Report on Risks and Opportunities

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

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

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

Risk and Opportunity Management and Internal Control System

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

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

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

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

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

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

Governance, risk and compliance (GRC)

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

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

Risk reporting

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

Risk assessment and reporting

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

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

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

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

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

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

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

Risk management

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

Material Risks

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

Financial Risks

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

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

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

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

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

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

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

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

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

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

Risks Related to the Markets in which Continental Operates

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Continental's Business Operations

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

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

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

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

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

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

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

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

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

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

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

Continental is exposed to risks in connection with its interest in MC Projects B.V.

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

Legal and Environmental Risks

Continental could become subject to additional burdensome environmental or safety regulations, and new regulations could adversely affect demand for the corporation's products and services.

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

Continental could be unsuccessful in adequately protecting its intellectual property and technical expertise.

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

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

There is a risk that Continental could infringe on the industrial property rights of third parties.

There is a risk that Continental could infringe on the industrial property rights of third parties, since its competitors, suppliers and customers also submit a large number of inventions for industrial property protection. It is not always possible to determine with certainty whether there are effective and enforceable third-party industrial property rights to certain processes, methods or applications. Therefore, third parties could assert claims (including illegitimate ones) of alleged infringements of industrial property rights against Continental. As a result, Continental could be required to cease manufacturing, using or marketing the relevant technologies or products in certain countries, or be forced to make changes to manufacturing processes and/or products. In addition, Continental could be liable to pay compensation for infringements or could be forced to purchase licenses to continue using technology from third parties. Continental, for example, supplies telecommunication modules that transmit vehicle data, enable voice and internet functionality, and are compatible with cellular communication standards. In this respect, there is a risk that Continental or its suppliers may be denied their own direct license to use patents relating to these standards (standard essential patents), especially in the field of telecommunications standards such as 3G, 4G or 5G, and that Continental may become dependent on licenses and the conditions under which they are granted to customers. In addition, Continental is subject to efforts by its customers to change contract terms and conditions concerning the participation in disputes regarding alleged infringements of intellectual property rights.

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

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

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

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

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

Material Opportunities

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

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

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

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

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

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

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

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

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

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

Statement on Overall Risk and Opportunities Situation

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

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

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

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

Report on Expected Developments
Future General Conditions

Forecast of Macroeconomic Development

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

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

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

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

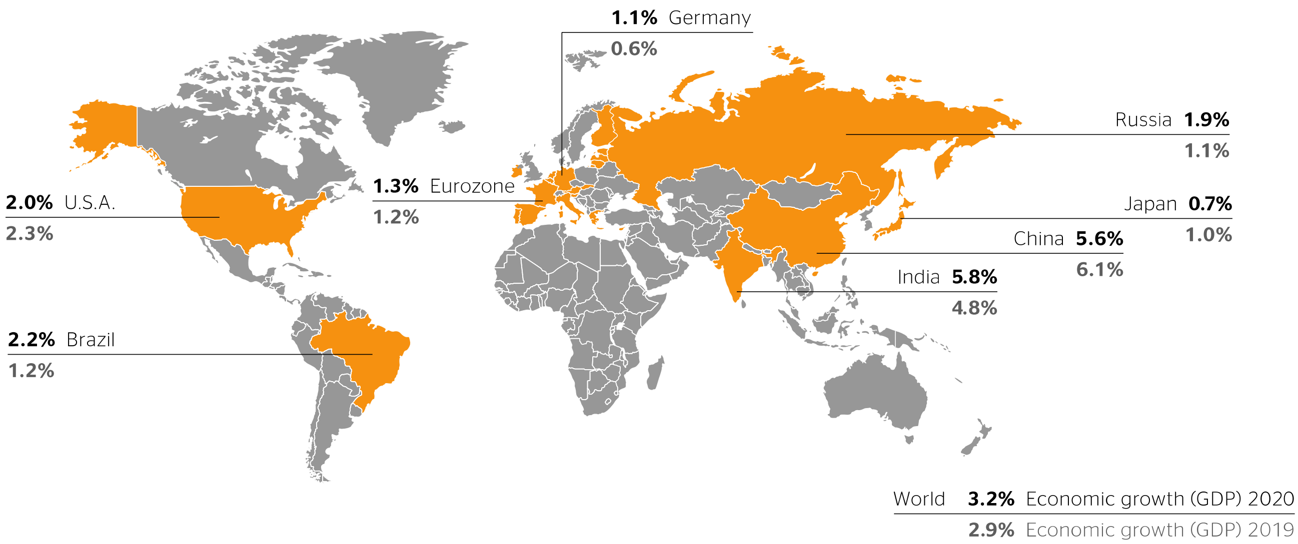
For Japan, the IMF believes that the expansive fiscal policy measures announced by the Japanese government at the start of December 2019 will have only a limited positive effect. For 2020, it forecasts moderate growth of 0.7% in its WEO Update.

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

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

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

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



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

Forecast for Key Customer Sectors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sources: Own estimates.

Outlook for the Continental Corporation

Forecast process

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

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

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

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

Comparison of the past fiscal year against forecast

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

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

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

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

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

Comparison of fiscal 2019 against forecast

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

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

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

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

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

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

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

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

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

Order situation

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

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

Outlook for fiscal 2020

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

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

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

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

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

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

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

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

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