disclosures

- Performing control-based audit procedures to assess the design and effectiveness of internal controls used to collect and process non-financial disclosures and data, including the consolidation of the data at group and business area level

- Substantive assurance procedures using, in particular, internal and external documentation in order to determine in detail whether the disclosures correspond to relevant underlying sources

- Analytical procedures for the evaluation of data and of the trends of quantitative disclosures as reported at group level by all sites

- Evaluation of local data collection, validation and reporting processes as well as of the reliability of reported data by means of sampling at Kaluga in Russia, Puchov in Slovakia, Changchun in China, Weißbach and Waltershausen in Germany

- Assessment of the overall presentation of the disclosures

In our opinion, we obtained sufficient and appropriate evidence for reaching a conclusion for the assurance engagement.

Independence and quality assurance on the part of the auditing firm
In performing this engagement, we applied the legal provisions and professional pronouncements regarding independence and 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).

Conclusion
In our opinion the combined non-financial statement of Continental Aktiengesellschaft for the period from January 1 to December 31, 2020, is prepared, in all material respects, in accordance with Sections 315b and 315c *HGB* in conjunction with Sections 289b to 289e *HGB*.

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

Our assignment for the Supervisory Board of Continental Aktiengesellschaft, Hanover, and professional liability as described above was 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.pdf). By reading and using the information contained in this assurance report, each recipient confirms notice of the provisions contained therein, including the limitation of our liability as stipulated in No. 9, and accepts the validity of the General Engagement Terms with respect to us.

Munich, March 2, 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft

Hell ppa. Mathias

Economic Report
General Conditions

Macroeconomic Development

Due to the COVID-19 pandemic and the containment measures taken by governments across the world, the global economy shrank by 3.5% in 2020, according to the January 2021 World Economic Outlook Update (WEO Update) published by the International Monetary Fund (IMF). This fell considerably short of the IMF's original forecast of 3.2% growth from January 2020.

In the eurozone, gross domestic product (GDP) fell by 6.8% in 2020 according to the statistical office Eurostat. Of the major eurozone economies, France, Italy and Spain reported particularly steep declines in GDP of 8% to 11% year-on-year. In Germany, according to the Federal Statistical Office, GDP fell by 5.0% compared to 2019. Countries outside of the eurozone also recorded a decline in economic output in 2020. For the UK and Russia, the IMF estimated a decline in GDP of 10.0% and 3.6%, respectively.

In North America, according to the Bureau of Economic Analysis, the USA suffered a decline in GDP of 3.5% for 2020 as a result of the pandemic. Canada and Mexico were much more heavily affected according to the IMF, with declines in GDP of 5.5% and 8.5%, respectively.

Other countries in the Americas likewise suffered economic losses as a result of the pandemic in 2020. For Brazil, for example, the IMF reported a decline in GDP of 4.5%.

Asian countries also recorded mostly negative growth rates for their economies in the year under review according to the IMF. GDP for the Association of Southeast Asian Nations (ASEAN), for example, fell by 3.7% in 2020. The IMF calculated a noticeable decline in GDP of 5.1% for Japan. India's economy is estimated to have shrunk by 8.0% according to the IMF. In contrast, China achieved GDP growth of 2.3% according to the IMF. The slump in the economy in the first quarter of 2020 was more than offset here by strong growth in subsequent quarters.

Development of Key Customer Sectors and Sales Regions

The most important market segment for Continental is the global supply business for manufacturers of passenger cars and commercial vehicles, which accounted for 69% of sales in fiscal 2020.

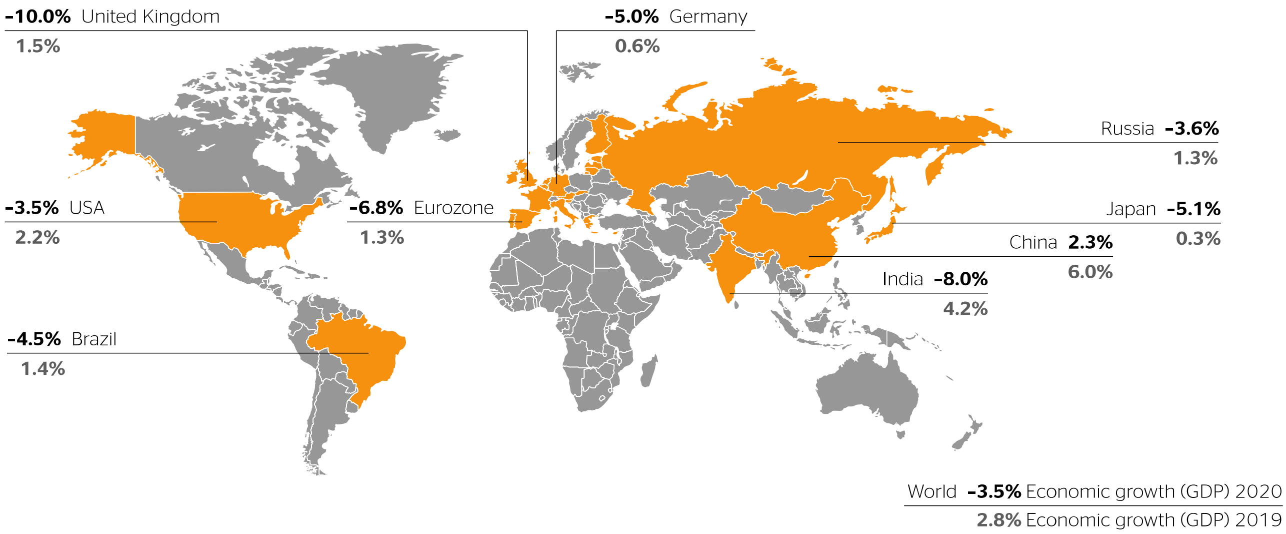
The second-biggest market segment for Continental is the global replacement-tire business for passenger cars and commercial vehicles. Because passenger cars and light commercial vehicles weighing less than 6 metric tons make up a considerably higher share of vehicle production and the replacement-tire 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 reporting year, followed by North America with 25% and Asia with 24%.

Development of new passenger-car registrations

Due to the COVID-19 pandemic and the containment measures taken by individual countries, demand for passenger cars fell sharply in all regions across the world for a period of time. Over the course of the pandemic, China was initially the hardest hit. The Chinese government had already taken comprehensive containment measures at the end of January 2020. Once these were eased, a rapid recovery in demand was seen. The German Association of

Year-on-year economic growth (GDP) in 2020 (for selected countries and the world)



Sources: IMF – World Economic Outlook Update January 2021, Eurostat, statistical offices of the respective countries, Bloomberg.

the Automotive Industry (Verband der Automobilindustrie, VDA) anticipates a decline in new-car registrations in China of around 6% for 2020, according to preliminary data.

In many other countries, the containment measures taken by governments likewise led to significant slumps in demand for passenger cars in the reporting year. In the European car market (EU27, EFTA and the United Kingdom), sales volumes fell by 24% according to preliminary data from the VDA. According to the VDA, significant declines in sales volumes were also seen in Brazil (27%), the USA (15%), Japan (11%) and Russia (9%) in the reporting period. According to preliminary data, global new-car registrations fell by 14% in the year under review.

Development of production of passenger cars and light commercial vehicles

According to preliminary figures, the global production of passenger cars and light commercial vehicles weighing less than 6 metric tons was down 16% to 74.6 million units in the reporting year. This was due to lower demand for passenger cars and temporary closures of plants.

In China, production was almost halved as a result of the extensive plant closures in the first quarter of 2020. Production recovered quickly over the remainder of the year, exceeding the previous year's figures in the second, third and fourth quarters. Despite this, China's production of passenger cars and light commercial vehicles still suffered a year-on-year decline of 4% for 2020 as a whole.

In Europe and North America – the Continental Group's other two core markets in addition to China – temporary plant closures in March and especially April led to an extreme drop in the production of passenger cars and light commercial vehicles. The gradual resumption of production caused monthly volumes to normalize over the remainder of the reporting year. Overall, the production of passenger cars and light commercial vehicles for 2020 decreased year-on-year by 22% in Europe and by 20% in North America.

Significant declines in production were also recorded by many other countries in the year under review, including Brazil (32%), India (23%), Japan (16%) and South Korea (11%).

Development of production of medium and heavy commercial vehicles

According to preliminary data, the decline in order intake from the previous year coupled with plant closures due to the COVID-19 pandemic led to a decline in the global production of medium and heavy commercial vehicles weighing more than 6 metric tons of 4% in 2020.

North America was particularly affected, with truck production falling by 31% according to preliminary figures. In Europe, preliminary data indicates that the production of medium and heavy commercial vehicles declined by 18%.

China recorded a year-on-year decline in volumes of 19% in the first quarter of 2020, but this was more than offset by a sharp rise in production of 47% and 72% in the second and third quarters, respectively. In the fourth quarter, production was up 16% year-on-year according to preliminary figures. Overall, China ended 2020 with production of medium and heavy commercial vehicles up 27% compared to the previous year's figures.

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 fell by 11% in the reporting year. Following the sharp global market decline in the first and second quarters of 2020 in the wake of the measures to contain the COVID-19 pandemic, demand steadily recovered in the second half of 2020.

On the basis of preliminary data, sales volumes of replacement tires for passenger cars and light commercial vehicles fell by 12% in Europe and by 8% in North America. In China, preliminary data indicates a decline in sales volumes of replacement tires of 5%.

Development of replacement-tire markets for medium and heavy commercial vehicles

In our core markets of Europe and North America, preliminary data indicates that year-on-year demand for replacement tires for medium and heavy commercial vehicles weighing more than 6 metric tons fell by 3% and 1%, respectively, in 2020 in the wake of the COVID-19 pandemic.

Changes to vehicle production and sales volumes in the tire-replacement business in 2020 (compared to 2019)

	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	–22%	–18%	–12%	–3%
North America	–20%	–31%	–8%	–1%
China	–4%	27%	–5%	n. a.
Worldwide	**–16%**	**–4%**	**–11%**	**n. a.**

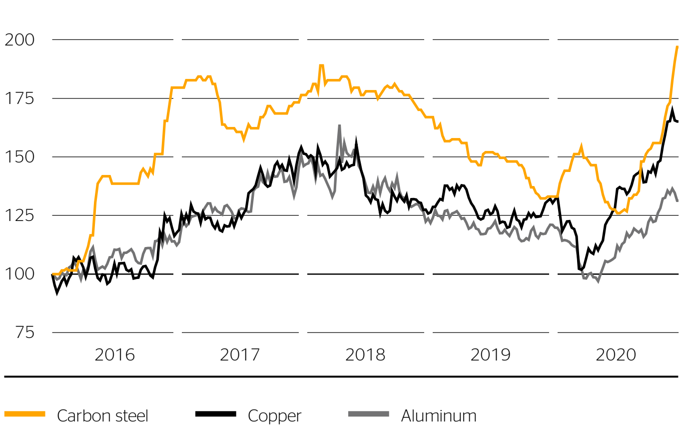
Sources:
Vehicle production: IHS Inc. (Europe with Western, Central and Eastern Europe incl. Russia and Turkey).
Tire-replacement business: LMC International Ltd.
Preliminary figures and own estimates.

Development of Raw Materials Markets

In the first half of the year under review, the temporary industrial plant closures in many countries as a result of the COVID-19 pandemic led to a decline in demand for raw materials. This initially resulted in falling raw material prices. Due to the global spread of the pandemic, many raw material producers were also forced to temporarily suspend their production either partially or completely. This temporary supply shortage, just as demand in industrialized nations was recovering, led to a sharp rise in raw material prices in the second half of 2020.

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 and timing belts to increase tensile strength. Aluminum is used in particular for die-cast parts and stamped and bent components, while copper is used in particular in electric motors and mechatronic components. On a euro basis, prices for carbon steel fell by 2% on average in 2020. The annual average price of copper increased by around 3% on a US dollar basis in 2020, while that of aluminum fell by around 5% on a US dollar basis.

Steel, copper and aluminum indexed to January 1, 2016



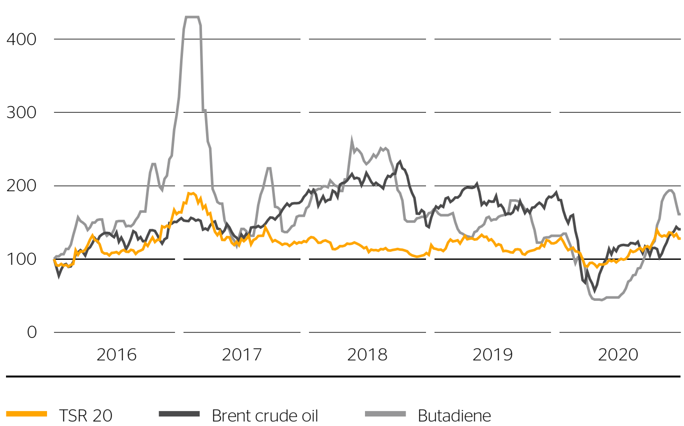
Sources:
Carbon steel: hot-rolled coil Northern Europe ex works, from Kallanish Commodities (€ per metric ton).
Copper and aluminum: rolling three-month contracts from the London Metal Exchange (US $ per metric ton).

Precious metals such as gold, silver, platinum and palladium are used by Continental and by our suppliers to coat components. Prices for precious metals rose again in 2020. On average for the year, on a US dollar basis, the prices of gold and silver increased by 27% each and the price of palladium by as much as 43%. The price of platinum remained relatively stable, with an increase of 2%.

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 Technologies group sector, particularly the Tires business area.

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 – fell sharply in the first few months of 2020 due to the decline in demand as a result of the pandemic. From May 2020, the listings recovered again, thanks to falling production levels as well as higher demand. The average price of Brent crude oil for the year decreased by around 34% year-on-year on a US dollar basis. As a result, the prices of various input materials for synthetic rubber fell year-on-year in the year under review. Butadiene and styrene, for example, decreased by 33% and 26% year-on-year on a US dollar basis.

TSR 20, crude oil and butadiene indexed to January 1, 2016



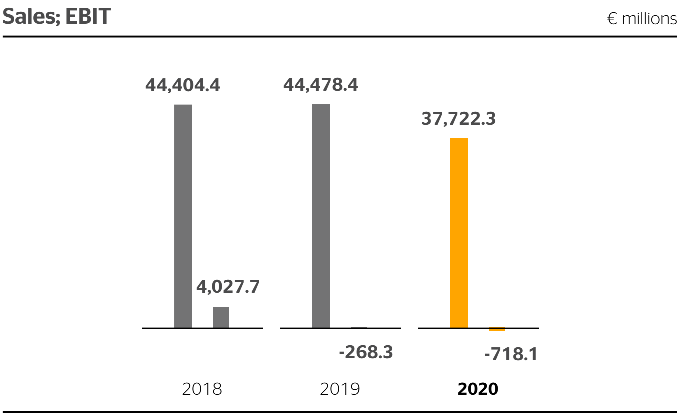
Sources:
TSR 20: rolling one-month contracts from the Singapore Exchange (US $ cents per kg).
Crude oil: European Brent spot price from Bloomberg (US $ per barrel).
Butadiene: South Korea spot price (FOB) from PolymerUpdate.com (US $ per metric ton).

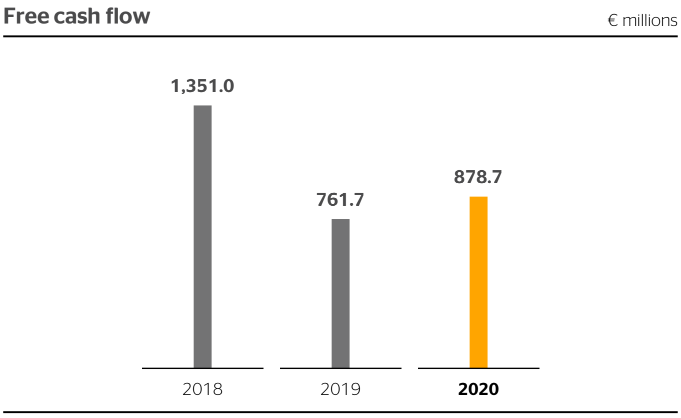
Prices for natural rubber initially fell in the first few months of 2020, before recovering again as the year progressed. The primary reason for this was the rise in demand for tires in Asia, particularly in China. But in Europe and North America too, demand normalized in the second half of the year. The average price of natural rubber TSR 20 for the year was down 6% year-on-year on a US dollar basis. The average price of ribbed smoked sheets (RSS) for the year rose by 6% on a US dollar basis.

