



**Creating positive
impact on society**
2018 Sustainability Report

Continental AG

Continental develops pioneering technologies and services for sustainable and connected mobility of people and their goods. Founded in 1871, the technology company offers safe, efficient, intelligent, and affordable solutions for vehicles, machines, traffic and transportation. In 2018, Continental generated sales of €44.4 billion with around 244,000 people in 60 countries and markets.

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To Our Stakeholders



Dear Readers,

We are convinced that values create value – especially in times of transformation. The pace of change is accelerating rapidly in our industries. Continental is leading the way in decisively shaping this change, and we are in the process of realigning the company as a result. Mobility is increasingly being characterized by sustainability, which is why clean air, safe driving and a “healthy” mobility ecosystem are central pillars of our strategy.

Our compass of values is made up of four corporate values: Trust, Passion To Win, Freedom To Act and For One Another. They apply to all employees worldwide and form the basis of our Code of Conduct. They stand for reliability in open dialogs with our relevant stakeholders – including social partners, investors and customers.

In all of these discussions, we are seeing the considerable importance of sustainability continue to grow.

Our values are creating value – for our company and our stakeholders alike. We asked you about your focus topics and priorities to help us systematically improve what we do to create positive impact on society. More than 1,700 employees, customers, investors, suppliers and other stakeholders participated in our sustainability survey at the start of 2019. The responses we received told us that Continental is on the right track. One clear area in which we are performing strongly is safe mobility. At the same time, you are formulating a number of different expectations and areas where we have work to do. The results of the survey were discussed and evaluated by the Executive Board and our cross-divisional Sustainability Committee. They are also the starting point for the continued development of our sustainability strategy: Step by step, we will focus even more intensively on the topics of clean mobility and climate protection, and we will work on enhancing sustainability in our supply chains and a circular economy.

We are using our strengths as a company to tackle these major challenges. We are going about our work of delivering premium quality and innovative solutions in a way that is highly profitable. Our more than 244,000 employees are working day in, day out to ensure Continental’s sustainable success. We are creating an inspiring environment to support them in their work. Key elements of this include promoting diversity, flexible forms of working, digital working and our values-based corporate culture.

We are on an exciting journey! This Sustainability Report shows you where we are currently. We appreciate your interest in it. On behalf of the Executive Board and our team, I hope that you enjoy reading it. We encourage you to share any ideas you have in relation to our Sustainability Report.

A handwritten signature in blue ink that reads "Ariane Reinhart". The signature is fluid and cursive.

Dr. Ariane Reinhart
Member of the Executive Board responsible for Human Relations and Sustainability

Report Profile

This is Continental’s eighth sustainability report. It is prepared according to Global Reporting Initiative (GRI) standards and also presents our Communication on Progress (COP) report for the UN Global Compact.

Integrated sustainability reporting

Since 2012, Continental has been publishing an annual sustainability report for the past fiscal year. In the 2018 fiscal year, we have taken further steps to integrate sustainability reporting with corporate reporting. The 2018 Combined Corporate Non-Financial Statement according to Sections 289 (3) and 315 (3) of the German Commercial Code (HGB) published as part of the Management Report on March 19, 2019 (including references made to other sections of the Management Report) outlines the key facts and figures relating to sustainability issues that the company’s management deem relevant for the corporation. This sustainability report has a modular structure and comprises the Combined Corporate Non-Financial Statement as well as other contents of the Management Report and other publications supplemented with additional information. The key topics for this report were set out in an interdisciplinary editorial team, taking into consideration various formal reporting requirements. The application level as described in the GRI is “Core.”

Text markings and auditing

The modular structure of the report allows us to indicate the sources for the individual chapters or sections. Throughout the report, we follow a marking system for audited and non-audited content, which is shown in the table below. Content that has been audited by an independent auditor is marked in color.

Reporting framework and reporting period

This sustainability report encompasses all fully consolidated companies in line with financial reporting. The report covers the 2018 fiscal year from January 1 to December 31, 2018, and includes recent developments up to the editorial deadline on July 1, 2019. Information has not been restated for previous years in this sustainability report. The report was published on July 2, 2019 in German and English and can be downloaded in the internet at www.continental-sustainability.com.

In order to improve readability

Although this report has chosen to use the masculine form in order to improve readability, all information of course applies to both genders.

Information on the Combined Corporate Non-Financial Statement According to Sections 289 (3) and 315 (3) HGB

Source: 2018 Annual Report > Management Report > Corporate Profile > Combined Corporate Non-Financial Statement (p. 54)

The preceding section constitutes the relevant mandatory disclosures according to Sections 289 (3) and 315 (3) of the German Commercial Code (HGB) and the combined corporate non-financial statement for fiscal 2018. The information applies to both the Continental Corporation and Continental AG, and is identical unless otherwise indicated. In accordance with Sections 315b and 315c in conjunction with Sections 289b to 289e HGB, the combined corporate non-financial statement presents the main information that is required in order to understand the business development, business performance and position, and the effects of business operations on non-financial aspects. There are no additional reportable risks in accordance with HGB besides those presented in the Report on Risks and Opportunities. The business model is explained in the Corporate Profile section. As a framework for the descriptions in the combined corporate non-financial statement, for some key figures the company used not only HGB and IFRS, but also GRI (Global Reporting Initiative) and Greenhouse Gas Protocol requirements.

Significance of color markings and valid auditor’s report

Marking	Text content	Valid auditor’s report
Audited by an independent auditor	Contents from the Consolidated Financial Statements and Management Report (except for the Combined Corporate Non-Financial Statement)	Report on the audit of the Consolidated Financial Statements and the Corporate Management Report
	Contents from the Combined Corporate Non-Financial Statement	Independent auditor’s report on the audit of the Combined Corporate Non-Financial Statement to obtain reasonable assurance
	Detailed CO ₂ emissions (including Scope 3)	Limited assurance report of the independent auditor regarding sustainability information
Not audited	All content other than that specified above	---

Structure of the Corporation

Corporate Profile

Source: 2018 Annual Report > Management Report > Corporate Profile > Structure of the Corporation (📄 starting on p.38)

Note: The text for this sustainability report has been adjusted for page references in the Annual Report.

Corporate structure focused on flexibility and sustainable value creation.

Market- and customer-oriented corporate structure

In 1871, Continental Aktiengesellschaft (AG) was founded in Hanover as Continental-Caoutchouc- und Gutta-Percha Compagnie. Today, Continental AG, still headquartered in Hanover, Germany, is the parent company of the Continental Corporation. The Continental Corporation comprises 572 companies, including non-controlled companies, in addition to the parent company Continental AG. The Continental team is made up of 243,226 employees at a total of 544 locations in 60 countries and markets. The postal addresses of companies under our control are defined as locations.

Overall responsibility for management is borne by the Executive Board of Continental AG. In the reporting year, each division was represented by one Executive Board member until September 30, 2018. Since October 1, 2018, the Powertrain division has been under new management as a result of its transformation into an independent group of legal entities from 2019. With the exception of Corporate Purchasing, the central functions of Continental AG are represented by the chairman of the Executive Board, the chief financial officer and the Executive Board member responsible for Human Relations. They take on the functions required on a cross-divisional basis to manage the corporation. These include, in particular, finance, controlling, compliance, law, IT, sustainability, quality and environment.

The effective and efficient cooperation of divisions, business units and central functions is governed by our “Balance of Cooperation.” It defines the framework of our activities across organizational, hierarchical and geographic boundaries and promotes our corporate culture on the basis of our corporate values: Trust, For One Another, Freedom To Act and Passion To Win.

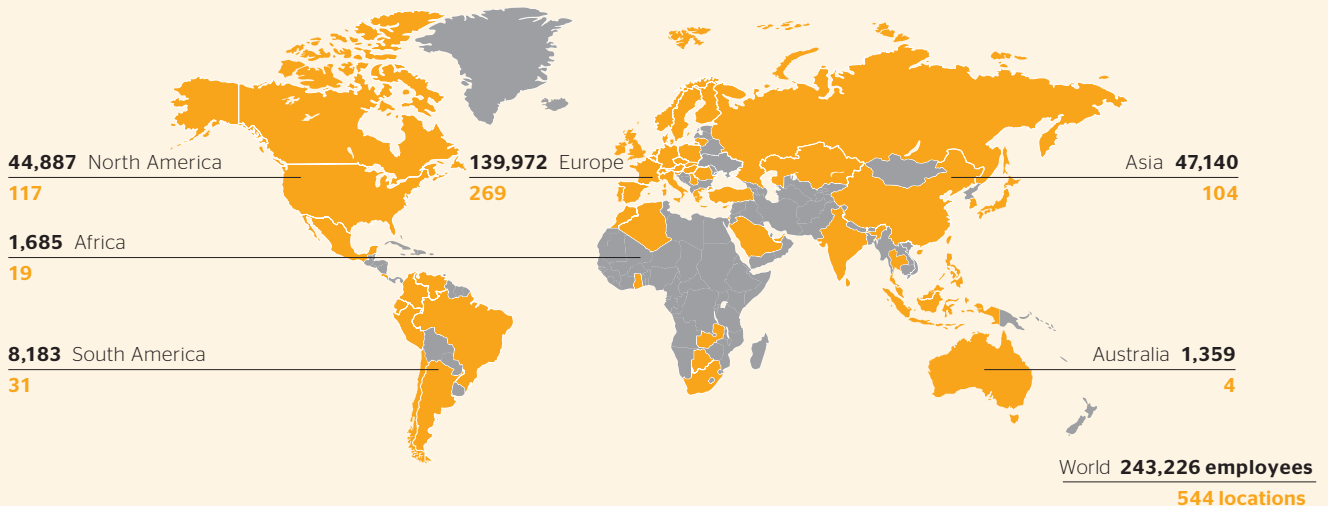
With a 72 % share of our consolidated sales, the automotive industry (original equipment) is our largest customer group. The importance of this industry is accordingly high for growth in the Automotive Group. In the Rubber Group, the tire business with end customers is predominant. At ContiTech, other key industries in addition to the automotive industry play a major role as well, such as railway engineering, machine and plant construction, mining and the replacement sector. We deliver high-quality, innovative and established products, systems and services. Focusing on the market and on customers is a key success factor. The global corporate structure is thus based upon a balance of decentralized structures and central functions.

In the reporting year, the corporation consisted of the Automotive Group and the Rubber Group, which comprised five divisions with 26 business units. A division or business unit is classified according to products, product groups and services or according to regions. Differences result primarily from technological product requirements, innovation and product cycles; the raw materials base; and production technology. The divisions and business units have overall responsibility for their business, including their results.

Automotive Group:

The **Chassis & Safety division** develops, produces and markets intelligent systems to improve driving safety and vehicle dynamics. Integral active and passive safety technologies and

544 locations in 60 countries and markets



Structure of the corporation

Continental Corporation
Sales: €44.4 billion; Employees: 243,226

Automotive Group
Sales: €26.9 billion; Employees: 140,016

Rubber Group
Sales: €17.6 billion; Employees: 102,763

Chassis & Safety
Sales: €9.6 billion
Employees: 49,509

Powertrain
Sales: €7.7 billion
Employees: 42,601

Interior
Sales: €9.7 billion
Employees: 47,906

Tires
Sales: €11.4 billion
Employees: 55,840

ContiTech
Sales: €6.3 billion
Employees: 46,923

products that support vehicle dynamics provide greater safety, comfort and convenience. The goal here is to implement "Vision Zero," the vision of accident-free driving. The Chassis & Safety division is divided into four business units:

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

The **Powertrain division** focuses on efficient and clean vehicle drive systems. Here, the division works to improve the performance of injection systems, turbochargers, transmission control units, sensors, actuator systems and exhaust-gas aftertreatment. At the same time, it paves the way for the electrification of vehicles with efficient systems technology and economical vehicle integration. In the reporting year, the division was divided into five business units:

- > Engine Systems
- > Fuel & Exhaust Management
- > Hybrid Electric Vehicle
- > Sensors & Actuators
- > Transmission

At the beginning of 2019, the Powertrain division was transformed into an independent group of legal entities. Since then, it has comprised three business units:

- > Engine & Drivetrain Systems
- > Powertrain Components
- > Hybrid & Electric Vehicles

The **Interior division** specializes in information management. It develops and produces network, information and communication solutions and services for cars and commercial vehicles. This enables and optimizes the control of the complex flow of information between the driver, passengers and the vehicle as well as mobile devices, other vehicles and the outside world. The focus is on systems integration. In addition, the Interior division is involved in cross-sector collaborations with leading companies. Since December 1, 2018, the Intelligent Transportation Systems business unit has been integrated as a segment into the Commercial Vehicles & Aftermarket business unit. The division is now divided into four business units:

- > Body & Security
- > Commercial Vehicles & Aftermarket

- > Infotainment & Connectivity
- > Instrumentation & Driver HMI

Rubber Group:

The **Tire division** is known for maximizing safety through short braking distances and excellent grip as well as reducing fuel consumption by minimizing rolling resistance. Tires are the vehicle's only link with the road. They transmit all forces onto the road. It is the tire technology that determines whether a vehicle is able to stop in time and stay in the correct lane during cornering maneuvers. 28 % of sales in the Tire division relates to business with vehicle manufacturers, and 72 % relates to the replacement business. The division is divided into six business units:

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

The **ContiTech division** develops, manufactures and markets products, systems and intelligent components made of rubber, plastic, metal and fabric. They are used in machine and plant engineering, mining, agriculture, the automotive industry and other important sectors of the future. 51 % of sales in the ContiTech division relates to business with vehicle manufacturers, and 49 % relates to business with other industries and in the replacement market. The division is divided into seven business units:

- > Air Spring Systems
- > Benecke-Hornschuch Surface Group
- > Conveyor Belt Group
- > Industrial Fluid Solutions
- > Mobile Fluid Systems
- > Power Transmission Group
- > Vibration Control

Interconnected value creation

Research and development (R&D) takes place at 82 locations, 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 proj-

ects of the Automotive Group and the ContiTech division. The product requirements governing tires are largely similar all around the world. They are adapted according to the specific requirements of each market. In this respect, R&D has a largely centralized structure in the Tire division. Continental invests about 7% of sales in R&D each year. For more information, see the Research and Development section.

Continental processes a wide range of raw materials and semi-finished products. The purchasing volume in the reporting year was €29.9 billion in total, €20.3 billion of which was for production materials. The Automotive Group uses primarily steel, aluminum, precious metals, copper and plastics. Key areas when it comes to purchasing materials and semifinished products include electronics and electromechanical components, which together make up about 44% of the corporation's purchasing volume of production materials. Furthermore, mechanical components account for nearly a quarter of production ma-

terials. Natural rubber and oil-based chemicals such as synthetic rubber and carbon black are key raw materials for the Rubber Group. The total purchasing volume for these materials amounts to around a sixth of the total volume for production material.

Production and sales in the divisions of the Automotive Group and in the ContiTech division are organized across regions. Our tire production activities, in which economies of scale play a key role, are represented with major locations in the three dominant automotive markets in terms of production and vehicle numbers, namely Europe, the U.S.A. and China. Low production costs coupled with large volumes or high rates of regional growth constitute key success factors. Sales activities in the Tire division are performed 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 €3.2 billion in expenditure	Diverse €29.9 billion in volumes	Global 233 locations	Local €44.4 billion in sales

In the Spotlight:

Shareholder Structure

Source: 2018 Annual Report > To Our Shareholders > Continental Shares and Bonds (p. 10); additional figures from 2018 Fact Book for investors (p. 87)

As in the previous year, the free float as defined by Deutsche Börse AG amounted to 54.0% as at the end of 2018.

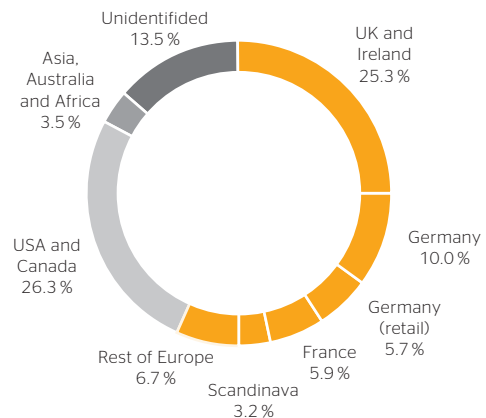
The most recent change took place on September 17, 2013, when our major shareholder, the IHO Group, Herzogenaurach, Germany, announced the sale of 7.8 million Continental shares, reducing its shareholding in Continental AG from 49.9% to 46.0%.

Shareholder structure as at Dec. 31, 2018



*According to the definition from Deutsche Börse AG, holdings of less than 5% are considered free float unless they are attributable to a shareholder with a total holding of more than 5%.

Regional distribution of the free float as at Dec. 31, 2018 (86.5% identified)



Corporate Strategy

Source: 2018 Annual Report > Management Report > Corporate Profile > Corporate Strategy (starting on p. 41)

New organizational structure for strategic flexibility and long-term success.

Continental will be reorganizing itself until 2020 in order to actively shape the mobility of the future. We will therefore be able to respond even more flexibly to the requirements of various customers, markets, government agencies, and companies and make faster and more efficient use of our opportunities.

A holding structure will be set up under a new umbrella brand. This will be divided into two group sectors, in addition to the Powertrain division. The reporting structure is to be used starting 2020.

- > The Chassis & Safety and Interior divisions will be reorganized by the beginning of 2020. The two areas will be supported by a newly created central Automotive Research and Development function, which will bundle basic research and applications as an independent unit.
- > The two current divisions Tires and ContiTech will remain unchanged in terms of their independent organizational structure and will form the second group sector.

As part of the realignment, the Powertrain division was transformed into an independent group of legal entities at the beginning of 2019. In addition to the combustion engine business, its activities will continue to include all future business involving hybrid and electric drive systems and all current battery activities. At the same time, we are preparing a partial initial public offering (IPO) for Powertrain, which will be possible in the second half of 2019. However, control over the new company is not to be relinquished in the medium to long term. The reason for the transformation into an independent group of legal entities is the change in the drive business, the development of which is determined chiefly by regulatory emission limit requirements, which vary in the markets that are important to us. Rapid adaptability is therefore essential in order to succeed in this business. Another reason is the increased focus on electric mobility. Considerable investments have already been made here and will continue to be necessary in the future. Furthermore, a legally independent business is in an even better position to actively support the expected long-term consolidation process in these markets.

Seven strategic dimensions for enhancing the value of the corporation on a sustainable basis

Our seven strategic dimensions will not be affected by the reorganization. They complement each other and are geared toward sustainably creating value for all stakeholders and ensuring the future viability of the company.

