Continental
The Future in Motion

Mobility Redefined

Annual Report 2016

Continental, with sales of €40.5 billion in 2016, is one of the world's leading automotive suppliers.

In our five divisions – Chassis & Safety, Interior, Powertrain, Tires and ContiTech – we develop intelligent technologies as well as products and services for transporting people and their goods.

Over 220,000 employees are hard at work every day at more than 400 locations in 56 countries.

2016 Highlights ›

Key Figures ›

Overview of the Corporation ›

2016 Highlights

› Sales up to €40.5 billion
› Net indebtedness drops below €3 billion
› Dividend set to increase by €0.50 to €4.25

Key Figures for the Continental Corporation

€ millions	2016	2015	Δ in %
Sales	40,549.5	39,232.0	3.4
EBITDA	6,057.4	6,001.4	0.9
in % of sales	14.9	15.3	
EBIT	4,095.8	4,115.6	–0.5
in % of sales	10.1	10.5	
Net income attributable to the shareholders of the parent	2,802.5	2,727.4	2.8
Earnings per share in €	14.01	13.64	2.8
Adjusted sales[1]	40,261.7	39,232.0	2.6
Adjusted operating result (adjusted EBIT)[2]	4,341.2	4,369.0	–0.6
in % of adjusted sales	10.8	11.1	
Free cash flow	1,771.3	1,443.6	22.7
Net indebtedness	2,797.8	3,541.9	–21.0
Gearing ratio in %	19.0	26.8	
Total equity	14,734.8	13,213.9	11.5
Equity ratio in %	40.7	40.2	
Number of employees as at December 31[3]	220,137	207,899	5.9
Dividend per share in €	4.25[4]	3.75	13.3
Share price at year end[5] in €	183.70	224.55	–18.2
Share price at year high[5] in €	220.10	234.25	
Share price at year low[5] in €	158.20	166.60	

1 Before changes in the scope of consolidation.
2 Before amortization of intangible assets from purchase price allocation (PPA), changes in the scope of consolidation, and special effects.
3 Excluding trainees.
4 Subject to the approval of the Annual Shareholders' Meeting on April 28, 2017.
5 Price quotations of the Continental share in the XETRA system of Deutsche Börse AG.

Overview of the Corporation and Key Figures

Structure of the Continental Corporation

Continental Corporation

Sales: €40.5 billion; Employees: 220,137

Automotive Group

Sales: €24.5 billion; Employees: 124,753

Chassis & Safety
Sales: €9.0 billion
Employees: 43,907

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

Powertrain
Sales: €7.3 billion
Employees: 37,502

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

Interior
Sales: €8.3 billion
Employees: 43,344

- Instrumentation & Driver HMI
- Infotainment & Connectivity
- Intelligent Transportation Systems
- Body & Security
- Commercial Vehicles & Aftermarket

Rubber Group

Sales: €16.1 billion; Employees: 94,966

Tires
Sales: €10.7 billion
Employees: 52,057

- Passenger and Light Truck Tire Original Equipment
- Passenger and Light Truck Tire Replacement Business, EMEA
- Passenger and Light Truck Tire Replacement Business, The Americas
- Passenger and Light Truck Tire Replacement Business, APAC
- Commercial Vehicle Tires
- Two-Wheel Tires

ContiTech
Sales: €5.5 billion
Employees: 42,909

- Air Spring Systems
- Benecke-Kaliko Group
- Compounding Technology
- Conveyor Belt Group
- Elastomer Coatings
- Industrial Fluid Solutions[1]
- Mobile Fluid Systems
- Power Transmission Group
- Vibration Control

1 Renamed from Industrial Fluid Systems in January 2017.

Key figures for the core business areas

	Automotive Group			Rubber Group		
€ millions	**2016**	2015	Δ in %	**2016**	2015	Δ in %
Sales	24,496.4	23,574.5	3.9	16,097.6	15,704.6	2.5
EBITDA	2,615.0	2,973.2	-12.0	3,559.6	3,181.5	11.9
in % of sales	10.7	12.6		22.1	20.3	
EBIT	1,526.6	2,014.4	-24.2	2,688.6	2,255.8	19.2
in % of sales	6.2	8.5		16.7	14.4	
Adjusted sales[1]	24,379.9	23,574.5	3.4	15,926.3	15,704.6	1.4
Adjusted operating result (adjusted EBIT)[2]	1,632.2	2,038.4	-19.9	2,828.4	2,485.2	13.8
in % of adjusted sales	6.7	8.6		17.8	15.8	

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

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Chairman's Letter

Dear Shareholders,

Mobility and our industries are currently changing faster than ever before, which means there has rarely been a more exciting and promising time for Continental to shape the future of these areas. By investing in us, you are investing in our pioneering technologies. I would like to thank you for doing so on behalf of our global team, as well as on behalf of millions of people.

After all, with your investment, you are fostering our solutions and helping to protect millions of road users around the world from accidents and their consequences. Moreover, you are also contributing to cleaner air, while paving the way for intelligent, convenient, and connected driving. Backed by your support, we are designing mobility to be sustainable, thus creating immense value.

In 2016, our pioneering technologies enabled us to continue our streak of successful business years. Our net income was just above the previous year's level, even though several isolated events impacted our earnings. We are working hard to ensure that this does not happen again. We will be continuing our profitable growth in 2017.

Today, you can find our technologies in three out of four vehicles, where they play a crucial role. Take, for example, advanced driver assistance systems with their sensory technology and software. These systems are our fastest-growing product area. In just a few years, we have increased their sales from zero to approximately €1.2 billion, and we expect that figure to exceed €2 billion in 2020. And that's not all.

In addition, we provide solutions for connected mobility. In the future, vehicles will communicate not only more directly with their drivers, but also more intensively with each other and with the infrastructure. They will warn one another of dangers and tell each other about alternative routes. We are providing hardware and software for this digital exchange of data and information. In doing so, your Continental is becoming one of the leading technology and service companies.

Think about it. All in all, drivers spend as much as an entire year of their life in traffic jams, which is an unbelievable waste of time, not to mention a needless waste of fuel. Traffic jams harm the environment and are quite simply an annoyance for everyone. Our goal is therefore to keep traffic flowing. To this end, we are making vehicles intelligent and capable of learning.

We currently generate a total of nearly €15 billion with digital technologies. This equates to 60 percent of the sales in our three Automotive divisions.

Another example is zero-emission mobility. The future lies in electric drive systems, and we are very well-prepared for this. We are working on orders from all of the world's major markets. At present, demand for hybrid drive systems in particular is on the rise. Such systems consist of a diesel or gasoline engine, as well as a small electric motor with a battery. This technology serves as a transitional bridge until all-electric vehicles have caught on in the medium term. Our 48-volt "people's hybrid" offers the best value for the money, while cutting carbon-dioxide emissions by as much as 20 percent.

Your Continental is right at the forefront when it comes to electric mobility. In past years, we invested more than a billion euros in this future-oriented field, and the trend is rising. We are currently working on customer orders worth more than €2 billion. The transition from the combustion engine to electric mobility will not gather momentum significantly until between 2025 and 2030. At some point during this phase, the number of combustion engines will reach its highest level and then decline moderately. Our strategy and planning are therefore paying off, because if you invest too early, you end up throwing away billions. But if you invest too late, you will lose out on the market.

We expect that some 110 million cars and light commercial vehicles will be produced in 2025. One out of ten of those vehicles will feature all-electric drive systems, and nearly one in three will be equipped with a 48-volt or high-voltage hybrid drive system.

Profitable growth outside of the automotive industry is another important part of our strategy. The share of sales to industrial customers and end users is to be increased gradually toward a figure of 40 percent, with most of the increase coming from our tire replacement business and from the ContiTech division. In 2016, the Tire division had its most successful fiscal year to date. At the same time, it kicked off the third phase of its long-term growth strategy, making investments in the billions. Our ContiTech division has continued to pursue its growth strategy with acquisitions. In this way, we will strengthen our activities in the growth market of air springs and air spring systems for railway engineering, while also boosting our surface-materials business.

Our company is well on track for continued success in the future. In our business fields, we are growing quickly and profitably and are striving to achieve sales of over €50 billion in 2020.

Your trust is what drives us! We are looking forward to the next stage of our shared success.

Yours,

Dr. Elmar Degenhart
Chairman of the Executive Board

Member of the Executive Board

Dr. Ralf Cramer
born in 1966 in Ludwigshafen, Germany;
Continental China;
appointed until August 2017

José A. Avila
born in 1955 in Bogotá, Colombia;
Powertrain Division;
appointed until December 2019

Dr. Ariane Reinhart
born in 1969 in Hamburg, Germany;
Human Relations,
Director of Labor Relations,
Sustainability;
appointed until September 2022

Helmut Matschi
born in 1963 in Viechtach, Germany;
Interior Division;
appointed until August 2022

Dr. Elmar Degenhart
born in 1959 in Dossenheim, Germany;
Chairman of the Executive Board,
Corporate Communications,
Corporate Quality and Environment,
Continental Business System,
Automotive Central Functions;
appointed until August 2019

Wolfgang Schäfer
born in 1959 in Hagen, Germany;
Finance, Controlling, Compliance, Law, and IT;
appointed until December 2019

Nikolai Setzer
born in 1971 in Groß-Gerau, Germany;
Tire Division,
Corporate Purchasing;
appointed until August 2022

Frank Jourdan
born in 1960 in Groß-Gerau, Germany;
Chassis & Safety Division;
appointed until September 2021

Hans-Jürgen Duensing
born in 1958 in Hanover, Germany;
ContiTech Division;
appointed until April 2018

Continental Shares and Bonds

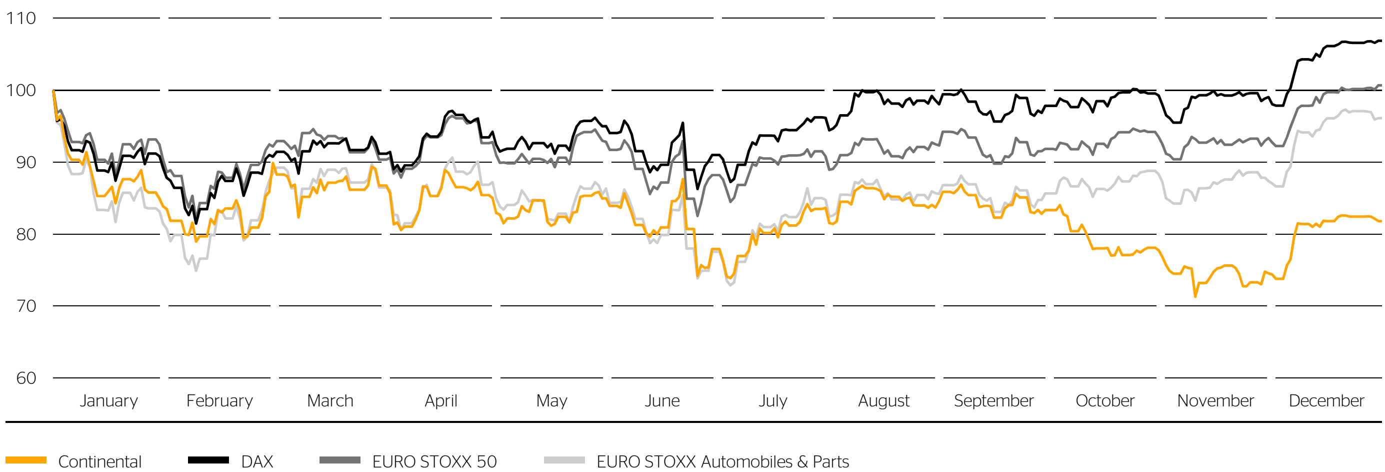
Continental posts negative share-price performance for first time in four years.

Year-end rally following consolidation on the stock markets
At the beginning of 2016, the continuing decrease in the prices of many raw materials – particularly crude oil – led to growing concerns about the global economy among many investors, triggering a downward trend on the stock markets worldwide. In early February, more cautious statements regarding economic development made by the U.S. Federal Reserve (Fed) and weaker economic data from the U.S.A. and China caused a further slump in prices. In this context, the DAX fell to around 8,700 points by February 11, 2016 – a decrease of 19% compared to its 2015 year-end level of 10,743.01 points. Mid-February 2016 saw the start of a recovery phase on the markets after prices for crude oil and other raw materials had stabilized. Weak foreign-trade data from China caused sentiment to deteriorate again in the first half of March. The announcement of additional expansive measures by the European Central Bank (ECB) did not have any significant impact on the stock markets in mid-March. The cut in the key interest rate to 0.0% and in the interest rate on deposits to -0.4% as well as the expansion of the monthly bond purchase program from €60 billion to €80 billion until March 2017 were in line with market participants' expectations. Weaker economic data from Germany and the U.S.A., however, caused share prices to fall.

Starting mid-April 2016, the recovery in prices for crude oil and other raw materials, combined with positive economic data from Europe, China, and the U.S.A., caused share prices to increase. Following the publication of the initial estimate of the U.S. economy's annualized growth for the first quarter of 2016, which was lower than expected, stock market sentiment deteriorated again in early May. Better-than-anticipated company results in Europe and the U.S.A. for the first quarter of 2016 had only a stabilizing effect over the remainder of the month. At the end of May, growing expectations of an interest rate hike by the Fed in June strengthened the U.S. dollar and weakened the euro. The DAX also benefited from positive economic data and again rose above the level of 10,000 points. In early June 2016, the positive sentiment changed after polls in the United Kingdom showed growing support among voters for an exit from the European Union in the upcoming referendum. Fears of a so-called Brexit increased until mid-June and pushed the DAX down to a level of 9,500 points, which was also partly due to continuing uncertainty regarding the future monetary policy of the major central banks. A week before the referendum on June 23, 2016, investors increasingly felt that Brexit was unlikely on the basis of new polls, resulting in a rapid recovery in share prices. The unexpected decision by 51.9% of voters to leave the European Union brought about a plunge in prices on international capital markets, with a particularly strong impact on European stock markets.