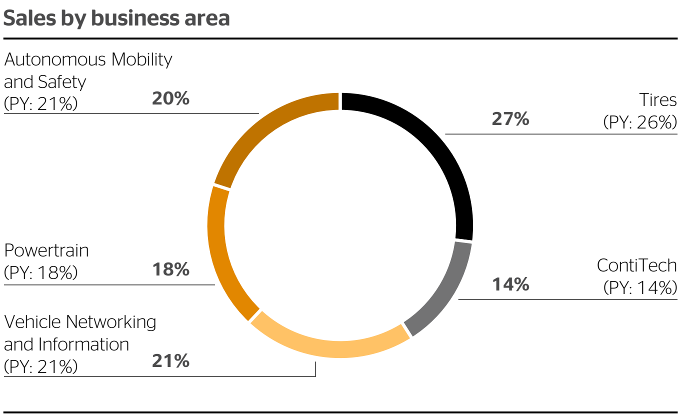
The stronger euro led to a decline in the average price of raw material imports to Europe by around 2% in the reporting year. Overall, the described price developments for raw materials led to cost savings in 2020, in particular in the Rubber Technologies group sector. However, there is generally a gap of several months between purchasing raw materials, their delivery and their use in production, depending on the product and contractual arrangement. As a result, the rise in spot prices in the second half of 2020 is expected to lead to increased costs for raw materials in 2021.

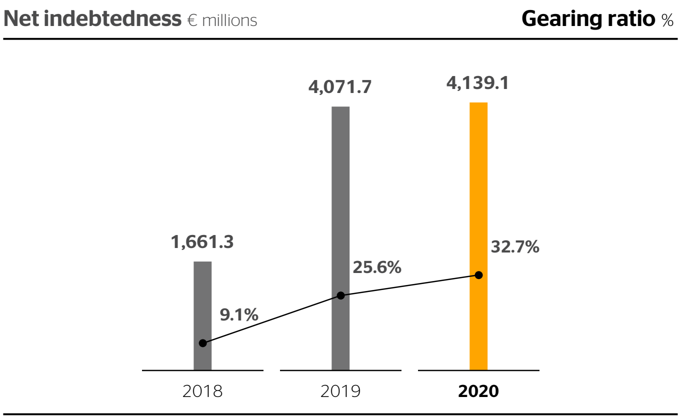
Earnings, Financial and Net Assets Position

› Sales down 15.2% at €37.7 billion
› Organic sales down 12.7%
› Basic earnings per share at -€4.81









IFRS 16, *Leases*, was adopted on and has been applied since January 1, 2019. It has been applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some of the figures presented are not comparable with fiscal 2018.

Earnings Position

› Sales down 15.2%
› Sales down 12.7% before changes in the scope of consolidation and exchange-rate effects
› Adjusted EBIT down 58.7%

Continental Group in € millions	2020	2019	Δ in %
Sales	37,722.3	44,478.4	–15.2
EBITDA	3,033.8	4,977.2	–39.0
in % of sales	8.0	11.2	
EBIT	–718.1	–268.3	–167.6
in % of sales	–1.9	–0.6	
Net income attributable to the shareholders of the parent	–961.9	–1,225.0	21.5
Basic earnings per share in €	–4.81	–6.13	21.5
Diluted earnings per share in €	–4.81	–6.13	21.5
Research and development expenses (net)	3,381.8	3,364.2	0.5
in % of sales	9.0	7.6	
Depreciation and amortization[1]	3,751.9	5,245.5	–28.5
thereof impairment[2]	876.8	2,509.9	–65.1
Operating assets as at December 31	20,471.0	23,991.0	–14.7
Operating assets (average)	22,536.6	26,178.5	–13.9
ROCE in %	–3.2	–1.0	
Capital expenditure[3]	2,232.2	3,308.6	–32.5
in % of sales	5.9	7.4	
Number of employees as at December 31[4]	236,386	241,458	–2.1
Adjusted sales[5]	37,573.9	44,214.2	–15.0
Adjusted operating result (adjusted EBIT)[6]	1,332.7	3,225.5	–58.7
in % of adjusted sales	3.5	7.3	

1 Excluding impairment on financial investments.
2 Impairment also includes necessary reversal of impairment losses. Expenses from derecognitions of brand values are likewise included.
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 down 15.2%
Sales down 12.7% before changes in the scope of consolidation and exchange-rate effects
Consolidated sales decreased by €6,756.1 million or 15.2% year-on-year in 2020 to €37,722.3 million (PY: €44,478.4 million). Before changes in the scope of consolidation and exchange-rate effects, sales declined by 12.7%. All three group sectors posted significantly lower sales due to the COVID-19 pandemic. Exchange-rate effects and, to a lesser extent, changes in the scope of consolidation likewise had a negative effect on the sales trend.

Adjusted EBIT down 58.7%
Adjusted EBIT for the Continental Group declined by €1,892.8 million or 58.7% year-on-year to €1,332.7 million (PY: €3,225.5 million) in 2020, corresponding to 3.5% (PY: 7.3%) of adjusted sales.

The Continental Group's adjusted EBIT for the fourth quarter of 2020 decreased by €161.0 million or 18.6% compared with the same quarter of the previous year to €703.4 million (PY: €864.4 million), equivalent to 6.5% (PY: 7.9%) of adjusted sales.

The regional distribution of sales in 2020 was as follows:

Sales by region in %	2020	2019
Germany	18	19
Europe excluding Germany	30	30
North America	25	26
Asia	24	22
Other countries	3	3

EBIT down 167.6%
EBIT was down by €449.8 million year-on-year in 2020 to -€718.1 million (PY: -€268.3 million), a decrease of 167.6%. The return on sales fell to -1.9% (PY: -0.6%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €183.6 million (PY: €182.5 million) in the year under review.

ROCE was -3.2% (PY: -1.0%).

Special effects in 2020
The transformation of the Powertrain business area into an independent legal entity resulted in expenses totaling €102.8 million (Autonomous Mobility and Safety €15.3 million; Vehicle Networking and Information €16.3 million; Powertrain €66.2 million; holding €5.0 million).

The organizational realignment of the Automotive Technologies group sector resulted in expenses totaling €1.6 million (Autonomous Mobility and Safety €0.8 million; Vehicle Networking and Information €0.8 million).

Within the context of the annual planning process, global production of passenger cars and light commercial vehicles was not expected to increase substantially compared to pre-crisis levels over the next five years until 2025. The expected impact of restructuring measures was also taken into account in this planning process. Due to this triggering event and other significant assumptions made when calculating the value in use of a cash-generating unit (CGU) – such as free cash flows, discount rates and their parameters, and long-term growth rates – goodwill was impaired by €654.6 million in the Vehicle Networking and Information business area (September 30, 2020: €649.3 million).

Expenses from derecognitions of brand values totaled €85.7 million (Vehicle Networking and Information €71.2 million; ContiTech €14.5 million). In addition, expenses related to the impairment of intangible assets were incurred in the amount of €0.7 million (Autonomous Mobility and Safety €0.7 million; Powertrain €0.0 million).

Impairment and reversal of impairment losses on property, plant and equipment resulted in expense totaling €106.3 million (Autonomous Mobility and Safety €5.4 million; Vehicle Networking and Information €18.2 million; Tires €0.5 million; ContiTech €3.0 million; Powertrain €79.2 million; holding €0.0 million).

Severance payments resulted in a negative special effect totaling €90.7 million (Autonomous Mobility and Safety €21.4 million; Vehicle Networking and Information €20.0 million; Tires €17.7 million; ContiTech €17.5 million; Powertrain €13.8 million; holding €0.3 million).

In the Autonomous Mobility and Safety business area, restructuring expenses totaling €91.5 million were incurred for locations in Germany. These expenses arose for the most part at the locations in Karben, Nuremberg, Regensburg and Rheinböllen. In addition, there were restructuring expenses totaling €38.6 million for other locations in Europe; €5.4 million for the location in Culpeper, Virginia, USA; and €3.7 million for the location in Manila, Philippines. These restructuring expenses included impairment on property, plant and equipment in the amount of €3.4 million.

The reversal of restructuring provisions no longer required for the location in Schwalbach, Germany, and the location in Henderson, North Carolina, USA, also resulted in income of €3.9 million and €0.5 million, respectively, in the Autonomous Mobility and Safety business area.

In the Vehicle Networking and Information business area, restructuring expenses totaling €129.5 million were incurred for locations in Germany. These expenses arose for the most part at the locations in Babenhausen, Karben, Regensburg and Villingen-Schwenningen. In addition, there were restructuring expenses totaling €80.0 million for the location in Rubi, Spain; €15.5 million for the location in Nogales, Mexico; €4.2 million for the location in Manila, Philippines; €0.4 million for the location in Culpeper, Virginia, USA; and €0.3 million for the location in Frenstat, Czechia. These restructuring expenses included impairment on property, plant and equipment in the amount of €0.1 million.

In the Tires business area, there were restructuring expenses totaling €270.4 million for the locations in Aachen and Hanover-Stöcken, Germany; and for the retail business, €0.6 million in Germany and €21.8 million in France. In addition, there were restructuring expenses of €1.0 million for the location in Petaling Jaya, Malaysia, and €0.1 million for the location in Port Elizabeth, South Africa. These restructuring expenses included impairment on property, plant and equipment and intangible assets totaling €13.0 million.

Furthermore, restructuring for the location in Petaling Jaya, Malaysia, resulted in income of €1.7 million in the Tires business area, which is entirely attributable to a reversal of impairment losses on property, plant and equipment.

In the ContiTech business area, restructuring expenses totaling €17.7 million were incurred for locations in Germany. These expenses arose for the most part at the locations in Hanover, Oedelsheim and Stolzenau. In addition, there were restructuring expenses totaling €4.1 million for other locations in Europe; €9.0 million for the location in Mitchell, Canada; €7.7 million for the location in Jorf Lasfar, Morocco; and €5.3 million for the location in Yangsan-City, South Korea. These restructuring expenses included impairment on property, plant and equipment in the amount of €7.7 million.

The reversal of restructuring provisions no longer required for the location in Oppenweiler, Germany, and for locations in China also resulted in income of €7.0 million and €0.8 million, respectively, in the ContiTech business area. The business area also recorded income of €0.1 million from the reversal of impairment losses on property, plant and equipment.

In the Powertrain business area, restructuring expenses totaling €192.5 million were incurred for locations in Germany. These expenses arose for the most part at the locations in Karben, Regensburg and Schwalbach am Taunus. In addition, there were restructuring expenses totaling €15.9 million for other locations in Europe; €1.0 million for the location in Nogales, Mexico; €0.7 million for the location in Salto, Brazil; and €0.4 million for locations in China. These restructuring expenses included impairment on property, plant and equipment in the amount of €9.5 million.

Moreover, in the Powertrain business area, the reversal of restructuring provisions no longer required, the reversal of impairment losses on property, plant and equipment, and extraordinary income from the sale of property, plant and equipment resulted in income totaling €10.2 million for the locations in Nuremberg and Berlin, Germany; €9.7 million for the location in Sibiu, Romania; €1.7 million for the location in Singapore, Singapore; and €1.1 million for the location in Newport News, Virginia, USA. These income amounts included reversals of impairment losses on property, plant and equipment in the amount of €2.4 million.

Restructuring-related measures resulted in expense totaling €26.5 million (Autonomous Mobility and Safety €10.5 million; Vehicle Networking and Information €3.7 million; Tires €0.2 million; ContiTech €1.7 million; Powertrain €10.4 million).

In the Autonomous Mobility and Safety business area, an expense of €3.7 million resulted from an allowance recognized on the carrying amount of an equity-accounted investee.

In the Vehicle Networking and Information business area, the 50% shareholding in equity-accounted associate SAS Autosystemtechnik GmbH & Co. KG., Karlsruhe, Germany, was sold. This resulted in income totaling €157.0 million.

Income on the sale of off-balance-sheet intangible assets was also realized in the Vehicle Networking and Information business area in the amount of €4.5 million.

Also in the Vehicle Networking and Information business area, an expense totaling €49.9 million was incurred in connection with the preparations to repatriate the business from associate OSRAM CONTINENTAL GmbH, Munich, Germany.

The Tires business area recorded an expense of €0.2 million resulting from the disposal of companies and assets.

For the ContiTech business area, there was a loss of €2.5 million from the disposal of a company.

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

A transfer of business to a previously founded equity-accounted investee resulted in income of €8.8 million for the Powertrain business area.

Total consolidated expense from special effects in 2020 amounted to €1,873.1 million. Autonomous Mobility and Safety accounted for €192.6 million of this, Vehicle Networking and Information for €903.1 million, Tires for €310.8 million, ContiTech for €75.2 million, Powertrain for €386.1 million, and the holding for €5.3 million.

Special effects in 2019

The transformation of the Powertrain business area into an independent legal entity and the organizational realignment of the Automotive Technologies group sector resulted in expense totaling €47.4 million (Autonomous Mobility and Safety €3.0 million; Vehicle Networking and Information €3.0 million; Powertrain €30.9 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, discount rates and their parameters, and long-term growth rates – goodwill was impaired by €2,293.5 million. The Autonomous Mobility and Safety business area accounted for €719.8 million of this, the Vehicle Networking and Information business area for €1,347.9 million and the Powertrain business area for €223.5 million. There was also impairment of goodwill of €2.3 million in the ContiTech business area.

Overall, impairment on property, plant and equipment resulted in expense totaling €111.7 million (Autonomous Mobility and Safety €29.1 million; Vehicle Networking and Information €25.3 million; Tires €3.5 million; ContiTech €4.9 million; Powertrain €48.9 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 (Autonomous Mobility and Safety €42.7 million; Vehicle Networking and Information €172.9 million; Tires €32.5 million; ContiTech €46.5 million; Powertrain €402.6 million). This included impairment on property, plant and equipment in the amount of €104.8 million (Autonomous Mobility and Safety €1.2 million; Tires €19.0 million; ContiTech €5.0 million; Powertrain €79.6 million). This additionally resulted in restructuring-related expenses of €3.3 million (Autonomous Mobility and Safety €1.5 million; ContiTech €0.8 million; Powertrain €1.0 million).

Moreover, closure of the location in Dearborn, Michigan, USA, resulted in an expense of €1.5 million in the Powertrain business area.

In the Vehicle Networking and Information business area, 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 Vehicle Networking and Information business area.

A business combination resulted in a gain of €2.2 million in the Tires business area.

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

Procurement

Due to the COVID-19 pandemic, the purchasing volume decreased in 2020 to €24.4 billion, of which around €16.7 billion was attributable to production materials. Prices for production materials for Automotive Technologies and Powertrain Technologies were lower than in the previous year. The prices of key input materials and many raw materials for Rubber Technologies decreased in the first half of 2020 and reached their low point in the middle of the second quarter. As at the end of the year, prices had risen back to the previous year’s level. Annual average prices for the raw materials used in the Tires business area were below the previous year’s level, in particular because of significant fluctuations in demand on the procurement market. For the ContiTech business area, raw material prices also declined year-on-year.