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

For us, enhancing the value of the corporation on a long-term basis means sustainable success while taking into consideration the cost of capital. Our long-term target is at least 20 % ROCE.

We did not reach this target in the reporting year. After 20.6 % in 2017, we achieved 17.0 % in 2018.

2. Regional sales balance - globally balanced distribution of sales

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

In 2018, we achieved a 22 % share of sales in Asia. The share of our sales in the North and South American markets was 28 % in total. We substantially reinforced our dealer network in Australia in 2018 by acquiring Tyre and Auto Pty Ltd., based in Melbourne, Australia, one of Australia's largest tire and auto service suppliers. With currently 258 branches, the company is well represented above all in the country's densely populated coastal regions. The company, which has more than 1,200 employees, is headquartered in Melbourne. Its core business comprises the sale of tires for passenger cars and light commercial vehicles as well as tire services, inspection and maintenance.

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

We want to shape our future based on a leading position and thus play a major role in advancing technological development in individual sectors. We therefore want to be among the world's three leading suppliers with regard to customer focus, quality and market share in the long term. In terms of sales in their respective markets, the Automotive Group's divisions and the ContiTech division are among the leading providers with the majority of their products. We are number four in the world in the tire business. Furthermore, we hold top positions in individual segments and markets. Among suppliers with sales of more than €3 billion, we play a leading role in digitalization. The digital products include, for example, sensors, electronics and software products.

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

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

We have production locations in 38 of the 60 countries and markets in which we are represented. In 2018, we expanded our production in various countries. In Hungary, the production of hoses and air sleeves was expanded and a new plant was

planned for automotive electronics. In Lithuania, we laid the foundations for the production of electronic components. In the U.S.A., we expanded production capacity for high-quality synthetic leather materials, which are used in transportation, the leisure sector and the hospitality industry.

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

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

In order to reduce dependence on the automotive industry, business is to be increased in industries outside of the automotive original equipment sector while at the same time achieving further growth with carmakers. In the medium to long term, we want to lift the share of sales with end users and industrial customers outside of the automotive original equipment sector toward a figure of 40%. This will be based on our Tire and ContiTech divisions.

Our activities relating to software products for the end-user market will have an increasing effect on our customer portfolio. Examples include advanced traffic management, intelligent payment systems, maintenance management and new technologies that go beyond the vehicle. The share of sales with end users and industrial customers developed steadily at 30% in 2018.

6. Technological balance - combination of established and pioneering technologies

Our product portfolio should consist of a profitable and viable mix of established and pioneering technologies. We set and follow new trends and standards in high-growth markets and market segments. In our established core markets, we ensure that our position as one of the leading automotive suppliers and industrial partners keeps on developing. This allows us to be represented and competitive in all phases of the respective product life cycles.

We are now working on getting highly automated driving ready for production and at the same time on systems for fully automated driving on the highway in 2025. Highly automated driving will allow drivers to temporarily focus on activities other than driving. With fully automated driving, this should be possible for sections of the route without the driver having to act as a fallback mode. We are also focusing on autonomous driving. Firstly, we are testing components and systems for driverless robot taxis in cities with our Continental Urban Mobility Experience (CUbE) test platform. Secondly, we are already pursuing the development of vehicle systems for autonomous vehicle fleets as a conceptual idea for the more distant future.

We are expanding our portfolio with software-based and mobility services that complement existing products and benefit our customers.

7. Great people culture - a culture of inspiration

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

More than 50,000 employees took part in the survey in the reporting year. At 86%, agreement with our four corporate values remains high. This high percentage is particularly pleasing since we are currently seeing extremely radical changes in the industries relevant to us. For the automotive industry alone, digitalization, automation, connectivity and electrification represent the greatest upheaval in its more-than-130-year history.

Relevance of sustainability in the Continental corporation

Source: 2018 Annual Report > Management Report > Corporate Profile > Combined Corporate Non-Financial Statement (📄 starting on p. 48)

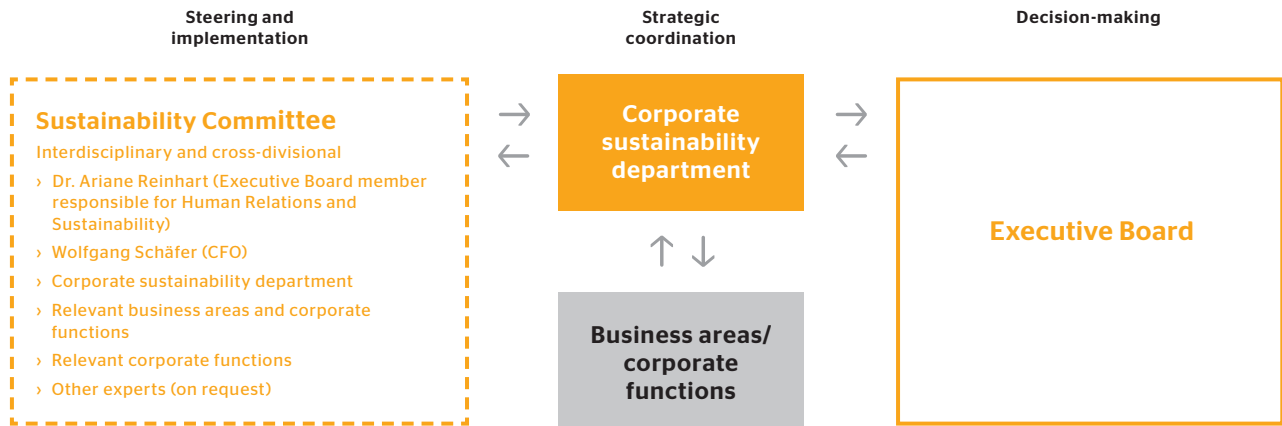
For Continental, sustainable business practices mean having a positive impact on society. We thus want to secure our long-term success in the interest of all stakeholders and make important contributions to the future viability of our industries. Especially in the current dynamic transformation of the automotive industry, it is vital to systematically weigh up the various perspectives on our value creation. Dialogue with investors, customers, politicians and other stakeholders - for example, on clean and safe mobility, connected vehicles or automated driving - is a central element of this approach.

At Continental, sustainability is a strategic task for corporate development and therefore a task for the Executive Board. Dr. Ariane Reinhart is the head of Human Relations and Sustainability. She is therefore also responsible for the Sustainability department, which was newly created in the reporting year and coordinates the sustainability strategy, its development and an inter-departmental Sustainability Committee. All relevant business units and central functions are represented on the Sustainability Committee alongside Dr. Reinhart and another Executive Board member.

Continental is committed to the United Nations Global Compact and is a member of the sustainability associations econsense, World Business Council for Sustainable Development (WBCSD) and other initiatives.

In the Spotlight:

Management of Sustainability in the Continental Corporation



In the Spotlight:

Inclusion of Stakeholders

Our key stakeholders and interest groups include our employees and customers, the capital market, politics, actors in civil society and suppliers.

In our corporate governance principles, we have pledged to provide our stakeholders with transparent and timely communications about the company.

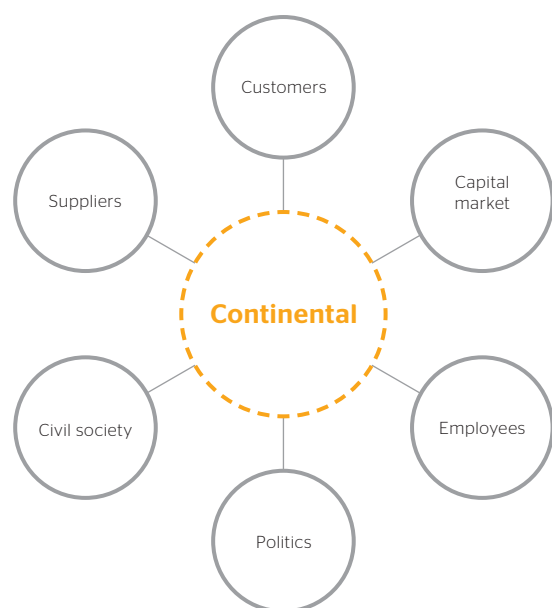
In addition, we maintain a regular dialog with all key stakeholders on relevant issues for the company and society by way of various channels. The aim of this is to bring together different perspectives and, if necessary, to discuss different points of view. Here are some examples of the channels:

- > Customers: e.g. via key account management, partnerships, trade fairs
- > Investors and shareholders: e.g. via the Annual Shareholders' Meeting, webcasts, roadshows
- > Employees: e.g. via town hall meetings, employee surveys, webcasts, employee representatives
- > Wider society: e.g. via surveys, trade fairs, engagement projects, open days

To start a dialogue on the key sustainability issues for Continental and further develop our sustainability strategy, we conducted a global stakeholder survey (Sustainable Impact Evaluation) in the first quarter of 2019. More than 1,700 stakeholders across all groups responded to the survey. Our stakeholders classed clean mobility, sustainable supply chains, climate protection and a circular economy as key priorities in addition to a whole host of other relevant issues. Topics including innovation, digitalization, road

safety and fair working conditions were also classed as relevant. The detailed findings of this survey will gradually be incorporated into both the process aimed at further developing the sustainability strategy and the company's reporting.









Stakeholders of Continental



In the Spotlight:

Memberships in Associations and Involvement in Initiatives

Continental is a member of over 2,000 associations. The key memberships and involvement in initiatives and principles relating to sustainability that Continental has committed itself to include, most notably, the UN Global Compact, econsense, World Business Council for Sustainable Development (WBCSD) and other initiatives, which are listed in the following table.

	Name of initiative	Joined in
	World Business Council for Sustainable Development (WBCSD)	2005
	European Road Safety Charter	2007
	Diversity Charter	2008
	Luxembourg Declaration on Workplace Health Promotion in the European Union	2010
	United Nations Global Compact	2012
	Women's Empowerment Principles	2015
	econsense - Sustainable Development Forum for the German Economy	2015
	Global Platform for Sustainable Natural Rubber	2018

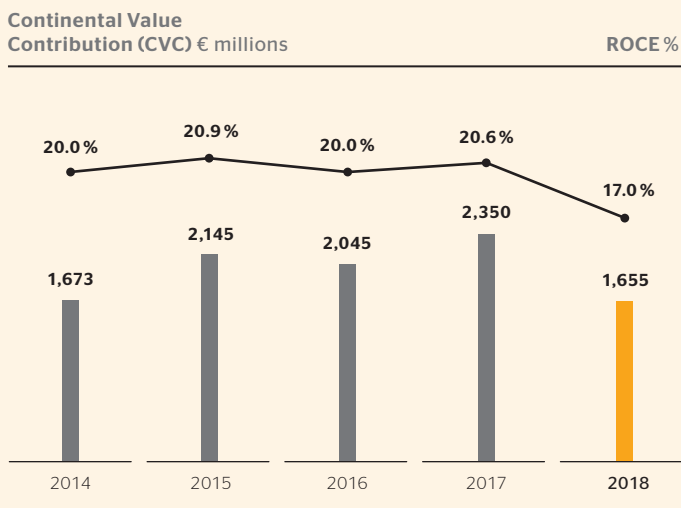
Corporate Management

Source: 2018 Annual Report > Management Report > Corporate Profile > Corporate Management (📄 starting on p. 43)

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

Value management

Key financial performance indicators for Continental relate to the development of sales, capital employed and 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.



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. Consolidated EBIT amounted to €4.0 billion in 2018.

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 2018, average operating assets amounted to €23.6 billion.

The return on capital employed (ROCE) represents the ratio of these two calculated values. Comparing a figure from the state-

ment 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 17.0% in 2018 and was thus below 20% for the first time since 2013, but still significantly exceeded the weighted average cost of capital.

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 2018, the CVC amounted to €1,654.8 million.

According to our definition, the value of the company increases when the CVC demonstrates positive growth in value

ROCE by division (in %)	2018	2017
Chassis & Safety	16.0	19.9
Powertrain	3.3	13.2
Interior	17.6	14.9
Tires	29.1	35.0
ContiTech	12.6	13.9
Continental Corporation	17.0	20.6

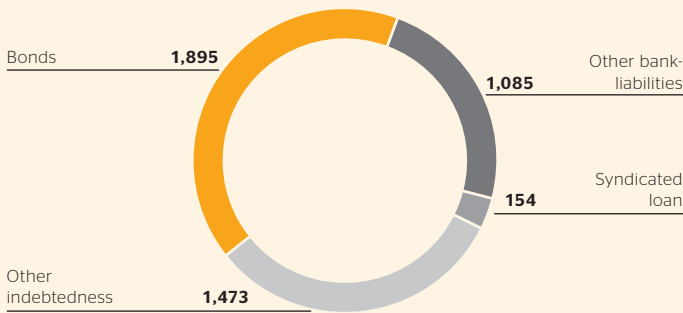
Financing strategy

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

The corporate function Finance & Treasury provides the necessary financial framework to finance corporate growth and secure the long-term existence of the company. The company's annual investment requirements will be 7% to 8% of sales in the coming years. The reasons for this are the continuing increase in incoming orders in the Automotive Group and the successful implementation of Vision 2025 in our Tire division, which will mean the expansion of tire production capacity, particularly in North America and Asia.

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 remain below 20% in the coming years and not exceed 60% in general. If justified by extraor-

Composition of gross indebtedness (€4,607 million)



dinary financing grounds or specific market circumstances, we can rise above this maximum level under certain conditions. The equity ratio should exceed 35%. In the reporting year, it was 45.3% and the gearing ratio 9.1%.

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 2018, this mix consisted of bonds (41%), syndicated loan (3%), other bank liabilities (24%) and other indebtedness (32%) based on the gross indebtedness of €4,606.9 million. The committed volume of the syndicated loan, which consists of the revolving tranche, remained unchanged at €3.0 billion. The tranche will run until April 2021. The financing mix will not change significantly. Starting in 2019, however, all liabilities from leases will be recognized under gross indebtedness due to the application of IFRS 16, Leases, starting from January 1, 2019. This will accordingly lead to an increase in gross indebtedness.

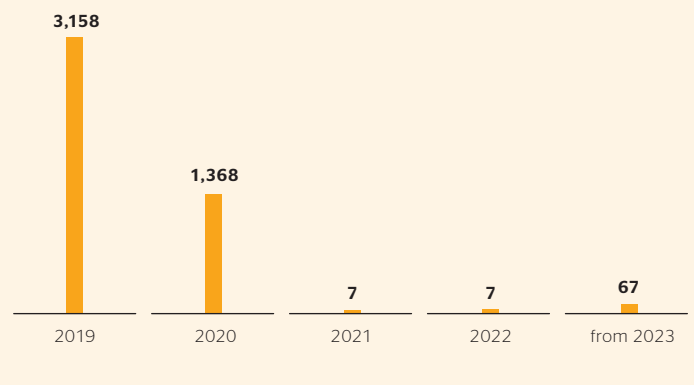
The corporation strives to have at its disposal unrestricted liquidity of about €1.5 billion. This is supplemented by committed, unutilized credit lines from banks in order to cover liquidity requirements at all times. These requirements fluctuate during a calendar year owing in particular to the seasonal 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 €2,587.7 million as at December 31, 2018. There were also committed and unutilized credit lines of €3,504.1 million.

Gross indebtedness amounted to €4,606.9 million as at December 31, 2018. Key financing instruments are the syndicated loan with a revolving credit line of €3.0 billion that has been granted until April 2021 and bonds issued on the capital market. The carrying amount drawn under the revolving line of credit was €154.3 million as at December 31, 2018. Around 40% of gross indebtedness is financed on the capital market in the form of bonds maturing between February 2019 and September 2020. The interest coupons vary between 0.0% and 3.125%. The repayment amounts are €500.0 million in 2019, and €600.0 million and €750.0 million in 2020. In addition to the forms of financing already mentioned, there were also bilateral credit lines with various banks in the amount of €1,799.5 million as at December 31, 2018. Continental's corporate financing instruments currently also include sale-of-receivables programs and commercial paper programs. In the second half of 2018, the existing commercial paper programs were supplemented with an additional U.S. \$500.0 million commercial paper program in the U.S.A.

Maturity profile

Continental always strives for a balanced maturity profile of its liabilities in order to be able to repay the amounts due each year from free cash flow as far as possible. Other than short-term maturities, which are usually rolled on to the next year, the repayment of the €500.0 million bond maturing in February 2019 and of the €600.0 million and €750.0 million bonds maturing in February and September 2020 is also on the agenda for 2019 and 2020.

Maturities of gross indebtedness (€4,607 million)



Continental's credit rating unchanged

In the reporting period, Continental AG was rated by the three rating agencies Standard & Poor's, Fitch and Moody's, each of which maintained their credit ratings for Continental AG during 2018.

Credit rating for Continental AG

	December 31, 2018	December 31, 2017
Standard & Poor's¹		
Long-term	BBB+	BBB+
Short-term	A2	A2
Outlook	stable	stable
Fitch²		
Long-term	BBB+	BBB+
Short-term	F2	F2
Outlook	stable	stable
Moody's³		
Long-term	Baa 1	Baa 1
Short-term	no rating	no rating
Outlook	stable	stable

¹ Contracted rating since May 19, 2000.

² Contracted rating since November 7, 2013.

³ Non-contracted rating since February 1, 2014.

Corporate Governance

Source: 2018 Annual Report > To Our Shareholders > Corporate Governance > Corporate Governance Report (📄 starting on p. 16)

Note: The text for this sustainability report has been adjusted for page references in the Annual Report. The present composition of the Executive Board and Supervisory Board can be found in the Company/Corporate Governance section of Continental's website.

Responsible corporate governance geared toward sustainable, long-term value creation is what governs the actions of the Executive Board and the Supervisory Board.

Good, responsible corporate governance geared toward sustainable, long-term value creation and in the interests of all stakeholder groups is the measure that governs the actions of the Executive Board and Supervisory Board of Continental AG, and the basis of the company's success. Below, the Supervisory Board and Executive Board report on corporate governance at Continental. This Corporate Governance Declaration pursuant to Section 289f of the German Commercial Code (Handelsgesetzbuch – HGB) is simultaneously the Corporate Governance Report as recommended by Section 3.10 of the German Corporate Governance Code. It is supplemented by the remuneration report of Continental AG, which is a part of the company's Management Report.

Declaration pursuant to Section 161 AktG and deviations from the German Corporate Governance Code.