At the start of the third quarter of 2016, better-than-anticipated U.S. labor market data brought about a recovery phase on the European stock markets. This trend was supported by positive company results over the remainder of the quarter. Starting from the second half of August, falling crude oil prices and speculation about future U.S. interest rate policy unsettled many investors. On the European stock markets, this led to profit taking and was reflected in a slight decrease in share prices. When the interest rate hike did not materialize in the U.S.A., share prices increased again in the second half of September, before concerns about major German banks again led to profit taking.

Price performance of Continental shares in 2016 versus selected stock indexes
indexed to January 1, 2016



At the beginning of the fourth quarter of 2016, the uncertain outcome of the U.S. presidential election caused many investors to act cautiously and conservatively. This was reflected in a sideways trend on most global stock markets. Initially, the outcome of the U.S. presidential election particularly benefited U.S. shares from the pharmaceutical, banking, infrastructure, and construction sectors. Many investors expect the new government to increase public spending and deregulate the financial sector in particular over the coming years. The Dow Jones index reached new highs, rising above the level of 19,000 points for the first time in late November 2016. At the beginning of December, many investors' growing expectations of an increase in the expansionary European monetary policy also led to stronger price increases on European stock markets. The DAX consequently rose above the level of 11,000 points for the first time in 2016. At its meeting in December, the ECB resolved to extend its bond purchase program, originally due to expire in March 2017, until the end of 2017. However, it lowered the monthly bond purchase volume from €80 billion to €60 billion from April 2017. Meanwhile, the price rally in the U.S.A. continued in anticipation of a moderate key interest rate hike by the Fed. The Dow Jones index was quoting just below the level of 20,000 points in mid-December. At its meeting in December, the Fed raised its key interest rate for the second time after December 2015, increasing it by 0.25% to a range of 0.5% to 0.75%. The unexpected prospect of three rather than two further interest rate changes in 2017 caused the dollar-to-euro exchange rate to rise to a 14-year high while also slowing the momentum of the price rally on the stock markets. Finally, weak U.S. economic data led to profit taking and falling price quotations on stock markets worldwide at the end of the year.

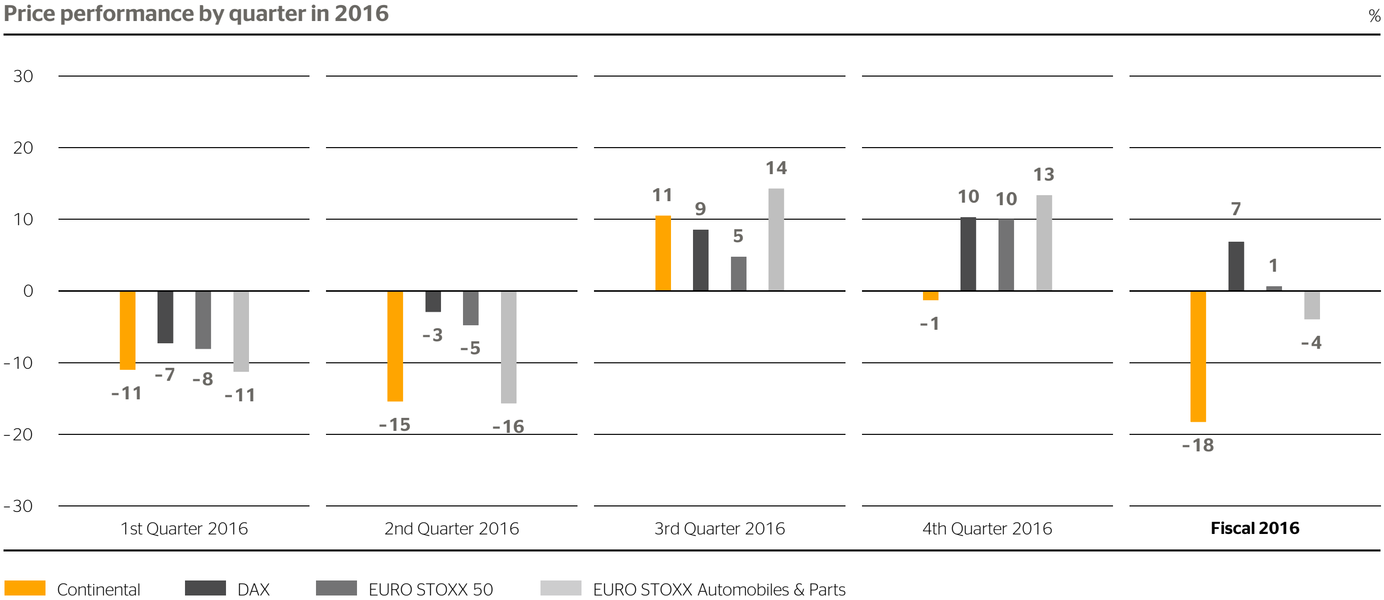
The DAX closed 2016 up 6.9% at 11,481.06 points, while the EURO STOXX 50 ended the year with a 0.7% increase to 3,290.52 points.

Continental share price declines

In addition to a decline in the general stock market sentiment, automotive companies worldwide were impacted in the first half of 2016 by growing concerns about demand for passenger cars in the U.S.A., China and Japan. Analysts also lowered their expectations and recommendations for the sector. In addition to bank and insurance stocks, the Brexit vote also had a particularly negative impact on European automotive stocks at the end of June 2016. It was not until the third quarter that the share prices of European automotive manufacturers and suppliers recovered as part of the general market recovery. This was supported by the better-than-expected number of new passenger car registrations, particularly in Western Europe and China. In the fourth quarter of 2016, shares in the European automotive sector also benefited from the year-end rally. As a result, the EURO STOXX Automobiles & Parts was able to significantly improve its negative performance, closing 2016 down 3.9% at 521.33 points.

Following a decline at the beginning of the year, the Continental share price stabilized at around €180 in mid-February 2016. Over the remainder of the first six months of 2016, it stayed between €175 and €203. After the Brexit vote, it temporarily fell as low as €162. As a result of the general market recovery, it exceeded the €180 mark again in mid-July and spent the remainder of the third quarter quoted at around €190. All in all, Continental's shares mostly followed the price development of the EURO STOXX Automobiles & Parts during the first nine months of 2016. The revised corporate outlook published on October 17, 2016, had a negative impact on Continental's shares in the fourth quarter. Following the publication of the figures for the third quarter of 2016, the share price hit its lowest value for the year of €158.20 during the course of November 10, 2016. In the following weeks, Continental shares benefited from new buy recommendations by several analysts and from the year-end rally on the stock markets. They ended 2016 down 18.2% at a price of €183.70 (PY: €224.55).

Price performance by quarter in 2016



Performance of Continental shares over various time periods versus selected stock indexes

Investment period for €10,000	Continental[1]	DAX	EURO STOXX 50[1]	EURO STOXX Automobiles & Parts[1]
1 year (Jan. 1, 2016 – Dec. 31, 2016)	€8,342	€10,687	€10,470	€9,925
Yield in % p. a.	–16.6	6.9	4.7	–0.8
3 years (Jan. 1, 2014 – Dec. 31, 2016)	€12,111	€12,019	€11,752	€12,294
Yield in % p. a.	6.6	6.3	5.5	7.1
5 years (Jan. 1, 2012 – Dec. 31, 2016)	€41,908	€19,465	€17,179	€24,311
Yield in % p. a.	33.1	14.2	11.4	19.4
10 years (Jan. 1, 2007 – Dec. 31, 2016)	€24,739	€17,404	€11,867	€23,639
Yield in % p. a.	9.5	5.7	1.7	9.0

1 Including reinvested dividends.

Outperformance of Continental shares compared over five and ten years

In terms of its share-price performance, Continental was at the bottom end in the annual ranking of the 30 DAX shares in 2016, taking 27th place (PY: sixth place). Even assuming the dividend distribution of €3.75 had been immediately reinvested, the performance of Continental shares was substantially weaker than that of the DAX, the EURO STOXX 50 and the EURO STOXX Automobiles & Parts (including reinvested dividends in each case) in 2016, after having outperformed the benchmark indexes in each of the years from 2012 to 2015.

When compared over longer periods, our share price performed considerably better despite the price decrease in 2016.

- Investing €10,000 in Continental shares at the beginning of 2014 would have generated a yield of 6.6% per year or an increase in value of 21% to €12,111 over the past three years. Among the reference indexes, only the EURO STOXX Automobiles & Parts generated a slightly better yield.

- Over the past five years, the same investment would have generated an increase in value of 319% to €41,908 (33.1% p.a.). In this case, a considerably higher yield would have been generated than with an investment in the reference indexes.

- A comparison of the performance over the past ten years also shows a substantial increase in value of 147% to €24,739 for a €10,000 investment in Continental shares. With an annual yield of 9.5%, Continental shares outperformed the reference indexes over this ten-year period as well.

Continental euro bonds at low yield level

The Continental euro bonds remained at a low yield level during 2016.

The shorter-term Continental euro bonds posted slight price decreases due to their approaching maturity. The 2.5% euro bond maturing on March 20, 2017, fell 211.2 basis points below its closing price for 2015, quoting at 100.567% as at the end of 2016. Over the reporting period, the price of the 3.0% euro bond maturing on July 16, 2018, declined by 197.9 basis points to 104.703%.

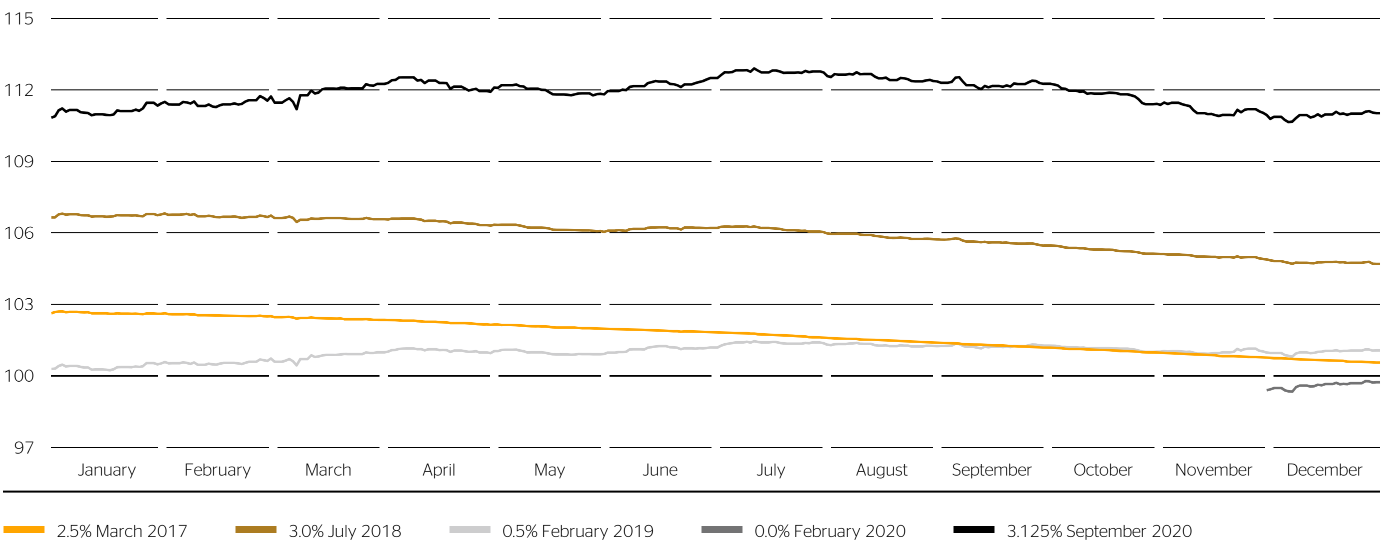
In the first six months of 2016, the longer-term Continental euro bonds benefited from the falling interest rate level for corporate bonds in the eurozone. This was attributable to the decision taken by the ECB in March 2016, and implemented since June 2016, to extend its bond purchases of euro-denominated corporate bonds with an investment grade rating. Furthermore, in June they benefited from investors' increasing demand for bonds in the run-up to and aftermath of the Brexit referendum.

Starting from mid-July 2016, reduced uncertainty led to a slight decrease in prices on the bond markets. The longer-term Continental bonds also declined somewhat during the second half of 2016. At the end of 2016, the 0.5% euro bond maturing on February 19, 2019, was quoted at 101.081%, or 80.5 basis points more compared to the end of 2015. The 3.125% euro bond maturing on September 9, 2020, was quoted at 111.024% at the end of 2016, up 22.6 basis points compared to the end of 2015.