Reconciliation of EBIT to net income

€ millions	2020	2019	Δ in %
Autonomous Mobility and Safety	–97.7	–120.3	18.8
Vehicle Networking and Information	–1,342.5	–1,325.3	–1.3
Tires	1,012.3	1,651.6	–38.7
ContiTech	254.1	305.9	–16.9
Powertrain	–450.8	–662.1	31.9
Other/holding/consolidation	–93.5	–118.1	
EBIT	**–718.1**	**–268.3**	**–167.6**
Financial result	–212.0	–320.3	33.8
Earnings before tax	**–930.1**	**–588.6**	**–58.0**
Income tax expense	11.3	–582.4	101.9
Net income	**–918.8**	**–1,171.0**	**21.5**
Non-controlling interests	–43.1	–54.0	20.2
Net income attributable to the shareholders of the parent	**–961.9**	**–1,225.0**	**21.5**
Basic earnings per share in €	–4.81	–6.13	21.5
Diluted earnings per share in €	–4.81	–6.13	21.5

Reconciliation of sales to adjusted sales and of EBITDA to adjusted operating result (adjusted EBIT) in 2020

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

1 Changes in the scope of consolidation include additions and disposals as part of share and asset deals. Adjustments were made for additions in the reporting year and for disposals in the comparative period of the prior year.
2 Excluding impairment on financial investments.
3 Impairment also includes necessary reversal of impairment losses. This item does not include impairment that arose in connection with a restructuring and impairment on financial investments. It does include expenses from derecognitions of brand values of €71.2 million in the Vehicle Networking and Information business area and of €14.5 million in the ContiTech business area.
4 This includes impairment losses totaling €33.7 million (Autonomous Mobility and Safety €3.4 million; Vehicle Networking and Information €0.1 million; Tires €13.0 million; ContiTech €7.7 million; Powertrain €9.5 million) and reversals of impairment losses totaling €4.2 million (Tires €1.7 million; ContiTech €0.1 million; Powertrain €2.4 million).
5 Due to the Transformation 2019–2029 structural program, restructuring-related expenses and severance payments will be recognized as special effects to be adjusted from fiscal 2020.
6 The item "Other" mainly includes expenses of €102.8 million from the transformation of the Powertrain business area into an independent legal entity; expenses totaling €49.9 million in connection with preparations for the repatriation of the business from associate OSRAM CONTINENTAL GmbH, Munich, Germany; and an expense of €37.5 million due to an allowance recognized on the carrying amount of an associate.

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

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

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

Research and development

Research and development expenses (net) rose by €17.6 million or 0.5% year-on-year to €3,381.8 million (PY: €3,364.2 million), corresponding to 9.0% (PY: 7.6%) of sales.

In the Automotive Technologies and Powertrain Technologies group sectors, 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 the opinion of the Continental Group, the assumed useful life reflects the period for which an economic benefit is likely to be derived from the corresponding development projects. Of the development costs incurred in 2020, €137.6 million (PY: €164.5 million) in the Automotive Technologies group sector and €35.4 million (PY: €67.9 million) in the Powertrain Technologies group sector qualified for recognition as an asset.

The requirements for the capitalization of development activities were not met in the Tires and ContiTech business areas in the reporting year or the previous year.

This results in a capitalization ratio of 4.9% (PY: 6.5%) for the Continental Group.

Depreciation and amortization

Depreciation and amortization decreased by €1,493.6 million to €3,751.9 million (PY: €5,245.5 million), equivalent to 9.9% of sales (PY: 11.8%). This included impairment totaling €876.8 million in 2020 (PY: €2,509.9 million).

Financial result

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

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

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

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

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

Income tax expense

Income tax expense in 2020 amounted to tax income of €11.3 million (PY: tax expense of €582.4 million). The tax rate adjusted for the permanent effects of the goodwill impairment was 2.4%, compared to 55.8% 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 €232.1 million (PY: €117.4 million), of which €35.1 million (PY: €3.9 million) was for previous years. Furthermore, as in the previous year, the tax rate was negatively affected by non-deductible expenses and non-imputable foreign withholding taxes.

Net income attributable to the shareholders of the parent

Net income attributable to the shareholders of the parent improved by €263.1 million in 2020 to -€961.9 million (PY: -€1,225.0 million). Basic earnings per share amounted to -€4.81 (PY: €-6.13), the same amount as diluted earnings per share.

Employees

The number of employees in the Continental Group fell by 5,072 from 241,458 in 2019 to 236,386.

In the Automotive Technologies group sector, lower production volumes and efficiency improvements led to a reduction of 1,000 employees. The number of employees in the Rubber Technologies group sector declined by 2,358. This reduction is due to adjustments to production volumes, productivity increases and restructuring measures. The number of employees in the Powertrain Technologies group sector declined by 1,642. This decrease was due to the adjustment to demand-driven production, optimizations in production and restructuring measures.

Employees by region in %	**2020**	2019
Germany	25	25
Europe excluding Germany	32	32
North America	19	19
Asia	20	20
Other countries	4	4

Financial Position

- Free cash flow before acquisitions at €0.9 billion
- Cash flow arising from investing activities at €1.8 billion
- Net indebtedness at €4.1 billion

Reconciliation of cash flow

EBIT declined by €449.8 million year-on-year to -€718.1 million (PY: -€268.3 million).

Interest payments increased by €11.5 million to €169.4 million (PY: €157.9 million). This was primarily due to interest payments on bonds.

Income tax payments rose by €19.5 million to €885.5 million (PY: €866.0 million).

The cash-effective increase in working capital led to a cash outflow of €579.2 million (PY: €256.0 million). This resulted from a decrease in operating liabilities of €925.0 million (PY: €544.7 million). This decline was offset by a reduction in operating receivables of €140.2 million (PY: €337.8 million) and a decrease in inventories of €205.6 million (PY: increase of €49.1 million).

Cash flow from operating activities fell by €1,700.4 million year-on-year to €2,714.0 million (PY: €4,414.4 million) in 2020, corresponding to 7.2% of sales (PY: 9.9%).

Cash flow arising from investing activities amounted to an outflow of €1,835.3 million (PY: €3,652.7 million). Capital expenditure on property, plant and equipment, and software was down €1,035.1 million from €2,977.5 million to €1,942.4 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 inflow of €233.2 million in 2020 (PY: cash outflow of €486.3 million). This cash inflow is primarily attributable to the sale of the 50% shareholding in SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany.

Free cash flow for fiscal 2020 amounted to €878.7 million (PY: €761.7 million). This corresponds to an increase of €117.0 million compared with the previous year.

Capital expenditure (additions)

Capital expenditure for property, plant and equipment, and software amounted to €2,232.2 million in 2020 (PY: €3,308.6 million). All business areas contributed to the decline of €1,076.4 million. The capital expenditure ratio was 5.9% (PY: 7.4%).

Financing and indebtedness

As at the end of 2020, gross indebtedness amounted to €7,334.4 million (PY: €7,619.0 million), down €284.6 million on the previous year's level.

Based on quarter-end values, 77.4% (PY: 66.5%) of gross indebtedness after hedging measures had fixed interest rates on average over the year.

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

Bank loans and overdrafts amounted to €1,559.8 million (PY: €1,470.4 million) as at December 31, 2020, and were therefore up €89.4 million on the previous year's level.

The syndicated loan that was renewed ahead of schedule in December 2019 consists of a revolving tranche of €4,000.0 million and has a term of five years. In November 2020, Continental exercised an option to extend the term by one year. The lending banks then extended this financing commitment until December 2025 at unchanged conditions. As in the previous year, the revolving loan had not been utilized as at December 31, 2020. In addition to the existing syndicated loan, a further syndicated loan in the amount of €3,000.0 million was agreed in May 2020. The new credit line is intended to strengthen Continental's financial flexibility in the wake of the COVID-19 pandemic and therefore has a short term of 364 days. This credit line can be used only by Continental AG and had likewise not been utilized as at December 31, 2020.

Other indebtedness decreased by €1,081.9 million to €2,272.9 million (PY: €3,354.8 million) as at the end of 2020. This decline is primarily due to lower use of commercial paper programs. Commercial paper issuances resulted in a carrying amount of €263.4 million (PY: €938.4 million). Lease liabilities decreased by €172.0 million year-on-year to €1,543.0 million (PY: €1,715.0 million). As at the end of 2020, the utilization of sale-of-receivables programs, at €296.0 million (PY: €468.6 million), was lower than the previous year. Three (PY: four) sale-of-receivables programs with a total financing volume of €400.0 million (PY: €665.0 million) were used within the Continental Group as at the end of 2020.

Cash and cash equivalents, derivative instruments and interest-bearing investments were down by €352.0 million at €3,195.3 million (PY: €3,547.3 million).

Net indebtedness increased by €67.4 million as compared to the end of 2019 to €4,139.1 million (PY: €4,071.7 million). The gearing ratio rose year-on-year to 32.7% (PY: 25.6%).

As at December 31, 2020, the Continental Group had liquidity reserves totaling €10,719.5 million (PY: €8,044.0 million), consisting of cash and cash equivalents of €2,938.7 million (PY: €3,341.8 million) and committed, unutilized credit lines of €7,780.8 million (PY: €4,702.2 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 Group, 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, 2020, unrestricted cash and cash equivalents totaled €2,639.8 million (PY: €3,114.3 million).

Reconciliation of net indebtedness

€ millions	**December 31, 2020**	December 31, 2019
Long-term indebtedness	5,144.4	3,375.2
Short-term indebtedness	2,190.0	4,243.8
Long-term derivative instruments and interest-bearing investments	–142.6	–54.0
Short-term derivative instruments and interest-bearing investments	–114.0	–151.5
Cash and cash equivalents	–2,938.7	–3,341.8
Net indebtedness	**4,139.1**	**4,071.7**

Reconciliation of change in net indebtedness

€ millions	**2020**	2019
Net indebtedness at the beginning of the reporting period	**4,071.7**	**3,391.4**
Cash flow arising from operating activities	2,714.0	4,414.4
Cash flow arising from investing activities	–1,835.3	–3,652.7
Cash flow before financing activities (free cash flow)	**878.7**	**761.7**
Dividends paid	–600.0	–950.0
Dividends paid to and cash changes from equity transactions with non-controlling interests	–52.7	–32.5
Non-cash changes	–74.5	–339.7
Other	–172.8	–93.7
Exchange-rate effects	–46.1	–26.1
Change in net indebtedness	**–67.4**	**–680.3**
Net indebtedness at the end of the reporting period	**4,139.1**	**4,071.7**

Net Assets Position

› **Equity at €12.6 billion**
› **Equity ratio at 31.9%**
› **Gearing ratio at 32.7%**

Total assets

At €39,638.0 million (PY: €42,568.2 million), total assets as at December 31, 2020, were €2,930.2 million lower than on the same date in the previous year. Goodwill, at €4,361.6 million, was down by €751.9 million compared to the previous year's figure of €5,113.5 million. Other intangible assets fell by €344.9 million to €1,346.9 million (PY: €1,691.8 million). Property, plant and equipment decreased by €1,172.1 million to €13,760.6 million (PY: €14,932.7 million). Deferred tax assets were up €577.0 million at €2,751.4 million (PY: €2,174.4 million). Inventories fell by €456.2 million to €4,238.2 million (PY: €4,694.4 million), while trade accounts receivable declined by €358.4 million to €7,353.2 million (PY: €7,711.6 million). At €2,938.7 million, cash and cash equivalents were down €403.1 million from €3,341.8 million on the same date in the previous year.

Non-current assets

Non-current assets fell by €1,606.6 million year-on-year to €23,117.9 million (PY: €24,724.5 million). In relation to the individual items of the statement of financial position, this is primarily due to the decline in property, plant and equipment of €1,172.1 million to €13,760.6 million (PY: €14,932.7 million), the reduction in goodwill of €751.9 million to €4,361.6 million (PY: €5,113.5 million) and the decline in other intangible assets of €344.9 million to €1,346.9 million (PY: €1,691.8 million). This decrease was offset by an increase in deferred tax assets of €577.0 million to €2,751.4 million (PY: €2,174.4 million).

Current assets

Current assets fell by €1,323.6 million to €16,520.1 million (PY: €17,843.7 million). In the year under review, inventories declined by €456.2 million to €4,238.2 million (PY: €4,694.4 million), while trade accounts receivable fell by €358.4 million to €7,353.2 million (PY: €7,711.6 million). Cash and cash equivalents were lower by €403.1 million at €2,938.7 million (PY: €3,341.8 million).

Equity

Total equity (including non-controlling interests) was €3,236.6 million lower than in the previous year at €12,639.1 million (PY: €15,875.7 million). Equity was reduced by the payment of the dividends in the amount of €600.0 million resolved by the Annual Shareholders' Meeting and the net income attributable to the shareholders of the parent in the amount of -€961.9 million. Other comprehensive income fell by €1,571.0 million to -€4,365.4 million (PY: -€2,794.4 million). The gearing ratio changed from 25.6% to 32.7%. The equity ratio fell to 31.9% (PY: 37.3%).

Non-current liabilities

At €12,743.1 million, non-current liabilities were up €2,921.7 million from €9,821.4 million in the previous year. This rise was mainly attributable to the €1,769.2 million increase in long-term indebtedness to €5,144.4 million (PY: €3,375.2 million), which results primarily from the new issuance of three euro bonds in the second quarter with a total volume of €2,125.0 million. Long-term employee benefits rose by €703.6 million to €6,109.9 million (PY: €5,406.3 million). Long-term provisions for other risks and obligations were higher by €576.5 million at €1,242.6 million (PY: €666.1 million).

Current liabilities

At €14,255.8 million, current liabilities were down €2,615.3 million from €16,871.1 million in the previous year. This decrease is primarily due to short-term indebtedness, which fell by €2,053.8 million to €2,190.0 million (PY: €4,243.8 million). This is mainly attributable to the proceeds from the issue of three euro bonds in the second quarter, which were used to repay short-term financial liabilities. Trade accounts payable fell by €1,177.9 million to €5,933.1 million (PY: €7,111.0 million). This decline was offset by an increase in short-term provisions for other risks and obligations of €463.8 million to €1,725.4 million (PY: €1,261.6 million).

Operating assets

Operating assets decreased by €3,520.0 million year-on-year to €20,471.0 million (PY: €23,991.0 million) as at December 31, 2020.

Working capital was up €182.7 million at €5,695.9 million (PY: €5,513.2 million). This development was due to the €1,177.9 million decrease in operating liabilities to €5,933.1 million (PY: €7,111.0 million) and the €539.0 million decline in operating receivables to €7,390.8 million (PY: €7,929.8 million). Inventories were also down by €456.2 million at €4,238.2 million (PY: €4,694.4 million).

Non-current operating assets were lower by €2,398.1 million year-on-year at €20,047.0 million (PY: €22,445.1 million). Goodwill decreased by €751.9 million to €4,361.6 million (PY: €5,113.5 million). This change resulted primarily from impairment losses of €654.6 million. Exchange-rate effects of €94.8 million also had an impact, as did disposals of €2.5 million. Property, plant and equipment decreased by €1,172.1 million to €13,760.6 million (PY: €14,932.7 million). Other intangible assets fell by €344.9 million to €1,346.9 million (PY: €1,691.8 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €183.6 million (PY: €182.5 million) reduced the value of intangible assets.

In the Vehicle Networking and Information business area, the sale of the 50% shareholding in SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany, resulted in a decrease in operating assets of €91.4 million.

As a result of an asset deal in the Tires business area, operating assets rose by €0.3 million.

In the ContiTech business area, the final purchase price allocation for the acquisition of Merlett Tecnoplastic S.p.A., Daverio, Italy, in 2019 resulted in an increase in operating assets of €2.5 million. In addition, the sale of a company reduced operating assets by €4.1 million.

A transfer of business under an asset deal in the Powertrain business area reduced operating assets by €1.7 million.

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

Exchange-rate effects reduced the Continental Group's total operating assets by €1,069.7 million (PY: increase of €284.2 million).

Average operating assets fell by €3,641.9 million to €22,536.6 million as compared to the previous year (€26,178.5 million).