In December 2018, the Executive Board and the Supervisory Board issued the following annual declaration in accordance with Section 161 of the German Stock Corporation Act (Aktien-gesetz – AktG):

"In accordance with Section 161 AktG, the Executive Board and the Supervisory Board of Continental AG declare that the Company has complied with and will comply with the recommendations issued by the Government Commission on the German Corporate Governance Code (as amended on February 7, 2017; published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette (Bundesanzeiger) on April 24, 2017), subject to the qualifications set forth below. Reference is made to the declaration of the Executive Board and the Supervisory Board of December 2017, as well as to the previous declarations pursuant to Section 161 AktG and the qualifications regarding the recommendations of the German Corporate Governance Code explained therein.

- › Pursuant to Section 5.4.1 para. 2 of the Code, the Supervisory Board shall specify concrete objectives regarding its composition, which take into account, inter alia, an age limit to be established for members of the Supervisory Board. The Supervisory Board has specified such objectives. However, the Supervisory Board did not establish an age limit because it is of the opinion that such a general criterion is not suitable for evaluating the qualifications of an individual candidate for membership on the Supervisory Board.

Hanover, December 2018
Prof. Dr.-Ing. Wolfgang Reitzle
Chairman of the Supervisory Board

Dr. Elmar Degenhart
Chairman of the Executive Board"

The declaration was made permanently available to shareholders in the Company/Corporate Governance section of Continental's 📄 website. Earlier declarations in accordance with Section 161 AktG can also be found there.

Continental AG also complies with all suggestions of the Code with the following exception:

- › Section 3.7 para. 3 of the Code suggests that the Executive Board should convene an extraordinary Shareholders' Meeting in all cases of takeover bids. The Executive Board and the Supervisory Board consider it more expedient to decide in each specific situation whether it is advisable to convene a Shareholders' Meeting.

Key corporate governance practices

Corporate governance at Continental is fundamentally based on Continental AG's Corporate Governance Principles, which are closely modeled on the German Corporate Governance Code and are published in the Company/Corporate Governance section of Continental's 📄 website.

In addition to the Corporate Governance Principles, the following principles are also key to our sustainable and responsible corporate governance:

- › The BASICS – Continental AG's corporate guidelines. The BASICS have reflected the vision, values and self-image of the corporation since 1989, and are available in the Company/Corporate Strategy section of Continental's 📄 website.
- › The Corporate Social Responsibility Principles; available in the Sustainability/Downloads section of Continental's 📄 website.
- › Compliance with the binding Code of Conduct for all Continental employees. For more information, see the Compliance section on page 21 or the Sustainability/Downloads section of Continental's 📄 website.

Corporate bodies

In line with the law and the Articles of Incorporation, the company's corporate bodies are the Executive Board, the Supervisory Board and the Shareholders' Meeting. As a German stock corporation, Continental AG has a dual management system characterized by a strict personnel division between the Executive Board as the management body and the Supervisory Board as the monitoring body. The cooperation between the Executive Board, Supervisory Board and Shareholders' Meeting is depicted in the table.

The Executive Board and its practices

The Executive Board has sole responsibility for managing the company free from instructions from third parties in accordance with the law, the Articles of Incorporation and the Executive Board's By-Laws, while taking into account the resolutions of the Shareholders' Meeting. All members of the Executive Board share responsibility for the management of the company jointly. Regardless of this principle of joint responsibility, each Executive Board member is individually responsible for the areas entrusted to him or her. The chairman of the Executive

Board is responsible for the company's overall management and business policy. He ensures management coordination and uniformity on the Executive Board and represents the company to the public. The Executive Board currently has seven members. The first time a person is appointed to the Executive Board, his or her term is three years only. As a rule, a member of the Executive Board is not appointed beyond the statutory retirement age.

The Executive Board has By-Laws that regulate in particular the allocation of duties among the Executive Board members, key matters pertaining to the company and its subsidiaries that require a decision to be made by the Executive Board, the duties of the Executive Board chairman, and the process in which the Executive Board passes resolutions. The Executive Board By-Laws are available in the Company/Corporate Governance section of Continental's website. The Articles of Incorporation and the Supervisory Board By-Laws require the consent of the Supervisory Board for significant actions taken by management.

The Supervisory Board and its practices

The Supervisory Board appoints the members of the Executive Board and supervises and advises the board in managing the company. The Supervisory Board is directly involved in decisions of material importance to the company. As specified by law, the Articles of Incorporation or the Supervisory Board By-Laws, certain corporate management matters require the approval of the Supervisory Board. The chairman of the Supervisory Board coordinates its work and represents it vis-à-vis third parties. Within reasonable limits, he is prepared to talk to investors about issues specific to the Supervisory Board. He maintains regular contact between meetings with the Executive Board, and in particular with its chairman, to discuss issues relating to the company's strategy, business development, risk management and compliance.

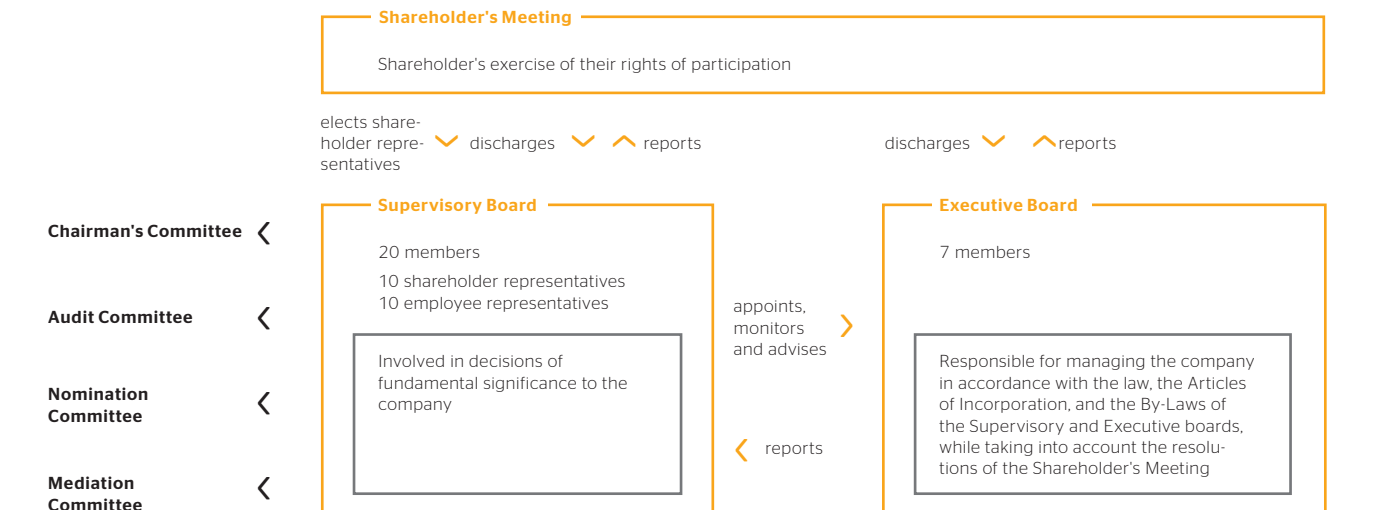
Composition of the Supervisory Board

The Supervisory Board comprises 20 members in accordance with the German Co-determination Act (Mitbestimmungsgesetz - MitbestG) and the company's Articles of Incorporation. Half the members of the Supervisory Board are elected individually by the shareholders in the Shareholders' Meeting (shareholder representatives), while the other half are elected by the employees of Continental AG and its German subsidiaries (employee representatives). Both the shareholder representatives and the employee representatives have an equal duty to act in the interests of the company. The Supervisory Board's chairman must be a shareholder representative. He has the casting vote in the event of a tie.

The company has set up an informational program that provides newly elected members of the Supervisory Board with a thorough overview of product and technologies as well as finances, controlling and corporate governance at Continental. The current term of office of the Supervisory Board members lasts until the end of the 2019 Annual Shareholders' Meeting.

The Supervisory Board has drawn up its own By-Laws that supplement the law and the Articles of Incorporation with more detailed provisions, including provisions on Supervisory Board meetings, the duty of confidentiality, the handling of conflicts of interest and the Executive Board's reporting obligations, and a list of transactions and measures that require the approval of the Supervisory Board. The Supervisory Board By-Laws are available in the Company/Corporate Governance section of Continental's website. The Supervisory Board consults, in the absence of the Executive Board, on a regular basis. Before each regular meeting of the Supervisory Board, the representatives of the shareholders and of the employees each meet separately with members of the Executive Board to discuss the upcoming meeting.

Corporate bodies of the company



The Supervisory Board reviews the efficiency of its activities every two to three years. The Supervisory Board recently carried out such a review in 2016 with the help of an external consultant. This once again confirmed the positive development of the Supervisory Board's work in the past years. The Supervisory Board has adopted the recommendations that resulted from the 2016 efficiency review. The next efficiency review is to be performed after the constitution of the Supervisory Board to be elected in 2019.

Profile of skills and expertise for the Supervisory Board

In accordance with Section 5.4.1 of the German Corporate Governance Code, the Supervisory Board has prepared a profile of skills and expertise and specified targets for its composition.

The Supervisory Board as a whole should possess the skills and expertise described below. It is not expected that all Supervisory Board members possess all skills and expertise. Instead, each area of expertise must be covered by at least one Supervisory Board member. The profile of skills and expertise assumes that all Supervisory Board members possess the knowledge and skills required for the proper performance of their duties and the characteristics necessary for successful Supervisory Board work. In particular, these include integrity, commitment, capacity for discussion and teamwork, sufficient availability and discretion.

- › Internationality: Due to Continental AG's global activities, its Supervisory Board requires international professional or business experience. This means professional training or work abroad or with a strong connection to foreign markets. International professional and business experience with regard to Asian markets is also desirable.
- › Industry experience: The Supervisory Board should have professional experience in the automotive industry or other industries in which the company operates. In particular, the Supervisory Board wants to increase its expertise in the new business areas that are an important part of the company's strategy. Therefore, professional knowledge or experience of digitalization, information technology, telecommunications, mobility services, electric mobility, or related areas should be available.
- › Management experience: The Supervisory Board should include members with management experience. In particular, this includes experience in corporate management or as a senior manager of a business or experience in a managerial role at other large organizations or associations.
- › Financial experience: The Supervisory Board should possess financial knowledge and experience, namely in the areas of accounting, control and risk management systems, and the audit of financial statements. The Chairman of the Audit Committee must have in-depth knowledge in these areas.
- › Corporate governance and board experience: Members of the Supervisory Board should have experience as a member of the supervisory board or executive board of a German listed company or as a member of such a body of a foreign listed company.

The Supervisory Board has specified the following targets for its composition:

- › The number of members of the Supervisory Board who have the required international experience should at a minimum remain constant. At least seven members currently have international skills and expertise.
- › An appropriate number of members with industry experience should be maintained. Far more than half of the Supervisory Board members cover this area of expertise.
- › The Supervisory Board should have an appropriate number of members who are deemed independent by the Supervisory Board as defined in the German Corporate Governance Code. At least five shareholder representatives should be independent as defined in the Code.

The independent shareholder representatives are:

- › Prof. Dr.-Ing. Wolfgang Reitzle
- › Dr. Gunter Dunkel
- › Prof. Dr. Klaus Mangold
- › Sabine Neuß
- › Prof. Dr. Rolf Nonnenmacher
- › Prof. KR Ing. Siegfried Wolf
- › In its nominations for election to the Supervisory Board, as a rule, the Supervisory Board does not nominate candidates who have already held this position for three full terms of office at the time of the election.
- › The Supervisory Board has not stipulated an age limit as recommended in Section 5.4.1 of the Code. It does not consider such a general criterion to be suitable for deciding whether a candidate is eligible to be a member of the Supervisory Board.

According to Section 96 (2) AktG, the Supervisory Board of Continental AG is also subject to the requirement that at least 30% of its members be women and at least 30% be men.

The Supervisory Board will continue to provide regular updates on the status of the implementation of the targets in the Corporate Governance Report. The Supervisory Board's proposals to the Annual Shareholders' Meeting on April 26, 2019, will consider the requirements of the profile of skills and expertise for the board as a whole as well as the aforementioned targets.

Committees of the Supervisory Board

The Supervisory Board currently has four committees: the Chairman's Committee, the Audit Committee, the Nomination Committee and the committee formed in accordance with Section 27 (3) of the MitbestG (Mediation Committee).

The members of the Mediation Committee also form the Chairman's Committee, which comprises the chairman of the Supervisory Board, Prof. Dr.-Ing. Wolfgang Reitzle (chairman); his vice chairwoman, Christiane Benner (since March 1, 2018; until February 28, 2018, Hartmut Meine); Georg F. W. Schaeffler; and Jörg Schönfelder. Key responsibilities of the Chairman's Committee are preparing the appointment of Executive Board members and concluding, terminating and amending their employment contracts and other agreements with them. However, the plenum of the Supervisory Board alone is responsible for establishing the total remuneration of the Executive Board. Another key responsibility of the Chairman's Committee is deciding on the approval of certain transactions and measures by the company as specified in the Supervisory Board By-Laws. The Super-

visory Board has conferred some of these participation rights on the Chairman's Committee, each member of which may however, in individual cases, demand that a matter again be submitted to the plenary session for decision.

The Audit Committee's tasks relate to the company's accounting, the audit of the financial statements, risk management and compliance. In particular, the committee monitors the accounting process and the effectiveness of the internal control system, the risk management system, the internal audit system and compliance; and performs a preliminary examination of Continental AG's annual financial statements and the consolidated financial statements.

The committee makes its recommendation to the plenary session of the Supervisory Board, which then passes resolutions pursuant to Section 171 AktG. Furthermore, the committee discusses the company's draft interim financial reports. It is also responsible for ensuring the necessary independence of auditors and deals with additional services performed by the auditors. The committee engages the auditors, determines the focus of the report as necessary and negotiates the fee. It also gives its recommendation for the Supervisory Board's proposal to the Annual Shareholders' Meeting for the election of the auditor. Since 2017, the committee has also been responsible for the preliminary audit of non-financial reporting and for the engagement of an auditor for its review, if any. The chairman of the Audit Committee is Prof. Dr. Rolf Nonnenmacher. He is independent and, as an auditor, has special knowledge and experience in the application of accounting principles and internal control procedures. Another committee member, Klaus Rosenfeld, is also a financial expert. The other members are Francesco Grioli (since November 1, 2018; until October 31, 2018: Peter Hausmann), Dirk Nordmann, Georg F. W. Schaeffler and Michael Iglhaut. Neither a former Executive Board member nor the chairman of the Supervisory Board may act as chairman of the Audit Committee.

The Nomination Committee is responsible for nominating suitable candidates for the Supervisory Board to propose to the Annual Shareholders' Meeting for election. In addition, the Committee must propose targets for the Supervisory Board's composition and profile of skills and expertise and review both regularly. The Nomination Committee consists entirely of shareholder representatives, specifically the two shareholder representatives on the Chairman's Committee, Prof. Dr.-Ing. Wolfgang Reitzle (chairman) and Georg F. W. Schaeffler, the chairman of the Audit Committee, Prof. Dr. Rolf Nonnenmacher, and Maria-Elisabeth Schaeffler-Thumann as an additional member.

In accordance with Section 31 (3) Sentence 1 of the MitbestG, the Mediation Committee becomes active only if the first round of voting on a proposal to appoint a member of the Executive Board or to remove a member by consent does not achieve the legally required two-thirds majority. This committee must then attempt mediation before a new vote is taken. More information on the members of the Supervisory Board and its committees can be found starting on page 211. Current resumes, which are updated annually, are available in the Company/Corporate Governance section of Continental's [website](#).

Shareholders and the Shareholders' Meeting

The company's shareholders exercise their rights of participation and control in the Shareholders' Meeting. The Annual Shareholders' Meeting, which must be held in the first eight

months of every fiscal year, decides on all issues assigned to it by law, such as the appropriation of profits, election of the shareholder representatives in the Supervisory Board, the discharging of Supervisory Board and Executive Board members, appointment of auditors and amendments to the company's Articles of Incorporation. Each Continental AG share entitles the holder to one vote. There are no shares conferring multiple or preferential voting rights and no limitations on voting rights. All shareholders who register in a timely manner and prove their entitlement to participate in the Shareholders' Meeting and to exercise their voting rights are entitled to participate in the Shareholders' Meeting. To facilitate the exercise of their rights and to prepare them for the Shareholders' Meeting, the shareholders are fully informed about the past fiscal year and the points on the upcoming agenda before the Shareholders' Meeting by means of the Annual Report and the invitation to the meeting. All documents and information on the Shareholders' Meeting, including the Annual Report, are also published on the company's [website](#) in German and English. Moreover, the whole Annual Shareholders' Meeting can also be watched on the company's [website](#). To make it easier for shareholders to exercise their rights, the company offers all shareholders who cannot or do not want to exercise their voting rights themselves the opportunity to vote at the Shareholders' Meeting via a proxy who is bound by instructions. Voting instructions can also be issued to the proxy via an internet service before the end of the general debate on the day of the Shareholders' Meeting. In addition, the service provider that assists the company with conducting the Shareholders' Meeting is instructed not to forward the individual voting instructions to Continental until the day before the Shareholders' Meeting.

Accounting and auditing of financial statements

The Continental Corporation's accounting is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The annual financial statements of Continental AG are prepared in accordance with the accounting regulations of the German Commercial Code (Handelsgesetzbuch - HGB). The Annual Shareholders' Meeting on April 27, 2018, elected KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover (KPMG) to audit the consolidated financial statements for fiscal 2018 as well as the interim financial reports of the company. KPMG has audited the consolidated financial statements and the separate financial statements for more than 30 years. Dirk Papenberg has been the auditor responsible at KPMG since the financial statements for fiscal 2012.

Internal control system and risk management

Careful corporate management and good corporate governance also require that the company deal with risks responsibly. Continental has a corporation-wide internal control and risk management system, especially in terms of the accounting process, that helps analyze and manage the company's risk situation. The risk management system serves to identify and evaluate developments that could result in significant disadvantages and to avoid risks that would jeopardize the continued existence of the company. We report on this in detail in the Report on Risks and Opportunities, which forms part of the management report for the consolidated financial statements.

Transparent and prompt reporting

As part of our investor relations and corporate communications, we regularly report to shareholders, analysts, shareholders' associations, the media and interested members of the public in equal measure on significant developments in the corporation

and its situation. All shareholders have instant access to all the information that is also available to financial analysts and similar parties. The website of Continental AG provides the latest information, including the company's financial reports, presentations held at analyst and investor conferences, press releases and ad-hoc disclosures. The dates of key periodic publications (annual and interim reports) and events as well as of the Annual Shareholders' Meeting and the annual financial press conference are announced well in advance in a financial calendar on the website of Continental AG. For the scheduled dates for 2019 and 2020, see the Investors/Events section.