Outstanding bonds as at December 31, 2016

WKN/ISIN	Coupon	Maturity	Volume in € millions	Issue price	Price as at Dec. 31, 2016	Price as at Dec. 31, 2015
A1VC6B / XS0972719412	2.500%	March 20, 2017	750.0	99.595%	**100.567%**	102.679%
A1X24V / XS0953199634	3.000%	July 16, 2018	750.0	98.950%	**104.703%**	106.682%
A1Z7C3 / DE000A1Z7C39	0.500%	February 19, 2019	500.0	99.739%	**101.081%**	100.276%
A2DARM / XS1529561182	0.000%	February 5, 2020	600.0	99.410%	**99.747%**	–
A1X3B7 / XS0969344083	3.125%	September 9, 2020	750.0	99.228%	**111.024%**	110.798%

Price performance of Continental bonds in 2016



Successful placement of a 0% euro bond

Under Continental's Debt Issuance Programme (DIP), a euro bond with an interest coupon of 0.0% was offered by Continental AG for the first time and successfully placed with investors in Germany and abroad on November 28, 2016. With a nominal volume of €600.0 million, the issue price was 99.410%. The new bond has a term of three years and two months. It was introduced on the regulated market of the Luxembourg Stock Exchange on December 5, 2016. At the end of 2016, it was quoted at 99.747%, up 33.7 basis points on its issue price.

Five-year CDS premium ends 2016 below its level at the beginning of the year

Turbulence on the raw materials and stock markets at the beginning of the year resulted in rising premiums for insuring against credit risks (credit default swap, CDS). By February 12, 2016, the five-year CDS premium for Continental had increased by more than 40 basis points to about 105 basis points from its level of 63.400 basis points at the end of 2015.

Over the remainder of the reporting period, the decision taken by the ECB in March 2016 to expand its measures resulted in falling interest rates in the eurozone and a decrease in CDS premiums for euro-denominated corporate bonds. In the run-up to both the Brexit referendum and the U.S. presidential election, growing uncertainty on the capital markets also resulted in slightly higher credit default swaps, although these decreased again after these events.

At the end of 2016, the Continental CDS premium was quoted at 59.081 basis points, slightly lower than its level of 63.400 basis points at the start of the year. The spread in relation to its reference index, the Markit iTraxx Europe, amounted to -13.234 basis points on December 31, 2016 (December 31, 2015: -16.466 basis points).

Further improvement in Continental's credit rating

On May 11, 2016, the rating agency Standard & Poor's upgraded Continental AG from BBB with a positive outlook to BBB+ with a stable outlook. On October 24, 2016, the rating agency Fitch also raised its credit rating to BBB+ with a stable outlook. The rating agency Moody's did not change its credit rating for Continental AG.

December 31, 2016	Rating	Outlook
Standard & Poor's[1]	BBB+	stable
Fitch[2]	BBB+	stable
Moody's[3]	Baa1	stable

December 31, 2015	Rating	Outlook
Standard & Poor's[1]	BBB	positive
Fitch[2]	BBB	positive
Moody's[3]	Baa1	stable

1 Contracted rating since May 19, 2000.
2 Contracted rating since November 7, 2013.
3 Non-contracted rating since February 1, 2014.

Net income per share reaches new high

In the year under review, the net income attributable to the shareholders of the parent rose by nearly 3% to a new high of €2.80 billion after €2.73 billion in the previous year. The reason for this was the good operating performance overall of the Continental Corporation, coupled with the further improvement in the net interest result. Earnings per share, i.e. the portion of profits attributable to the shareholders per share, are calculated by dividing the net income attributable to the shareholders of Continental AG by the average number of shares outstanding. This figure rose accordingly by almost 3% to €14.01 (PY: €13.64) – also a new high.

Dividend proposal increased to €4.25 per share
The Executive Board and the Supervisory Board have resolved to propose a 13.3% increase in the dividend distribution to €4.25 per share for the past fiscal year to the Annual Shareholders' Meeting to be held in Hanover on April 28, 2017. This corresponds to €850.0 million or a dividend payout ratio of 30.3% of net income attributable to the shareholders of the parent. Based on the dividend proposal and the annual average Continental share price, this results in a dividend yield of 2.3% for 2016.

A dividend of €3.75 per share was paid for fiscal 2015, amounting to a total payout of €750.0 million. The dividend payout ratio was 27.5%, and the dividend yield was 1.8%.

Free float unchanged at 54.0%
As in the previous year, free float as defined by Deutsche Börse AG amounted to 54.0% as at the end of 2016. 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%.

As at the end of 2016, the market capitalization of Continental AG amounted to €36.7 billion (PY: €44.9 billion). Market capitalization on the basis of free float in accordance with Deutsche Börse AG averaged €19.6 billion over the last 20 trading days of 2016 (PY: €24.1 billion). The trading volume in euros that is also relevant to index selection amounted to €20.5 billion from January to December 2016 (PY: €27.7 billion).

As at the end of 2016, Continental shares were ranked 16th (PY: 13th) in terms of free float market capitalization and 16th (PY: 14th) in terms of stock exchange turnover among the 30 DAX shares in Deutsche Börse AG's index ranking.

Increased share of free float in Germany and France
As at December 31, 2016, we once again determined the distribution of free float of Continental shares by way of shareholder identification (SID). We were able to assign 91.0 million of the 108.0 million shares held in the form of shares or alternatively as American depository receipts (ADRs) in the U.S.A. to institutional and private investors. The identification ratio was 84.3% of free float (PY: 93.3%).

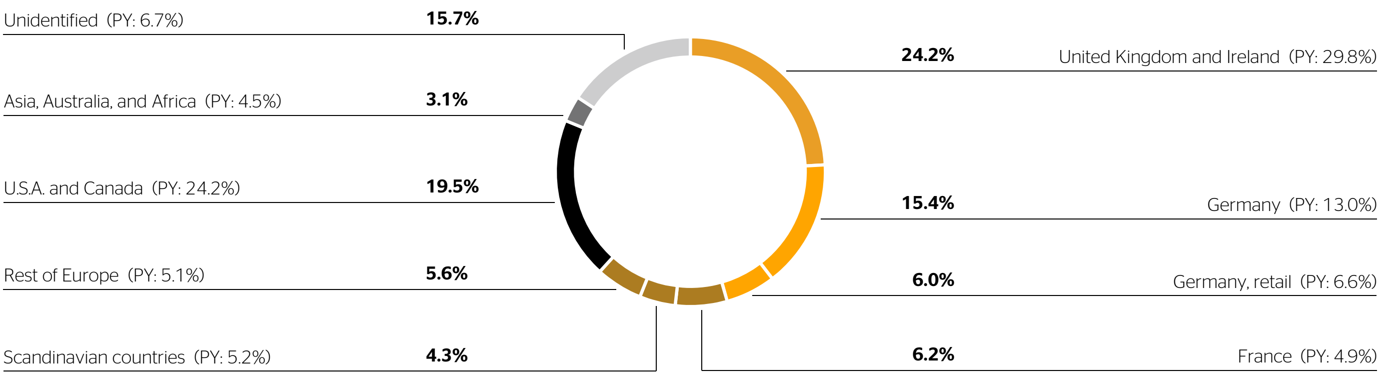
A total of 82.5 million shares were attributable to around 600 institutional investors in 39 countries. Private shareholders in Germany, other European countries and the U.S.A. held 8.7 million shares as at the end of the year.

According to the SID, the identified level of Continental shares held in Europe did not quite reach the previous year's level at 61.7% (PY: 64.6%). The identified level of shares held by institutional investors from the United Kingdom and Ireland fell from previously 29.8% to 24.2%. By contrast, the identified holdings of German institutional investors climbed to 15.4% in the year under review (PY: 13.0%). At 6.0%, shareholdings of private German shareholders were slightly lower than in the previous year at 6.6%. Higher shareholdings were identified in France at 6.2% (PY: 4.9%) and other European countries at 5.6% (PY: 5.1%). Scandinavian investors held about 4.3% (PY: 5.2%) of Continental shares at the end of 2016.

Identified shareholdings in the U.S.A. and Canada were down at the end of the year. As at the end of December 2016, institutional and private investors held a total of 19.5% (PY: 24.2%) of the free float in the form of shares or ADRs.

Identified shareholdings in Asia, Australia and Africa fell to 3.1% at the end of the year (PY: 4.5%).

Geographic distribution of free float in 2016



Continental share data

Type of share	No-par-value share
German stock exchanges (regulated market)	Frankfurt (Prime Standard), Hamburg, Hanover, Stuttgart
German securities code number (WKN)	543900
ISIN	DE0005439004
Reuters ticker symbol	CONG
Bloomberg ticker symbol	CON
Index memberships (selection)	DAX, Prime All Share, Prime Automobile, NISAX
Outstanding shares as at December 31, 2016	200,005,983
Free float as at December 31, 2016	54.0%

Continental's American depositary receipt (ADR) data

Ratio	1 share : 5 ADRs
SEDOL number	2219677
ISIN	US2107712000
Reuters ticker symbol	CTTAY.PK
Bloomberg ticker symbol	CTTAY
ADR level	Level 1
Trading	OTC
Sponsor	Deutsche Bank Trust Company Americas
ADRs issued as at December 31, 2016	6,605,890 (with 1,321,178 Continental shares deposited)

Unchanged share capital
As at the end of 2016, the share capital of Continental AG still amounted to €512,015,316.48. It is divided into 200,005,983 no-par-value shares with a notional value of €2.56 per share. Each share has the same dividend entitlement.

In line with Article 20 of Continental AG's Articles of Incorporation, each share grants one vote at the Annual Shareholders' Meeting. The current Articles of Incorporation are available online at www.continental-ir.com in the Corporate Governance section.

Continental share listings
Continental's shares continue to be officially listed on the German stock exchanges in Frankfurt, Hamburg, Hanover, and Stuttgart on the regulated market. Continental's shares are also traded on other unofficial stock exchanges in Germany and Europe.

Continental ADR listings
In addition to being listed on European stock exchanges, Continental shares are traded in the U.S.A. as part of a sponsored ADR program on the over-the-counter (OTC) market. They are not admitted to the U.S. stock market. Since the split of the outstanding ADRs on December 23, 2013, in a ratio of 1:5, five Continental ADRs are equivalent to one Continental share.

Continental Investor Relations online
For more information about Continental shares, bonds and credit ratings, as well as our Investor Relations app, please visit www.continental-ir.com. Updates about Continental are also available on Twitter at @Continental_IR.

Key figures of the Continental share[1]

€ (unless otherwise specified)	2016	2015
Basic earnings	14.01	13.64
Diluted earnings	14.01	13.64
Free cash flow	8.86	7.22
Dividend	4.25[2]	3.75
Dividend payout ratio (%)	30.3[2]	27.5
Dividend yield (%)	2.3[2]	1.8
Total equity (book value) as at December 31[3]	71.35	63.93
Yearly average price-earnings ratio (P/E ratio)[4]	13.22	15.33
Share price at year end	183.70	224.55
Average share price	185.26	209.05
Share price at year high	220.10	234.25
Share price at year low	158.20	166.60
Average XETRA trading volume per trading day (units)	436,412	525,734
Number of outstanding shares, average (in millions)	200.0	200.0
Number of outstanding shares as at December 31 (in millions)	200.0	200.0

1 All market prices are quotations of the Continental share in the XETRA system of Deutsche Börse AG.
2 Subject to the approval of the Annual Shareholders' Meeting on April 28, 2017.
3 Equity attributable to the shareholders of the parent per share.
4 Net income attributable to the shareholders of the parent per share at the annual average share price.

Corporate Governance
Report of the Supervisory Board

Dear Shareholders,

In the following, we would like to report on the work of the Supervisory Board and its committees in the 2016 fiscal year. We closely supervised, carefully monitored, and advised the Executive Board in the management of the company and comprehensively fulfilled all the tasks incumbent upon us under applicable law, the Articles of Incorporation, and our By-Laws. The Supervisory Board has satisfied itself of the legality and expediency of management. The Supervisory Board was directly involved in a timely manner in all decisions of fundamental importance to the company.

The Executive Board provided the Supervisory Board with regular, timely, and comprehensive updates in writing and verbally on all issues of relevance to the company. Specifically, these include planning, business strategy, significant business transactions in the company and the corporation, and the related risks and opportunities, as well as compliance issues. The Executive Board continually informed the Supervisory Board in detail of the sales, results, and employment development in the corporation and individual divisions as well as the financial situation of the company. Where the actual course of business deviated from the defined plans and targets, the Executive Board provided detailed explanations. It discussed the reasons for these deviations and the measures introduced in depth with the Supervisory Board and its committees. In addition, the Supervisory Board, the Chairman's Committee, and the Audit Committee dealt intensively with other key company matters at their meetings and in separate discussions. The members of the Supervisory Board were also available to the Executive Board for consultation outside the meetings. As chairman of the Supervisory Board, I was in regular contact with the Executive Board and its chairman and discussed current company issues and developments with them.

Meetings of the Supervisory Board and the committees
The Supervisory Board held four ordinary meetings in 2016 as well as the strategy meeting and one telephone conference. At three meetings, the Supervisory Board conferred at times in the absence of the Executive Board. The Chairman's Committee held four meetings and two telephone conferences in the year under review. The Audit Committee met four times in 2016. The Nomination Committee and the Mediation Committee in accordance with Section 27 (3) of the German Co-determination Act *(Mitbestimmungsgesetz – MitbestG)* did not need to meet. There are no other committees. All committees report to the plenary session on a regular basis. The Corporate Governance Report starting on page 18 describes their duties in more detail and names their members.

Most members of the Supervisory Board attended all meetings in person. With just one exception, each member of the Supervisory Board attended in the past fiscal year more than half of the meetings of the plenary session and committees to which they belonged. Elke Volkmann was unable to take part in the Supervisory Board's telephone conference, the strategy meeting and the September meeting.