Consolidated statement of financial position

Assets in € millions	**December 31, 2020**	December 31, 2019
Goodwill	4,361.6	5,113.5
Other intangible assets	1,346.9	1,691.8
Property, plant and equipment	13,760.6	14,932.7
Investments in equity-accounted investees	351.3	397.7
Long-term miscellaneous assets	3,297.5	2,588.8
Non-current assets	**23,117.9**	**24,724.5**
Inventories	4,238.2	4,694.4
Trade accounts receivable	7,353.2	7,711.6
Short-term miscellaneous assets	1,990.0	2,095.9
Cash and cash equivalents	2,938.7	3,341.8
Current assets	**16,520.1**	**17,843.7**
Total assets	**39,638.0**	**42,568.2**

Equity and liabilities in € millions	**December 31, 2020**	December 31, 2019
Total equity	**12,639.1**	**15,875.7**
Non-current liabilities	**12,743.1**	**9,821.4**
Trade accounts payable	5,933.1	7,111.0
Short-term other provisions and liabilities	8,322.7	9,760.1
Current liabilities	**14,255.8**	**16,871.1**
Total equity and liabilities	**39,638.0**	**42,568.2**
Net indebtedness	**4,139.1**	**4,071.7**
Gearing ratio in %	**32.7**	**25.6**

Reconciliation to operating assets in 2020

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

Reconciliation to operating assets in 2019

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

Automotive Technologies

Automotive Technologies in € millions	2020	2019	Δ in %
Sales	15,316.9	18,904.7	-19.0
EBITDA	498.3	1,727.7	-71.2
in % of sales	3.3	9.1	
EBIT	-1,440.6	-1,445.6	0.3
in % of sales	-9.4	-7.6	
Research and development expenses (net)	2,293.6	2,237.9	2.5
in % of sales	15.0	11.8	
Depreciation and amortization[1]	1,938.9	3,173.3	-38.9
thereof impairment[2]	753.6	2,123.2	-64.5
Operating assets as at December 31	7,832.8	9,474.0	-17.3
Operating assets (average)	8,859.0	10,920.1	-18.9
ROCE in %	-16.3	-13.2	
Capital expenditure[3]	979.3	1,404.3	-30.3
in % of sales	6.4	7.4	
Number of employees as at December 31[4]	95,551	96,551	-1.0
Adjusted sales[5]	15,303.1	18,648.3	-17.9
Adjusted operating result (adjusted EBIT)[6]	-280.2	1,115.3	-125.1
in % of adjusted sales	-1.8	6.0	

1 Excluding impairment on financial investments.
2 Impairment also includes necessary reversal of impairment losses. Expenses from derecognitions of brand values are likewise included.
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 Technologies group sector comprises two business areas:

- The **Autonomous Mobility and Safety** business area (20% of consolidated sales) develops, produces and integrates active and passive safety technologies and controls vehicle dynamics.
- The **Vehicle Networking and Information** business area (21% of consolidated sales) develops and integrates components and end-to-end systems for connected mobility – architecture, hardware, software and services.

The seven business units in total generated 41% of consolidated sales in the reporting year.

Key raw materials for Automotive Technologies 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, such as semiconductors. The COVID-19 pandemic caused strong demand fluctuations in the automotive supplier industry in the reporting year. Demand fell sharply in the spring of 2020. Some suppliers had to suspend production partially or completely. Demand has increased recently due to an unexpectedly rapid recovery of the automotive industry from the pandemic. This recovery has led to shortages and delivery problems since the end of 2020 in the semiconductor industry, which for some components was already being used to full capacity due to increased demand for consumer goods. Although semiconductor manufacturers are responding to the unexpectedly strong increase in demand by ramping up their production capacity, it will probably not be possible to eliminate the delivery bottlenecks until later in 2021 due to the lead times in the semiconductor industry.

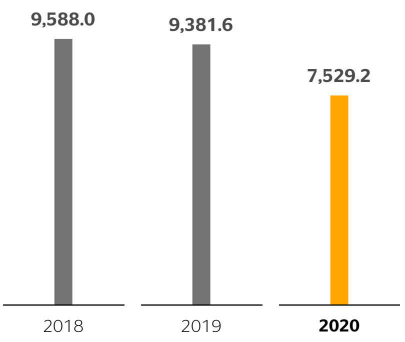
Development of the Autonomous Mobility and Safety Business Area

- Sales down 19.7%
- Sales down 15.8% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT down 85.9%

Sales volumes
In the Vehicle Dynamics business unit, the number of electronic brake systems sold in 2020 was markedly lower than the previous year's level. In the Hydraulic Brake Systems business unit, sales figures for brake boosters were down significantly year-on-year. Unit sales of brake calipers with integrated electric parking brakes decreased significantly year-on-year. In the Passive Safety and Sensorics business unit, the sales volume of airbag control units decreased significantly year-on-year. Unit sales of advanced driver assistance systems were down compared to the previous year. The year-on-year decline in sales volumes in the business units was primarily attributable to the knock-on effects of measures to contain the COVID-19 pandemic.

Sales down 19.7%
Sales down 15.8% before changes in the scope of consolidation and exchange-rate effects
Sales of the Autonomous Mobility and Safety business area were down 19.7% year-on-year at €7,529.2 million (PY: €9,381.6 million) in 2020. Before changes in the scope of consolidation and exchange-rate effects, sales declined by 15.8%.

Sales € millions



Adjusted EBIT down 85.9%
Adjusted EBIT for the Autonomous Mobility and Safety business area declined by €578.0 million or 85.9% year-on-year to €94.9 million (PY: €672.9 million) in 2020, corresponding to 1.3% (PY: 7.4%) of adjusted sales.

EBIT up 18.8%
Compared to the same period of the previous year, the Autonomous Mobility and Safety business area reported an increase in EBIT of €22.6 million or 18.8% to -€97.7 million (PY: -€120.3 million) in 2020. The return on sales was therefore unchanged from the previous year at -1.3%.

For the Autonomous Mobility and Safety business area, total consolidated expense from special effects in 2020 amounted to €192.6 million (PY: €796.1 million). For further details, please see our comments beginning on page 67 regarding the special effects in 2020 and 2019.

The ROCE was -2.1% (PY: -2.3%).

Procurement
The procurement market for the Autonomous Mobility and Safety business area was very volatile in 2020, and the price trend on the raw material markets also proved to be very heterogeneous. The first four months were marked by price reductions for industrial metals due to the COVID-19 pandemic. This decrease reached its low point at the end of April. In the following months, prices rose continuously due to demand. The price level at the end of the year was well above the level of the first quarter. The procurement situation eased into the second quarter, but starting from the third quarter above-average demand for materials caused longer delivery times and occasional delivery bottlenecks for steel products. Demand for electronic components within the business area rose due to the above-average business growth in the Advanced Driver Assistance Systems business unit.

Research and development
Research and development expenses (net) fell by €39.8 million or 3.8% year-on-year to €1,008.9 million (PY: €1,048.7 million), corresponding to 13.4% (PY: 11.2%) of sales.

Depreciation and amortization
Depreciation and amortization declined by €695.0 million compared to fiscal 2019 to €570.6 million (PY: €1,265.6 million) and amounted to 7.6% (PY: 13.5%) of sales. This included impairment totaling €9.5 million in 2020 (PY: €750.0 million).

Operating assets
Operating assets in the Autonomous Mobility and Safety business area fell by €316.7 million year-on-year to €4,400.1 million (PY: €4,716.8 million) as at December 31, 2020.

Working capital was up €196.8 million at €702.6 million (PY: €505.8 million). Inventories increased by €6.0 million to €620.5 million (PY: €614.5 million). Operating receivables fell by €166.6 million to €1,447.6 million (PY: €1,614.2 million) as at the reporting date. Operating liabilities were down €357.4 million at €1,365.5 million (PY: €1,722.9 million).

Autonomous Mobility and Safety in € millions	2020	2019	Δ in %
Sales	7,529.2	9,381.6	–19.7
EBITDA	472.9	1,145.3	–58.7
in % of sales	6.3	12.2	
EBIT	–97.7	–120.3	18.8
in % of sales	–1.3	–1.3	
Research and development expenses (net)	1,008.9	1,048.7	–3.8
in % of sales	13.4	11.2	
Depreciation and amortization[1]	570.6	1,265.6	–54.9
thereof impairment[2]	9.5	750.0	–98.7
Operating assets as at December 31	4,400.1	4,716.8	–6.7
Operating assets (average)	4,658.8	5,159.9	–9.7
ROCE in %	–2.1	–2.3	
Capital expenditure[3]	498.7	720.6	–30.8
in % of sales	6.6	7.7	
Number of employees as at December 31[4]	47,762	48,434	–1.4
Adjusted sales[5]	7,529.2	9,126.8	–17.5
Adjusted operating result (adjusted EBIT)[6]	94.9	672.9	–85.9
in % of adjusted sales	1.3	7.4	

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

Non-current operating assets were down €167.0 million year-on-year at €4,865.2 million (PY: €5,032.2 million). Goodwill decreased by €18.8 million to €1,909.7 million (PY: €1,928.5 million). Property, plant and equipment fell by €160.6 million to €2,706.5 million (PY: €2,867.1 million) due to disposals. Other intangible assets climbed by €15.4 million to €118.1 million (PY: €102.7 million).

Exchange-rate effects reduced the total operating assets of the Autonomous Mobility and Safety business area by €148.7 million in the reporting year (PY: increase of €37.9 million).

Average operating assets in the Autonomous Mobility and Safety business area fell by €501.1 million to €4,658.8 million as compared to fiscal 2019 (€5,159.9 million).

Capital expenditure (additions)
Additions to the Autonomous Mobility and Safety business area fell by €221.9 million year-on-year to €498.7 million (PY: €720.6 million). The capital expenditure ratio was 6.6% (PY: 7.7%).

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

Employees
The number of employees in the Autonomous Mobility and Safety business area fell by 672 to 47,762 (PY: 48,434). This was due to adjustments to lower production volumes, efficiency increases and structural changes.

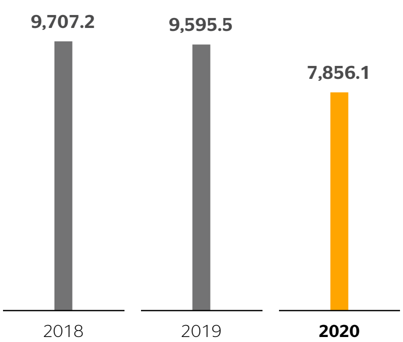
Development of the Vehicle Networking and Information Business Area

- Sales down 18.1%
- Sales down 15.8% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT down 184.7%

Sales volumes
Global sales volumes in the Connected Car Networking business unit were below the previous year's level in 2020. In the Human Machine Interface and Commercial Vehicles and Services business units, sales figures were also lower than the previous year's level. The commercial-vehicles business recorded a greater decline than the replacement-parts and aftermarket business. The year-on-year decline in sales volumes in the business units was primarily attributable to the knock-on effects of measures to contain the COVID-19 pandemic.

Sales down 18.1%
Sales down 15.8% before changes in the scope of consolidation and exchange-rate effects
Sales of the Vehicle Networking and Information business area were down 18.1% year-on-year at €7,856.1 million (PY: €9,595.5 million) in 2020. Before changes in the scope of consolidation and exchange-rate effects, sales declined by 15.8%.

Sales € millions



Adjusted EBIT down 184.7%
Adjusted EBIT for the Vehicle Networking and Information business area declined by €817.1 million or 184.7% year-on-year to -€374.7 million (PY: €442.4 million) in 2020, corresponding to -4.8% (PY: 4.6%) of adjusted sales.

EBIT down 1.3%
Compared to the same period of the previous year, the Vehicle Networking and Information business area reported a decline in EBIT of €17.2 million or 1.3% to -€1,342.5 million (PY: -€1,325.3 million) in 2020. The return on sales fell to -17.1% (PY: -13.8%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €65.5 million (PY: €57.2 million).

For the Vehicle Networking and Information business area, total consolidated expense from special effects in 2020 amounted to €903.1 million (PY: €1,708.9 million). For further details, please see our comments beginning on page 67 regarding the special effects in 2020 and 2019.

The ROCE was -31.9% (PY: -23.0%).

Procurement
The percentage share of electronic components and displays in the Vehicle Networking and Information business area continued to increase. Following the first wave of the COVID-19 pandemic, which led to significant declines in demand, the second half of 2020 was characterized by a strong upturn in demand in the electronics and display market. The first product launch of the innovative high-performance computer ICAS1 (InCar Application Server 1) was successfully supported by the components procurement function.

Research and development
Research and development expenses (net) rose by €95.5 million or 8.0% year-on-year to €1,284.7 million (PY: €1,189.2 million), corresponding to 16.4% (PY: 12.4%) of sales.

Depreciation and amortization
Depreciation and amortization fell by €539.0 million compared to fiscal 2019 to €1,368.7 million (PY: €1,907.7 million) and amounted to 17.4% (PY: 19.9%) of sales. This included impairment totaling €744.1 million in 2020 (PY: €1,373.2 million).

Operating assets
Operating assets in the Vehicle Networking and Information business area fell by €1,321.7 million year-on-year to €3,435.5 million (PY: €4,757.2 million) as at December 31, 2020.

Working capital rose by €163.8 million to €850.3 million (PY: €686.5 million). Inventories decreased by €37.7 million to €829.9 million (PY: €867.6 million). Operating receivables fell by €22.4 million to €1,536.0 million (PY: €1,558.4 million) as at the reporting date. Operating liabilities were down €223.9 million at €1,515.6 million (PY: €1,739.5 million).

Non-current operating assets decreased by €982.0 million year-on-year to €3,866.5 million (PY: €4,848.5 million). Goodwill fell to €710.6 million (PY: €1,388.1 million), with €654.6 million of this decrease resulting from impairment of goodwill. At €2,330.2 million,

Vehicle Networking and Information in € millions	2020	2019	Δ in %
Sales	7,856.1	9,595.5	–18.1
EBITDA	26.2	582.4	–95.5
in % of sales	0.3	6.1	
EBIT	–1,342.5	–1,325.3	–1.3
in % of sales	–17.1	–13.8	
Research and development expenses (net)	1,284.7	1,189.2	8.0
in % of sales	16.4	12.4	
Depreciation and amortization[1]	1,368.7	1,907.7	–28.3
thereof impairment[2]	744.1	1,373.2	–45.8
Operating assets as at December 31	3,435.5	4,757.2	–27.8
Operating assets (average)	4,203.4	5,760.2	–27.0
ROCE in %	–31.9	–23.0	
Capital expenditure[3]	480.6	683.7	–29.7
in % of sales	6.1	7.1	
Number of employees as at December 31[4]	47,789	48,117	–0.7
Adjusted sales[5]	7,842.3	9,593.9	–18.3
Adjusted operating result (adjusted EBIT)[6]	–374.7	442.4	–184.7
in % of adjusted sales	–4.8	4.6	

1 Excluding impairment on financial investments.
2 Impairment also includes necessary reversal of impairment losses. Expenses from derecognitions of brand values are likewise included.
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.

property, plant and equipment were €61.7 million below the previous year's level of €2,391.9 million. Other intangible assets fell by €186.1 million to €637.1 million (PY: €823.2 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €65.5 million (PY: €57.2 million) reduced the value of intangible assets.

In the Vehicle Networking and Information business area, the sale of the 50% shareholding in SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany, resulted in a decrease in operating assets of €91.4 million.

Exchange-rate effects reduced the total operating assets of the Vehicle Networking and Information business area by €160.7 million in the reporting year (PY: increase of €67.8 million).

Average operating assets in the Vehicle Networking and Information business area were lower by €1,556.8 million at €4,203.4 million compared to fiscal 2019 (€5,760.2 million).

Capital expenditure (additions)
Additions to the Vehicle Networking and Information business area fell by €203.1 million year-on-year to €480.6 million (PY: €683.7 million).