Report pursuant to Section 289f (2) No. 4 to 6 HGB

Pursuant to Section 96 (2) AktG, the Supervisory Board of Continental AG as a listed stock corporation subject to the German Co-determination Act consists of at least 30% women and at least 30% men. These minimum quotas have been mandatory since January 1, 2016. However, existing appointments may continue to be held until their regular end in accordance with Section 25 (2) Sentence 3 of the German Introductory Act to the Stock Corporation Act (Einführungsgesetz zum Aktiengesetz - EGAktG). Women made up 30% of the Supervisory Board of Continental AG as at December 31, 2018.

In accordance with Section 111 (5) AktG, the Supervisory Board must set a target quota of women on the Executive Board and a deadline for achieving this target. If the ratio of women is less than 30% at the time this is set, the target must not subsequently fall below the ratio achieved. Based on the current composition of the Executive Board, the Supervisory Board does not anticipate any significant personnel changes in the coming years. In December 2016, the Supervisory Board therefore set a target for the ratio of women on the Executive Board of Continental AG of at least 11% for the period up until December 31, 2021. At the same time, the Supervisory Board resolved to review the defined target as at December 31, 2019, to determine whether a target of higher than 11% can be set in view of the measures resolved. Women made up 14.3% of the Executive Board of Continental AG as at December 31, 2018, and at the time this report was prepared.

In accordance with Section 76 (4) AktG, the Executive Board of Continental AG is required to set targets for the ratio of women in the first two management levels below the Executive Board and a deadline for achieving these targets. In November 2016, the Executive Board set the following target quotas for women

in the first two management levels below the Executive Board at Continental AG for the period up until December 31, 2021: 26% for the first management level and 33% for the second management level. As at December 31, 2018, the ratio of women was 29% at the first management level and 35% at the second management level. As a global company, Continental continues to attach high priority to the goal of steadily increasing the proportion of women in management positions throughout the corporation, above and beyond the legal requirements in Germany.

Diversity concept

Continental counts on the diversity of its employees. Activities to promote diversity are currently focused on internationality and a balanced gender ratio.

The Supervisory Board also pays attention to the diversity of the composition of the Executive Board. The Executive Board does the same when appointing people to management positions. As a basic principle, the Executive Board aims to achieve a balanced ratio of domestic to international managers everywhere. The proportion of local and international managers varies according to region. In 2018, a total of about 46% of the corporation's managers came from other countries.

Continental AG is also working on increasing the proportion of women in management positions. The proportion is to be increased to at least 16% by 2020 and to 25% by 2025.

In drawing up the Executive Board's succession plan, the Supervisory Board together with the Executive Board makes use of the measures and programs to promote internationality and women in management positions, thus making it possible to identify and develop potential international and female candidates for positions on the Executive Board. The aim in the medium term is to use these measures to increase the diversity of the Executive Board even further.

The Supervisory Board also pays attention to the diversity of its own composition. For the Supervisory Board, diversity refers to age, gender, background and professional experience, among other things. The Supervisory Board is convinced that it will achieve diversity in its composition in particular by fulfilling the profile of skills and expertise and meeting the targets for its composition.

In the Spotlight: :

Remuneration

In 2018, the average personnel expenses per employee amounted to €45,821 (PY €46,334). The fixed salary of the chairman of the Executive Board was 32.4 times (PY: 31.6 times) the arithmetic average of the personnel expenses.

The remuneration of the management is partially based on sustainability aspects. For energy and environmental man-

agers and operations managers, part of the variable remuneration is based on the extent to which the company's environmental targets have been attained. For the majority of human relations managers, part of the variable remuneration is calculated on the basis of diversity objectives or the sickness absence rate.

Development of Key Sustainability Issues

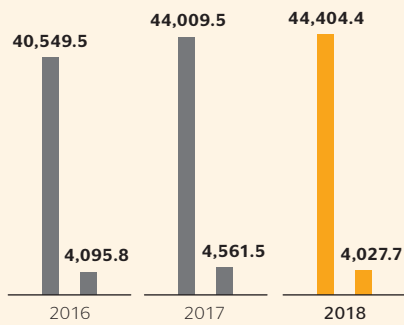
Earnings, Financial and Net Assets Position

Source: 2018 Annual Report > Management Report > Economic Report > Earnings, Financial and Net Assets Position (starting on p. 61)

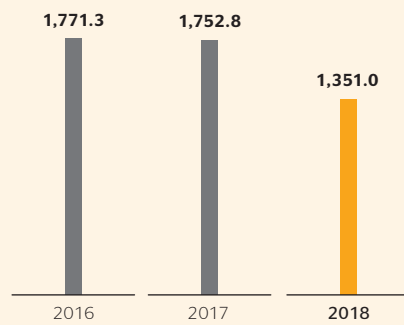
Note: This text has been shortened. The full text is available in the Annual Report.

- > Sales up 0.9 % at €44.4 billion
- > Organic sales growth of 3.1 %
- > Basic earnings per share at €14.49

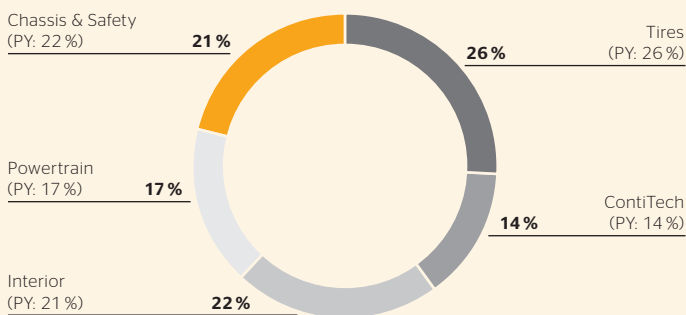
Sales; EBIT € millions



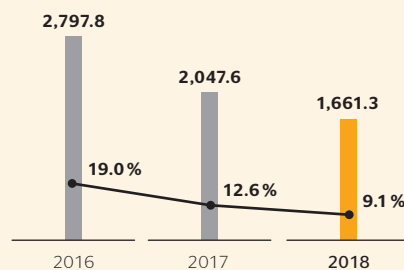
Free Cashflow € millions



Sales by division %



Net indebtedness € millions Gearing Ratio %



Continental Corporation in € millions	2018	2017	Δ in %
Sales	44,404.4	44,009.5	0.9
EBITDA	6,235.7	6,678.9	-6.6
in % of sales	14.0	15.2	
EBIT	4,027.7	4,561.5	-11.7
in % of sales	9.1	10.4	
Net income attributable to the shareholders of the parent	2,897.3	2,984.6	-2.9
Basic earnings per share in €	14.49	14.92	-2.9
Diluted earnings per share in €	14.49	14.92	-2.9
Research and development expenses (net)	3,209.0	3,103.7	3.4
in % of sales	7.2	7.1	
Depreciation and amortization ¹	2,208.0	2,117.4	4.3
thereof impairment ²	20.7	40.2	
Operating assets as at December 31	23,753.7	22,213.6	6.9
Operating assets (average)	23,640.5	22,172.4	6.6
ROCE	17.0	20.6	
Capital expenditure ³	3,124.4	2,854.4	9.5
in % of sales	7.0	6.5	
Number of employees as at December ^{3,4}	243,226	235,473	3.3
Adjusted sales ⁵	44,249.2	43,978.5	0.6
Adjusted operating result (adjusted EBIT) ⁶	4,118.1	4,748.5	-13.3
in % of adjusted sales	9.3	10.8	

1 Excluding impairment on financial investments.

2 Impairment also includes necessary reversal of impairment losses.

3 Capital expenditure on property, plant and equipment, and software.

4 Excluding trainees.

5 Before changes in the scope of consolidation.

6 Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.

Sales up 0.9%; Sales up 3.1 % before changes in the scope of consolidation and exchange-rate effects

Consolidated sales climbed by €394.9 million or 0.9 % year-on-year in 2018 to €44,404.4 million (PY: €44,009.5 million). Before changes in the scope of consolidation and exchange-rate effects, sales rose by 3.1 %. The further sales increase resulted from business development in both the Automotive Group and the Rubber Group. Sales growth was thus significantly greater than the increase in the production of passenger cars, station wagons and light commercial vehicles. Consolidated sales grew fastest in Asia, especially in Japan. Changes in the scope of consolidation contributed to the increase in sales, but were considerably more than offset by negative exchange-rate effects.

Adjusted EBIT down 13.3 %

The corporation's adjusted EBIT declined by €630.4 million or 13.3 % year-on-year in 2018 to €4,118.1 million (PY: €4,748.5 million), equivalent to 9.3 % (PY: 10.8 %) of adjusted sales.

The regional distribution of sales in 2018 was as follows:

Sales by region in %	2018	2017
Germany	20	20
Europe excluding Germany	29	29
North America	25	25
Asia	22	22
Other countries	4	4

The corporation's adjusted EBIT for the fourth quarter of 2018 decreased by €187.3 million or 14.3 % compared with the same quarter of the previous year to €1,126.1 million (PY: €1,313.4 million), equivalent to 10.1 % (PY: 11.7 %) of adjusted sales.

EBIT down 11.7 %

EBIT was down by €533.8 million year-on-year in 2018 to €4,027.7 million (PY: €4,561.5 million), a decrease of 11.7 %. The return on sales fell to 9.1 % (PY: 10.4 %).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €173.0 million (PY: €170.7 million) in the year under review.

ROCE amounted to 17.0 % (PY: 20.6 %).

Special effects in 2018

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

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

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

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

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

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

Total consolidated income from special effects in 2018 amounted to €80.2 million.

Special effects in 2017

Overall, impairment and a reversal of impairment losses on property, plant and equipment resulted in expense of €22.2 million (Chassis & Safety €0.5 million; Powertrain €18.8 million; Tires €0.5 million; ContiTech €2.4 million).

In addition, restructuring expenses and the reversal of restructuring provisions no longer required resulted in a total positive special effect of €16.4 million (Chassis & Safety €0.1 million; Powertrain €0.7 million; Interior €5.4 million; Tires €10.0 million; ContiTech €0.2 million). This included €5.0 million from reversal of impairment losses on property, plant and equipment (Powertrain €0.2 million; Interior €4.8 million).

In the Interior division, goodwill totaling €23.0 million that arose in connection with the expansion of our mobility-services activities was impaired, outside the scope of the annual impairment test.

In addition, the acquisition of the remaining shares in a joint venture resulted in income of €1.9 million in the Interior division from the adjustment of the market value of the previously held shares.

In the Tire division, the disposal of equity interests held as financial assets resulted in income totaling €14.0 million.

Moreover, a first-time consolidation resulted in a gain of €0.5 million in the Tire division.

In the ContiTech division, disposals of companies and assets resulted in an expense totaling €1.6 million.

Total consolidated expense from special effects in 2017 amounted to €14.0 million..

Procurement

The purchasing volume rose by around 1 % year-on-year to €29.9 billion in 2018, of which approximately €20.3 billion was attributable to production materials. Prices for the Automotive Group's production materials were lower than in the previous year. The prices of key input materials and many raw materials for the Rubber Group peaked around the middle of 2018. However, the price of natural rubber fell steadily over the course of the year. Average prices for the Tire division's raw materials during the year were roughly on par with the previous year. Exchange-rate effects and the time lag between procurement, delivery and deployment resulted, however, in minor costs for the Tire division compared to the previous year. For the ContiTech division, raw material prices increased year-on-year.

In the Spotlight:

Financial Assistance from the Government

Source: 2018 Annual Report > Consolidated Financial Statements > Notes to the Consolidated Financial Statements > Notes to the Consolidated Statement of Income > 8. Other Income and Expenses (🔗 p. 152) and > 14. Property, Plant and Equipment (🔗 p. 160)

Note: This text has been shortened. The full text is available in the Annual Report

Government grants amounting to €8.7 million (PY: €12.9 million) that were not intended for investments in non-current assets were received and recognized in profit or loss in the "Miscellaneous" item. Government investment grants of €84.6 million (PY: €37.5 million) were deducted directly from cost, primarily for the plant in Clinton, Mississippi, U.S.A.

Sustainable Product Portfolio and Quality

Source: 2018 Annual Report > Management Report > Corporate Profile > Combined Corporate Non-Financial Statement (🔗 starting on p. 48)

Note: The text for this sustainability report has been adjusted for page references in the Annual Report

The global automotive industry is undergoing the greatest and most profound transformation in its history of over 130 years. Connectivity, automated driving, new safety solutions and clean mobility concepts are changing the industry at astonishing speed. At the same time, manufacturers and suppliers are increasing the complexity and diversity of models and speeding up development cycles. This is continuously increasing quality expectations.

Management approach

For Continental, the combination of pioneering innovations with high product quality is laying the foundation for sustainable products and solutions. As part of our quality policy, we have set ourselves the objective of being recognized by our customers as a benchmark in quality. This means that we want to develop innovative products at the high quality that our customers expect from us. Together with our customers, we can thus make a contribution to more sustainable mobility. In accordance with our corporate strategy, we implement the quality policy with a close connection to the local markets through our worldwide development centers and quality labs as well as quality officers and certified quality management systems at our locations. This decentralized implementation is coordinated and supported by the Global Quality Leadership Team, which comprises representatives of the central functions, divisions and countries. Standardized product life cycle processes, adapted to the needs of the various business fields, ensure systematic and high-quality product development across all stages – from innovation to the end of parts supply. These processes are continuously being developed and optimized.

Results and performance indicators

We already offer our customers a broad range of products that contribute to safe and clean mobility, for example the following solutions:

- › Virtual A-pillar: Forward blind spots are eliminated thanks to an integrated OLED display and the combination of head-movement tracking and live images of the exterior environment.
- › EcoContact 6: This high-tech summer tire for passenger cars delivers the highest standards of safety, precise handling, long tire life and low fuel consumption. It offers a 20 % longer tire life and a 15 % lower rolling resistance, and is currently certified under EU label A/A in about 40 sizes.
- › Super Clean Electrified Diesel: A Continental research vehicle is proving that “super clean” diesel is possible. Specialists from the corporation have equipped a production vehicle of the Euro 6b emissions standard with Continental technologies already available, thus reducing its nitrogen oxide emissions to such an extent that it keeps well within even future limits from 2020 in everyday use.
- › People’s hybrid: A 48-volt electric motor, which entered production in 2018, forms the core of an electrified powertrain. The combination of zero-emission coasting, early activation of the start-stop function and improved brake energy regenera-

tion is proven to reduce consumption by as much as 21 % in real driving conditions.

- › Electronic air spring damping solution: When a commercial vehicle is traveling on the highway, its air resistance and thus fuel consumption can be reduced by lowering the vehicle’s entire cab.

In the reporting year, products that are energy efficient or help to reduce pollutant or carbon dioxide emissions accounted for nearly 40 % of consolidated sales, by our own estimates.

The foundation for the industrial implementation of these solutions is laid by anchoring quality in the development and production processes. At the end of 2018, over 250 Continental development and production locations had certified quality management systems according to IATF 16949 or ISO 9001 or similar. This represents the major development and production locations and encompasses nearly 90 % of the total workforce. The IATF 16949 standard is the quality management standard adapted specifically to the requirements of the automotive industry.

Research and Development

Source: 2018 Annual Report > Management Report > Corporate Profile > Research and Development (📄 starting on p. 46)

Automated driving, electric mobility, connectivity and digitalization are our core topics.

Our research and development (R&D) activities focus on developing innovative and sustainable products, systems and services for our customers in a wide variety of industries.

As part of the preparations for the new organizational structure, which will be implemented from 2020 onwards, we have been working on the design of the new central Automotive R&D function since the beginning of 2019. This new area will incorporate the development functions of our present Interior and Chassis & Safety divisions as well as those of our current central functions. By the end of the year, autonomous driving and connected mobility technologies will be combined under the roof of Automotive R&D. Our software and hardware engineers will form a global center for pre-development and application development.

The new area will strengthen our cross-organizational collaboration, shorten innovation cycles and further enhance the flexibility of our innovation processes – particularly in relation to software development. Our customers and end users will benefit from state-of-the-art, affordable solutions that help to prevent accidents, bypass traffic jams and increase driving comfort.

The Powertrain division's R&D locations have stayed virtually the same. Their areas of focus include combustion engine, hybrid and all-electric drive systems – including battery activities.

The R&D organizations of the Tire and ContiTech divisions will remain unchanged by the future organizational structure. R&D activities in the ContiTech division have a largely decentralized structure by virtue of the different product segments. The central Innovation & Digitalization unit and the central Business Development unit that the ContiTech division set up over the course of the reporting year have the goal of fostering innovative products and enhancing the existing portfolio with new services including mobility services. Product requirements for tires

are very similar worldwide, which is why R&D has a mostly centralized structure. For example, our R&D site in Hanover-Stöcken has around 1,400 employees working on the development of up to 9,000 different tires to meet various requirements with regard to speed rating approvals, rolling resistance optimization, inch dimensions and application purpose. Our international scouting system ensures that we pay sufficient attention to the requirements of local markets.

Machine-learning advanced driver assistance system

We completed an exceptionally complex project during the reporting year: PRORETA 4, a three-and-a-half-year research project carried out in partnership with the Technical University of Darmstadt. The project's aim was to develop a machine-learning vehicle system (City Assist System) to help drivers navigate inner-city traffic. The system is already being used as a prototype. Radar sensor data helps the system to assess the traffic situation when making a left turn, entering a roundabout or approaching a right-before-left intersection. Machine-learning technology played an instrumental part in the project.

To enable an assistance system in a complex driving situation to give the driver a recommendation that the driver will accept – and to become familiar with the driver as a good passenger would – the system needs to analyze the driver's driving style and subjective perception of safety and risk. Using a machine learning method is a quick and reliable way of developing this kind of driving profile in which the system analyzes data that is recorded during the process of driving. Acceleration, direction of movement, braking maneuvers and lateral acceleration are all things that provide the algorithm with information on the type of driver it is dealing with.

Extensive test drives with test subjects have revealed that the algorithms used in the City Assist System are able to make conclusions about the driver's current driving style after three to five driving maneuvers. The driver is then assigned to one or several clusters of driving profiles, which allows the City Assist System to personalize its driving recommendations.