Key topics dealt with by the Supervisory Board and the Chairman's Committee
The Supervisory Board's discussions repeatedly focused on the company's strategic development and orientation. At the strategy meeting in particular, the Executive Board and the Supervisory Board once again discussed at length the strategic objectives and strategic planning of the corporation and the divisions. As always, regular subjects of the discussions in the Executive Board's reporting on the current business development included the situation on the raw materials and sales markets as well as the share-price performance.

Other key topics of the strategy meeting related to developments in the field of electric drive systems and the focus that the company intends to place on mobility services in the future. For example, Continental expanded its fleet management expertise with the acquisition of the majority stake in Zonar Systems, Inc., Seattle, Washington, U.S.A. The Supervisory Board approved this transaction at its meeting in September 2016. At the same time, the Supervisory Board authorized the acquisition of Hoosier Racing Tire Corp., Lakeville, Indiana, U.S.A., by the Tire division, which strengthens our expertise in the field of ultra-high-performance tires.

In addition, the Supervisory Board discussed further management actions by the Executive Board that require the approval of the Supervisory Board or its Chairman's Committee in accordance with the company's Articles of Incorporation and the Supervisory Board By-Laws. After careful examination, approval was granted for the acquisition of the remaining shares in our company in Wuhu, China, and of the Bandvulc Group in the U.K., a leading U.K. fleet-management service provider and truck-tire retreader. The Supervisory Board also approved the acquisition of the Hornschuch Group by the ContiTech division as well as the structural measures at the Gifhorn location. In its meeting on December 13, 2016, the Supervisory Board discussed the annual planning for 2017 and long-term planning and also approved the planning and the investment plans for fiscal 2017.

Key topics dealt with by the Audit Committee
The Audit Committee was also informed by the Executive Board in detail and on an ongoing basis about sales, results and employment development in the corporation and individual divisions as well as the financial situation of the company. The Executive Board is assisted by the heads of Accounting and Corporate Controlling, who can provide the Audit Committee directly with information at its meetings. In addition, the chairman of the Audit Committee is also in contact with the chief financial officer and the auditor of the corporation outside of the meetings on a regular basis. The Audit Committee also ensures that it is regularly informed of the progress of major acquisition and investment projects. In 2016, this included Veyance Technologies and Elektrobit Automotive, both of which were acquired in 2015.

Before the half-year and quarterly financial reports were published, the Audit Committee discussed and reviewed them with the Executive Board, paying particular attention to the results for the relevant reporting period as well as the outlook for the year as a whole. The interim financial statements as at June 30, 2016, were reviewed by KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover (KPMG), on behalf of the Audit Committee. The Audit Committee also issued the mandate for the audit of the 2016 annual and consolidated financial statements, as well as the Dependent Company Report, to KPMG, pursuant to the resolution adopted by the Annual Shareholders' Meeting. The committee also defined the focal points of the reports.

The Audit Committee once again performed an assessment of the quality of the audit of the financial statements. In accordance with the EU audit regulation, which went into effect mid-2016, the Audit Committee defined an approval framework for assigning the auditor non-audit services. It obtained extensive information on new developments in accounting standards.

The Audit Committee is closely involved in compliance and risk management. The work of the Compliance department and the Corporate Audit department, as well as reporting on significant events are regular topics at each Audit Committee meeting. These included in particular the matters described in more detail in the Report on Risks and Opportunities and in the Notes to the Consolidated Financial Statements. The head of the Compliance department and the head of Corporate Audit were also available to provide information directly to the Audit Committee and its chairman in coordination with the Executive Board. The chairman of the Audit Committee shares key information as part of his regular reporting to the plenary session. In addition, the head of the Compliance department reports directly to the plenary session of the Supervisory Board once a year about the work of the Compliance department and significant compliance cases.

The Audit Committee recognized the good results of the review of the quality of Corporate Audit carried out by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft. Furthermore, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, based on its audit, confirmed the effectiveness of the compliance management system in accordance with Audit Standard 980 of the Institut der Wirtschaftsprüfer e. V. (IDW). In addition, the Executive Board reported to the Audit Committee on the material risks covered by the risk management system and the corresponding measures resolved. The Audit Committee also obtained information on the Governance, Risk and Compliance (GRC) system used for the first time as at June 30, 2016. Another important topic discussed by the Audit Committee was product compliance processes. These aim to ensure that the company's products comply with the applicable legal regulations. IT system security was once again a subject of the discussions as well. The Audit Committee has satisfied itself of the effectiveness of the internal control system, the risk management system and the internal audit system.

Corporate Governance

At its meeting in December 2016, the Supervisory Board agreed an updated declaration in accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz – AktG)* on the recommendations of the German Corporate Governance Code. The Supervisory Board also performed an efficiency review again in 2016 with the support of an external consultant and discussed the results in its meeting in December. This once again confirmed the positive development of the Supervisory Board's work in the past years. The Supervisory Board will adopt the recommendations that resulted from the evaluation.

No conflicts of interest arose among the members of the Executive Board or the Supervisory Board in the year under review. In its opinion, the Supervisory Board also had an appropriate number of independent members as defined in the German Corporate Governance Code at all times in the period under review.

Further information on corporate governance is included in the Corporate Governance Report starting on page 18.

Annual and consolidated financial statements

KPMG audited the annual financial statements as at December 31, 2016, prepared by the Executive Board in accordance with the provisions of the German Commercial Code *(Handelsgesetzbuch – HGB)*, the 2016 consolidated financial statements, and the summarized management report for the corporation and Continental AG, including the accounts, the accounting-related internal control system, and the system for early risk recognition. The 2016 consolidated financial statements of Continental AG were prepared in accordance with the International Financial Reporting Standards (IFRS). The auditor issued unqualified opinions. In terms of the system for early risk recognition, the auditor found that the Executive Board had taken the necessary measures under Section 91 (2) *AktG* and that the company's system for early risk recognition is suitable for identifying developments at an early stage that pose a risk to the company as a going concern. KPMG issued the following unqualified opinion on the Dependent Company Report in accordance with Section 313 (3) *AktG*:

"Based on the results of our statutory audit and evaluation we confirm that:

› the actual information included in the report is correct,

› with respect to the transactions listed in the report, payments by the company were not unduly high or that detrimental effects had been compensated for, and

› there are no circumstances in favor of a significantly different assessment than that made by the Executive Board in regard to the measures listed in the report."

The Audit Committee discussed the documents relating to the annual financial statements, including the Dependent Company Report, and the audit reports with the Executive Board and the auditor on February 28, 2017. Furthermore, the plenary session of the Supervisory Board discussed these at length at its meeting to approve the annual financial statements on March 10, 2017. The required documents were distributed to all members of the Audit Committee and the Supervisory Board in good time before these meetings so that the members had sufficient opportunity to review them. The auditor was present at these discussions. The auditor reported on the main results of the audits and was available to provide additional information to the Audit Committee and the Supervisory Board. Based on its own review of the annual financial statements, the consolidated financial statements, the company management report, the combined management report of Continental AG and of the corporation, as well as the Dependent Company Report including the final declaration of the Executive Board, and based on the report and the recommendation of the Audit Committee, the Supervisory Board concurred with the results of the auditor's audit. There were no objections. The Supervisory Board approved the annual financial statements and the consolidated financial statements. The annual financial statements are thereby adopted. In addition, the Supervisory Board together with the Executive Board will propose a dividend distribution of €4.25 per share for the past fiscal year at the Annual Shareholders' Meeting on April 28, 2017.

Personnel changes in the Supervisory Board and Executive Board

There was only one personnel change in the Supervisory Board. Hans Fischl stepped down as at December 31, 2016 to begin a well-earned retirement at the end of January 2017. His successor is Gudrun Valten, a member of the works council of Continental Automotive GmbH, Regensburg. The Supervisory Board would like to thank Hans Fischl for his many years of dedicated work on behalf of the company and its employees, and for his major contribution to the Supervisory Board's work. For more information on the members of the Supervisory Board and its committees who were in office in the year under review, see pages 19, 214 and 215.

At its meeting in September, the Supervisory Board extended the appointment of Helmut Matschi and Nikolai Setzer as members of the Executive Board by another five years until August 2022. At its meeting in December, it also extended the appointment of Dr. Ariane Reinhart by another five years until the end of September 2022.

As a listed stock corporation subject to the German Co-determination Act *(Mitbestimmungsgesetz – MitbestG)*, Continental AG is also subject to the German law for the equal participation of women and men in managerial positions in the private and public sectors, which came into force on May 1, 2015. At its meeting in December, the Supervisory Board once again set a target for the percentage of women on the Executive Board to be achieved by December 31, 2021, in accordance with the act. Details of this target, of the achievement of the target set for December 31, 2016, and of the other obligations arising from the act are described in the Corporate Governance Declaration (Corporate Governance Report) starting on page 18.

The Supervisory Board would like to thank the Executive Board, all the employees, and the employee representatives for their excellent work, which enabled the company to develop well overall in the past year.

Hanover, March 10, 2017

For the Supervisory Board,

Prof. Dr.-Ing. Wolfgang Reitzle
Chairman

Corporate Governance Report and Declaration Pursuant to Section 289a of the German Commercial Code *(HGB)*

Good, 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 its 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. In the following, the Executive Board and Supervisory Board report on corporate governance at Continental in accordance with our Corporate Governance Principles, Section 3.10 of the German Corporate Governance Code and Section 289a of the German Commercial Code *(Handelsgesetzbuch – HGB)*. The report is supplemented by the remuneration report of Continental AG, which is a part of the company's Management Report.

Continental AG's Corporate Governance Principles are closely modeled on the German Corporate Governance Code. Together with the BASICS, in which we have set out our values and guidelines since 1989, our Corporate Social Responsibility Principles and our Code of Conduct, these principles form a guideline for corporate management and control at Continental.

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 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 nine members. 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 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 and 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. 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 by the shareholders in the Shareholders' Meeting, while the other half are elected by the employees of Continental AG and its German subsidiaries. For new Supervisory Board members, the company has set up an introductory program that provides them 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.

In accordance with Section 5.4.1 of the German Corporate Governance Code, the Supervisory Board has specified targets for its composition. Since January 1, 2016, the Supervisory Board of Continental AG has been subject to the requirement arising from Section 96 (2) *AktG*, which specifies that at least 30% of its members must be women and at least 30% must be men. The previous target for the percentage of women on the Supervisory Board therefore no longer applied. Since December 2015, the targets for the composition of the Supervisory Board have been as follows:

› 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 number of members of the Supervisory Board with international business experience or other international connections should at least remain the same. At least seven members currently fulfill this criterion.

› The Supervisory Board should include an appropriate number of independent members. Assuming that employee representatives are generally to be considered independent in terms of the German Corporate Governance Code, the Supervisory Board should include at least 15 independent members. However, in any case at least five shareholder representatives should be independent as defined in the Code. This target has also been met.

- An appropriate number of members of the Supervisory Board with experience in industries in which the company operates should be maintained. Far more than half of the Supervisory Board members have such experience.

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. The Supervisory Board will continue to report regularly on the status of the implementation of the targets.

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 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, the Executive Board's reporting obligations, and a list of legal transactions that require the approval of the Supervisory Board. The Supervisory Board consults, in the absence of the Executive Board, on a regular basis as needed.

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 Supervisory Board's chairman, Prof. Dr.-Ing. Wolfgang Reitzle; his vice chairman, 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 by the company as specified in the Supervisory Board By-Laws. The Supervisory Board has conferred some of these participation rights on the Chairman's Committee subject to the condition that, in individual cases, each of its members may 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 and internal audit system; performs a preliminary examination of Continental AG's annual financial statements and the consolidated financial statements; and makes its recommendation to the plenary session of the Supervisory Board, which then passes resolutions pursuant to Section 171 of the German Stock Corporation Act *(Aktiengesetz – 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. 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 Peter Hausmann, Dirk Nordmann, Georg F. W. Schaeffler and – since September 23, 2016 – Michael Iglhaut, who succeeded Erwin Wörle. 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. It consists entirely of shareholder representatives, specifically the two shareholder representatives on the Chairman's Committee, Prof. Dr.-Ing. Wolfgang Reitzle 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 his/her removal by consent does not achieve the legally required two-thirds majority. This committee must then attempt mediation before a new vote is taken.

Shares held by Supervisory Board and Executive Board members

The IHO Group holds 46.0% of the shares in Continental AG. This shareholding is attributable to two members of the Supervisory Board, Maria-Elisabeth Schaeffler-Thumann, and Georg F. W. Schaeffler. As at February 6, 2017, the remaining members of the Supervisory Board held shares representing a total interest of less than 1% in the common stock of the company. The members of the Executive Board held shares also representing a total interest of less than 1% in the common stock of the company as at February 6, 2017.

Shareholders and the Annual 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 dismissal 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 Annual 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 Annual Shareholders' Meeting, the shareholders are fully informed about the past fiscal year and the points on the upcoming agenda before the Annual Shareholders' Meeting by means of the Annual Report and the invitation to the meeting. All documents and information on the Annual Shareholders' Meeting, including the Annual Report, are also published on the company's website in German and English. To facilitate the exercise of shareholders' rights, the company offers all shareholders who cannot or do not want to exercise their voting rights themselves the opportunity to vote at the Annual Shareholders' Meeting via a proxy who is bound by instructions.