The capital expenditure ratio amounted to 6.1% (PY: 7.1%). In addition to increasing production capacity in Europe, production facilities were also expanded in Asia and North America. Investments focused primarily on the expansion of production capacity for the Human Machine Interface and Connected Car Networking business units. Important additions related to the construction of the new plant in Aguascalientes, Mexico. In addition, production capacity for operation and display solutions was expanded.

Employees
The number of employees in the Vehicle Networking and Information business area declined by 328 to 47,789 (PY: 48,117). Declining production volumes were partially offset by the establishment of new production sites and further build-up in research and development.

Rubber Technologies

Rubber Technologies in € millions	**2020**	2019	Δ in %
Sales	15,639.5	18,012.9	-13.2
EBITDA	2,493.6	3,168.2	-21.3
in % of sales	15.9	17.6	
EBIT	1,266.4	1,957.5	-35.3
in % of sales	8.1	10.9	
Research and development expenses (net)	417.7	462.2	-9.6
in % of sales	2.7	2.6	
Depreciation and amortization[1]	1,227.2	1,210.7	1.4
thereof impairment[2]	36.9	34.8	6.0
Operating assets as at December 31	9,455.8	11,046.5	-14.4
Operating assets (average)	10,361.9	11,317.3	-8.4
ROCE in %	12.2	17.3	
Capital expenditure[3]	715.0	1,187.9	-39.8
in % of sales	4.6	6.6	
Number of employees as at December 31[4]	100,327	102,685	-2.3
Adjusted sales[5]	15,504.9	18,005.1	-13.9
Adjusted operating result (adjusted EBIT)[6]	1,756.3	2,160.8	-18.7
in % of adjusted sales	11.3	12.0	

1 Excluding impairment on financial investments.
2 Impairment also includes necessary reversal of impairment losses. Expenses from derecognitions of brand values are likewise included.
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 Technologies group sector comprises two business areas:

- With its premium portfolio in the car, truck, bus, two-wheel and specialty tire segment, the **Tires** business area (27% of consolidated sales) stands for innovative top performance in tire technology. Services for dealers and fleet management as well as digital tire monitoring and management systems are further areas of focus. The aim is to contribute to safe, economical and sustainable mobility.

- The **ContiTech** business area (14% of consolidated sales) focuses on smart and sustainable solutions beyond rubber and develops digital and intelligent solutions in future-oriented sectors. In doing so, ContiTech draws on its long-standing knowledge of the industry and materials to open up new business opportunities by combining various materials with electronic components and individual services.

In the year under review, the 13 business units in total generated 41% of consolidated sales.

Rubber Technologies benefited from significantly lower prices for crude oil and natural rubber in the first half of 2020. In the markets for chemicals, textiles and steel, the COVID-19 pandemic also led to price reductions. The market for butadiene, an input material for synthetic rubber, also developed accordingly. In the second half of the year, key input materials experienced substantial price increases due to rising demand.

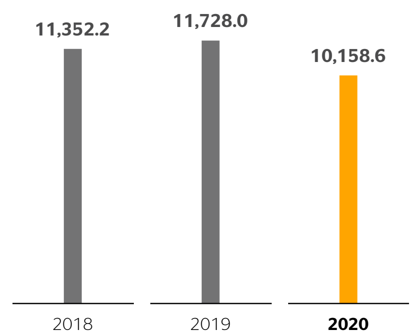
Development of the Tires Business Area

- Sales down 13.4%
- Sales down 10.7% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT down 21.2%

Sales volumes
As a result of the COVID-19 pandemic, sales figures for passenger and light truck tires in 2020 were significantly below the previous year's level in the original-equipment business. Sales figures for passenger and light truck tires in the tire-replacement business and in the commercial-vehicle tire business were also below the level of the previous year.

Sales down 13.4%
Sales down 10.7% before changes in the scope of consolidation and exchange-rate effects
Sales of the Tires business area were down 13.4% year-on-year at €10,158.6 million (PY: €11,728.0 million) in 2020. Before changes in the scope of consolidation and exchange-rate effects, sales declined by 10.7%.

Sales € millions



Adjusted EBIT down 21.2%
Adjusted EBIT for the Tires business area declined by €361.3 million or 21.2% year-on-year to €1,344.1 million (PY: €1,705.4 million) in 2020, corresponding to 13.2% (PY: 14.5%) of adjusted sales.

EBIT down 38.7%
Compared to the same period of the previous year, the Tires business area reported a decline in EBIT of €639.3 million or 38.7% to €1,012.3 million (PY: €1,651.6 million) in 2020. The return on sales fell to 10.0% (PY: 14.1%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €20.3 million (PY: €20.0 million).

For the Tires business area, total consolidated expense from special effects in 2020 amounted to €310.8 million (PY: €33.8 million). For further details, please see our comments beginning on page 67 regarding the special effects in 2020 and 2019.

The ROCE was 14.3% (PY: 21.2%).

Procurement
Prices for key raw materials declined when the COVID-19 pandemic began. In particular, the prices of raw materials and input materials such as natural rubber, butadiene and crude oil reached their low point in the second quarter. The reduction in the oil price caused prices for other oil-based input materials such as carbon black to fall. In the second half of 2020, prices for natural rubber, oil and butadiene rose substantially. The annual average price level on the markets for chemicals, textiles and steel declined as the year progressed.

Research and development
Research and development expenses (net) fell by €31.4 million or 10.5% year-on-year to €268.0 million (PY: €299.4 million), corresponding, as in the previous year, to 2.6% of sales.

Depreciation and amortization
Depreciation and amortization rose by €6.5 million compared to fiscal 2019 to €852.6 million (PY: €846.1 million) and amounted to 8.4% (PY: 7.2%) of sales. This included impairment totaling €11.8 million in 2020 (PY: €22.5 million).

Operating assets
Operating assets in the Tires business area decreased by €1,152.9 million year-on-year to €6,402.3 million (PY: €7,555.2 million) as at December 31, 2020.

Working capital was down €245.0 million at €2,417.6 million (PY: €2,662.6 million). Inventories decreased by €230.2 million to €1,563.2 million (PY: €1,793.4 million). Operating receivables fell by €285.1 million to €1,940.8 million (PY: €2,225.9 million) as at the reporting date. Operating liabilities were down €270.3 million at €1,086.4 million (PY: €1,356.7 million).

Non-current operating assets were down €640.9 million year-on-year at €5,236.3 million (PY: €5,877.2 million). Goodwill decreased by €4.0 million to €405.7 million (PY: €409.7 million). This reduction resulted from exchange-rate effects amounting to €4.0 million. Property, plant and equipment fell by €579.5 million to €4,608.1 million (PY: €5,187.6 million). Other intangible assets were lower by €32.6 million at €84.2 million (PY: €116.8 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €20.3 million (PY: €20.0 million) reduced the value of intangible assets.

As a result of an asset deal in the Tires business area, operating assets rose by €0.3 million.

Tires in € millions	**2020**	2019	Δ in %
Sales	10,158.6	11,728.0	-13.4
EBITDA	1,864.9	2,497.7	-25.3
in % of sales	18.4	21.3	
EBIT	1,012.3	1,651.6	-38.7
in % of sales	10.0	14.1	
Research and development expenses (net)	268.0	299.4	-10.5
in % of sales	2.6	2.6	
Depreciation and amortization[1]	852.6	846.1	0.8
thereof impairment[2]	11.8	22.5	-47.6
Operating assets as at December 31	6,402.3	7,555.2	-15.3
Operating assets (average)	7,080.7	7,797.5	-9.2
ROCE in %	14.3	21.2	
Capital expenditure[3]	535.5	926.2	-42.2
in % of sales	5.3	7.9	
Number of employees as at December 31[4]	56,864	56,884	0.0
Adjusted sales[5]	10,154.4	11,728.0	-13.4
Adjusted operating result (adjusted EBIT)[6]	1,344.1	1,705.4	-21.2
in % of adjusted sales	13.2	14.5	

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.

Exchange-rate effects reduced the total operating assets of the Tires business area by €458.9 million in the reporting year (PY: increase of €120.5 million).

Average operating assets in the Tires business area fell by €716.8 million to €7,080.7 million as compared to fiscal 2019 (€7,797.5 million).

Capital expenditure (additions)
Additions to the Tires business area decreased by €390.7 million year-on-year to €535.5 million (PY: €926.2 million). The capital expenditure ratio was 5.3% (PY: 7.9%).

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

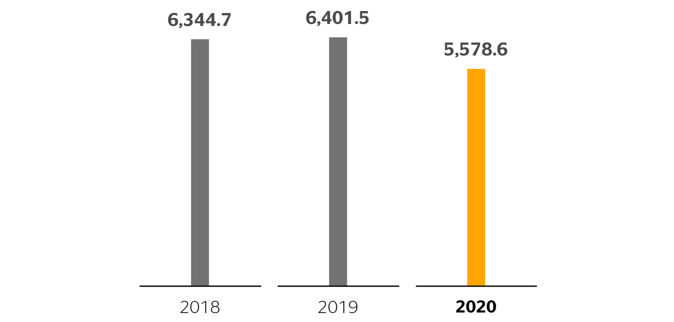
Employees
The number of employees in the Tires business area declined by 20 to 56,864 (PY: 56,884).

Development of the ContiTech Business Area

- Sales down 12.9%
- Sales down 11.9% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT down 9.5%

Sales down 12.9%
Sales down 11.9% before changes in the scope of consolidation and exchange-rate effects
Sales of the ContiTech business area were down 12.9% year-on-year at €5,578.6 million (PY: €6,401.5 million) in 2020. Before changes in the scope of consolidation and exchange-rate effects, sales declined by 11.9%. Sales were lower than the previous year's level as a result of the volatile market environment caused by the COVID-19 pandemic. The sales decline was more pronounced in the automotive sector than in the industrial sector. Regionally, business in China has recovered significantly since the second quarter and closed the full year slightly above the previous year's level. Europe and North America were significantly lower than in the previous year.

Sales € millions



Adjusted EBIT down 9.5%
Adjusted EBIT for the ContiTech business area declined by €43.2 million or 9.5% year-on-year to €412.2 million (PY: €455.4 million) in 2020, corresponding to 7.6% (PY: 7.1%) of adjusted sales.

EBIT down 16.9%
Compared to the same period of the previous year, the ContiTech business area reported a decline in EBIT of €51.8 million or 16.9% to €254.1 million (PY: €305.9 million) in 2020. The return on sales fell to 4.6% (PY: 4.8%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €88.7 million (PY: €94.6 million).

For the ContiTech business area, total consolidated expense from special effects in 2020 amounted to €75.2 million (PY: €54.5 million). For further details, please see our comments beginning on page 67 regarding the special effects in 2020 and 2019.

The ROCE was 7.7% (PY: 8.7%).

Procurement
The ContiTech business area experienced decreasing prices for many raw materials as a result of demand fluctuations on the commodity markets due to the pandemic. In particular, prices for oil-based raw materials fell sharply year-on-year. Overall, average annual material prices decreased compared with the previous year.

Research and development
Research and development expenses (net) declined by €13.1 million or 8.0% year-on-year to €149.7 million (PY: €162.8 million), corresponding to 2.7% (PY: 2.5%) of sales.

Depreciation and amortization
Depreciation and amortization rose by €10.0 million compared to fiscal 2019 to €374.6 million (PY: €364.6 million) and amounted to 6.7% (PY: 5.7%) of sales. This included impairment totaling €25.1 million in 2020 (PY: €12.3 million).

Operating assets
Operating assets in the ContiTech business area decreased by €437.8 million year-on-year to €3,053.5 million (PY: €3,491.3 million) as at December 31, 2020.

Working capital was down €77.8 million at €1,014.5 million (PY: €1,092.3 million). Inventories decreased by €108.5 million to €678.0 million (PY: €786.5 million). Operating receivables fell by €82.8 million to €1,006.7 million (PY: €1,089.5 million) as at the reporting date. Operating liabilities were down €113.5 million at €670.2 million (PY: €783.7 million).

Non-current operating assets were down €340.2 million at €2,410.6 million (PY: €2,750.8 million). Goodwill decreased by €31.0 million to €550.3 million (PY: €581.3 million), with €28.5 million of this decrease resulting from exchange-rate effects. At €1,467.9 million, property, plant and equipment were €185.6 million below the previous year's level of €1,653.5 million. Other intangible assets fell by €126.5 million to €341.6 million (PY: €468.1 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €88.7 million (PY: €94.6 million) reduced the value of intangible assets.

In the ContiTech business area, the final purchase price allocation for the acquisition of Merlett Tecnoplastic S.p.A., Daverio, Italy, in 2019 resulted in an increase in operating assets of €2.5 million. In addition, the sale of a company reduced operating assets by €4.1 million.

ContiTech in € millions	2020	2019	Δ in %
Sales	5,578.6	6,401.5	-12.9
EBITDA	628.7	670.5	-6.2
in % of sales	11.3	10.5	
EBIT	254.1	305.9	-16.9
in % of sales	4.6	4.8	
Research and development expenses (net)	149.7	162.8	-8.0
in % of sales	2.7	2.5	
Depreciation and amortization[1]	374.6	364.6	2.7
thereof impairment[2]	25.1	12.3	104.1
Operating assets as at December 31	3,053.5	3,491.3	-12.5
Operating assets (average)	3,281.2	3,519.8	-6.8
ROCE in %	7.7	8.7	
Capital expenditure[3]	179.6	261.7	-31.4
in % of sales	3.2	4.1	
Number of employees as at December 31[4]	43,463	45,801	-5.1
Adjusted sales[5]	5,448.2	6,393.7	-14.8
Adjusted operating result (adjusted EBIT)[6]	412.2	455.4	-9.5
in % of adjusted sales	7.6	7.1	

1 Excluding impairment on financial investments.
2 Impairment also includes necessary reversal of impairment losses. Expenses from derecognitions of brand values are likewise included.
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.

Exchange-rate effects reduced the total operating assets of the ContiTech business area by €178.8 million in the reporting year (PY: increase of €32.5 million).

Average operating assets in the ContiTech business area fell by €238.6 million to €3,281.2 million as compared to fiscal 2019 (€3,519.8 million).

Capital expenditure (additions)

Additions to the ContiTech business area were lower by €82.1 million year-on-year at €179.6 million (PY: €261.7 million). The capital expenditure ratio was 3.2% (PY: 4.1%).

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

Employees

The number of employees in the ContiTech business area fell by 2,338 to 43,463 (PY: 45,801). This decline was due primarily to the adjustment to lower production volumes, process improvements and productivity increases.

Powertrain Technologies

Powertrain Technologies in € millions	2020	2019	Δ in %
Sales	6,967.7	7,802.3	-10.7
EBITDA	122.5	192.5	-36.4
in % of sales	1.8	2.5	
EBIT	-450.8	-662.1	31.9
in % of sales	-6.5	-8.5	
Research and development expenses (net)	670.5	664.1	1.0
in % of sales	9.6	8.5	
Depreciation and amortization[1]	573.3	854.6	-32.9
thereof impairment[2]	86.3	351.9	-75.5
Operating assets as at December 31	2,995.9	3,347.3	-10.5
Operating assets (average)	3,191.5	3,906.3	-18.3
ROCE in %	-14.1	-16.9	
Capital expenditure[3]	466.0	657.7	-29.1
in % of sales	6.7	8.4	
Number of employees as at December 31[4]	40,102	41,744	-3.9
Adjusted sales[5]	6,967.7	7,802.3	-10.7
Adjusted operating result (adjusted EBIT)[6]	-55.6	57.0	-197.5
in % of adjusted sales	-0.8	0.7	

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.

The Powertrain Technologies group sector comprises one business area:

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

The three business units in total generated 18% of consolidated sales in the year under review.

Key raw materials for Power Technologies 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, such as semiconductors. The COVID-19 pandemic caused strong demand fluctuations in the automotive supplier industry in the reporting year, and since the end of 2020 to shortages and delivery problems in the semiconductor industry. For more information, see "Procurement."