Continental's global research network for artificial intelligence (AI) continued to expand in the year under review. After the University of Oxford, DFKI (German Research Center for Artificial

	2018		2017	
	€ millions	% of sales	€ millions	% of sales
Research and development expenses (net)				
Chassis & Safety	1,023.2	10.7	913.8	9.4
Powertrain	672.6	8.7	699.0	9.1
Interior	1,064.7	11.0	1,062.7	11.4
Tires	299.4	2.6	289.8	2.6
ContiTech	149.1	2.3	138.4	2.2
Continental Cooperation	3,209.0	7.2	3,103.7	7.1
Capitalization of research and development expenses	158.0		92.1	
in % of research and development expenses	4.7		2.9	
Depreciation on research and development expenses	90.0		74.5	

Intelligence) and other organizations, Continental signed an agreement with the AI research group Berkeley DeepDrive (BDD) at the University of California. This partnership focuses on optimizing the speed of neural networks in cars, as well as protecting AI systems in safety-critical applications. The AI research results should make their way into production as quickly as possible.

Research and testing laboratory for dandelion rubber opened

During the reporting year, we opened the Anklam Taraxagum Lab – a research and development laboratory in Anklam, Germany. The lab will continue its research into the cultivation and processing of the Russian dandelion plant as an alternative raw material source to rubber harvested from rubber trees. The plan is to be using dandelion rubber in volume production and generating a growing percentage of our natural rubber supply from dandelion plants within a ten-year timeframe. We see the Russian dandelion plant as an important alternative and supplement to conventional natural rubber as it will enable us not only to meet the growing global demand for rubber by reliable means, but also to make tire production more sustainable and environmentally friendly.

First self-driving tire-testing vehicle

Our first self-driving vehicle for testing tires on a variety of surfaces is now operational at our test track in Uvalde, Texas, U.S.A. Our aim is to further enhance the validity of test results for Continental passenger and light truck tires and minimize the impact of the test process on the results themselves. The new test

vehicle is controlled with the help of a satellite-based positioning system and is based on Continental’s Cruising Chauffeur, which was developed for automated driving on freeways. Automated vehicles allow us to reproduce processes accurately so that every tire undergoing testing is subjected to exactly the same conditions. This means that we can reliably determine that any differences in the test results are actually due to the tires themselves and not to the test procedure.

Intelligent solutions for conveyor belts

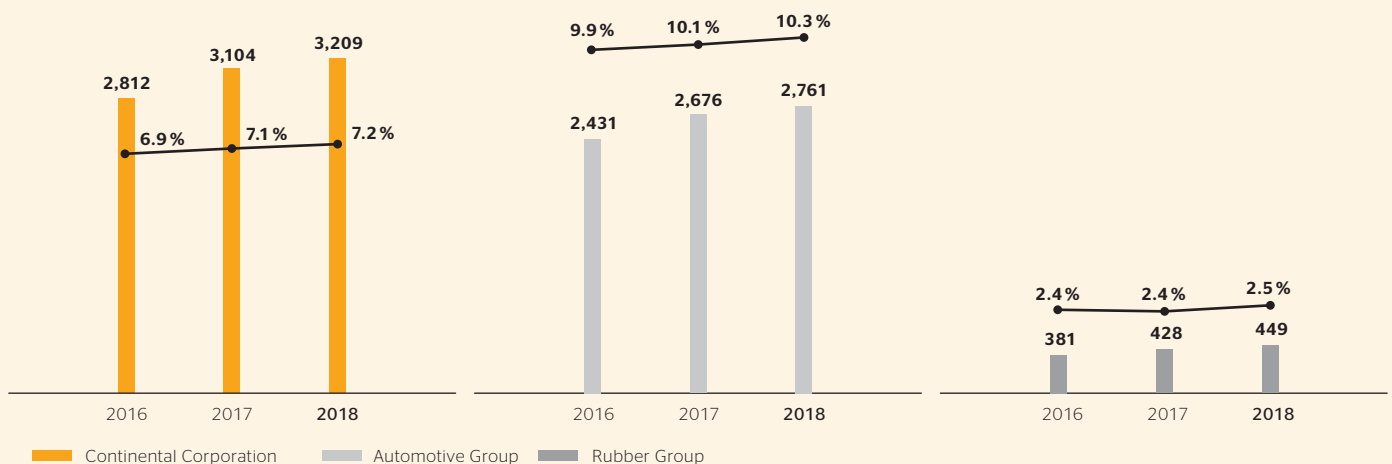
To demonstrate the different conveyor belt service options that exist for bulk materials and piece goods, we have developed a model that illustrates the latest market trends for belt monitoring as well as full-service applications. Our solutions are equipped with sensors that monitor every movement the conveyor belt and the conveyed material make. They inspect surfaces, report load levels and identify mistracking belts in real time. The information is stored in databases and analyzed by algorithms, which know when the belt needs servicing. Furthermore, there are monitoring systems in place to inspect the belts’ safety-related properties.

The technology also meets the conditions required for new business models like “pay per ton” and anticipatory maintenance of components and systems.

We are already in a position where our customers are able not only to purchase a belt, but also to put together an end-to-end package comprising conveyor belts and services.

R&D expenses (net) € millions

R&D-Ratio %



“Cokoon” – New Environmentally Friendly Bonding System for Textile Reinforcing Materials as Open Source Technology


Source:  Press release dated March 5, 2019

Continental and Kordsa have together developed a new sustainable adhesive technology standard for bonding textile reinforcing materials with rubber compounds. Reinforcing materials of this kind are used in the tire industry, as well as in the production of mechanical rubber goods like hoses and conveyor belts. The new technology enables the bonding activation of textile reinforcing materials without the use of resorcinol and formaldehyde. Continental intends to manufacture the first series-produced tires using this technology in 2019.

The two development partners are offering the new bonding system technology to all other tire manufacturers and the supplier industry as an open source solution under the brand name ‘Cokoon’. Free licensing will be handled by the independent law firm Advinno. Continental and Kordsa have chosen to waive development or licensing fees. In return, they expect licensees to make their patents concerning the further enhancement of this technology available to the other partners free of charge via a licensing pool. Interested companies can request first lab samples now.

“We need to break new ground to master the upcoming challenges the future will hold,” says Dr. Andreas Topp, Vice President Material and Process Development and Industrialization for tires at Continental. “The tire industry can send out a clear signal of its responsibility and innovative power by joining to this environmentally friendly open source technology.” Devrim Özeydin, Global Technology Director at Kordsa, adds: “We are working continuously to introduce more environmentally friendly products in the interests of our employees, society and the environment.”

Until now, the chemicals resorcinol and formaldehyde have been irreplaceable in the bonding activation of textile reinforcing materials to ensure robust adhesion to the surrounding rubber matrix. As these substances are chemically altered by the vulcanization process, they do not escape from the finished products into the environment. With Cokoon dip technology, however, the bonding of textiles to rubber is now possible without these two substances and can be applied without changing process equipment.

Further information is available on the internet at  www.cokoon.com.

In the Spotlight:

Cyber Security - Data Protection Is Not an Optional Extra

Source:  Press release dated January 28, 2019 (shortened)

“Data is an obligation. Data protection is essential for us as a technology company, our products, our services and our processes. In the long term, only this stance will strengthen the confidence of customers and consumers in new, data-based mobility services,” said Continental CEO Dr. Elmar Degenhart to mark European Data Protection Day on January 28, 2019. “For our products, our services and our processes, every day is Data Protection Day. Data protection is not an optional extra!” Continental uses the Continental systems’ anonymized data from actual everyday driving to make future functions safer, cleaner and smarter. “This benefits road users and the environment,” added Degenhart.

Data Protection and Data Security Go Hand in Hand

Data and information security are requirements for data protection in the car. This is all the more important since in the future virtually all new vehicles will be connected to the internet. Degenhart is therefore calling for the fastest possible implementation of the new industry standard for cybersecurity (ISO/SAE 21434 “Road Vehicles - Cybersecurity Engineering”). The new standard covers the life cycle of vehicles, starting with development and production to soft-

ware updates, rapid response to new cybersecurity intelligence, and safer and data-protected decommissioning.

“Privacy and security by design” has become one of our core principles in the development of hardware and software. Right from the development phase, all interfaces with electronic systems in the car must be secured, data flows must be examined closely, and control options must be enabled for drivers and users. Continental ensures that all functions in the car are monitored continuously and receive regular security updates. Continental’s technology for secure wireless software updates (“over-the-air”) is also in use here. The software keys required for this are given such short lifetimes that they are forgery-proof while they are still valid. Every vehicle has its own digital key.

The technology company already generates 60% of its automotive sales with sensors, electronics and software-based products. The proportion of connected services is also increasing continuously in the tire and industrial segments. A large international team of specialists is responsible for information security and data protection. These include experts from the subsidiary Elektrotbit, its subsidiary ARGUS Cyber Security in Tel Aviv, and the Continental Security & Privacy Competence Center.

Workforce Interests and Employees

Source: 2018 Annual Report > Management Report > Corporate Profile
> Combined Corporate Non-Financial Statement (🔗 starting on p. 49)

Note: The text for this sustainability report has been adjusted for page references in the Annual Report

Our people, our culture, our future – in our eyes, employees and corporate culture guarantee the success of our company. Groundbreaking solutions and pioneering technologies can only be created in an inspiring environment that allows freedom and encourages trusting cooperation across national, business and departmental borders. As at December 31, 2018, Continental had a total of 243,226 employees of more than 150 nationalities in 60 countries and markets. Their performance and satisfaction are key components of our business success.

Management approach

Our ambition for our relationship with our employees is based on a holistic perspective, whereby they are to be respected, their achievements appreciated, and their skills and abilities developed to the best possible extent.

The supreme principles for HR work and the treatment of employees are provided by Continental's four corporate values:

- › Trust: We give and receive trust.
- › Passion To Win: We want to win.
- › Freedom To Act: We grow by exercising freedom responsibly.
- › For One Another: We create the highest value by being there for one another.

The corporate values are complemented by a Code of Conduct, which includes fair working conditions and is a globally binding directive for all employees.

We bundle the strategic activities of HR work in two strategic areas:

- › We group projects and initiatives that help us meet our considerable need for employees with the right skills and abilities – now and in the future – under “Industrialize Best Fit.”
- › “Enable Transformation” bundles projects and initiatives with which we support the digital transformation at Continental in order to make the most of the opportunities presented by digitalization.

Local HR (Human Relations) departments at the individual locations, experts at our global centers of expertise, and HR specialists working in the divisions and business units comprise a global HR network that works toward the attainment of these goals. They are coordinated via global committees comprising central HR functions, the HR managers of the divisions, the HR managers of the countries and the Executive Board member responsible for Human Relations.

We are proud of the diversity that our employees bring to our company worldwide. Together, we want to use diversity – for example, in terms of gender, culture and religion – to gain different perspectives on innovation and performance. To this end, we must find, recruit, inspire and develop talented individuals.

Key elements include the aim to increase the proportion of female managers to 16 % by 2020 and to 25 % by 2025. Another

element for both transformation and employer attractiveness is making work more flexible. Since 2016, we have laid the foundations for flexible working conditions, which are developed locally. These include mobile working, part-time and flextime, and sabbaticals. Potential can thus be used more appropriately, professional and private lives unified more individually and, ultimately, employees better motivated and acquired. More satisfied employees are also usually healthier and more productive. This is also helped by the various occupational health and safety activities, which are implemented in particular in local management systems.

Significant projects and processes that we advanced in the reporting year were

- › the enhancement of the global process for strategic workforce planning,
- › the certification of leadership development in accordance with ISO 29990,
- › the worldwide introduction of Microsoft Office 365 and new tools and platforms for digital and mobile collaboration,
- › the global implementation of talent management conferences for salaried employees,
- › the introduction of a global digital platform for learning and training (Learning Management Solution), such as for software engineers as part of a Software Academy, and
- › the simultaneous increase in certifications for occupational safety management systems and the transfer to the new ISO 45001 standard.

For the upcoming changes at Continental, the Executive Board, Corporate Works Council, the corporate committee of executive representatives (Konzernsprecherausschuss der leitenden Angestellten), and the trade unions IG BCE and IG Metall adopted “Continental in Motion,” a key benchmark paper and alliance for the future for Germany, which is the common basis for the organizational realignment. A comparable paper was also adopted at European level. For more information on reorganization, see the Structure of the Corporation and Corporate Strategy sections.

Results and performance indicators

In the reporting year, the number of employees worldwide rose by 3 % to 243,226. Germany and India posted the largest absolute growth rates. Despite the difficult market environment in the years to come, Continental's workforce will keep on growing through acquisitions and organic growth. Long-term workforce planning is based on the corporation's strategic workforce planning system, which is conducted on the basis of the employees recorded in the HR data system and covers 97 % of the total workforce. Over a five-year horizon, the strategic HR planning system analyzes how employee numbers will develop and which disciplines will be required – including where and to what extent they will be required. For example, Continental's software and IT functions will thus be growing substantially. At present, we already have about 19,000 employees in this area. We prioritize further training, development and placement of our own employees via the internal job market. In order to retain and develop our own talented employees, talent management confer-

ences were held for over 80,000 salaried employees, at which individual potential and areas for development were assessed and measures defined. A target-group-specific approach is essential to additionally find and recruit the right external candidates in areas where they are needed. At the end of 2018, Continental used over 40 career-related social media accounts in 14 networks and 15 countries for this purpose. In addition, the selection processes use a range of diagnostic methods such as interviews, assessment centers, personality scales, cognitive tests and simulations to assist the selection of candidates. Around 240,000 online assessment centers were carried out around the world.

We are systematically increasing our efforts to make work more flexible. In the 21 largest countries, with over 95 % of the workforce, employees can make their ways of working more flexible. The range of opportunities is determined by the specific operational possibilities of the respective workplace. In the reporting year, various models began to be developed at 22 production locations to expand these opportunities more specifically in the production environment, including flextime regulations and mobile work.

A comprehensive overview of the results achieved from the employees' perspective is also provided by the annual employee survey OUR BASICS Live, which asks a representative sample of our employees about various topics. In the reporting year, the participation rate was on a par with the previous year at 74 %. 82 % (PY: 84 %) of those surveyed said they were proud to work at Continental. 86 %, and thus the same proportion as in the previous year, identify with our corporate values. 64 % (PY: 63 %) agreed that our values are put into practice every day, and 85 % (PY: 86 %) indicated that they have enough energy for their everyday work. As in the previous year, 71 % stated that professional and private lives are easily compatible at Continental, for example, thanks to flexible working models. However, the feedback also includes aspects that are assessed critically, which the Executive Board takes very seriously. Trust in the decisions of the top management fell slightly compared with the previous year to 67 % (PY: 70 %). The findings of the employee survey are analyzed at various levels in order to derive improvement measures.

The percentage of occupational safety management system certifications (ISO 45001 or similar) was already at a level of around two-thirds of the total workforce as at December 31, 2018.

Key figures	Dec. 31, 2018	Dec. 31, 2017 ¹
Total number of employees (total workforce) ²	243,226	235,473
thereof own employees (permanent staff)	228,922	219,687
in Germany	59,230	56,854
outside Germany	169,692	162,833
Apprentices in Germany	2,180	2,155
Average age ³	38.5	38.4
Female employees in the total workforce ³	27.5 %	27.2 %
Female employees in management positions ^{3,4}	14.8 %	13.4 %
Average years of service to the company ^{3,5,6}	9.1	9.1
Fluctuation, unforced ⁵	6.3 %	5.7 %
Sickness rate ⁵	3.3 %	3.2 %
Accidents per million working hours ^{5,7,8}	3.4	3.2

¹ According to previous year's reporting (only partially assured).

² Excluding apprentices.

³ Based on the employees recorded in the HR data system (approx. 97 %).

⁴ Executives and higher.

⁵ Permanent staff only (own employees).

⁶ For acquisitions, this includes years of service with previous company.

⁷ Counted from more than one lost day.

⁸ Excluding Continental Tire Sales (approx. 2 % of the total workforce).

Personnel Expenses

Source: 2018 Annual Report > Consolidated Financial Statements > Notes to the Consolidated Financial Statements > Notes to the Consolidated Statement of Income > 9. Personnel Expenses (🔗 p. 154)

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

€ millions	2018	2017
Wages and salaries	9,074.4	8,641.2
Social security contributions	1,704.5	1,685.4
Pension and post-employment benefit costs	346.4	360.7
Personnel expenses	11,125.3	10,687.3

Compared to the 2017 reporting year, personnel expenses rose by €438.0 million to €11,125.3 million (PY: €10,687.3 million). This rise is due in particular to global recruitment activities.

The average number of employees in 2018 was 242,797 (PY: 230,656). As at the end of the year, there were 243,226 (PY: 235,473) employees in the Continental Corporation.

Employee Benefits

Source: 2018 Annual Report > Consolidated Financial Statements > Notes to the Consolidated Financial Statements > Notes to the Consolidated Statement of Financial Position > 26. Employee Benefits (🔗 starting on p. 169)

Note: This text has been shortened. The full text is available in the Annual Report

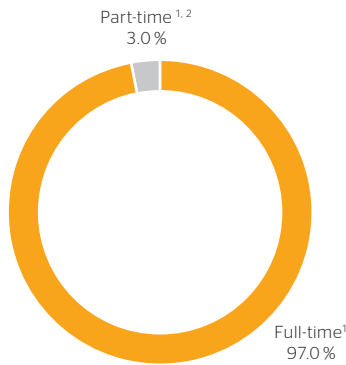
The following table outlines the employee benefits:

€ millions	Dec. 31, 2018		Dec. 31, 2017	
	Short-term	Long-term	Short-term	Long-term
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	–	3,896.0	–	3,847.8
Provisions for other post-employment benefits	–	194.9	–	209.3
Provisions for similar obligations	2.4	49.4	1.6	45.9
Other employee benefits	–	240.8	–	266.3
Liabilities for workers' compensation	40.9	25.9	41.1	24.8
Liabilities for payroll and personnel-related costs	967.7	–	1,025.3	–
Termination benefits	50.5	–	44.7	–
Liabilities for social security	183.2	–	177.1	–
Liabilities for vacation	209.5	–	200.8	–
Employee benefits	1,454.2	4,407.0	1,490.6	4,394.1
Defined benefit assets (difference between pension obligations and related funds)		27.8		16.0

In the Spotlight:

Employee Key Figures in Detail

Employee level of employment as at Dec. 31, 2018

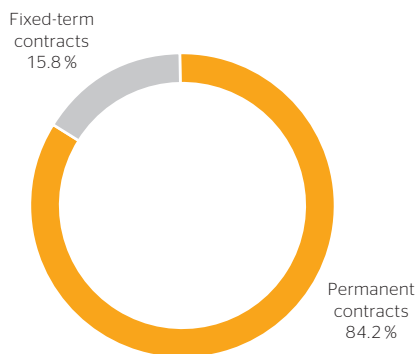


1 Based on the employees recorded in the HR data system (approx. 97%).
 2 Part-time is defined as < 90% of full-time working hours.