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

In December 2016, the Executive Board and the Supervisory Board issued the following annual declaration in accordance with Section 161 *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 May 5, 2015; published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette *(Bundesanzeiger)* on June 12, 2015), subject to the qualifications set forth below. Reference is made to the declaration of the Executive Board and the Supervisory Board of December 2015, 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 2016

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 on Continental's website. Earlier declarations in accordance with Section 161 *AktG* can also be found there. In Continental AG's Corporate Governance Principles, the Executive Board and the Supervisory Board have undertaken to explain not only deviations from the recommendations made by the Code, but also any deviations from its suggestions as follows:

- Section 2.3.3 of the Code suggests giving shareholders the opportunity to watch the entire Annual Shareholders' Meeting using communication media such as the Internet. In line with widespread practice, Continental AG has so far broadcast only parts of the Annual Shareholders' Meeting – particularly the report by the Supervisory Board and the speech by the chairman of the Executive Board – on the Internet in the framework regulated by the Articles of Incorporation.

- 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.

Continental AG's complete Corporate Governance Principles are published on the Internet at www.continental-ir.com.

Key corporate governance practices

In addition to the Corporate Governance Principles, the following principles are also key to our long-term 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.

- The Corporate Social Responsibility Principles.

- Compliance with the binding Code of Conduct for all Continental employees (see details on page 22).

These documents are available on Continental's website at: www.continental-corporation.com.

Accounting/audit 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 29, 2016, elected KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover (KPMG) to audit the consolidated financial statements for fiscal 2016 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 20 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 trigger 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
The company regularly reports to shareholders, analysts, shareholders' associations, the media and interested members of the public equally on significant developments in the corporation and its situation. All shareholders therefore have instant access to all the information that is also available to financial analysts and similar parties. In particular, the website of Continental AG is used to ensure the timely distribution of information. The company's financial reports, presentations held at analyst and investor conferences, press releases, and ad hoc disclosures are also available on the website. The dates of key periodic publications (annual reports and interim reports) and events as well as of the Annual Shareholders' Meeting and the annual financial press conference are announced in a timely manner in a financial calendar on the company's website. The dates already set for 2017 and 2018 can be found at www.continental-ir.com.

Report pursuant to Section 289a (2) No. 4 and 5 *HGB*
Pursuant to Section 96 (2) *AktG*, the Supervisory Board of Continental AG as a listed stock corporation subject to the German Codetermination Act consists of at least 30% women and at least 30% men. These minimum quotas are mandatory from 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)*. If a seat becomes vacant before the next scheduled elections, the percentage of women must be increased in accordance with the legal requirements. Women made up 20% of the Supervisory Board of Continental AG as at December 31, 2016, and 25% at the time this report was prepared.

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. This deadline, which had to be defined for the first time by no later than September 30, 2015, in accordance with Section 25 (1) *EGAktG*, must not be later than June 30, 2017. After this, a deadline of up to five years can be set. The Supervisory Board set December 31, 2016, as the first deadline, in order to bring the reference period for target achievement in line with the company's fiscal year. Within the stipulated time limit, the Supervisory Board had set a target for the ratio of women on the Executive Board of at least maintaining the level of 11% in place at the time of the resolution. The target was met as at December 31, 2016. 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% again 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.

In accordance with Section 76 (4) *AktG*, the Executive Board of Continental AG is also 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. The Executive Board had set the goal of achieving a ratio of at least 17% women in the first management level and more than 30% in the second management level by December 31, 2016. As at December 31, 2016, the ratio of women in the first management level was at 11%. This target was not reached primarily due to the fact that positions already held by men were elevated to the first management level as part of changes in the organization. Due to personnel changes that had already been decided upon before December 31, 2016, but become effective only during the first quarter of 2017, the ratio of women is rising to 21%. In the second management level, the target for December 31, 2016, was exceeded. For the period up until December 31, 2021, the Executive Board has now set the following target quotas for women in the first two management levels below the Executive Board at Continental AG: 26% for the first management level and 33% for the second management level. Besides the legal requirements in Germany, as a global company, Continental continues to attach high priority to the goal of steadily increasing the number of women in management positions throughout the corporation.

Compliance

One of our basic values is trust. Trust requires integrity, honesty, and incorruptibility. Compliance with all the legal requirements that apply to Continental AG and its subsidiaries and its internal regulations by management and employees has therefore long been a goal of the company and an integral part of its corporate culture. In addition to our corporate guidelines, the BASICS, and the Corporate Governance Principles, this is reflected in particular in our Corporate Social Responsibility Principles and the Code of Conduct that is binding for all employees. The Executive Board is firmly committed to these principles and that of "zero tolerance," particularly with regard to corruption and antitrust violations.

The basis of our Compliance Management System (CMS) is a comprehensive analysis of the compliance risks to which the company is exposed. The company and its business activities are examined in terms of potential compliance risks that can arise, for example, from its structures and processes, a specific market situation or even operations in certain geographic regions. This takes into account, for example, the results of a regular corporation-wide risk inventory in addition to external sources such as the Transparency International's Corruption Perception Index. This analysis is substantiated and expanded primarily by a series of discussions with management and employees at all levels. The risk analysis is not a one-off procedure, but rather a process requiring constant review and updates.

The head of the Compliance department manages the compliance organization in operational terms. The person holding this position is subordinate to the corporate compliance officer, who reports directly to the chief financial officer. The focal area of the work of the Compliance department is preventing violations of antitrust and competition law, corruption, fraud, and other property offenses. For other areas in which there is a risk of compliance violations, responsibility for compliance management lies with the respective functions that have performed these duties competently for a long time and are supported in these tasks by the Compliance department.

The CMS consists of the three pillars of prevention, detection, and response:

› The first pillar of CMS – prevention – includes employee training, in particular, in addition to the risk analysis. Here, we attach great importance to in-person events at which we can address employees personally and directly and discuss their questions. We use e-learning programs as well. Prevention is also fostered by advice on specific matters from the Compliance department and by the internal publication of guidelines on topics such as antitrust law and contact with competitors, giving and receiving gifts, and sponsoring. To avoid compliance violations by suppliers, service providers or similar third parties that could have negative repercussions for Continental, or that could be attributed to the company under laws such as the U.K. Bribery Act, Continental introduced a Supplier Code of Conduct. This must be recognized as a basic requirement for doing business with Continental. If necessary, supplier due diligence can be performed with regard to compliance issues.

› The second pillar of CMS – detection – comprises regular and ad hoc audits. In addition, compliance is always a subject of audits carried out by Corporate Audit. Continental AG has set up a Compliance & Anti-Corruption Hotline to give the 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 other offenses or accounting manipulation, can be reported anonymously via the hotline where permissible by law. Corporate Audit and the Compliance department investigate and pursue all tips received by this hotline. The hotline is available worldwide in many different languages. The number of tips received by the hotline has risen steadily over the past few years. We see this as a sign of increased awareness of compliance topics and as a success in our compliance work.

› The third pillar of CMS – response – deals with the consequences of compliance violations that have been identified. The Compliance department is involved in decisions on measures that may be required, including any individual sanctions. Furthermore, the Compliance department conducts a thorough analysis of such events to ensure that isolated incidents are not symptoms of failings in the system and to close any gaps in prevention.

In 2011, Continental AG had the concept of its CMS for the areas of anti-corruption, competition/antitrust law, fraud and other property offenses audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (EY) in accordance with Audit Standard 980 of the Institut der Wirtschaftsprüfer e. V. (IDW). EY issued an unqualified review opinion. In 2012, EY audited the implementation of the CMS in accordance with IDW Audit Standard 980 and came to the same conclusion in early 2013. In spring 2016, the audit of the effectiveness of the CMS by EY in accordance with IDW Audit Standard 980 was successfully completed.

Material compliance-related matters and risks are described in more detail in the Report on Risks and Opportunities starting on page 110, and in the Notes to the Consolidated Financial Statements (Note 33).

Remuneration Report

This Remuneration Report is a part of the Management Report.

Basic elements of the Executive Board remuneration system
In accordance with the German Stock Corporation Act *(Aktiengesetz – AktG)*, the plenary session of the Supervisory Board is responsible for determining the remuneration for the Executive Board. In September 2013, the Supervisory Board redefined the structure and key elements of the Executive Board remuneration system. The Annual Shareholders' Meeting on April 25, 2014, approved this system of remuneration for the Executive Board members in accordance with Section 120 (4) *AktG*. It was applied in 2016 for all Executive Board members in office in this fiscal year.

In 2016, the Supervisory Board once again commissioned an independent consultant to review the system, structure and amount of remuneration for the Executive Board. The conclusion was, firstly, that the remuneration system and structure, as described in detail hereinafter, satisfy the legal requirements and comply with the recommendations of the German Corporate Governance Code. The consultant assessed the amount of remuneration as appropriate overall. In order to raise the direct remuneration, i.e. the fixed and variable remuneration, to the middle of a remuneration range for comparable companies, the consultant, however, proposed that individual elements be increased. After performing its own detailed review and discussions, the Supervisory Board resolved on the adjustments described hereinafter, which take effect as at January 1, 2017. In determining the remuneration of the Executive Board, the Supervisory Board also took account of the remuneration structure that applies in the rest of the corporation and the ratio of the Executive Board remuneration to the remuneration of senior executives and the workforce in Germany as a whole, including its development over time.

Remuneration for Executive Board members consists of fixed remuneration, variable remuneration elements, additional benefits, and retirement benefits.

Each Executive Board member receives fixed annual remuneration paid in twelve monthly installments. The fixed remuneration of the chairman of the Executive Board will be raised as at January 1, 2017, to bring it in line with market development. The fixed remuneration of the other Executive Board members as determined in 2013 will remain unchanged.

The Executive Board members also receive variable remuneration in the form of a performance bonus and a share-based long-term incentive (LTI). The structure of the variable remuneration is geared toward sustainable development of the company as defined in the German Stock Corporation Act and the German Corporate Governance Code, with a future-oriented assessment basis that generally covers several years. The performance bonus is based on a target bonus that the Supervisory Board determines for each Executive Board member for 100% target achievement, and is then calculated in line with the attainment of certain targets relating to the year-on-year change in the Continental Value Contribution (CVC) and the return on capital employed (ROCE). For Executive Board members who are responsible for a particular division, these key figures relate to the relevant division; for other Executive Board members, they relate to the corporation. In addition to the CVC and ROCE targets, the Supervisory Board can determine a strategic target at the beginning of each fiscal year. For 2016, the Supervisory Board had set the target of attaining a specific free cash flow for the corporation. If specified minimum values are not achieved, the performance bonus can also decrease to zero. In order to take into account extraordinary factors that have influenced the degree to which targets are achieved, the Supervisory Board has the right – at its due discretion – to retroactively adjust the established attainment of goals on which the calculation of the performance bonus is based by up to 20% upward or downward. In any event, the performance bonus is capped at 150% of the target bonus. This applies irrespective of whether an additional strategic target is resolved.

The performance bonus achieved in a fiscal year is divided into a lump sum, which is paid out as an annual bonus (immediate payment), and a deferred payment (deferral). Under the agreements applicable until December 31, 2013, the immediate payment amounted to 40% of the performance bonus while the deferral amounted to 60%. Since 2014, the immediate payment has amounted to 60% and the deferral 40%. The deferral is converted into virtual shares of Continental AG. Following a holding period of three years after the end of the fiscal year for which variable remuneration is awarded, the value of these virtual shares is paid out together with the value of the dividends that were distributed for the fiscal years of the holding period. The conversion of the deferral into virtual shares and payment of their value after the holding period are based on the average share price for the three-month period immediately preceding the Annual Shareholders' Meeting in the year of conversion or payment. However, the amount of a deferral relating to a fiscal year up to and including 2013 that is paid after the holding period may not fall below 50% of the value at the time of conversion or exceed three times this same value. In addition, the Supervisory Board may retroactively revise the amount paid out for such deferrals by up to 20% upward or downward to balance out extraordinary developments. For deferrals acquired in 2014 or subsequent years, there is no guarantee that at least 50% of the initial value of the deferral will be paid out at the end of the holding period, and it is not possible anymore for the Supervisory Board to change the amount to be paid out retroactively. Furthermore, the possible increase in the value of the deferral is capped at 250% of the initial value.

In addition to the performance bonus, a special bonus can be agreed upon for special projects in individual cases or a recognition bonus can be granted. However, a recognition or special bonus of this kind and the performance bonus together must not exceed 150% of the target bonus, and it is also included in the division into immediate payment and deferral.

With the granting of the LTI, the share of long-term components amounts to 60% or more of variable remuneration on the basis of the target values. The LTI plan is resolved by the Supervisory Board on an annual basis with a term of four years in each case. It determines the target bonus to be paid for 100% target achievement for each Executive Board member, taking into account the corporation's earnings and the member's individual performance. The first criterion for target achievement is the average CVC that the corporation actually generates in the four fiscal years during the term, starting with the fiscal year in which the tranche is issued. This value is compared to the average CVC, which is set in the strategic plan for the respective period. The degree to which this target is achieved can vary between 0% and a maximum of 200%. The other target criterion is the total shareholder return on Continental shares (share-price performance plus dividends) during the term of the tranche. The degree to which this target is achieved is multiplied by the degree to which the CVC target is achieved to determine the degree of target achievement on which the LTI that will actually be paid after the end of the term is based. It can range between 0% (no payment) and 200% (maximum payment).

In 2013, in anticipation of the plan to be implemented from 2014, the Supervisory Board already granted an LTI to the Executive Board members in office, with the exception of Frank Jourdan. Its conditions correspond to those that apply to the 2013 LTI plan for the senior executives. In addition to a CVC target, this plan does not have a share-based target but does have a target relating to free cash flow in the last year of the term. The 2013 LTI plan is described in detail in the Notes to the Consolidated Financial Statements in the section on employee benefits (Note 24). Frank Jourdan and Hans Jürgen Duensing remain entitled to LTI that were granted to them as senior executives between 2010 and 2013 or 2011 and 2014 respectively.