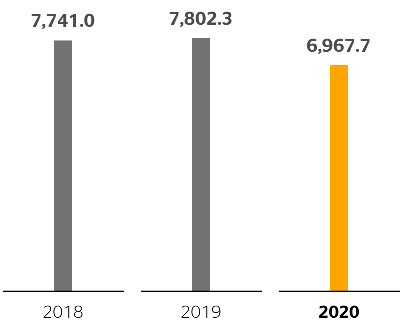
Development of the Powertrain Business Area

- Sales down 10.7%
- Sales down 8.7% before changes in the scope of consolidation and exchange-rate effects
- Adjusted EBIT down 197.5%

Sales volumes
In the Electronic Controls business unit, sales volumes of transmission control units, engine control units, turbochargers, pumps and injectors decreased year-on-year in 2020. In the Electrification Technology business unit, sales figures for power electronics and electric motors were up year-on-year, while sales volumes of power stabilization products, 48-volt drive systems and battery systems fell year-on-year. In the Sensing and Actuation business unit, sales figures for catalytic converters were up year-on-year, while those for SCR systems, fuel delivery modules and mechatronic sensors for combustion engines were down year-on-year. The varying development of sales volumes in the individual business units was due to the negative effects of the COVID-19 pandemic.

Sales down 10.7%
Sales down 8.7% before changes in the scope of consolidation and exchange-rate effects
Sales of the Powertrain business area were down 10.7% year-on-year at €6,967.7 million (PY: €7,802.3 million) in 2020. Before changes in the scope of consolidation and exchange-rate effects, sales declined by 8.7%.

Sales € millions



Adjusted EBIT down 197.5%
Adjusted EBIT for the Powertrain business area declined by €112.6 million or 197.5% year-on-year to -€55.6 million (PY: €57.0 million) in 2020, corresponding to -0.8% (PY: 0.7%) of adjusted sales.

EBIT up 31.9%
Compared to the same period of the previous year, the Powertrain business area reported an increase in EBIT of €211.3 million or 31.9% to -€450.8 million (PY: -€662.1 million) in 2020. The return on sales rose to -6.5% (PY: -8.5%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €9.1 million (PY: €10.7 million).

For the Powertrain business area, total consolidated expense from special effects in 2020 amounted to €386.1 million (PY: €708.4 million). For further details, please see our comments beginning on page 67 regarding the special effects in 2020 and 2019.

The ROCE was -14.1% (PY: -16.9%).

Procurement
In the raw materials sector, price developments painted an extremely mixed picture. While the prices for long steel products remained relatively stable in 2020, the prices for copper and recycled aluminum (secondary aluminum) rose due to limited availability and reached a multi-year high in the fourth quarter. The same was true for gold and silver. In particular, extensive purchases from the investment sector led to sharp price rises in the second and third quarters. Prices for palladium, which is primarily used in catalytic converters, also rose noticeably over the course of the year and were significantly higher on average than in the previous year.

Demand has increased recently due to an unexpectedly rapid recovery of the automotive industry from the COVID-19 pandemic. This recovery has led to shortages and delivery problems since the end of 2020 in the semiconductor industry, which for some components was already being used to full capacity due to increased demand for consumer goods. Although semiconductor manufacturers are responding to the unexpectedly strong increase in demand by ramping up their production capacity, it will probably not be possible to eliminate the delivery bottlenecks until later in 2021 due to the lead times in the semiconductor industry. The procurement cooperation with the Schaeffler Group was again successfully continued.

Research and development
Research and development expenses (net) rose by €6.4 million or 1.0% year-on-year to €670.5 million (PY: €664.1 million), corresponding to 9.6% (PY: 8.5%) of sales.

Depreciation and amortization
Depreciation and amortization fell by €281.3 million compared to fiscal 2019 to €573.3 million (PY: €854.6 million) and amounted to 8.2% (PY: 11.0%) of sales. This included impairment totaling €86.3 million in 2020 (PY: €351.9 million).

Operating assets
Operating assets in the Powertrain business area decreased by €351.4 million year-on-year to €2,995.9 million (PY: €3,347.3 million) as at December 31, 2020.

Working capital was up €134.1 million at €753.8 million (PY: €619.7 million). Inventories decreased by €85.7 million to €546.7 million (PY: €632.4 million). Operating receivables rose by €17.7 million to €1,459.2 million (PY: €1,441.5 million) as at the reporting date. Operating liabilities were down €202.1 million at €1,252.1 million (PY: €1,454.2 million).

Non-current operating assets were down €318.3 million year-on-year at €3,517.4 million (PY: €3,835.7 million). Goodwill fell to €785.2 million (PY: €805.7 million). This decline was due to exchange-rate effects totaling €20.5 million. At €2,507.0 million, property, plant and equipment were €236.3 million below the previous year's level of €2,743.3 million. Other intangible assets fell by €13.8 million to €166.0 million (PY: €179.8 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €9.1 million (PY: €10.7 million) reduced the value of intangible assets.

A transfer of business under an asset deal in the Powertrain business area reduced operating assets by €1.7 million.

Exchange-rate effects reduced the total operating assets of the Powertrain business area by €124.4 million in the reporting year (PY: increase of €25.9 million).

Average operating assets in the Powertrain business area fell by €714.8 million to €3,191.5 million as compared to fiscal 2019 (€3,906.3 million).

Capital expenditure (additions)
Additions to the Powertrain business area decreased by €191.7 million year-on-year to €466.0 million (PY: €657.7 million). The capital expenditure ratio was 6.7% (PY: 8.4%).

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

Employees
The number of employees in the Powertrain business area fell by 1,642 compared with the previous year to 40,102 (PY: 41,744). This decrease was due to the adjustment to demand-driven production, optimizations in production and restructuring measures.

Continental AG – Short Version in Accordance with *HGB*

In addition to the reporting on the Continental Group 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 Group 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 Continental Group 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 retained earnings.

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

Total assets increased by €1,182.1 million year-on-year to €24,609.1 million (PY: €23,427.0 million). On the assets side, the change is due primarily to the €1,311.9 million increase in receivables from affiliated companies, the €190.1 million increase in financial investments and the €67.4 million increase in property, plant and equipment. By contrast, cash and cash equivalents were down €391.5 million at €560.6 million (PY: €952.1 million).

Investments rose by €190.1 million year-on-year to €15,672.0 million (PY: €15,481.9 million) and now account for 63.7% of total assets (PY: 66.1%). The increase resulted primarily from further contributions to subsidiaries of €250.0 million in connection with the planned spin-off and subsequent listing of Vitesco Technologies. This was countered by disposals totaling €64.6 million from sales of subsidiaries within the Continental Group.

Property, plant and equipment increased by €67.4 million year-on-year to €142.4 million (PY: €75.0 million). The increase resulted primarily from the capitalized assets under construction for the construction of the new headquarters in Hanover.

Net assets and financial position of Continental AG	**December 31, 2020**	December 31, 2019
Assets in € millions		
Intangible assets	18.4	27.7
Property, plant and equipment	142.4	75.0
Investments	15,672.0	15,481.9
Non-current assets	**15,832.8**	**15,584.6**
Receivables and other assets	8,139.1	6,822.5
Cash and cash equivalents	560.6	952.1
Current assets	**8,699.7**	**7,774.6**
Prepaid expenses and deferred charges	**76.6**	**67.8**
Total assets	**24,609.1**	**23,427.0**
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	5,256.0	808.5
Net income	782.9	5,047.5
Shareholders' equity	**10,784.7**	**10,601.8**
Provisions	**890.8**	**952.9**
Liabilities	**12,933.5**	**11,871.5**
Deferred income	**0.1**	**0.8**
Total equity and liabilities	**24,609.1**	**23,427.0**
Gearing ratio in %	39.4	39.4
Equity ratio in %	43.8	45.3

At €76.6 million (PY: €67.8 million), prepaid expenses and deferred charges were up €8.8 million. The increase resulted primarily from the revolving credit line additionally negotiated in fiscal 2020 with a total volume of €3,000.0 million, as well as expenses in connection with the placement of a euro bond with a nominal volume of €750.0 million.

On the equity and liabilities side, the change is primarily due to the €1,969.2 million increase in liabilities to affiliated companies as well as the €478.9 million increase in bank loans and overdrafts. By contrast, bonds fell by €1,324.5 million year-on-year.

The €3,732.2 million decline in bonds year-on-year to €2,407.7 million is primarily due to the repayment of the €600.0-million and €750.0-million euro bonds maturing in February and September 2020, respectively. Commercial paper issuances likewise resulted in a decline of €673.5 million to €250.0 million (PY: €923.5 million). By contrast, a euro bond with a nominal volume of €750.0 million was issued in May 2020.

Bank loans and overdrafts increased by €478.9 million to €1,220.6 million (PY: €741.7 million). This increase resulted primarily from short-term liabilities.

Liabilities to affiliated companies rose by €1,969.2 million year-on-year to €9,260.8 million (PY: €7,291.6 million). This rise was primarily attributable to the provision of loans and overnight deposits made available to Continental AG by its subsidiaries.

Provisions fell by €62.1 million year-on-year to €890.8 million (PY: €952.9 million), due to the €78.2 million decline in tax provisions to €597.3 million (PY: €675.5 million) and the €4.4 million decline in other provisions to €40.6 million (PY: €45.0 million). By contrast, pension provisions rose by €20.5 million year-on-year to €252.9 million (PY: €232.4 million).

Total equity rose from €10,601.8 million in the previous year to €10,784.7 million. The decrease as a result of the dividend payment for fiscal 2019 in the amount of €600.0 million was more than offset by the net income of €782.9 million generated in fiscal 2020. The equity ratio fell from 45.3% to 43.8% as a result of the increase in total assets.

Sales fell by €21.8 million to €277.6 million (PY: €299.4 million), primarily due to the decrease in sales from corporate services.

Net investment income fell by €4,147.9 million year-on-year to €1,146.1 million (PY: €5,294.0 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 €1,256.1 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 €1,450.0 million (PY: €5,100.0 million) as well as from Formpolster GmbH, Hanover, in the amount of €132.7 million. By contrast, expenses from the transfer of losses from UMG Beteiligungsgesellschaft, Hanover, resulted in expense of €110.8 million, and from Continental Automotive GmbH, Hanover, in expense of €227.9 million.

The negative net interest result increased by €53.5 million year-on-year to €85.3 million in fiscal 2020 (PY: €31.8 million). Interest expenses increased by €24.8 million to €105.7 million (PY: €80.9 million). €9.9 million of this was interest and similar expenses from affiliated companies. The issue of euro bonds with a total volume of €1,100.0 million in September 2019 and a nominal volume of €750.0 million in May 2020 also led to a rise in interest expenses. A counter-effect is attributable to the repayment of the €600.0-million and €750.0-million euro bonds maturing in February 2020 and September 2020, respectively.

Interest income fell by €28.7 million year-on-year to €20.4 million (PY: €49.1 million). €7.3 million of this was interest and similar income from affiliated companies, and €21.4 million interest and similar income from other companies.

The tax expense of €74.6 million (PY: €59.2 million) resulted primarily from income tax expenses for fiscal 2020 as well as from non-imputable foreign withholding taxes.

After taking income tax expense into account, Continental AG posted net income for the year of €782.9 million (PY: €5,047.5 million). The after-tax return on equity was 7.3% (PY: 47.6%).

Taking into account the accumulated profits brought forward from the previous year of €5,256.0 million, retained earnings amounted to €6,038.9 million. The Supervisory Board and Executive Board will propose a suspension of the dividend for fiscal 2020 to the Annual Shareholders' Meeting. Retained earnings are to be carried forward to new account.

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 2021. Furthermore, Continental AG will continue to provide a financing function for its subsidiaries.

Earnings position of Continental AG in € millions	**2020**	2019
Sales	277.6	299.4
Cost of sales	–267.3	–287.6
Gross margin on sales	**10.3**	**11.8**
General administrative expenses	–176.9	–177.2
Other operating income	51.3	67.5
Other operating expenses	–98.8	–73.4
Net investment income	1,146.1	5,294.0
Income from other securities and long-term loans	11.0	16.2
Amortization of investments and of securities under current assets	–0.2	–0.4
Net interest result	–85.3	–31.8
Result from activities	**857.5**	**5,106.7**
Income tax expense	–74.6	–59.2
Net income	**782.9**	**5,047.5**
Accumulated profits brought forward from the previous year	5,256.0	808.5
Retained earnings	**6,038.9**	**5,856.0**

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 2020, 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, 2020, 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 2020 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 41 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 had 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. The agreement concluded in May 2020 for a further syndicated credit facility with a term of 364 days and a credit facility of €3.0 billion contains the same regulation.

b) 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, as well as both of the bonds issued in May 2020 by Continental AG and a subsidiary of Continental AG, Conti-Gummi Finance B.V., at €750 million each and the bond issued by Conti-Gummi Finance B.V. In June 2020 at €625 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.

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., 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 Tires business area and a reduction in the production capacity available to this business area.

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. These include a remuneration component that is unrelated to performance, including specific additional benefits and entitlement to a company pension, and a variable component that is based on performance, consisting of a short-term remuneration component and long-term remuneration components. 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 corporate-wide using the risk and opportunity management system.

The management of Continental is geared toward permanently increasing the value of each individual business unit. 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, in particular due to the transformation in the mobility industry, that could impair business and, in extreme cases, threaten the company's existence. At the same time, this transformation also presents opportunities that we intend to consistently seize, as described in the Strategy of the Continental Group section. 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 16. 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 corporate-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.

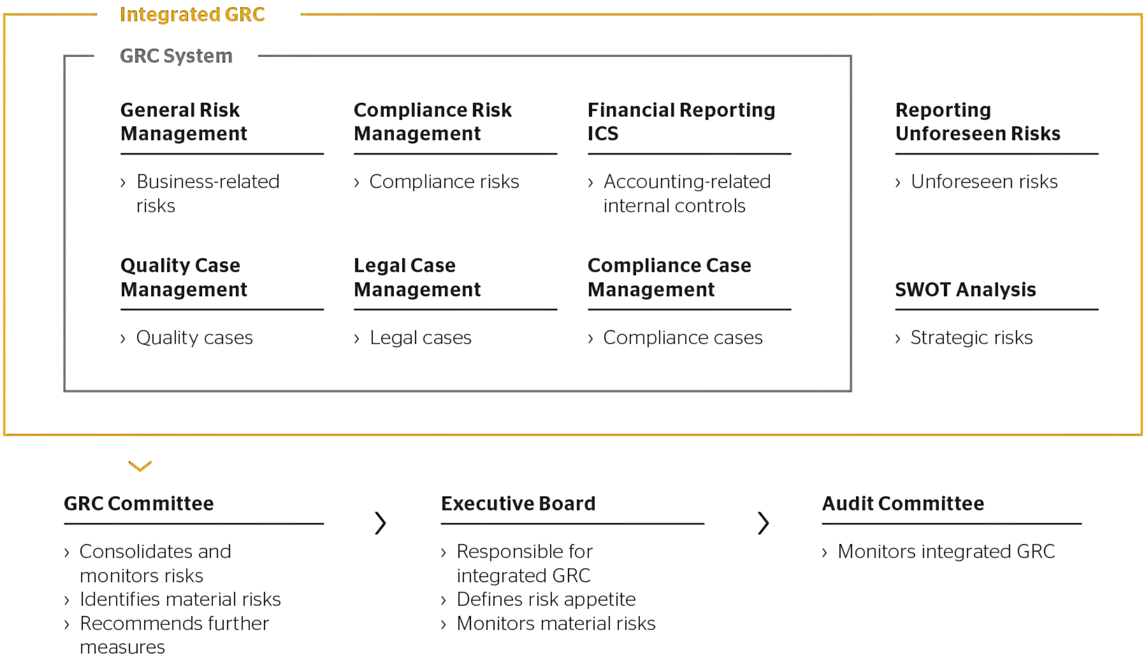
The effectiveness of the financial reporting internal control system (Financial Reporting ICS) is evaluated in major areas by testing the effectiveness of the reporting units on a quarterly basis. If any weaknesses are identified, the Continental Group's management initiates the necessary measures.