In 2018, 3.0% of employees in total worked part-time (PY: 2.5%). A total 6.5% of women and 1.6% of men worked part-time.^{1,2}

We are systematically increasing our efforts to make working hours more flexible. In the 21 largest countries, with over 95% of the workforce, employees can make their working hours more flexible, e.g. by working part-time, flexitime, mobile working and sabbaticals. The range of opportunities is determined by the specific operating possibilities of the respective workplace. In the reporting year, various models began to be developed at 22 production locations to expand these opportunities more specifically in the production environment, including flexitime regulations and mobile work.

Employee contract type as at Dec. 31, 2018



1 Based on the employees recorded in the HR data system (approx. 97%).

Fixed-term contracts represented a total share of 15.8% (PY: 17.0%) of all employment contracts in the 2018 fiscal year.

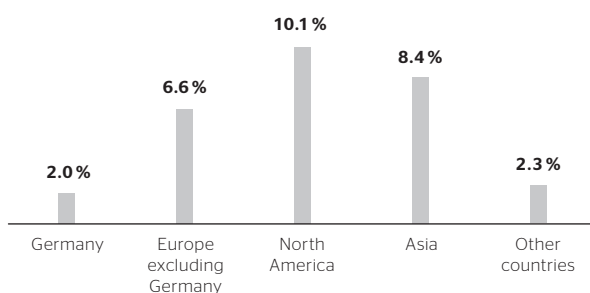
Fixed-term contracts accounted for a share of 36.3% in Asia, 15.0% in Europe (excluding Germany), 11.6% in Germany, 3.9% in North America and 2.8% in the other countries.

16.7% of women and 13.2% of men overall had a fixed-term contract.¹

The total share of fixed-term contracts includes leasing worker contracts. As at Dec. 31, 2018, we employed a total of 14,303 leasing workers.

Fixed-term contracts and temporary employment are important tools for Continental to be able to react flexibly and quickly to the requirements of the ever more rapidly changing markets. The use of temporary employment makes an important contribution to improving competitiveness and thus to safeguarding jobs at our locations. We view temporary employment as an option for increasing flexibility, to cover peaks in demand for example. It enables us to adapt as required to large-scale fluctuations in order volumes.

Unforced fluctuation as at Dec. 31, 2018¹



1 Permanent staff only (own employees).

Total unforced fluctuation came to 6.3% in the 2018 fiscal year (PY: 5.7%). In North America, the figure was 10.1%, 8.4% in Asia, 6.6% in Europe (excluding Germany) and 2.0% in Germany. In the other countries, we recorded a figure of 2.3%. Fluctuation rates should be interpreted based on factors pertaining to the specific country.

In the Spotlight:

Labor Relations, Co-Determination and Collective Bargaining Agreements

In keeping with our corporate value For One Another, it is of great importance to Continental to maintain an open and constructive dialog between management and employees. The forms of direct and indirect employee co-determination vary from country to country and from location to location. In our Code of Conduct, which we updated at the start of 2019, we grant our employees fundamental rights of co-determination. Co-determination in the workplace is governed by law in Germany and Europe. In Germany, the workforce is represented by the Corporate Works Council at corporation level. In Europe, employee co-determination is upheld by a transnational body of employee representatives (EuroForum). As provided for in the German Co-Determination Act (Mitbestimmungsgesetz -

MitbestG), employees also account for half the members of the Supervisory Board of Continental AG. Collective bargaining agreements are an essential component of the collaboration between social partners. They range from location-level agreements on specific workplace design right through to company-level association agreements on collective pay and industry-level collective bargaining agreements for the whole of Germany for example. Collective bargaining agreements of various types and scopes based on country-specific legal requirements are a reflection of the tangible employee co-determination that exists in the vast majority of countries - such as in the 11 countries that make up internal network for labor relations, which currently covers over 70% of the workforce.

In the Spotlight:

Occupational Health and Safety

Health and safety are essential elements of our responsibility and our business activities. We aim not only to protect all those who work at our company from accidents and work-related illnesses, but also to actively promote our employees' health and well-being.

The basis for this is set out in the global ESH Policy, which was enhanced in collaboration with employee representatives at the start of 2019. Corporation-wide occupational health and safety activities are coordinated by the corporate safety & health unit within the executive department of Human Relations and Sustainability. This unit performs regular risk analyses and uses these as a basis to formulate corporation-wide requirements for occupational safety, occupational medicine, health management, ergonomics and hazardous substance management. Every member of management and every employee has operational responsibility for occupational health and safety - and are supported in their efforts by the local safety & health managers.

The experts exchange information on a regular basis via the various internal company networks and build on the existing measures and programs. This network of experts comprises not only safety & health managers, but also more than 80 ergonomics teams worldwide whose responsibilities include making age-inclusive workplace design adjustments. The global ESH management handbook contains a binding set of rules on how the relevant regulations and work instructions should be implemented. It is also the basis for the certified occupational safety management systems. The certified occupational safety management systems covered two thirds of the total workforce in the 2018 fiscal year. Internal audits with different priority areas are carried out to monitor compliance with the provisions of the handbook and the management system requirements. At the same time, this also encourages information exchange on a continuous basis and identifies potential for improvement.

In the Spotlight:

Equal Pay and Transparency of Pay

Each position at Continental is objectively evaluated according to criteria such as tasks, management responsibility and responsibility for sales and earnings. Staff employed on the basis of a collective bargaining agreement are remunerated according to their position evaluations. Non-tariff employees are remunerated according to their position evaluations as well as their individual experience and performance. For non-tariff employees, therefore, a distinction is made between a basic salary and performance-related remuneration components.

Since January 6, 2018, employees working in Germany in businesses with, as a rule, more than 200 employees have had an individual right to information to verify compliance with the equal pay requirement pursuant to Section 10 of the Transparency of Pay Act (Entgelttransparenzgesetz - EntgTranspG). By March 28, 2019, a total of 23 requests for information had been submitted at our German locations. Of these, 17 were submitted by women and 6 by men. A total of 15 requests for information were granted, while 8 were rejected for various reasons including the lack of a sufficiently large comparison group or the withdrawal of the request by the person making the request.

In the Spotlight:

Diversity – A Catalyst for Innovation and Growth

We believe that diversity promotes our agility and innovation as a company, as different perspectives provide fertile ground for new ideas. Diversity is an important requirement for our future corporate success, especially in times of digital change and the associated digital transformation. In 2008, Continental signed the German “Diversity Charter” to promote diversity. We have now reaffirmed this commitment internally in our Code of Conduct, which was updated at the beginning of 2019.

Enabling and shaping diversity is an integral part of the Talent Management and Organizational Development function. Its mission is to design an overarching strategic framework for developing and promoting diversity and to support the divisions in achieving their own goals. Diversity management is firmly anchored in the global HR strategy. “Enable Transformation” is a strand of HR orientation that deals with digital transformation. This contains a concept for making the best possible use of the opportunities and possibilities of digitalization at Continental. In this context, our company’s focus on diversity helps to recognize the potential of digitalization and promote new, cross-divisional ways of thinking.

Three key tools have been identified to promote diversity across the corporation:

- › The advancement of a broad cultural change
- › Strengthening diversity through specific goals
- › The ability of management personnel to actively manage diversity

Major cultural development programs include the Diversity Summit, which brings together nominated executives from different functions and divisions and provides an insight into the pioneering culture of start-up companies. Getting to know the special start-up mindset and seeing new management styles, participants can expand their own management-experience and collect innovative ideas, that they can bring into the organization.

The Global Diversity Network serves as a further platform for cultural development. To date, a total of 28 networks on the subject of diversity have been set up under this umbrella organization, forming the framework for regular, global exchange among all members.

The strengthening of diversity is further supported by the introduction of a global core performance indicator to measure the proportion of women in the top two levels of management. In order to promote women in our company, we have set ourselves the goal of increasing the proportion of female management personnel at executive and senior executive level to 16 % by 2020 and to 25 % by 2025. In 2018, a figure of 14.8 % (previous year: 13.4 %) for women in the top two management levels was achieved.

The Women@Work program was founded in 2016 and rolled out globally to promote women in their careers at an early age and to network them with female management personnel on executive and senior executive levels. To date, more than 600 women in North America and Europe have participated in this program. Many of them are still in regular contact with each other today.

In addition to supporting their career development, important measures for promoting women in our company include improving the compatibility of career and family. To this end, we are systematically increasing our efforts to make work more flexible. In the 21 largest countries, with over 95 % of the workforce, employees can make their ways of working more flexible. These include flexible work models such as part-time and flextime as well as mobile work offers and sabbaticals.

Successfully strengthening diversity in the company strongly depends on the attitude of management personnel. In order to introduce a variety of points of view and perspectives into our corporate culture, cross-moves, i.e. division, business unit and function changes, as well as international experiences, are now fixed criteria for promoting our employees at executive and senior executive level. Diagnostic procedures also help to ensure that recruitment decisions are taken as objectively as possible. At the same time, diversity is a fundamental element of many ongoing training measures. The “Differences Add Value” training measure in particular supports management personnel in deepening their understanding of diversity by sharing and developing practical and Continental-related experiences and business cases relating to diversity. The “Train the Trainer” principle lays the foundation for reaching as many Continental employees as possible worldwide with this training, and thus brings you closer to the added value that arises from the collaboration of people who have different perspectives.

Human Rights and Fair Working Conditions

Source: 2018 Annual Report > Management Report > Corporate Profile > Combined Corporate Non-Financial Statement (🔗 starting on p. 51)

In accordance with the United Nations Guiding Principles on Business and Human Rights, we as a company bear a responsibility to respect human rights.

Management approach

We fulfill this responsibility and would like to make an active contribution to the implementation of human rights and fair working conditions by treating our employees, future employees, suppliers, customers and everyone else with whom we do business with fairness and respect. We have publicly committed ourselves to this by participating in the United Nations Global Compact and signing the Women's Empowerment Principles. This commitment is enshrined in important guidelines and processes. The binding Code of Conduct for all employees was expanded at the start of 2019 by a section on human rights and fair working conditions. We also commit our suppliers to these principles with our Business Partner Code of Conduct and our Natural Rubber Sourcing Policy. Remarks on the management approach and on results in dealings with business partners can be found under Purchasing and Responsibility in the Supply Chain.

The Compliance and Human Relations departments are responsible for training employees on the Code of Conduct. Training on the content of the Code of Conduct is a compulsory element in the induction and further training of our employees. There is a Compliance & Anti-Corruption Hotline, which any individual can call directly and anonymously to report violations of the Code of Conduct or suspected cases. The review and handling of information is managed by the Compliance and Corporate Audit departments and is supported in the countries by internal experts on labor relations from the Human Relations department.

Results and performance indicators

In the reporting period, the internal network comprising experts on labor relations and working conditions was further expanded. The network now provides fixed contact persons in 11 countries, who coordinate the work at the respective locations. This covers more than 70% of employees. For communication on specific cases in this area and to train the expert network, a workshop with representatives from 10 countries has been carried out for the second time. The handling of human rights issues, both at our own locations and in our supply chain, is also supported by newly established central sustainability coordination.

In the Spotlight:

Mexico Case Study

Both employees and external stakeholders can contact our Compliance & Anti-Corruption Hotline to report cases in which they suspect that our Code of Conduct has been violated.

A large number of cases were reported to our locations in Mexico in 2017 and 2018. In general, we see it as a positive outcome that the hotline is being used as a reliable complaints mechanism. We take it as a sign that our people have an increased awareness of compliance issues. A systematic analysis of the cases found that the vast majority of reports on suspected cases related to discrimination, unequal treatment and mobbing.

A specific action plan to take preventative steps was formulated collaboratively by the HR department, local labor rela-

tions experts and the compliance department. One of these steps was to send a letter to employees and business partners reminding them again of the importance of good and fair working conditions. The local HR departments also received training at the end of 2018 on case management and mediation. Building on the existing online training materials for the Code of Conduct, a specific curriculum covering the topics of discrimination, unequal treatment and mobbing was also developed. By the end of May 2019, 99% of the 1,600 relevant employees with leadership and management responsibility were required to undergo this course.

A continuous monitoring of the measures and their success is scheduled for 2019.

Environment

Source: 2018 Annual Report > Management Report > Corporate Profile > Combined Corporate Non-Financial Statement (🔗 starting on p. 51)

Note: The text for this sustainability report has been adjusted for page references in the Annual Report.

For Continental and its markets, the business relevance of environmental protection – for example, in the form of society's expectations, customers' standards and regulatory requirements – is increasing continuously.

Management approach

Environmental protection at Continental is based on the global policy for environment, safety, security, health and fire protection (ESH policy) which, among other things, stipulates that we want to use our processes and products to make a material contribution to sustainable environmental protection – especially climate protection – over the entire product life cycle.

Overall responsibility for environmental management is borne by the Corporate Quality and Environment department, which reports directly to the chairman of the Executive Board and develops strategic targets for environmental protection in the corporation as a whole. These are broken down by division, and ultimate responsibility for the resulting strategic requirements, objectives and programs at each location lies with the respective ESH managers. We continuously improve our environmental performance through the systematic application of management systems.

We have set clear targets for the corporation. By 2020, we want to reduce our specific CO₂ emissions, energy and water consumption, and waste generation by 20% in relation to adjusted sales, using 2013 as a basis. We also intend to improve our waste recycling and reuse rate by two percentage points a year. New locations are being integrated into these processes and programs incrementally.

Results and performance indicators

In the production units, we are working on making processes more efficient and more sustainable. Because of Continental's growth in past years, the absolute values for energy use, CO₂ emissions, waste generation and water demand have increased continuously. Compared with 2013, there was an improvement in the specific performance indicators of 3% for energy, 2% for CO₂ and 5% for water. The specific figures for waste, however, were 13% higher than in 2013. The increases in efficiency and measures for improvement in the plants were balanced out by changes in the portfolio, sales effects, increasing vertical integration, more energy-intensive production technologies, and higher quality requirements.

At the end of 2018, the more than 200 major production and development locations were certified according to ISO 14001 (environmental management) and more than 90 locations were already certified according to ISO 50001 (energy management). This corresponds to over 80% and roughly half of the total workforce respectively. The focus of environmental management is efficiency and thus the improvement of each specific type of consumption.

Key environmental data ¹		2018	2017 ²
Energy use ³	TWh	9.9	9.5
CO ₂ emissions (Scope 1+2) ⁴	million metric tons CO ₂	3.3	3.2
Water demand	million m ³	20.6	19.8
Waste generation	metric tons	419,426	379,992
Waste recycled	%	78	81

¹ According to the environmental data system, which covers all major production and development locations, not including fleet consumption. Definitions of the data are based on the Global Reporting Initiative (GRI).

² According to previous year's reporting.

³ Fossil energy sources, electricity and steam.

⁴ According to Greenhouse Gas Protocol Scope 2 (location-based) on the basis of the reported energy use and emission factors included in Defra (2016) and IEA (2017) databases.

Key performance indicators ¹		2018	Change compared to 2013 ²
Energy use	MWh/€ million	223	-3%
CO ₂ emissions (Scope 1+2) ³	metric tons CO ₂ /€ million	74	-2%
Water demand	m ³ /€ million	465	-5%
Waste generation	metric tons/€ million	9.5	13%

¹ In terms of adjusted sales in the respective year, according to environmental data system.

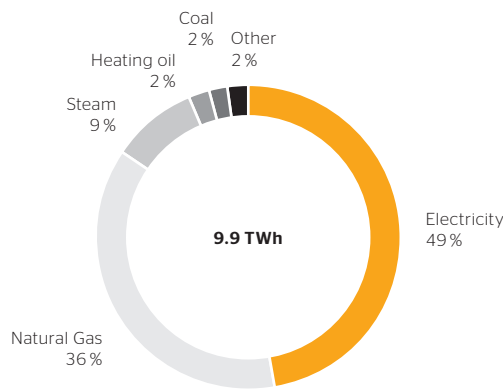
² On the basis of figures reported for 2013 (only partially assured externally).

³ According to Greenhouse Gas Protocol Scope 2 (location-based) on the basis of the reported energy use and emission factors included in Defra (2016) and IEA (2017) databases.

In the Spotlight:

Key Environmental Data in Detail

Energy usage 2018¹



¹ According to the environmental data system, which covers all major production and development locations, not including fleet consumption. Definitions of the data are based on the Global Reporting Initiative (GRI).

In the 2018 fiscal year, total energy usage came to 9.9 TWh and mainly comprised purchased electricity and natural gas. The share of purchased certified green electricity and self-generated solar power from photovoltaics in total energy usage was 2.1 % (PY: 1.4 %). In the year under review, 600 MWh of energy were sold to external parties.

In the year under review, investments in energy efficiency were €25.3 million (PY: €47.3 million). A total 593 energy efficiency projects were implemented. These focused primarily on the areas of infrastructure and production. They included, for example, construction of heat and power co-generation plants, installation of PV systems, optimization of measurement systems, and various efficiency projects for air conditioning, ventilation and lighting. This resulted in overall energy savings of 161,575 MWh and total CO₂ emission reductions of 58,664 metric tons in the year under review (PY: 70,099 metric tons)

CO₂ emissions 2018

Note: The following chapter contains content that was already published as well as additional content. It has been assured by an independent auditor.

Categories	In million metric tons
Own CO₂ emissions	3.3
Direct emissions (Scope 1) ¹	0.9
Indirect emissions (Scope 2) ²	2.4
CO₂ emissions along the value chain (Scope 3)³	
Use of sold products ⁴	-100
Purchased goods and services	9.3
Upstream transportation and distribution	1.1
Downstream transport and distribution	0.6
Fuels and energy-related activities not included in Scope 1 and 2 ⁵	0.65
Waste generated in operations	0.02
Business travel	0.1

¹ On the basis of the reported energy usage and emission factors included in Defra (2016) and IEA (2017) databases.

² According to Greenhouse Gas Protocol Scope 2 (location-based) on the basis of the reported energy usage and emission factors included in Defra (2016) and IEA (2017) databases.

³ Simplified modelling for categories reported. Continental currently reports on 7 of the 15 Scope 3 categories listed in the GHG standard. The categories not reported include the processing of sold products, employee commuting, upstream leased assets, downstream leased assets, end-of-life treatment of sold products, franchises, investments.