Starting from January 1, 2017, the target amounts for the performance bonus and the LTI will be increased to raise the total remuneration of the Executive Board members to the middle of a remuneration range of comparable companies in each case.

Executive Board members also receive additional benefits, primarily the reimbursement of expenses, including any relocation expenses and payments – generally for a limited time – for a job-related second household, the provision of a company car, and premiums for group accident and directors' and officers' (D&O) liability insurance. The D&O insurance policy provides for an appropriate deductible in line with the requirements of Section 93 (2) Sentence 3 *AktG*. For longer periods working abroad, benefits are granted in line with the foreign assignment guidelines for senior executives. As a rule, members of the Executive Board must pay taxes on these additional benefits.

Continued remuneration payments have also been agreed for a certain period in the event of employment disability through no fault of the Executive Board member concerned.

All members of the Executive Board have been granted post-employment benefits that are paid starting at the age of 63 (but not before they leave the service of the company) or in the event of disability.

From January 1, 2014, the company pension for the members of the Executive Board was changed from a purely defined benefit to a defined contribution commitment. A "capital component" is credited to the Executive Board member's pension account each year. To determine this, an amount equivalent to 20% of the sum of the fixed remuneration and the target value of the performance bonus is multiplied by an age factor representing an appropriate return. The future benefit rights accrued until December 31, 2013, have been converted into a "starting component" in the capital account. When the insured event occurs, the benefits are paid out as a lump sum, in installments or – as is normally the case due to the expected amount of the benefits – as a pension. Overall, the level of the benefits has fallen to around 80% of the previous commitments due to the conversion. Post-employment benefits are adjusted after commencement of such benefit payments in accordance with Section 16 of the German Company Pensions Law *(Betriebsrentengesetz – BetrAVG)*.

In the employment contracts it has been agreed that, in the event of premature termination of Executive Board work, payments to the Executive Board member that are to be agreed, including the additional benefits, shall not exceed the value of two annual salaries or the value of remuneration for the remaining term of the employment contract for the Executive Board member. There are no compensation agreements with the members of the Executive Board for the event of a takeover bid or a change of control at the company. Heinz-Gerhard Wente, who retired on April 30, 2015, received compensation for non-competition in an amount of €686 thousand in 2016 – taking into account his pension entitlements – for a post-contractual non-compete covenant, which was still in place in that year. This amount included a back payment for the previous year, because the starting basis had increased as a result of including realized variable remuneration elements.

Individual remuneration

In the tables below, the benefits, inflows and service costs granted to each active member of the Executive Board are shown separately in accordance with the recommendations of Section 4.2.5 para. 3 of the German Corporate Governance Code.

	Remuneration granted				Inflows	
€ thousands	2015	**2016**	2016 (min.)	2016 (max.)	2015	**2016**
Dr. E. Degenhart (Board chairman; Board member since August 12, 2009)						
Fixed remuneration	1,350	1,350	1,350	1,350	1,350	1,350
Additional benefits	29	102	102	102	29	102
Total	**1,379**	**1,452**	**1,452**	**1,452**	**1,379**	**1,452**
Performance bonus (immediate payment)	1,110	1,110	0	1,665	1,665	1,245
Multiannual variable remuneration	1,940	1,940	0	4,250	3,227	2,230
Performance bonus (deferral) [3 years]	740	740	0	1,850	3,227	2,230
Long-term incentive [4 years]	1,200	1,200	0	2,400	–	–
Total	**4,429**	**4,502**	**1,452**	**7,367**	**6,271**	**4,927**
Service costs	764	900	900	900	764	900
Total remuneration	**5,193**	**5,402**	**2,352**	**8,267**	**7,035**	**5,827**
J. A. Avila (Board member for Powertrain; Board member since January 1, 2010)						
Fixed remuneration	800	800	800	800	800	800
Additional benefits	34	49	49	49	34	49
Total	**834**	**849**	**849**	**849**	**834**	**849**
Performance bonus (immediate payment)	660	660	0	990	990	641
Multiannual variable remuneration	990	990	0	2,200	2,216	990
Performance bonus (deferral) [3 years]	440	440	0	1,100	2,216	990
Long-term incentive [4 years]	550	550	0	1,100	–	–
Total	**2,484**	**2,499**	**849**	**4,039**	**4,040**	**2,480**
Service costs	460	365	365	365	460	365
Total remuneration	**2,944**	**2,864**	**1,214**	**4,404**	**4,500**	**2,845**
Dr. R. Cramer (Board member for Continental China; Board member since August 12, 2009)						
Fixed remuneration	800	800	800	800	800	800
Additional benefits	635	475	475	475	635	475
Total	**1,435**	**1,275**	**1,275**	**1,275**	**1,435**	**1,275**
Performance bonus (immediate payment)	660	660	0	990	990	740
Multiannual variable remuneration	990	990	0	2,200	2,249	844
Performance bonus (deferral) [3 years]	440	440	0	1,100	2,249	844
Long-term incentive [4 years]	550	550	0	1,100	–	–
Total	**3,085**	**2,925**	**1,275**	**4,465**	**4,674**	**2,859**
Service costs	477	611	611	611	477	611
Total remuneration	**3,562**	**3,536**	**1,886**	**5,076**	**5,151**	**3,470**

€ thousands	Remuneration granted				Inflows	
	2015	**2016**	2016 (min.)	2016 (max.)	2015	**2016**
H.-J. Duensing (Board member for ContiTech; Board member since May 1, 2015)						
Fixed remuneration	533	800	800	800	533	800
Additional benefits	10	54	54	54	10	54
Total	**543**	**854**	**854**	**854**	**543**	**854**
Performance bonus (immediate payment)	443	660	0	990	133	965
Multiannual variable remuneration	845	990	0	2,200	145	140
Performance bonus (deferral) [3 years]	295	440	0	1,100	–	–
Long-term incentive [4 years]	550	550	0	1,100	145	140
Total	**1,831**	**2,504**	**854**	**4,044**	**821**	**1,959**
Service costs	348	516	516	516	348	516
Total remuneration	**2,179**	**3,020**	**1,370**	**4,560**	**1,169**	**2,475**
F. Jourdan (Board member for Chassis & Safety; Board member since September 25, 2013)						
Fixed remuneration	800	800	800	800	800	800
Additional benefits	36	60	60	60	36	60
Total	**836**	**860**	**860**	**860**	**836**	**860**
Performance bonus (immediate payment)	660	660	0	990	990	303
Multiannual variable remuneration	990	990	0	2,200	181	175
Performance bonus (deferral) [3 years]	440	440	0	1,100	–	–
Long-term incentive [4 years]	550	550	0	1,100	181	175
Total	**2,486**	**2,510**	**860**	**4,050**	**2,007**	**1,338**
Service costs	572	305	305	305	572	305
Total remuneration	**3,058**	**2,815**	**1,165**	**4,355**	**2,579**	**1,643**
H. Matschi (Board member for Interior; Board member since August 12, 2009)						
Fixed remuneration	800	800	800	800	800	800
Additional benefits	37	47	47	47	37	47
Total	**837**	**847**	**847**	**847**	**837**	**847**
Performance bonus (immediate payment)	660	660	0	990	990	282
Multiannual variable remuneration	990	990	0	2,200	1,201	844
Performance bonus (deferral) [3 years]	440	440	0	1,100	1,201	844
Long-term incentive [4 years]	550	550	0	1,100	–	–
Total	**2,487**	**2,497**	**847**	**4,037**	**3,028**	**1,973**
Service costs	465	277	277	277	465	277
Total remuneration	**2,952**	**2,774**	**1,124**	**4,314**	**3,493**	**2,250**

	Remuneration granted				Inflows	
€ thousands	2015	**2016**	2016 (min.)	2016 (max.)	2015	**2016**
Dr. A. Reinhart (Board member for Human Relations; Board member since October 1, 2014)						
Fixed remuneration	800	800	800	800	800	800
Additional benefits	11	37	37	37	11	37
Total	**811**	**837**	**837**	**837**	**811**	**837**
Performance bonus (immediate payment)	660	660	0	990	990	740
Multiannual variable remuneration	990	990	0	2,200	–	–
Performance bonus (deferral) [3 years]	440	440	0	1,100	–	–
Long-term incentive [4 years]	550	550	0	1,100	–	–
Total	**2,461**	**2,487**	**837**	**4,027**	**1,801**	**1,577**
Service costs	736	473	473	473	736	473
Total remuneration	**3,197**	**2,960**	**1,310**	**4,500**	**2,537**	**2,050**
W. Schäfer (Board member for Finance; Board member since January 1, 2010)						
Fixed remuneration	1,100	1,100	1,100	1,100	1,100	1,100
Additional benefits	28	44	44	44	28	44
Total	**1,128**	**1,144**	**1,144**	**1,144**	**1,128**	**1,144**
Performance bonus (immediate payment)	660	660	0	990	990	740
Multiannual variable remuneration	1,090	1,090	0	2,400	2,482	1,715
Performance bonus (deferral) [3 years]	440	440	0	1,100	2,482	1,715
Long-term incentive [4 years]	650	650	0	1,300	–	–
Total	**2,878**	**2,894**	**1,144**	**4,534**	**4,600**	**3,599**
Service costs	525	526	526	526	525	526
Total remuneration	**3,403**	**3,420**	**1,670**	**5,060**	**5,125**	**4,125**
N. Setzer (Board member for Tires; Board member since August 12, 2009)						
Fixed remuneration	800	800	800	800	800	800
Additional benefits	44	81	81	81	44	81
Total	**844**	**881**	**881**	**881**	**844**	**881**
Performance bonus (immediate payment)	660	660	0	990	946	885
Multiannual variable remuneration	990	990	0	2,200	2,138	1,585
Performance bonus (deferral) [3 years]	440	440	0	1,100	2,138	1,585
Long-term incentive [4 years]	550	550	0	1,100	–	–
Total	**2,494**	**2,531**	**881**	**4,071**	**3,928**	**3,351**
Service costs	543	735	735	735	543	735
Total remuneration	**3,037**	**3,266**	**1,616**	**4,806**	**4,471**	**4,086**

	Remuneration granted				Inflows	
€ thousands	2015	**2016**	2016 (min.)	2016 (max.)	2015	**2016**
H.-G. Wente (Board member for ContiTech; Board member from May 3, 2007 to April 30, 2015)						
Fixed remuneration	267	–	–	–	267	–
Additional benefits	25	–	–	–	25	–
Total	**292**	**–**	**–**	**–**	**292**	**–**
Performance bonus (immediate payment)	217	–	–	–	65	–
Multiannual variable remuneration	190	–	–	–	2,303	1,438
Performance bonus (deferral) [3 years]	145	–	–	–	2,303	1,438
Long-term incentive [4 years]	45	–	–	–	–	–
Total	**699**	**–**	**–**	**–**	**2,660**	**1,438**
Service costs	0	–	–	–	0	–
Total remuneration	**699**	**–**	**–**	**–**	**2,660**	**1,438**

The disclosures on benefits granted and inflows are broken down into fixed and variable remuneration components and supplemented by disclosures on the service costs. The fixed remuneration components include the non-performance-related fixed remuneration and additional benefits. The variable performance-related remuneration components consist of the immediate payment from the performance bonus as a short-term remuneration component and the two long-term components: the deferral of the performance bonus and the LTI.

The immediate payment, the deferral (taking into account the reference tables as recommended in Section 4.2.5, para. 3 of the German Corporate Governance Code), and the LTI are each recognized as benefits granted at the value of the commitment at the time it is granted (equivalent to 100% target achievement). The remuneration elements are supplemented by disclosures on individually attainable maximum and minimum remuneration.

The inflow recognized in the year under review comprises the fixed remuneration components actually received plus the amounts of the immediate payment to be received in the following year that had been determined at the time the remuneration report was prepared. Disclosures on the two long-term components – the deferral and the LTI – relate to actual payments in the year under review. There were no inflows from multiannual variable remuneration that was scheduled to end in the period under review, but would not be paid until the following year. In line with the recommendations of Section 4.2.5 para. 3 of the German Corporate Governance Code, service costs in the disclosures on inflows correspond to the amounts granted, although they do not represent actual inflows in a stricter sense.

In fiscal 2016, the members of the Executive Board neither received nor were promised payments by a third party with respect to their activities on the Executive Board.

Remuneration of the Executive Board in 2016

€ thousands	Remuneration components: Fixed[1]	Variable, short-term	Variable, long-term[2]	Total	Share-based payment[3]
Dr. E. Degenhart	1,452	1,245	2,030	**4,727**	550
J. A. Avila	849	641	977	**2,467**	288
Dr. R. Cramer	1,275	740	1,044	**3,059**	367
H.-J. Duensing	854	965	1,192	**3,011**	953
F. Jourdan	860	303	752	**1,915**	294
H. Matschi	847	282	738	**1,867**	–13
Dr. A. Reinhart	837	740	1,044	**2,621**	795
W. Schäfer	1,144	740	1,144	**3,028**	200
N. Setzer	881	885	1,140	**2,906**	298
Total	**8,999**	**6,541**	**10,061**	**25,601**	**3,732**

1 In addition to cash components, the fixed remuneration includes non-cash elements, such as benefits relating to international assignments and in particular any related taxes paid, company cars, and insurance.
2 Long-term component of the variable remuneration that is converted into virtual shares of Continental AG to ensure a focus on sustainable development of the company and benefits granted under the 2016 long-term incentive plan.
3 Long-term component of the variable remuneration that is converted into virtual shares of Continental AG to ensure a focus on sustainable development of the company, the granting of the 2016 long-term incentive plan, as well as the changes in the value of the virtual shares granted in previous years and in the value of the 2014 to 2016 long-term incentive plans.