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 Continental Group. 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 is required to report to the Audit Committee of the Supervisory Board regarding any material weaknesses in the Financial Reporting ICS which they 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 corporate goals and based on other qualitative criteria such as the impact on Continental's reputation.

Material individual risks for the Continental Group 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 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, centrally developed function-specific questionnaires 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 (Strengths, Weaknesses, Opportunities, Threats). 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 Group Audit department. Furthermore, the central controlling function analyzes the key figures provided as part of this reporting process at corporate and business-area level in order to assess the effects of potential risks.

Continental has set up the Compliance & Anti-Corruption Hotline to give employees and third parties outside the Continental Group 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 the Group Audit and Compliance departments, 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 corporate 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. Group 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 business area, the risks apply to all business areas.

Financial Risks

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

Continental is subject to risks in connection with its financing agreements. Risks arise from the bonds that Continental AG and Conti-Gummi-Finance B.V., Maastricht, Netherlands, have issued as part of the Debt Issuance Programme (DIP). These financing agreements contain covenants that could limit Continental's capacity to take action as well as change-of-control provisions.

In order to finance its current business activities as well as its investments and payment obligations, Continental concluded a syndicated loan agreement in December 2019, recently updated in November 2020, 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 96 and 97. 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 2025). This had not been utilized as at the end of fiscal 2020. In addition to the existing syndicated loan, a further syndicated loan in the amount of €3.0 billion was agreed in May 2020. The new credit line is intended to strengthen Continental's financial flexibility in the wake of the COVID-19 pandemic and therefore has a short term of 364 days. This credit line can only be used by Continental AG and had not been utilized as at December 31, 2020. The loan agreement is based on the agreement for the existing syndicated loan of €4.0 billion.

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 Group can result in cash inflows and outflows that are denominated in currencies other than the functional currency of the respective subsidiary of the Continental Group (transaction risk). To the extent that cash outflows of the respective subsidiary of the Continental Group 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 Group. 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. 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 Group, transaction currencies with a significant exchange-rate risk within the next 12 months are 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 Continental Group's earnings position, calculated based on a 10% change in the current closing rate, would amount to between €400 million and €500 million.

Continental is exposed to default risks in connection with cash and cash equivalents, derivative instruments and interest-bearing investments.
In order to minimize the default risk for cash and cash equivalents, derivative instruments and interest-bearing investments, Continental generally uses banks that it has classified as core banks on the basis of defined criteria. As a general rule, these banks should have at least one investment-grade credit rating from one of the global rating agencies. The default risk can therefore be considered very low. The creditworthiness of the core banks – and of other banks with which investments are made, loans are granted or derivative instruments are traded in derogation from the core bank principle for operational or regulatory reasons – is continuously monitored. Not only the credit ratings but also in particular the premiums for insuring against credit default risks (credit default swaps, CDSs) are monitored, provided this information is available. In addition, Continental sets investment limits for each bank and trading limits for derivative instruments. The amount of these limits is based on the creditworthiness of the respective bank. Compliance with these limits is continuously monitored. Within the internally defined risk groups, cash and cash equivalents, interest-bearing investments and positive (net) fair values of derivative instruments held at banks assigned to a higher risk group range from €100 million to €200 million.

Risks Related to the Markets in Which Continental Operates

Continental could be exposed to material risks in connection with a global financial and economic crisis.
Continental generates a large percentage (69%) 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 business areas.

The automotive markets in Europe and North America in particular 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 further adversely affect Continental's sales and earnings.

In the year under review, Continental's five largest OEM customers (Daimler, Fiat-Chrysler, Ford, Renault-Nissan-Mitsubishi and VW) generated approximately 37% 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.

Moreover, Continental generated 48% of its 2020 total sales in Europe and 18% in Germany alone. By comparison, 25% of Continental's total sales in 2020 were generated in North America, 24% in Asia, and 3% 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 this dependence, Continental is striving to improve the regional sales balance, particularly by generating more sales in emerging markets and especially in Asia.

Based on a scenario analysis that assumes market stagnation in 2021, and taking into account restructuring measures required as a result, we anticipate a decline of around 2 percentage points in the adjusted EBIT margin.

Continental could be severely affected by the consequences of the COVID-19 pandemic over a longer period.
Due to the ongoing COVID-19 pandemic and the associated measures to tackle this worldwide, as well as the significant restrictions on production both at the Continental Group and at its customers and suppliers, there is a risk of significant and long-term negative effects on the Continental Group's sales and procurement markets. This would have a considerable negative impact on the availability of raw materials and components as well as Continental's sales volumes both in the OEM business and in the industrial and replacement business. The duration of the general economic downturn as well as its effects on global supply chains and Continental's various business units will largely depend on the success of containment measures as well as the effectiveness of corresponding relief packages and fiscal stimulus measures. While Continental has already introduced measures aimed, for example, at improving its cost structure and ensuring supply chains, there is generally a risk of considerable and long-term negative effects on Continental's earnings, financial and net assets position.

Continental operates in a cyclical industry.
Global production of vehicles and, as a result, sales to OEMs (from whom Continental currently generates 69% 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 Automotive Technologies and Powertrain Technologies). 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 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 69% of its sales from OEMs, mainly in Automotive Technologies and Powertrain Technologies. 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 EU and Asia, car manufacturers are increasingly being forced to develop environmentally compatible technologies aimed at lowering fuel consumption as well as CO_2 and particulate emissions. 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 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, 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 business areas of Automotive Technologies and Powertrain Technologies, higher prices for raw materials and electronic components in particular can result in cost increases. The business areas of Rubber Technologies 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 USA, the UK and certain other countries. As at December 31, 2020, the pension obligations amounted to €8,647.8 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, 2020, Continental's net pension obligations (defined benefit obligations less the fair value of plan assets) amounted to €5,444.6 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 US-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, all other things being equal, this would lead to a rise in net pension obligations of €900 million to €1.0 billion, 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, 2020, taking into account provisions, amounted to between €200 million and €300 million.

Continental depends on a limited number of key suppliers for certain products.
Continental is subject to the potential risk of unavailability of certain raw materials and production materials. Although Continental's general policy is to source input products from a number of different suppliers, single sourcing cannot always be avoided and, consequently, Continental is dependent on certain suppliers in Rubber Technologies as well as with respect to certain products manufactured by Automotive Technologies and Powertrain Technologies. 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, refusal to perform following a change in control, or the far-reaching effects of the COVID-19 pandemic), 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 and which could lead to order cancellations. Claims for damages on a considerable scale could also not be ruled out. Furthermore, Continental's reputation among OEM customers could suffer, with the possible consequence that they select a different supplier.

Due to the current shortages and supply problems in the semiconductor industry, Automotive Technologies and Powertrain Technologies in particular are currently exposed to the risk of increased supply chain costs of €100 million to €200 million.

Continental is exposed to information-technology risks.
With regard to its business and production processes, its 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 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 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 Tires business area.

Legal and Environmental Risks

Continental could be threatened with fines and claims for damages for alleged or actual unlawful behavior.
In May 2005, the Brazilian competition authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Industria Automotiva Ltda., Guarulhos, Brazil (CBIA), following a complaint of anticompetitive behavior in the area of commercialization of tachographs. On August 18, 2010, the Brazilian antitrust authorities determined an "invitation to cartel" and imposed a fine of BRL 12 million (around €1.9 million) on CBIA, which was then reduced to BRL 10.8 million (around €1.7 million). CBIA denies the accusation that it has infringed Brazilian antitrust law. Although the court of first instance appealed to by CBIA upheld the decision, on CBIA's further appeal the next higher court annulled this decision and remanded the matter. In case an infringement of Brazilian antitrust law is found, third parties may, in addition, claim damages from CBIA.

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

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

As a result of investigations that came to light in 2014, the European Commission imposed a fine of €44.0 million on Continental AG; Continental Teves AG & Co. oHG, Frankfurt am Main, Germany; and Continental Automotive GmbH, Hanover, Germany; on February 21, 2018, for the unlawful exchange of information. This involved specific brake components. Continental has set aside provisions that cover this fine. Continental cannot rule out the possibility that customers will claim for damages with reference to the commission's decision. At this point in time, it is not possible to say whether such claims will be submitted and, if they are, how much the damages will be – irrespective of whether or not the claims are justified. As a result, it cannot be ruled out that the resulting expenses will exceed the provisions that have been set aside for this purpose. In accordance with IAS 37.92 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.

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

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 is exposed to risks from legal disputes.
Companies from the Continental Group 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 USA. For more information on legal disputes, see Note 36 of the notes to the consolidated financial statements.

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.

Continental could become subject to additional burdensome environmental or safety regulations, and new regulations could adversely affect demand for the company's products and services.
As a corporation that operates worldwide, Continental must observe a large number of different regulatory systems in numerous countries that change frequently and are continuously evolving and becoming more stringent, particularly with respect to the environment, chemicals and hazardous materials, as well as health regulations. This also applies to air, water and soil pollution regulations and to waste legislation, all of which have recently become more stringent through new laws, particularly in the EU and the USA. 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.

Material Opportunities

Unless the emphasis is placed on a specific business area, the opportunities apply to all business areas.

There are opportunities for Continental if the economy performs better than anticipated.
If the economy in our major sales regions develops better than we have anticipated, we expect that 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, our 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, this would have positive effects on Continental's sales and earnings. Particular importance is attached to the European market due to the high share of sales Continental generates in this region (48%).

There are opportunities for Continental if prices fall 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 Automotive Technologies and Powertrain Technologies, this particularly relates to the cost of electronic components as well as metals and plastics. The earnings situation of the business areas in the Rubber Technologies group sector is significantly impacted by the cost of oil and of natural and synthetic rubber. If prices for natural and synthetic rubber in particular decline, this could have a positive impact on Continental's earnings, provided sales prices for rubber products remain stable.

The trend toward automated and autonomous driving presents Continental with opportunities.
The trend from assisted driving to automated and autonomous driving is set to continue. Several OEMs expect to be able to provide new models with partially automated functions over the next few years. A key requirement for partially automated driving is that vehicles be equipped with sensors. Today, between two and seven sensors for assisted driving are installed per vehicle, depending on the model. Even for partially automated driving, considerably more

and also higher-quality radar, camera and LiDAR sensors are required, depending on the scope of the functionality. Since Continental is one of the leading providers of advanced driver assistance systems, the increasing volume of sensors and electronic control units could result in considerable sales and earnings opportunities.

The digitalization of vehicles and the data generated as a result presents Continental with opportunities.
The massive amounts of data generated by driver assistance systems and driver information systems as well as the immediate processing thereof in vehicles require a changeover of the vehicle architecture to the most cutting-edge high-performance computers. This – together with the new software solutions required for this purpose – results in substantial growth potential for Continental with positive effects on its future sales and attainable margins. 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, and to open up new markets for mobility services (smart mobility).

The tire business presents Continental with opportunities.
Continental intends to further increase its market share in the growth markets of Asia and North America in particular. In the passenger-car tire segment, the global business with tires for electric mobility and ultra-high performance tires is to be systematically expanded further. The truck and bus tire business is to be further developed in all regions through the Conti360° fleet services. Continental's specialty tire business, which includes not only two-wheel and racing tires but also tires for a variety of industrial applications, is expected to grow further as well. Smart, digital tire solutions and ambitious sustainability goals will also make a significant contribution to market success and differentiation in the future. In the area of service-based digital solutions, the Tires business area of Continental aims to become the leading supplier worldwide by 2030. If Continental succeeds in increasing its market share in high-growth segments and in digital solutions and services even more than planned, this is likely to have positive effects on its sales and earnings.

Digitalization in the industrial business presents Continental with opportunities.
The growth potential results primarily from the increasing demand for digital and intelligent solutions in the industrial business. To this end, the ContiTech business area will draw on its long-standing and detailed knowledge of the industry and materials to open up new business opportunities by combining various materials with electronic components and individual services. If these new products become established more quickly than planned, this would create corresponding sales and earnings opportunities for Continental.

There are opportunities for Continental from changes in the legal framework.
Legal regulations with the aim of further improving traffic safety provide an opportunity for a rise in demand for Continental's products. Based on our broad product portfolio for active vehicle safety, we have developed more advanced safety systems over the past years. 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.

The further tightening of the regulatory provisions on fuel consumption and emission standards for motor vehicles could trigger higher demand for Continental's products in the Powertrain business area. With our comprehensive portfolio, we already provide solutions that facilitate compliance with these changes in the legal framework. Our portfolio includes in particular systems and components for hybrid and electric drives as well as tires with optimized rolling resistance and tires for hybrid and electric vehicles. Rising installation rates for these products due to increased regulatory provisions would have a positive influence on our sales and earnings.

Statement on Overall Risk and Opportunities Situation

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

How long the COVID-19 pandemic and the consequences thereof will continue to have an effect on the automotive industry and the macroeconomic situation remains to be seen.

However, despite the changes in individual risks, the analysis in the corporate-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 Continental Group as a going concern. In the opinion of the Executive Board, there are also no discernible risks to the Continental Group as a going concern in the foreseeable future.

Considering the material opportunities, the overall risk assessment for the Continental Group presents a reasonable risk and opportunities situation to which our risk-containment measures and our corporate strategy have been aligned accordingly.

Report on Expected Developments
Future General Conditions

Forecast of Macroeconomic Development

In its World Economic Outlook Update (WEO Update) of January 2021, the International Monetary Fund (IMF) anticipates growth of 5.5% for the global economy in 2021. The IMF expects the economy to normalize in all regions as a result of the vaccinations against the coronavirus that are being rolled out in many countries. The economic stimulus programs in certain major economies will also contribute toward this recovery.

Most notably, the IMF forecasts high growth rates in gross domestic product (GDP) of 11.5% in India and 8.1% in China. The IMF also expects growth to increase in many other emerging and developing economies in 2021. For example, it anticipates that Brazil and Russia will grow by 3.6% and 3.0%, respectively.

For the eurozone, the IMF expects GDP to rise 4.2% in 2021, with GDP for the German economy expected to grow by 3.5%. For the UK, it anticipates that GDP will rise by 4.5%.

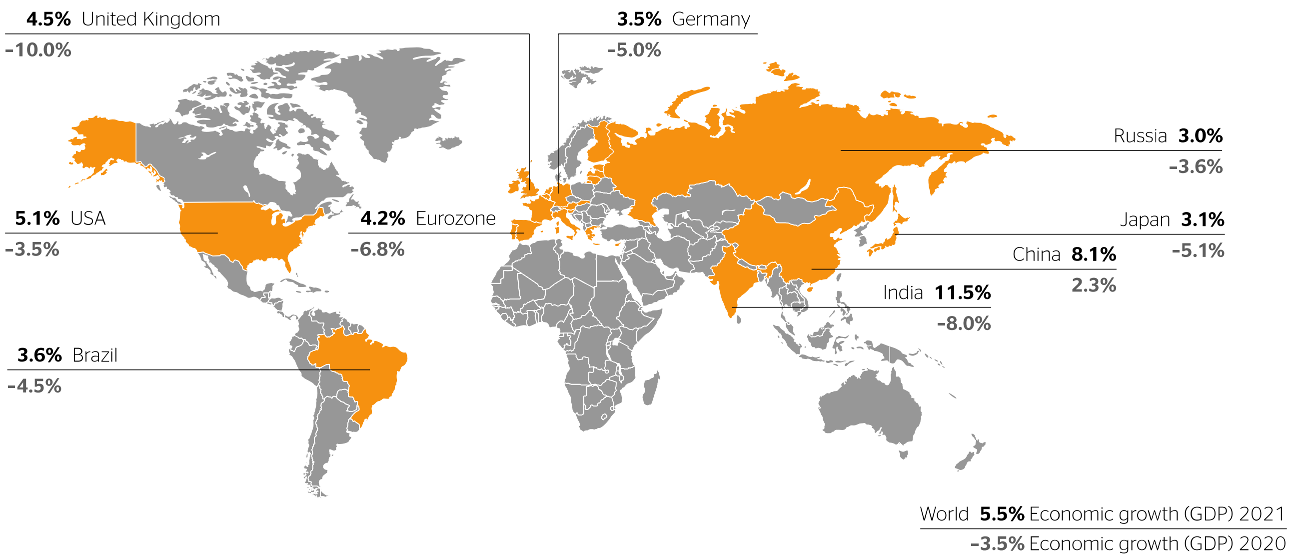
For the USA, the IMF predicts GDP growth of 5.1% for 2021. The IMF expects the effects of the US economic stimulus programs to be positive.