⁴ Modeled for products (tires and other components) used in motor vehicles (cars, trucks; > 90% of group sales) and based on average figures and assumptions. Proportional calculations in relation to the total emissions of

motor vehicles during their use-phase. Besides the production volumes, major input factors in the models are e.g. average weight shares, average lifetime of vehicles and average fleet emissions as well as average lifetime of tires (in km) for tires. As an external reference for CO₂ emissions 118.5 g CO₂/km was set according to the 2017 database of the „EU Monitoring of CO₂ emissions from passenger cars“. Further input factors are based on internal expert judgements and internal studies of Continental AG.

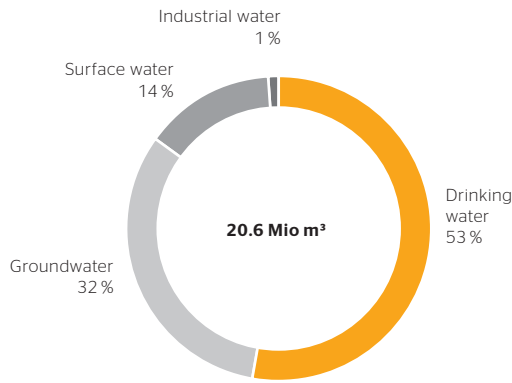
⁵ E.g. upstream chain for electricity generation and fuels.

Climate change mitigation is a key issue for us. Emissions generated from our own processes are measured by Scope 1 emissions (direct emissions) and Scope 2 emissions (indirect emissions, primarily from purchasing electricity). We mainly have a direct influence on these emissions.

Further emissions that occur along our value chains (Scope 3 emissions) are generated primarily by the purchase of goods and services and during the use-phase of our products. Most of the time, we merely have an indirect influence on these emissions. They can be several times greater than our own emissions, depending on the industry and business model.

The CO₂ emissions key figures are calculated based on the internationally recognized Greenhouse Gas Protocol (GHG Protocol) standards. Due to the high complexity of the associated value chains, simplified models are largely used to calculate Scope 3 emissions. This means that the Scope 3 figures for the preceding year are comparable to only a limited extent.

Water consumption 2018¹



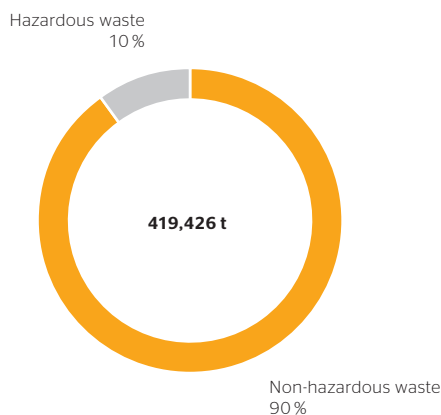
¹ According to the environmental data system, which covers all major production and development locations, not including fleet consumption. Definitions of the data are based on the Global Reporting Initiative (GRI).

In the 2018 fiscal year, overall water consumption came to 20.6 million m³. The main components of this are drinking water from the public water supply and abstractions of groundwater/surface water. The abstractions are approved by the authorities in relation to maximum abstraction amounts. Some of these sources are at the edges of groundwater protection zones. No negative influences on biodiversity or on local communities have been found neither internally nor during regular inspections of authorities.

Across the various locations, 0.5 million m³ of water from production processes were recycled and reused for a range of purposes such as irrigation of green areas and use in sanitary facilities (PY: 0.4 million m³).

We have developed a concept for water risk areas in order to achieve a more targeted response to water risks. Production sites and the largest raw material suppliers were assessed using the WRI Aqueduct Tool (risk of water availability) and WWF Water Risk Filter (water quality risks) assessment systems. Risk-based programs have now been developed based on this data. The goal is to initiate custom environmental programs and be able to better respond to regional conditions such as water shortages and water quality.

Material usage and waste generation 2018¹



¹ According to the environmental data system, which covers all major production and development locations, not including fleet consumption. Definitions of the data are based on the Global Reporting Initiative (GRI).

In the 2018 fiscal year, we consumed more than 3 million metric tons of materials, a similar level to in the previous year. The main materials included chemicals, rubber, natural rubber and elastomers, each at a share of roughly 30%. In addition, textiles, ferrous metals, plastics and rare earths in particular were used in various processing stages.

Waste generation amounted to 419,426 metric tons in 2018. The share of hazardous waste, by local definitions, was 10% (PY: 9.5%). We use agency-approved and certified disposal companies to dispose of our waste in a proper manner. The share of waste recovered by the disposal companies was 78% (PY: 81%).

We launched a project in 2018 to reduce plastic waste throughout the corporation. The project entailed measures designed to raise employee awareness in addition to measures aimed at preventing and managing production waste and a ban on plastics in our canteens

Compliance

Source: 2018 Annual Report > Management Report > Corporate Profile > Combined Corporate Non-Financial Statement (🔗 starting on p. 52)

Note: The text for this sustainability report has been adjusted for page references in the Annual Report.

Compliance with all the legal requirements that apply to Continental AG and its subsidiaries and its internal regulations by management and employees is an integral part of our corporate culture. Bribery and anti-competitive behavior are strictly forbidden. Continental’s Executive Board is firmly committed to the zero-tolerance principle with regard to corruption and anti-trust violations.

Management approach

This stance is a fixed component of our corporate culture and is reflected in our corporate guidelines, corporate governance principles and social responsibility principles. Important documents at corporation level are the Code of Conduct for employees, the anti-corruption policy, the antitrust manual and the Global ESH Policy. The Business Partner Code of Conduct lays down requirements for our suppliers in terms of responsible business.

In order to discharge its duties, the Executive Board has established the global compliance organization with regional departments, especially to prevent corruption and antitrust violations. The compliance organization reports directly to the Executive Board member for Finance, Controlling, Compliance, Law and IT.

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. Its effectiveness was certified in 2016 in accordance with IDW PS 980 audit standard. When it comes to company mergers and acquisitions, we meet our due diligence obligations with extensive risk audits, which also include compliance due dili-

gence. The audits carried out by the Corporate Audit department include reviewing whether compliance-related requirements are being met.

Both employees and external third parties can report all kinds of compliance-related incidents via the Compliance & Anti-Corruption Hotline, which can be reached around the clock by telephone or e-mail, anonymously and in the respective national language. The Compliance department analyzes the information together with Corporate Audit and then decides on necessary measures, involving other departments in a structured process. In addition, employees can contact their superiors or report directly to the Compliance department and the compliance coordinators in the countries and locations.

Results and performance indicators

Compliance training is provided according to a risk-based and target-group-specific classroom training plan. In addition, employees who have a Continental e-mail address are regularly trained via e-learning programs. In 2018, employees were trained online and in some 360 classroom training sessions in compliance, antitrust law and corruption prevention. For the on-line training, we aim for a completion rate of at least 95 %, which we achieved again in 2018 with about 85,000 participants.

Compliance training in 2018	
Online training conducted	-85,000
Classroom training sessions conducted	-360
Online training completion rate	>95 %

In the Spotlight:

Compliance & Anti-Corruption Hotline

Both employees and external third parties have the possibility to report all kinds of compliance-related incidents via the Compliance & Anti-Corruption Hotline, which can be reached around the clock by telephone or e-mail, anonymously and in the respective national language.

The hotline is designed to help track down any improper behavior more effectively. The hotline can be used to report information on violations in the following areas:

- › Theft, kickbacks and bribery
- › Fraud, embezzlement
- › Conflicts of interest
- › Insider trading

- › Antitrust issues (violation of competition law)
- › Money laundering
- › Manipulation of accounting
- › Environment problems
- › Health, work safety and security

Information received by the hotline are passed on to Corporate Auditing and Corporate Compliance for investigation. We take all information seriously and ensure that they are treated confidentially to the extent permitted by law. We can assure you that no-one is ever discriminated against for acting with integrity.

In the Spotlight:

Tax Compliance

We are fully aware of our social responsibility with regard to tax compliance. In our internal Code of Conduct, which was updated at the start of 2019 and approved by the Executive Board, we demonstrate our commitment to comply with national and international tax guidelines. The corporate tax guidelines also approved by the Executive Board set out a framework for organizing the management of tax risks across the corporation with a view to monitoring tax compliance.

We take steps to ensure that there are no illegal tax reductions or infringements of our obligations to cooperate with the tax authorities. We do not undertake any aggressive tax planning measures and pay taxes in the areas where our

business operations create value. Our corporate tax departments maintain a professional relationship with the tax authorities, while never losing sight of the legitimate interest of the Continental Corporation to keep its taxes as low as possible.

Continental AG discloses tax information for all corporate entities on an annual basis, including income tax payments and income tax expenses, within the framework of its legal obligations to the German Federal Central Tax Office (country-by-country reporting). The tax information disclosed as part of country-by-country reporting is based primarily on the Consolidated Financial Statements, which are audited by an independent auditor.

In the Spotlight:

Litigation and Compensation Claims

Source: 2018 Annual Report > Consolidated Financial Statements > Notes to the Consolidated Financial Statements > Notes to the Consolidated Statement of Financial Position > Other Disclosures > 34. Litigation and Compensation Claims (📄 starting on p. 200)

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

Product liability

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

Proceedings relating to ContiTech AG

The actions of rescission and nullification by shareholders of Conti-Tech AG, Hanover, Germany, against resolutions adopted by the Annual Shareholders' Meeting of the company on August 22, 2007, regarding the approval of the conclusion of a management and profit and loss transfer agreement between this company as the controlled company and ContiTech-Universe Verwaltungs-GmbH, Hanover, Germany, as the controlling company and regarding the squeeze-out of minority shareholders were concluded in 2009 by a dismissal, which is final. In 2012, partial settlement agreements were entered in the records of the Hanover Regional Court (Landgericht) in the judicial review proceedings regarding the appropriateness of the settlement and compensation payment under the management and profit and loss transfer agreement and the settlement for the squeeze-out. Under these settlements, a payment of €3.50 plus interest per share on top of the exit compensation under the management and profit and loss transfer agreement and on account of the squeeze-out was agreed, as was - merely declaratory - a higher compensatory payment under the management and profit and loss transfer agreement. The compensation consequently increased to €28.33 per share. In October 2012, the Hanover Regional

Court had awarded additional payments of the same amount.

Upon appeals by some petitioners, the Celle Higher Regional Court (Oberlandesgericht) had revoked the rulings on July 17, 2013, and remanded the matter to the Regional Court for a new hearing and ruling. On September 19, 2018, the Hanover Regional Court now adjusted the compensation under the management and profit and loss transfer agreement and on account of the squeeze-out to €26.70 per share and also adjusted the compensatory payment under the management and profit and loss transfer agreement on a merely declaratory basis. The rulings are not final.

Regulatory proceedings

In May 2005, the Brazilian competition authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Indústria Automotiva Ltda., Guarulhos, Brazil (CBIA), following a complaint of anticompetitive behavior in the area of commercialization of tachographs. On August 18, 2010, the Brazilian antitrust authorities determined an "invitation to cartel" and imposed a fine of BRL 12.0 million (around €2.7 million) on CBIA, which was then reduced to BRL 10.8 million (around €2.4 million). CBIA denies the accusation that it has infringed Brazilian antitrust law. The court of first instance appealed to by CBIA upheld the decision. However, on CBIA's further appeal, the next higher court annulled this decision and remanded the matter. In case an infringement of Brazilian antitrust law is found, third parties may, in addition, claim damages from CBIA.

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

In a case that had come to light at the start of 2010 as a result of searches at several companies, the European Commission imposed fines on a number of automotive suppliers on July 10, 2013, for anti-competitive conduct in the field of supplying wire harnesses for automotive applications. These companies included S-Y Systems Technologies Europe GmbH, Regensburg, Germany (S-Y), and its French subsidiary, which had to pay a fine of €11.1 million due to cartel agreements with regard to one automotive manufacturer. Continental held a 50 % share of S-Y until January 29, 2013. Class action lawsuits filed by alleged victims against S-Y and other companies are pending in Canada. A claim

for damages brought against S-Y was settled out of court. Further claims cannot be ruled out.

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. On December 23, 2013, the KFTC announced that it had imposed a fine of KRW 45,992 million (around €36 million) on Continental Automotive Electronics LLC, Buganmyeon, South Korea (CAE). On June 25, 2015, the Seoul High Court, Seoul, South Korea, vacated the administrative fine imposed by the KFTC on CAE's appeal against the amount of the fine. The Supreme Court of South Korea rejected KFTC's appeal against this decision on May 31, 2017. On May 21, 2018, the KFTC 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, 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 €3.3 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 €4.4 million) were concluded in 2018. The risk of investigations into this matter by other antitrust authorities and claims for damages by further alleged victims remains unaffected by the fines imposed.

In September 2014, the European Commission conducted a search at a subsidiary of Continental. On February 21, 2018, the commission imposed a fine of €44.0 million on Continental AG; Continental Teves AG & Co. oHG, Frankfurt, 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, 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.

Purchasing and Responsibility in the Supply Chain

Source: 2018 Annual Report > Management Report > Corporate Profile > Combined Corporate Non-Financial Statement (🔗 starting on p. 53)

Note: The text for this sustainability report has been adjusted for page references in the Annual Report.

Continental processes a wide range of raw materials and semi-finished products. The manufacture of these goods is associated with economic, ecological and social impacts along the global supply chain.

Management approach

At Continental, purchasing is organized by product group and business unit with teams in various countries. The aim of the purchasing organization is to create added value for the operating units with market expertise and sustainable procurement solutions. There is therefore close coordination between the purchasing, development and production units.

Supplier relationships are based on the General Conditions of Purchase, which define quality and handling requirements, among other things. Since 2011, we have also required suppliers and service providers to sign the Business Partner Code of Conduct which covers ethical, social and ecological aspects. In addition, we expect our business partners to work toward the implementation of the Code of Conduct or similar values in their own supply chains. Compliance with this Code of Conduct is assessed primarily with self-assessments via the generally accepted sustainability platforms Ecovadis and NQC. In addition, subject-specific audits, such as for environmental protection, are carried out for some suppliers. Violations can also be reported via the Compliance & Anti-Corruption Hotline. In the case of non-compliance with the Code of Conduct, Continental reserves the right to demand corresponding improvements or ultimately to terminate the business relationship.

Results and performance indicators

The purchasing volume in the reporting year was €29.9 billion in total, €20.3 billion of which was for production materials. The Automotive Group uses primarily steel, aluminum, precious met-

als, 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 44 % of the corporation's purchasing volume of production materials. Mechanical components account for just under a quarter of production materials. Natural rubber and oil-based chemicals such as synthetic rubber and carbon black are key raw materials for the Rubber Group. The total purchasing volume for these materials amounts to around a sixth of the total volume for production materials. For more information, see the Development of Raw Materials Markets section in the Economic Report.

The integration of sustainability into our procurement processes was enhanced in the reporting year. As at December 31, 2018, the two sustainability platforms Ecovadis and NQC contained valid self-disclosures for more than 750 suppliers. This corresponds to a completion rate of over 60 % of suppliers selected for this process on a rolling basis.

For natural rubber, a strategic purchasing issue, the "Continental Sustainable Natural Rubber Sourcing Policy" was published in the reporting year with the involvement of various stakeholders, which formulates specific requirements for Continental itself and for business partners in this supply chain. In Indonesia, the first implementation steps on the way to more sustainable natural rubber are being defined in a development partnership between Continental and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). The aim is to compile a list of criteria for the sustainable production of natural rubber, to train farmers in sustainable farming methods in accordance with these criteria, and to enable the traceability of rubber from the small farmers to its use in production at Continental. In addition, Continental has participated in industry activities for sustainable natural rubber, which were initiated among others by the World Business Council for Sustainable Development (WBCSD) together with the industry and various stakeholders.

In the Spotlight:

Conflict Minerals

As a supplier to the automotive industry, we are fully aware of the role we play when it comes to the sustainable procurement of key raw materials. With our customers' help, we have embarked on a process to achieve greater transparency with regard to the origins of critical raw materials used in our products. These critical raw materials include not only natural rubber, but also so-called conflict minerals such as tin, tantalum, tungsten and gold, some of which are mined in conflict-ridden regions and used to finance armed

conflicts. With focus on the Automotive Group, we are asking direct suppliers to fill out the Conflict Minerals Reporting Template (CMRT) developed by the Responsible Minerals Initiative with detailed information on the smelting and mining operations in the countries where the minerals we use originate. Our Code of Conduct for business partners encourages our direct suppliers to act responsibly and not procure their minerals from regions that directly or indirectly finance armed groups.

Social Responsibility and Engagement

Source: 2018 Annual Report > Management Report > Corporate Profile > Combined Corporate Non-Financial Statement (📄 starting on p. 53)

We see ourselves as part of the local communities at our locations. The jobs we create directly in our plants and indirectly at our suppliers are important local contributions. In addition, Continental also selectively promotes and supports social initiatives, activities and projects.

Management approach

Our social activities are based on our four corporate values, internal directives and local laws. For example, fundraising activities are governed by a corporate directive that defines priorities and processes. We not only donate money and goods, but also support our employees' volunteer work and participate in collaborations all around the world. Our efforts are largely organized on a decentralized basis in order to meet local needs. Our social commitment is supplemented by centrally managed activities. A global coordination process is currently being set up.

Results and performance indicators

Around the world, a large number of projects, campaigns and fundraising activities took place that prove that we are there for the local communities at our locations and include the following activities:

- › Employees from the Tire division in Hanover donated the proceeds of their winter festival, around €15,000, to three local charitable institutions.
- › Continental Youth Safe-Driving Program: In Chongqing, China, we held a program day on safe driving for young drivers in cooperation with several local partners, such as the local government and associations.
- › In India, Hungary, Mexico and Romania, Continental employees helped to renovate or equip schools and daycare centers close to their locations.
- › In Germany, the Continental pilot project "We l.o.v.e. Europe" has resulted in the "Experiencing Europe" initiative, which has been joined by other companies. In cooperation with the German Federal Employment Agency and Caritas, selected participants in pre-vocational training (unemployed young people) are given the opportunity to complete internships throughout the rest of Europe. Continental has already hired some of the first participants.

In the Spotlight:

The Accident Preventers: Working Toward "Vision Zero" with the "Stop the Crash" Global Information Campaign

While road traffic in industrialized countries has been getting safer and safer for years – not least due to the legally stipulated use of increasingly sophisticated safety and advanced driver assistance systems – WHO is still unable to identify any significant progress in terms of road safety in most emerging and developing economies. According to WHO, the risk of losing your life in a traffic accident in a poorer country, for example, is still more than three times as high as in an industrialized country.