Remuneration of the Executive Board in 2015

€ thousands	Remuneration components: Fixed[1]	Variable, short-term	Variable, long-term[2]	Total	Share-based payment[3]
Dr. E. Degenhart	1,379	1,665	2,310	**5,354**	4,296
J. A. Avila	834	990	1,210	**3,034**	2,280
Dr. R. Cramer	1,435	990	1,210	**3,635**	2,181
H.-J. Duensing (since May 1, 2015)	543	133	639	**1,315**	809
F. Jourdan	836	990	1,210	**3,036**	1,552
H. Matschi	837	990	1,210	**3,037**	2,151
Dr. A. Reinhart	811	990	1,210	**3,011**	1,363
W. Schäfer	1,128	990	1,310	**3,428**	2,688
N. Setzer	844	946	1,181	**2,971**	2,400
H.-G. Wente (until April 30, 2015)	292	65	88	**445**	636
Total	**8,939**	**8,749**	**11,578**	**29,266**	**20,356**

1 In addition to cash components, the fixed remuneration includes non-cash elements, such as benefits relating to international assignments and in particular any related taxes paid, company cars, and insurance.
2 Long-term component of the variable remuneration that is converted into virtual shares of Continental AG to ensure a focus on sustainable development of the company and benefits granted under the 2015 long-term incentive plan.
3 Long-term component of the variable remuneration that is converted into virtual shares of Continental AG to ensure a focus on sustainable development of the company, the granting of the 2015 long-term incentive plan, as well as the changes in the value of the virtual shares granted in previous years and in the value of the 2014 and 2015 long-term incentive plans.

Share-based payment – performance bonus (deferral)

The amounts of variable remuneration converted into virtual shares of Continental AG for members of the Executive Board changed as follows:

units	Number of shares as at Dec. 31, 2014	Payment	Commitments	Number of shares as at Dec. 31, 2015	Payment	Commitments	**Number of shares as at Dec. 31, 2016**
Dr. E. Degenhart	32,953	–15,660	4,520	21,813	–11,169	5,836	16,480
J. A. Avila	20,352	–10,757	609	10,204	–4,801	3,471	8,874
Dr. R. Cramer	18,047	–10,917	2,688	9,818	–4,226	3,471	9,063
H.-J. Duensing (since May 1, 2015)	–	–	–	–	–	465	465
F. Jourdan	427	–	2,901	3,328	–	3,471	6,799
H. Matschi	14,853	–5,828	2,795	11,820	–4,231	3,471	11,060
Dr. A. Reinhart (since October 1, 2014)	–	–	677	677	–	3,471	4,148
W. Schäfer	25,349	–12,047	2,688	15,990	–8,592	3,471	10,869
N. Setzer	22,521	–10,376	2,643	14,788	–7,937	3,316	10,167
E. Strathmann (until April 25, 2014)	11,971	–	–	11,971	–7,732	–	4,239
H.-G. Wente (until April 30, 2015)	22,031	–11,175	2,002	12,858	–6,875	228	6,211
Total	**168,504**	**–76,760**	**21,523**	**113,267**	**–55,563**	**30,671**	**88,375**

€ thousands	Fair value as at Dec. 31, 2014	Fair value of distribution	Change in fair value	Fair value of commitments	Fair value as at Dec. 31, 2015	Fair value of distribution	Change in fair value	Fair value of commitments	**Fair value as at Dec. 31, 2016**
Dr. E. Degenhart	5,918	–3,227	1,309	1,032	5,032	–2,230	–751	1,100	3,151
J. A. Avila	3,656	–2,216	777	139	2,356	–958	–354	655	1,699
Dr. R. Cramer	3,244	–2,249	653	614	2,262	–844	–342	655	1,731
H.-J. Duensing (since May 1, 2015)	–	–	–	–	–	–	–	88	88
F. Jourdan	76	–	22	662	760	–	–123	655	1,292
H. Matschi	2,664	–1,201	622	638	2,723	–845	–416	655	2,117
Dr. A. Reinhart (since Oct. 1, 2014)	–	–	–	155	155	–	–25	655	785
W. Schäfer	4,550	–2,482	1,008	614	3,690	–1,715	–548	655	2,082
N. Setzer	4,044	–2,138	902	604	3,412	–1,585	–507	625	1,945
E. Strathmann (until April 25, 2014)	2,139	–	628	–	2,767	–1,544	–403	–	820
H.-G. Wente (until April 30, 2015)	3,957	–2,303	855	457	2,966	–1,373	–440	43	1,196
Total	**30,248**	**–15,816**	**6,776**	**4,915**	**26,123**	**–11,094**	**–3,909**	**5,786**	**16,906**

Heinz-Gerhard Wente, who retired on April 30, 2015, was granted commitments of €43 thousand (equivalent to 228 units) and was paid €1.4 million (equivalent to 6,875 units) in 2016. As at December 31, 2016, there were commitments with a fair value of €1.2 million (equivalent to 6,211 units). Elke Strathmann, whose appointment as member of the Executive Board and employment contract ended as at April 25, 2014, was paid €1.5 million (equivalent to 7,732 units). As at December 31, 2016, there were commitments with a fair value of €0.8 million (equivalent to 4,239 units).

Owing to the individual arrangements specific to the company, there are certain features of the virtual shares as compared to standard options that must be taken into account in their measurement.

A Monte Carlo simulation is used in the measurement of stock options. This means that log-normal distributed processes are simulated for the price of Continental shares. The measurement model also takes into account the average value accumulation of share prices in the respective reference period and the floor and cap for the distribution amount.

The following parameters were used as at the measurement date of December 31, 2016:

- Constant zero rates as at the measurement date of December 31, 2016:
  Tranche in 2013: -0.97% as at the due date and as at the expected payment date;
  Tranche in 2014: -0.82% as at the due date and as at the expected payment date;
  Tranche in 2015: -0.80% as at the due date and as at the expected payment date.
- Interest rate based on the yield curve for government bonds.
- Dividend payments as the arithmetic mean based on publicly available estimates for 2017 and 2018; the dividend of Continental AG amounted to €3.75 per share in 2016, and Continental AG distributed a dividend of €3.25 per share in 2015.
- Historic volatilities on the basis of daily XETRA closing rates for Continental shares based on the respective remaining term for virtual shares. The volatility for the 2013 tranche is 20.81%, for the 2014 tranche 28.73%, and for the 2015 tranche 29.49%.

Share-based payment – long-term incentive (LTI plans starting with 2014)
The LTI plans starting with 2014 developed as follows:

€ thousands	Fair value as at Dec. 31, 2014	Commitment LTI Plan 2015	Change in fair value	Fair value as at Dec. 31, 2015	Commitment LTI Plan 2016	Change in fair value	**Fair value as at Dec. 31, 2016[1]**
Dr. E. Degenhart	1,274	1,200	624	3,098	1,200	-720	3,578
J. A. Avila	584	550	286	1,420	550	-330	1,640
Dr. R. Cramer	584	550	286	1,420	550	-330	1,640
H.-J. Duensing (since May 1, 2015)	106	550	170	826	550	-238	1,138
F. Jourdan	584	550	286	1,420	550	-330	1,640
H. Matschi	584	550	286	1,420	550	-330	1,640
Dr. A. Reinhart (since October 1, 2014)	–	550	145	695	550	-219	1,026
W. Schäfer	690	650	338	1,678	650	-390	1,938
N. Setzer	584	550	286	1,420	550	-330	1,640
H.-G. Wente (until April 30, 2015)	584	45	-330[2]	299	–	-48	251
Total	**5,574**	**5,745**	**2,377**	**13,696**	**5,700**	**-3,265**	**16,131**

1 As at the end of the reporting period, the 2016 tranche was vested 25%, the 2015 tranche 50%, and the 2014 tranche 75%.
2 With the departure of H.-G. Wente from the company as at April 30, 2015, a portion of the commitments of the 2014 and 2015 LTI plans expired. The commitment in 2014 of €550 thousand decreased to €183 thousand, resulting in a fair value of €241 thousand as at December 31, 2015, down by €343 thousand. As part of the 2015 LTI plan, a partial commitment of €45 thousand remains for H.-G. Wente, with a fair value of €58 thousand as at December 31, 2015.

The following parameters were used as at the measurement date of December 31, 2016:

- Constant zero rates as of the measurement date of December 31, 2016:
  2014 LTI plan: -0.84% as at the due date and -0.81% as at the expected payment date;
  2015 LTI plan: -0.81% as at the due date and -0.79% as at the expected payment date;
  2016 LTI plan: -0.76% as at the due date and -0.70% as at the expected payment date.
- Interest rate based on the yield curve for government bonds.
- Dividend payments as the arithmetic mean based on publicly available estimates for the years 2017 to 2019; the dividend of Continental AG amounted to €3.75 per share in 2016.
- Historic volatilities on the basis of daily XETRA closing rates for Continental shares based on the respective remaining term for virtual shares. The volatility for the 2014 LTI plan is 28.64%, for the 2015 LTI plan 29.58%, and for the 2016 LTI plan 28.37%.

Expenses for retirement benefits

The defined benefit obligations for all pension commitments for the active members of the Executive Board in 2016 are presented below:

	Defined benefit obligations	
€ thousands	**Dec. 31, 2016**	Dec. 31, 2015
Dr. E. Degenhart	10,535	8,560
J. A. Avila	7,145	5,913
Dr. R. Cramer	3,661	2,671
H.-J. Duensing (since May 1, 2015)	1,094	612
F. Jourdan	2,297	1,447
H. Matschi	4,913	3,751
Dr. A. Reinhart	2,041	981
W. Schäfer	8,925	7,242
N. Setzer	4,165	2,904
Total	**44,776**	**34,081**

We refer to Note 38 of the Notes to the Consolidated Financial Statements for details of pension obligations for former members of the Executive Board.

Remuneration of the Supervisory Board

Article 16 of the Articles of Incorporation regulates the remuneration paid to members of the Supervisory Board. This remuneration also has fixed and variable components. The variable component is aligned with the sustainable development of the company. The chairman and vice chairman of the Supervisory Board and the chairs and members of committees qualify for higher remuneration.

In addition to their remuneration, the members of the Supervisory Board are also paid attendance fees and their expenses are reimbursed. The D&O insurance policy also covers members of the Supervisory Board. As recommended by the German Corporate Governance Code, their deductible also complies with the requirements of Section 93 (2) Sentence 3 *AktG* that apply directly to the Executive Board only.

In the past year there were no consultant agreements or other service or work agreements between the company and members of the Supervisory Board or related parties.

The remuneration of individual Supervisory Board members in 2016 as provided for under these arrangements is shown in the following table.

Remuneration of the Supervisory Board

	Remuneration components			
	2016		2015	
€ thousands	**Fixed[1]**	**Variable**	Fixed[1]	Variable
Prof. Dr.-Ing. Wolfgang Reitzle	232	301	232	262
Hartmut Meine[2]	119	151	118	132
Dr. Gunter Dunkel	81	101	81	87
Hans Fischl[2]	81	101	81	87
Prof. Dr.-Ing. Peter Gutzmer	79	101	81	87
Peter Hausmann[2]	121	151	122	132
Michael Iglhaut[2]	92	113	81	87
Prof. Dr. Klaus Mangold	80	101	81	87
Sabine Neuß	81	101	81	87
Prof. Dr. Rolf Nonnenmacher	198	251	198	219
Dirk Nordmann[2]	122	151	122	132
Artur Otto (until April 30, 2015)[2]	–	–	27	28
Klaus Rosenfeld	121	151	119	132
Georg F. W. Schaeffler	124	151	123	132
Maria-Elisabeth Schaeffler-Thumann	79	101	81	87
Jörg Schönfelder[2]	120	151	120	132
Stefan Scholz (since April 30, 2015)[2]	81	101	55	58
Kirsten Vörkel[2]	81	101	81	87
Elke Volkmann[2]	78	101	81	87
Erwin Wörle[2]	111	136	122	132
Prof. KR Ing. Siegfried Wolf	80	101	81	87
Total	**2,161**	**2,717**	**2,168**	**2,361**

1 Including meeting-attendance fees.
2 In accordance with the guidelines issued by the German Federation of Trade Unions, these employee representatives have declared that their board remuneration is transferred to the Hans Böckler Foundation and in one case to other institutions as well.

Management Report

The following management report is a combined management report as defined in Section 315 (3) of the German Commercial Code *(Handelsgesetzbuch – HGB)*, as the future opportunities and risks of the Continental Corporation and of the parent company, Continental AG, are inextricably linked.

Glossary of Financial Terms

The following glossary of financial terms applies to both the Management Report and the Consolidated Financial Statements.

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

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

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

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

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

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

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

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

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

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

EBIT. Earnings before interest and tax. EBIT is defined as the result of ordinary business activities and is used to assess operational profitability.

EBITDA. Earnings before interest, tax, depreciation and amortization. This is defined as the sum of EBIT and depreciation of property, plant, and equipment and amortization of intangible assets (excluding impairment on financial investments). This key figure is used to assess operational profitability.