For Japan, the IMF likewise expects positive effects as a result of the fiscal policy measures announced by the Japanese government. For 2021, it forecasts growth of 3.1%.

Key opportunities for the global economy identified by the IMF in its WEO Update – in addition to greater fiscal support – include in particular further progress in the production and distribution of vaccines against the coronavirus and the effectiveness of treatments. As a result, expectations of a quicker end to the pandemic are likely to increase, with confidence among businesses and households also likely to improve. According to the IMF, this could lead to a higher level of spending, higher investments and a noticeable recovery with regard to employment figures.

The IMF sees key risks in a delayed containment of the COVID-19 pandemic due to the spread of virus mutations or progress that is slower than anticipated with regard to medical interventions. Hopes of a relatively quick end to the pandemic could be dampened as a result, and confidence among traders weakened. Early withdrawal of state support could also lead to a rise in company insolvencies and heightened social unrest.

Year-on-year economic growth (GDP) in 2021 (for selected countries and the world)



Sources: IMF – World Economic Outlook Update January 2021, Eurostat, statistical offices of the respective countries, Bloomberg.

Forecast for Key Customer Sectors and Sales Regions

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 normalize and increase by 9% to 12% year-on-year in 2021. This estimate takes into account the currently expected impact of the ongoing COVID-19 pandemic on production volumes in 2021. The current shortage of semiconductors due to our suppliers working at full capacity will limit growth in the first quarter of 2021 in particular. But for subsequent quarters too, impairments are to be expected. Compared with the very weak volumes in the previous year, however, growth in production is likely to be very strong in the first half of 2021. In the second half of the year, meanwhile, volumes are likely to return to the previous year's levels based on current estimates.

In Europe, we expect an 11% to 14% rise in the production of passenger cars and light commercial vehicles in 2021. Volumes of electrified cars are likely to see another substantial increase as a result of the more stringent CO_2 emissions standards in the EU and government incentives.

In North America, we currently expect production volumes for cars and light commercial vehicles of around 4 million units per quarter for 2021. This rise compared with the very weak prior-year figure should be 20% to 23% as a result.

In China, we expect growth in production volumes for cars and light commercial vehicles of 2% to 5% in 2021.

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 7% to 11% year-on-year in 2021.

We expect production in the USA and Europe to recover as a result of an increase in order intake. We therefore forecast a rise in production in North America of 26% to 30%, and a rise in Europe of 8% to 12%.

For China – after the strong growth in 2020 – we expect significantly lower demand in 2021 and a 28% to 32% decline in production volumes.

Forecast for replacement-tire markets for passenger cars and light commercial vehicles
In 2021, we currently expect demand for replacement tires for cars and light commercial vehicles weighing less than 6 metric tons to continue to normalize. We expect global sales volumes for 2021 to rise by 6% to 8%.

For Europe and China, we currently expect volumes to be 6% to 8% higher than the previous year's figures in both cases. In North America, we expect demand to be 4% to 6% higher than the previous year's figures.

Forecast for replacement-tire markets for medium and heavy commercial vehicles
For 2021, we currently expect a year-on-year rise in demand for replacement tires for medium and heavy commercial vehicles of 4% to 6% in Europe and North America.

Forecast changes to vehicle production and sales volumes in the tire-replacement business in 2021 (compared to 2020)

	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	11% to 14%	8% to 12%	6% to 8%	4% to 6%
North America	20% to 23%	26% to 30%	4% to 6%	4% to 6%
China	2% to 5%	-28% to -32%	6% to 8%	n. a.
Worldwide	**9% to 12%**	**-7% to -11%**	**6% to 8%**	**n. a.**

Source: own estimates.

Outlook for the Continental Group

Forecast process
Each year, Continental forecasts the key performance indicators for the Continental Group for the new fiscal year. These include sales and the adjusted EBIT margin for the Continental Group as well as for the Automotive business areas (Autonomous Mobility and Safety, Vehicle Networking and Information, and Powertrain) and Rubber business areas (Tires and ContiTech). In addition, we provide information on the assessment of important factors influencing EBIT. These include the expected negative or positive effect of the estimated development of raw materials prices for the current year, the expected development of special effects and the amount of amortization from purchase price allocations. We thus allow the Continental Group's expected EBIT to be estimated.

Furthermore, we give an assessment of the development of interest income and expenses as well as the tax rate for the Continental Group, which in turn allows the Continental Group's expected net income to be estimated. We also publish a forecast of the capital expenditures planned for the current year and the free cash flow before acquisitions and certain exceptional effects, if any, such as the effects of transforming the Powertrain business area into an independent legal entity. Our forecast is based on our expectations regarding the most important production and sales markets in the new fiscal year.

We publish our forecast as part of our annual financial press conference and the publication of our annual report. It is continually reviewed over the course of the fiscal year. Possible changes to the forecast are described at the latest in the report for the respective quarter.

Comparison of the past fiscal year against forecast
Our forecast for fiscal 2020, which we published in March 2020, was based on the expectation that the global production of passenger cars and light commercial vehicles would decline for a third successive year. We expected global automotive production to decrease by around 2% to 5% year-on-year in 2020. For the global production of medium and heavy commercial vehicles, we expected a decline of between 10% and 15% for 2020 as a result of the reduced order intake. These estimates took into account the expected impact of the COVID-19 pandemic on production volumes in the first quarter of 2020. Our market forecast did not include further disruptions to production and the supply chain as well as demand as a result of the continuing spread of the COVID-19 pandemic, due to the fact that such disruptions could not be gauged.

Based on the production assumptions at the time, we expected our Automotive business areas to realize sales of around €25.5 billion to €26.5 billion for fiscal 2020 – net of changes in the scope of consolidation and assuming constant exchange rates – and an adjusted EBIT margin of around 3% to 4%.

We expected our Rubber business areas 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 was our forecasts for the development of replacement-tire markets at the time. We expected 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 anticipated a further weakening of the industrial business, which would affect our ContiTech business area. For our Tires and ContiTech business areas, we anticipated higher fixed costs, depreciation and amortization in 2020. We expected the intense competitive pressure, particularly in the European market, to continue amid rising wage costs. From our perspective at the time, raw material prices were likely to remain roughly unchanged in fiscal 2020 compared with the previous year.

We expected the Continental Group 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 expected negative special effects to total around €600 million. Amortization from purchase price allocations was again expected to total approximately €200 million and affect mainly the ContiTech and Vehicle Networking and Information business areas. In 2020, we expected 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 was expected to be around 27% in 2020. The capital expenditure ratio was expected to be around 7.5% of sales in fiscal 2020. In 2020, we were planning on free cash flow of approximately €0.7 billion to €1.1 billion, before acquisitions and before the effects of transforming the Powertrain business area into an independent legal entity.

On April 1, 2020, we announced that the ongoing COVID-19 pandemic, the resulting restrictions imposed by governments and authorities as well as production stops and other measures taken by customers and suppliers in response to the pandemic had led to significant adjustments and interruptions in key areas of the Continental Group. Due to the uncertainty regarding the duration of restrictions and given the difficulty in estimating the further consequences for production, supply chains and demand, the Executive Board of Continental AG decided to withdraw the outlook for fiscal 2020 contained in the 2019 annual report.

In the financial report for Q1 2020, we explained on May 7, 2020, that it had become more difficult to reassess the forecast for fiscal 2020 due to the ongoing COVID-19 pandemic, and that this could not be done with the usual level of detail and degree of accuracy. The effects of the containment measures, in particular the plant closures, were expected to have a negative impact on the Continental Group's sales volumes, sales and earnings compared to the previous year. For 2020 as a whole, we expected the Continental Group's sales volumes and sales to fall short of prior-year levels. In addition, we anticipated a year-on-year decline in adjusted EBIT in fiscal 2020. The decline in earnings was also expected to lead to a decrease in free cash flow in 2020 compared to the previous year.

In the half-year financial report, we confirmed on August 5, 2020, that the Continental Group's expected sales volumes and sales would fall short of prior-year levels for 2020 as a whole. In addition, we anticipated a noticeable year-on-year decline in adjusted EBIT in fiscal 2020. The decline in earnings was also expected to lead to a considerable decrease in free cash flow in 2020 compared to the previous year.

We published a new, detailed outlook for fiscal 2020 in the financial report as at September 30, 2020, on November 11, 2020. This outlook was prepared on the basis of the production assumptions mentioned in the economic report at the time and, in particular, under the expectation of no further significant effects related to the pandemic. Under these assumptions, we expected the Continental Group to achieve sales of around €37.5 billion and an adjusted EBIT margin of around 3% for fiscal 2020.

Sales in the Automotive business areas were expected to be around €22.0 billion in total, and the adjusted EBIT margin around -1.5%. Sales in the Rubber business areas were expected to be around €15.5 billion, and the adjusted EBIT margin around 10.5%.

Special effects could not be estimated in detail at the time, mainly due to the ongoing restructuring measures. However, we anticipated that they would have a noticeable impact on the reported EBIT and the net income attributable to the shareholders of the parent. The capital expenditure ratio was expected to be around 6.3% of sales. In addition, a positive free cash flow before acquisitions and before the effects of transforming the Powertrain business area into an independent legal entity was expected, although this would be significantly lower than in the previous year.

On December 16, 2020, we announced an increase in the adjusted EBIT margin for our Rubber business areas to more than 11.0% as part of our Capital Market Days. This change also led to an increase in the adjusted EBIT margin for the Continental Group to around 3.5%. We also quantified the negative special effects at more than €1.6 billion, the capital expenditure ratio at around 6.0% of sales, and free cash flow before acquisitions and before the effects of transforming the Powertrain business area into an independent legal entity at more than €0.5 billion.

Continental achieved consolidated sales of €37.7 billion and a consolidated adjusted EBIT margin of 3.5% in fiscal 2020. The Automotive business areas generated sales of €22.1 billion and an adjusted EBIT margin of -1.5%. The Rubber business areas generated sales of €15.6 billion and an adjusted EBIT margin of 11.3%.

Negative special effects for fiscal 2020 amounted to €1.9 billion.

The negative financial result before effects from currency translation, effects from changes in the fair value of derivative instruments, and other valuation effects amounted to €183.7 million in the reporting year, which was below our forecast of around €200 million from March 2020.

Comparison of fiscal 2020 against forecast

	Continental Group					Automotive business areas		Rubber business areas	
	Sales (€ billions)	Adjusted EBIT margin	Negative special effects (€ billions)	Investments (in % of sales)	Free cash flow[1] (€ billions)	Sales (€ billions)	Adjusted EBIT margin	Sales (€ billions)	Adjusted EBIT margin
Annual financial press conference on March 5, 2020	~ 42.5–44.5[2]	~ 5.5–6.5%	~ 0.6	~ 7.5%	~ 0.7–1.1	~ 25.5–26.5[2]	~ 3–4%	~ 17–18[2]	~ 10–11%
Forecast adjustment on April 1, 2020	–	–	–	–	–	–	–	–	–
Q1 2020 financial report as at May 7, 2020	< prior year	< prior year	–	–	< prior year	–	–	–	–
H1 2020 financial report as at August 5, 2020	< prior year	noticeably < prior year	–	–	significantly. < prior year	–	–	–	–
9M 2020 financial report as at November 11, 2020[3]	~ 37.5	~ 3%	noticeable impact	~ 6.3%	> 0, signif. < prior year	~ 22.0	~ -1.5%	~ 15.5	~ 10.5%
Forecast adjustment on December 16, 2020	~ 37.5[4]	~ 3.5%	> 1.6	~ 6.0%	> 0.5	~ 22.0[4]	~ -1.5%	~ 15.5[4]	> 11.0%
2020 annual report	**37.7[4]**	**3.5%**	**1.9**	**5.9%**	**1.1**	**22.1[4]**	**-1.5%**	**15.6[4]**	**11.3%**

1 Before acquisitions and the effects of transforming the Powertrain business area into an independent legal entity.
2 Assuming exchange rates remain constant year-on-year. These estimates also took into account only the expected impact of the COVID-19 pandemic on production volumes in the first quarter of 2020. Further disruptions could not be gauged.
3 Prepared on the basis of the production assumptions mentioned in the economic report at the time and, in particular, under the expectation of no further significant effects related to the pandemic.
4 Reported sales including exchange-rate effects. The negative exchange-rate effect on the Continental Group's sales amounted to €1.0 billion in 2020, roughly half of which was attributable to the Automotive business areas and half to the Rubber business areas.

Income tax expense in 2020 amounted to tax income of €11.3 million. The tax rate adjusted for the permanent effects of the goodwill impairment was 2.4%.

The capital expenditure ratio fell to 5.9% in 2020. Free cash flow before acquisitions and before the effects of transforming the Powertrain business area into an independent legal entity amounted to €1.1 billion in 2020.

Order situation
The order situation in our Automotive business areas – Autonomous Mobility and Safety, Vehicle Networking and Information, and Powertrain – was considerably weaker in 2020 due to the effects of the COVID-19 pandemic. Altogether, the three business areas acquired orders for a total value of roughly €27 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 replacement-tire business accounts for a large portion of the Tires business area's sales, which is why it is not possible to calculate a reliable figure for order volumes. The same applies to the ContiTech business area, which has six business units operating in various markets and industrial sectors, each in turn with their own relevant factors. Consolidating the order figures from the various business units of the ContiTech business area would thus be meaningful only to a limited extent.

Outlook for fiscal 2021
As mentioned on page 111 of the report on expected developments, we expect a noticeable recovery in the production of passenger cars and commercial vehicles in 2021, both in our core markets and globally. To a lesser extent, this also applies to the replacement-tire markets and the industrial business.

This outlook takes into account the current expected impact of the ongoing COVID-19 pandemic on production volumes in 2021. The current shortage of semiconductors due to our suppliers working at full capacity will limit growth in the first quarter of 2021 in particular. At the same time, increased costs will be incurred in the supply chains. In the second half of the year, we expect the delivery situation to return to normal. The planned spin-off and subsequent listing of Vitesco Technologies during the second half of 2021 has not been taken into account in the disclosures.

Based on all of the above assumptions as well as on the exchange rates at the beginning of the fiscal year, we expect the following key financial figures for fiscal 2021.

We expect our Automotive business areas – Autonomous Mobility and Safety, Vehicle Networking and Information, and Powertrain – to achieve sales of around €24.0 billion to €25.0 billion. We expect the adjusted EBIT margin to be in the range of around 1% to 2%. This includes increased supply chain costs as well as additional research and development expenses in the Autonomous Mobility and Safety business area.

We expect our Rubber business areas – Tires and ContiTech – to achieve sales of around €16.5 billion to €17.5 billion and an adjusted EBIT margin of around 11.5% to 12.5%. This includes the expected negative impact of higher raw material costs.

We expect the Continental Group to achieve total sales in the range of around €40.5 billion to €42.5 billion and an adjusted EBIT margin of around 5% to 6%.

For 2021, 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.

As in the previous year, amortization from purchase price allocations will again be expected to total just under €200 million and affect mainly the ContiTech and Vehicle Networking and Information business areas.

In 2021, we expect the negative financial result to be in the region of €220 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 2021.

The capital expenditure ratio is expected to be around 7% of sales in fiscal 2021.

In 2021, we are planning on free cash flow of approximately €0.9 billion to €1.3 billion, before acquisitions and before the effects of transforming the Powertrain business area into an independent legal entity.