The New Car Assessment Program (NCAP), an international vehicle safety association, has undertaken to significantly reduce the number of traffic fatalities by clarifying and introducing improved safety standards – and thereby make an active contribution to the United Nations' goal of halving road deaths worldwide by 2020.

Continental has for years been committed to a world without traffic fatalities as part of its "Vision Zero" and since 2015 has been a partner of the global information cam-

paign "Stop the Crash" initiated by Global NCAP. Continental and the other Global NCAP partners are continuing to support driving demonstrations under the umbrella of "Stop the Crash" in countries such as Brazil, Chile, Malaysia, Uruguay, Thailand, China and Argentina. The campaign was also launched in India in 2018 and the technologies demonstrated at the Global Meeting of Road Safety NGOs in Greece recently in 2019 – likewise with the support of Continental.

The focus of the campaign in countries with a very high accident rate is on technologies that have already been saving lives for years in many industrialized countries: electronic stability control (ESC), emergency brake assist (EBA) and the anti-lock brake system for motorcycles (ABS). In addition, the campaign raises awareness on having sufficiently high tire pressure and sufficient tread depth.

Further information is available online at www.stopthecrash.org.



In the Spotlight:

Emergency Aid - Continental Donates to Victims of Cyclone Idai In Mozambique, Zimbabwe and Malawi

In April 2019, Continental donates €25,000 to victims of Cyclone Idai, which has caused widespread devastation and flooding in South East Africa. The money was sent to a German Emergency Relief Coalition, "Aktion Deutschland Hilft", which is represented through many of its member organizations in the affected regions. Experts working for the alliance are helping, for example, to build a transportation network to gain access to regions and villages that have been cut off.

Continental's donation will help to provide efficient emergency assistance for those affected and to restore the infrastructure in areas that need it the most.

Continental's closest plant in South Africa was also helping children in neighboring Mozambique that are suffering in

the wake of the disaster by making a donation to the local SOS Children's Villages organization.

The tropical cyclone struck Mozambique on March 14, 2019 causing widespread devastation and flooding. In the days that followed, it also wrought substantial damage in Malawi and Zimbabwe. The situation was extremely chaotic, particularly in the first few weeks following the disaster due to disrupted communication and transportation links. Official estimates put the number of people directly affected by the fallout at approximately three million. The environmental disaster is expected to have long-lasting effects on the population, including famine due to crop failures and increasing poverty in this already poor part of the world.

In the Spotlight:

Political Party Donations Not Allowed

Source: Continental Corporation donations policy available in the internet at www.continental-corporation.com

We only grant donations to support charitable, non-profit purposes. In principle, we do not make donations either

directly or indirectly to political parties, political organizations, or politicians.

The option our employees in the USA have of personally making political donations through a "political action committee" does not contradict this policy.

Opportunities and Risks

Source: 2018 Annual Report > Management Report > Report on Risks and Opportunities (starting on p. 93)

Note: This text has been shortened. The whole text is available in the Annual Report.

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

The management of the Continental Corporation 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 lead us to expect to achieve 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 sector 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 21. 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 the 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, 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.

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 which risks are significant for the corporation. The GRC Committee regularly informs the Executive Board and the Audit Committee of the Supervisory Board of the major 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 major 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.

Significant 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.

Risk reporting



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, then the risks apply to all divisions.

Risk Category	Material individual risks
Financial Risks	<ul style="list-style-type: none"> Continental is exposed to risks in connection with its financing agreements and the syndicated loan. Continental is exposed to risks associated with changes in currency exchange rates and hedging.
Market Risks	<ul style="list-style-type: none"> Continental could be exposed to material risks in connection with a global financial and economic crisis. Continental operates in a cyclical industry. Continental is reliant on certain markets. Continental is exposed to risks associated with the market trends and developments that could affect the vehicle mix sold by OEMs. Continental is exposed to risks associated with additional or higher tariffs. Continental is exposed to fluctuations in the prices of raw materials and electronic components.
Operational Risks	<ul style="list-style-type: none"> Continental is exposed to risks in connection with its pension commitments. Continental is exposed to warranty and product liability claims. Continental depends on a limited number of key suppliers for certain products. Continental could be adversely affected by property loss and business interruption. Continental is exposed to information-technology risks. Continental is exposed to risks in connection with its interest in MC Projects B.V.
Legal and Environmental Risks	<ul style="list-style-type: none"> Continental could become subject to additional burdensome environmental or safety regulations and additional regulations could adversely affect demand for Continental’s products and services. Continental could be unsuccessful in adequately protecting its intellectual property and technical expertise. There is a risk that Continental could infringe on the industrial property rights of third parties. Continental could be threatened with fines and claims for damages for alleged or actual antitrust behavior. Continental is exposed to risks from legal disputes.

Note: This version has been shortened. For a complete picture of all the risks, including explanatory notes, consult the Annual Report.

Material opportunities

Material Opportunities

- There are opportunities for Continental if macroeconomic development is better than anticipated.
- There are opportunities for Continental if the sales markets develop better than anticipated.
- There are opportunities for Continental if there is a stable price level on the raw materials markets relevant to us.
- There are opportunities for Continental from changes in the legal framework.
- There are opportunities for Continental from an intensified trend toward vehicle electrification.
- There are opportunities for Continental from digitalization and particularly from the intelligent interconnection of vehicles with each other and with the internet.
- The trend toward automated driving presents Continental with opportunities.
- Urbanization presents Continental with opportunities.

Note: This version has been shortened. For a complete picture of all the opportunities, including explanatory notes, consult the Annual Report.

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.

In the current year, it remains to be seen how further political developments in North America, Europe (e.g. Brexit) and China will affect the economy and our business development – and how the prevailing volatile situation will affect our company.

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.

Further Information

GRI-Index

The following index provides an overview of the company's responses to the relevant disclosures under the 2016 GRI Standards. According to own assessment, the application level as described in the GRI is "Core".

Universal disclosure obligations

GRI 102: General Disclosures

The general standards give a general and strategic overview of sustainability within the organization. Continental gives its comments on all core indicators in the table below.

Required disclosure		Continental comments/ page reference	Response to the obligatory GRI disclosures (self-assessment)
ID	Description		
1. Organizational Profile			
102-1	Name of the organization	P. 6 f.	complete
102-2	Activities, brands, products, and services	P. 6 f.	complete
102-3	Location of headquarters	P. 6 f.	complete
102-4	Location of operations	P. 6 f.	complete
102-5	Ownership and legal form	P. 6 f.	complete
102-6	Markets served	P. 6 f.	complete
102-7	Scale of the organization	P. 6 f.	complete
102-8	Information on employees and other workers	P. 32	complete
102-9	Supply chain	P. 43	complete
102-10	Significant changes to the organization and its supply chain	P. 6 f.	complete
102-11	Precautionary principle or approach	P. 9 f.	complete
102-12	External initiatives	P. 12	complete
102-13	Membership of associations	P. 12	complete
2. Strategy			
102-14	Statement from senior decision-maker	P. 4	complete
3. Ethics and Integrity			
102-16	Values, principles, standards, and norms of behavior	P. 4, 16, 29	complete
4. Governance			
102-18	Governance structure	P. 16 f.	complete
5. Stakeholder Engagement			
102-40	List of stakeholder groups	P. 11	complete
102-41	Collective bargaining agreements	P. 33	complete
102-42	Identifying and selecting stakeholders	P. 11	complete
102-43	Approach to stakeholder engagement	P. 11	complete
102-44	Key topics and concerns raised	P. 11	complete
6. Reporting Practice			
102-45	Entities included in the consolidated financial statements	P. 5	complete
102-46	Defining report content and topic boundaries	P. 5	complete
102-47	List of material topics	P. 3, 4, 11	complete
102-48	Restatements of information	P. 5	complete
102-49	Changes in reporting	P. 5	complete
102-50	Reporting period	P. 5	complete

GRI 102: General Disclosures

Required disclosure		Continental comments/ page reference	Response to the obligatory GRI disclosures (self-assessment)
ID	Description		
102-51	Date of most recent report	P. 5	complete
102-52	Reporting cycle	P. 5	complete
102-53	Contact point for questions regarding the report	P. 57	complete
102-54	Claims of reporting in accordance with the GRI Standards	P. 5	complete
102-55	GRI content index	P. 49 f.	complete
102-56	External assurance	P. 5, 56	complete

Topic-specific disclosure obligations (by materiality)

The GRI topic-specific disclosure obligations are based on materiality. In the table below, Continental gives its comments on all the topic-specific GRI standards in the Economic, Environmental, and Social categories that are regarded as material.

GRI 200: Economic

Required disclosure		Continental comments/ page reference	Response to the obligatory GRI disclosures (self-assessment)
ID	Description		
201	Economic Performance		
103	Management Approach	P. 13 f.	complete
201-1	Direct economic value generated and distributed	P. 21 f.	partially
201-2	Financial implications and other risks and opportunities due to climate change	P. 46 f.	partially
201-3	Defined benefit plan obligations and other retirement plans	P. 31	complete
201-4	Financial assistance received from government	P. 23	complete
202	Market Presence		
103	Management Approach	P. 33	partially
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	P. 33	not reported
202-2	Proportion of senior management hired from the local community		not reported
203	Indirect Economic Performance		
103	Management Approach	P. 44	partially
203-1	Infrastructure investments and services supported	P. 44	partially
203-2	Significant indirect economic impacts	P. 44	partially
205	Anti-Corruption		
103	Management Approach	P. 39	complete
205-1	Operations assessed for risks related to corruption	P. 39	partially
205-2	Communication and training about anti-corruption policies and procedures	P. 39	complete
205-3	Confirmed incidents of corruption and actions taken		not reported
206	Anti-competitive Behavior		
103	Management Approach	P. 39	complete
206-1	Legal actions for anti-competitive behavior, anti-trust and monopoly practices	P. 41 f.	complete

GRI 300: Environment

Required disclosure		Continental comments/ page reference	Response to the obligatory GRI disclosures (self-assessment)
ID	Description		
301 Materials			
103	Management Approach	P. 36 f.	partially
301-1	Materials used by weight or volume	P. 38	partially
301-2	Recycled input materials used		not reported
301-3	Reclaimed products and their packaging materials		not reported
302 Energy			
103	Management Approach	P. 36 f.	complete
302-1	Energy consumption within the organization	P. 36 f.	complete
302-2	Energy consumption outside of the organization	P. 37	partially
302-3	Energy intensity	P. 36 f.	complete
302-4	Reduction of energy consumption	P. 36 f.	partially
302-5	Reductions in energy requirements of products and services	P. 24 f.	partially
303 Water			
103	Management Approach	P. 36 f.	complete
303-1	Water withdrawal by source	P. 38	complete
303-2	Water sources significantly affected by withdrawal of water	P. 38	complete
303-3	Water recycled and reused	P. 38	complete
305 Emissions			
103	Management Approach	P. 36 f.	complete
305-1	Direct (Scope 1) GHG emissions	P. 37	complete
305-2	Energy indirect (Scope 2) GHG emissions	P. 37	complete
305-3	Other indirect (Scope 3) GHG emissions	P. 37	partially
305-4	GHG emissions intensity	P. 36 f.	complete
305-5	Reduction of GHG emissions	P. 36 f.	complete
305-6	Emissions of ozone-depleting substances (ODS)		not reported
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX) and other significant air emissions		not reported
306 Effluents and Waste			
103	Management Approach	P. 36 f.	complete
306-1	Water discharge by quality and destination		not reported
306-2	Waste by type and disposal method	P. 38	partially
306-3	Significant spills		not reported
306-4	Transport of hazardous waste		not reported
306-5	Water bodies affected by water discharges and/or runoff		not reported
307 Environmental Compliance			
103	Management Approach	P. 36	complete
307-1	Non-compliance with environmental laws and regulations	P. 41 f.	complete
308 Supplier Environmental Assessment			
103	Management Approach	P. 43	partially
308-1	New suppliers that were screened using environmental criteria	P. 43	partially
308-2	Negative environmental impacts in the supply chain and actions taken	P. 43	partially

GRI 400: Social

Required disclosure		Continental comments/ page reference	Response to the obligatory GRI disclosures (self-assessment)
ID	Description		
401	Employment		
103	Management Approach	P. 29 f.	complete
401-1	New employee hires and employee turnover	P. 32	partially
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	P. 31	complete
401-3	Parental leave	P. 29 f.	not reported
402	Labor/Management Relations		
103	Management Approach	P. 33	partially
402-1	Minimum notice periods regarding operational changes	P. 19, 33	not reported
403	Occupational Health and Safety		
103	Management Approach	P. 29 f., 33	complete
403-1	Workers representation in formal joint management-worker health and safety committees	P. 33	not reported
403-2	Types of injury and rates of injury, occupational diseases, lost days, absenteeism, and the number of work-related fatalities	P. 30	partially
403-3	Workers with high incidence or high risk of diseases related to their occupation		not reported
403-4	Health and safety topics covered in formal agreements with trade unions	P. 33	complete
404	Training and Education		
103	Management Approach	P. 29 f.	complete
404-1	Average hours of training per year per employee	P. 29 f.	not reported
404-3	Programs for upgrading employee skills and transition assistance programs	P. 29 f.	partially
404-2	Percentage of employees receiving regular performance and career development reviews	P. 29 f.	partially
405	Diversity and Equal Opportunity		
103	Management Approach	P. 20, 34	complete
405-1	Diversity of governance bodies and employees	P. 20	complete
405-2	Ratio of basic salary and remuneration of women to men	P. 33	complete
406	Non-discrimination		
103	Management Approach	P. 33, 35	partially
406-1	Incidents of discrimination and corrective actions taken	P. 33, 35	partially
407	Freedom of Association and Collective Bargaining		
103	Management Approach	P. 35	partially
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	P. 35	partially
408	Child Labor		
103	Management Approach	P. 35	partially
408-1	Operations and suppliers at significant risk for incidents of child labor	P. 35	partially
409	Forced or Compulsory Labor		
103	Management Approach	P. 35	partially
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	P. 35	partially

Required disclosure		Continental comments/ page reference	Response to the obligatory GRI disclosures (self-assessment)
ID	Description		
412	Human Rights Assessment		
103	Management Approach	P. 35	complete
412-1	Operations that have been subject to human rights reviews or impact assessments	P. 35	partially
412-2	Employee training on human rights policies or procedures	P. 35	partially
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	P. 35	not reported
414	Supplier Social Assessment		
103	Management Approach	P. 43	complete
414-1	New suppliers that were screened using social criteria	P. 43	partially
414-2	Negative social impacts in the supply chain and actions taken	P. 43	partially
415	Public Policy		
103	Management Approach	P. 45	partially
415-1	Political contributions	P. 45	complete
416	Customer Health and Safety		
103	Management Approach	P. 4, 24 f., 28	partially
416-1	Assessment of the health and safety impacts of product and service categories	P. 4, 24 f., 28	partially
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	P. 41 f.	complete
418	Customer Privacy		
103	Management Approach	P. 28	complete
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data		not reported
419	Socioeconomic Compliance		
103	Management Approach	P. 39	partially
419-1	Non-compliance with laws and regulations in the social and economic area	P. 41 f.	complete

UN Global Compact Index

The following index serves as the Continental Corporation's 2018 "Communication on Progress" on the status of implementation for the Principles of the UN Global Compact.

Topic area	Principle	Page reference
Human Rights	1. Businesses should support and respect the protection of internationally proclaimed human rights.	P. 35, 43
	2. Make sure that they are not complicit in human rights abuses.	P. 35, 43
Labor	3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	P. 33, 35, 43
	4. The elimination of all forms of forced and compulsory labor.	P. 35, 43
	5. The effective abolition of child labor.	P. 35, 43
	6. The elimination of discrimination in respect of employment and occupation.	P. 35
Environment	7. Businesses should support a precautionary approach to environmental challenges.	P. 36 f., 43
	8. Undertake initiatives to promote greater environmental responsibility.	P. 36 f.
	9. Encourage the development and diffusion of environmentally friendly technologies.	P. 24 f.
Anti-Corruption	10. Businesses should work against corruption in all its forms, including extortion and bribery.	P. 39, 43




SDG-Index

The following index presents the Continental Corporation's reported sustainability activities in the context of the UN Sustainable Development Goals (SDGs).


SDG	Adressed in this sustainability report	SDG	Adressed in this sustainability report
	P. 44 f.		P. 34, 35, 40, 43
	P. 44 f.		P. 4, 9 f., 24 f.
	P. 24 f., 33, 44 f.		P. 4, 24 f., 27, 36 f., 43
	P. 29 f., 44 f.		P. 4, 24 f., 36 f.
	P. 34, 35		P. 36 f.
	P. 36 f.		P. 36 f.
	P. 36 f.		P. 29 f., 35, 39, 43, 44 f.
	P. 21, 25 f., 29 f., 35, 36 f., 40, 43, 44 f.		P. 12, 24 f., 27, 40, 44 f.
	P. 24 f., 29 f., 43		

Ratings and Rankings

Continental features in various sustainability indices:

Index	Description
	Continental is listed in various ECPI sustainability indices.
	Continental is represented in the FTSE4Good Index series.
	Continental is featured in various STOXX ESG and STOXX Sustainability indices.

Continental also performed as follows in the rankings indicated below:

Ranking	Year	Grade
	2019	› Outperformer (73 Points)
	2019	› BBB
	2019	› Gold Status (2019) › 65 /100 Points › Among the top 5 % companies
	2018	› Climate: Score B › Water: Score B- › Supply Chain: Score A; Supplier Engagement Leader Board
	2017	› Prime (C+)

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Independent Auditor's Reports

The audit opinions of the independent auditor from KPMG for the audited contents of this report are available online at the www.continental-corporation.com in the Sustainability/Downloads section.

Name of auditor's report	Valid for	Date of the auditor's report¹
Report on the audit of the Consolidated Financial Statements and the Corporate Management Report	Contents from the Consolidated Financial Statements and Management Report (except for the Combined Corporate Non-Financial Statement)	Feb. 20, 2019
Independent auditor's report on the audit of the Combined Corporate Non-Financial Statement to obtain reasonable assurance	Contents from the Combined Corporate Non-Financial Statement	Feb. 20, 2019
Limited assurance report of the independent auditor regarding sustainability information	Detailed CO ₂ emissions (including Scope 3)	Jun. 21, 2019

¹ Disclaimer: KPMG would like to point out that neither the Sustainability Report as a whole nor other information were the subject of the audit activities. No further audit activities have been performed since the conclusions of the audit were issued. It is therefore possible that facts that have come to light since the appointed time may not have been taken into account.

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