Finance lease. Under a finance lease, the lessor transfers the investment risk to the lessee. This means that the lessor bears only the credit risk and any agreed services. The lessee is the beneficial owner of the leased asset. Finance leases are characterized by a fixed basic term during which the lease may not be terminated by the lessee.

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

Free cash flow before acquisitions. The sum of cash flow arising from operating activities and cash flow arising from investing activities before acquisitions of companies and business operations. Free cash flow before acquisitions is used to assess financial performance.

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

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

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

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

IASB. International Accounting Standards Board. Independent standardization committee.

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

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

IFRS IC. International Financial Reporting Standards Interpretations Committee.

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

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

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

Operating lease. A form of lease that is largely similar to rental. Leased assets are recognized in the lessor's balance sheet and capitalized.

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

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

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

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

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

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

Working capital. Inventories plus trade accounts receivable less trade accounts payable. It does not include receivables from and liabilities to related parties or sale of trade accounts receivable.

Corporate Profile
Structure of the Corporation

The structure of our corporation enables us to respond quickly and flexibly to customer requirements and is geared toward sustainable value creation.

Market- and customer-oriented corporate structure
Founded as Continental-Caoutchouc- und Gutta-Percha Compagnie in 1871, Continental-Aktiengesellschaft (AG), headquartered in Hanover, Germany, is now the parent company of the Continental Corporation. The Continental Corporation comprises 510 companies, including non-controlled companies, in addition to the parent company Continental AG. The Continental team is made up of 220,137 employees at a total of 427 locations in 56 countries.

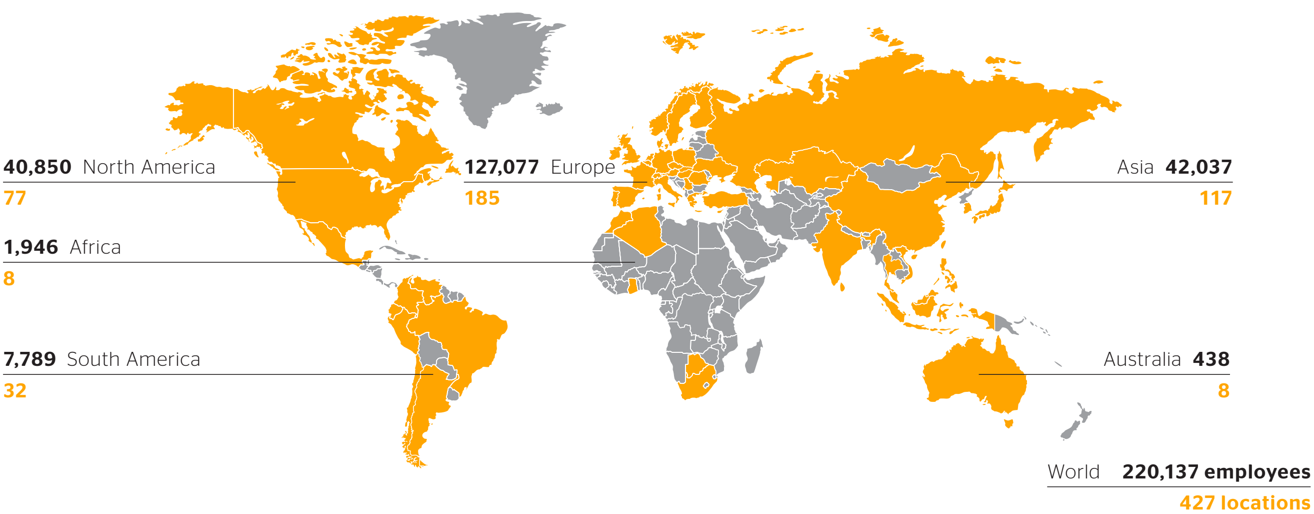
The Executive Board of Continental AG has overall responsibility for management. The divisions each have their own Executive Board member who represents them. With the exception of Corporate Purchasing, the central functions are represented by the chairman of the Executive Board, the chief financial 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, law and IT, sustainability, the environment, and quality management.

Our corporate culture and values establish and foster a common understanding of how we collaborate across organizational, hierarchical and geographic boundaries.

Our customers come from the automotive industry, various key industrial sectors (e.g. railway engineering, machine and equipment engineering, and mining) and the end-user market. We supply them with high-quality innovative or established products, systems, and services around the world. Focusing on the market and on customers is a key success factor. Our global corporate structure is based on a balance between decentralized organizational structures and centralized functions. In this context, central management areas and operating activities are closely aligned. This means that we can respond quickly and flexibly to market conditions and our customers' requirements and ensure that the Continental Corporation sustainably creates value.

The Continental Corporation is divided into the Automotive Group and the Rubber Group, which in the year under review comprise a total of five divisions with 29 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 requirements, innovation and product cycles, the raw materials base, and production technology. Other factors include economic cycles, competitive structure, and the resulting growth opportunities. The divisions and business units have overall responsibility for their business, including their results.

427 locations in 56 countries



Structure of the Continental Corporation

Continental Corporation Sales: €40.5 billion; Employees: 220,137				
Automotive Group Sales: €24.5 billion; Employees: 124,753			Rubber Group Sales: €16.1 billion; Employees: 94,966	
Chassis & Safety Sales: €9.0 billion Employees: 43,907	Powertrain Sales: €7.3 billion Employees: 37,502	Interior Sales: €8.3 billion Employees: 43,344	Tires Sales: €10.7 billion Employees: 52,057	ContiTech Sales: €5.5 billion Employees: 42,909

The Automotive Group is made up of the Chassis & Safety, Powertrain, and Interior divisions. With total sales of €24.5 billion, the Automotive Group generates 60% of consolidated sales. The Rubber Group comprises the Tire and ContiTech divisions, which look after our rubber- and plastics-based activities. The Rubber Group accounts for sales of €16.1 billion and therefore 40% of the Continental Corporation's sales.

Automotive Group:

› The Chassis & Safety division develops, produces, and markets intelligent systems to improve driving safety and vehicle dynamics.

› The Powertrain division integrates innovative and efficient system solutions for the powertrains of today and tomorrow.

› Specializing in information management, the Interior division develops and produces information, communication, and network solutions.

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.

› The ContiTech division develops, manufactures, and markets products for machine and plant engineering, mining, the automotive industry, and for other important sectors.

Interconnected value creation

Research and development (R&D) takes place at 146 locations, predominantly in close proximity to our customers to ensure that we can respond flexibly to their specific requirements and to regional market conditions. This applies particularly to the R&D projects of the Automotive Group and the ContiTech division, both of which have a decentralized organizational structure. The product requirements governing tire business 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 more than 6% 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 semifinished products. The purchasing volume comes to €26.3 billion in total, €17.5 billion of which is 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 around 44% of the corporation's purchasing volume of production materials. Furthermore, mechanical components account for a quarter of this volume. 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 nearly a sixth of the total volume for production material. For more information, see the Development of Raw Materials Markets section in the Economic Report.

Globally interconnected value creation

R&D	Purchasing	Production	Sales & Distribution
Innovative €2.8 billion in expenditure	**Diverse** €26.3 billion in volumes	**Global** 210 locations	**Local** €40.5 billion in sales

In line with our strategy, production and sales in the Automotive divisions and in the ContiTech division are organized across regions. With major locations in Europe, the U.S.A., and China, we have tire production activities, in which economies of scale play a key role, in the three dominant automotive markets in terms of production and vehicle numbers. 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 specialty tire outlets and franchises as well as through tire trading in general.

With a share of 73% of our consolidated sales, the automotive industry (original equipment) is our largest customer segment. And the importance of this industry to the growth of the Automotive Group is equally high. In the Rubber Group, the tire business with end customers dominates. At ContiTech, other key industries play an important role alongside the automotive industry, such as machine and plant engineering, mining, and the oil industry.

Corporate Strategy

Our strategy comprises seven dimensions that complement one another and are geared toward sustainably creating value and thereby ensuring the future viability of the company.

The requirements for mobility are constantly changing, due in no small part to the increase in digitalization. This gives rise to opportunities when it comes to new mobility-related services. For Continental, this means the possibility of enhancing the current business model and existing products with software-based services (known as servitization) as well as mobility services in the form of software-only products for the end-user market.

Seven strategic dimensions for enhancing the value of the corporation on a sustainable basis
Our seven strategic dimensions complement one another 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 target is at least 20% ROCE. We achieved this target once again in 2016. However, the return decreased year-on-year due to a number of unrelated events that occurred in the year under review, particularly in the third quarter, resulting in a negative impact of approximately €480 million.

2. Regional sales balance – globally balanced distribution of sales

We want to achieve a globally balanced distribution of regional sales, which will allow us to become less dependent on individual regional sales markets and on market and economic fluctuations. To accomplish this, we are taking advantage of the opportunities available to us on the growing markets in Asia and North America, while 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 25% or more.

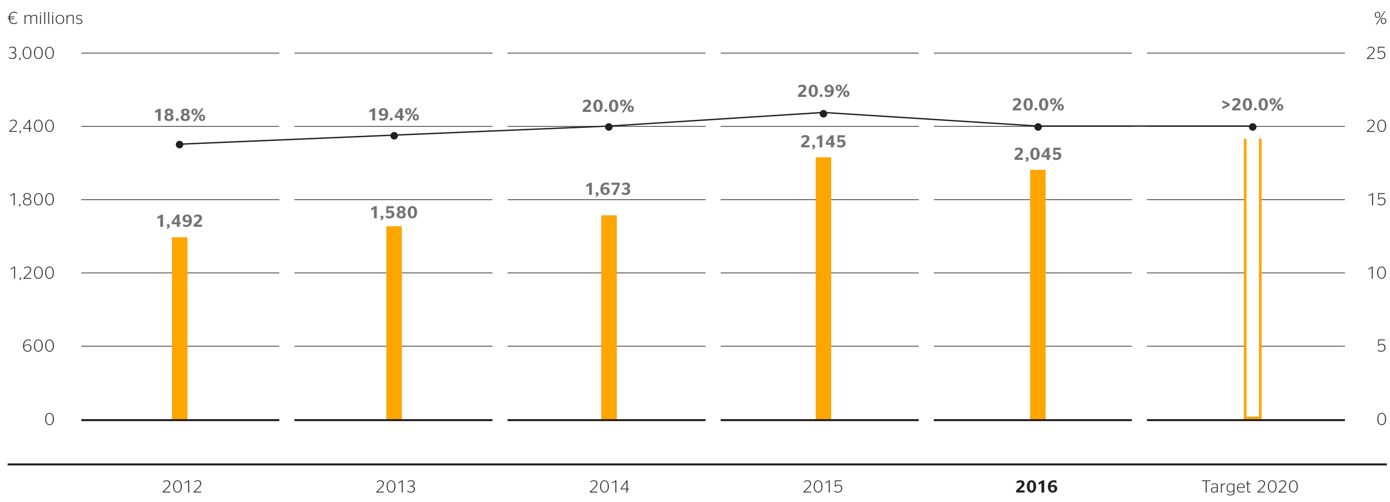
In the year under review, we achieved 21% of our sales in Asia. The share of our sales in the North and South American markets was 28% in total.

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

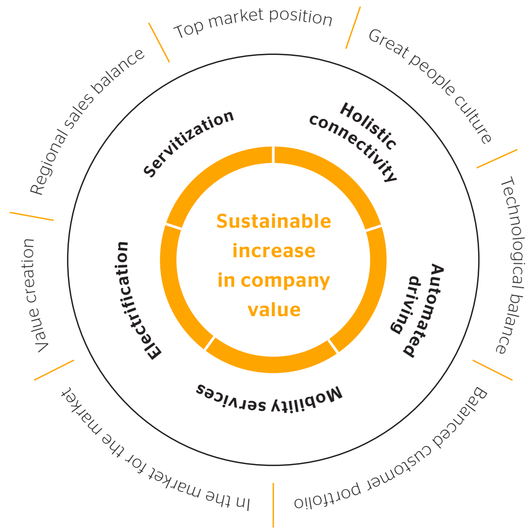
We want to be among the world's three leading suppliers in terms of customer focus, quality, and market share in the long term. This will enable us to plan our future based on a leading position and thereby play a major role in advancing technological development in individual sectors.

A key success factor and driver for future development is our strong presence in the innovative and promising technology sectors of the automotive industry.

Continental Value Contribution (CVC) **Return on capital employed (ROCE)**



Corporate strategy at a glance



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

The aim is for at least eight out of ten application developments to be carried out locally, and for the percentage of local production to be just as high. This is how we will meet the needs and requirements of our customers most effectively. Our development and production teams worldwide enable us to offer solutions and products for high-quality cars and affordable vehicles, as well as customized industrial applications.

We currently have production locations in 34 of 56 countries in which we are represented. At the same time, we are purchasing locally – insofar as this is possible and cost-effective – as well as marketing locally. In the years to come, we will continue to work hard to include one of the Asian manufacturers to our five largest automotive customers as well. We aim to achieve this with a high degree of localization.

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

We want to reduce our dependency on the automotive economy by having a balanced customer portfolio. This is why we are striving to increase business 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 increase the share of sales with end users and industrial customers outside of the automotive original equipment sector toward a figure of 40%.

In the year under review, we further expanded our service business in fleet management through the acquisition of Zonar Systems. By doing so, we have broadened our portfolio and our expertise in mobility services and strengthened our regional balance by investing in a provider of fleet management solutions in the U.S.A.

Our acquisition of the Bandvulc Group, a U.K. fleet-management service provider, will bolster our position in the U.K. and Irish market. In addition, the acquisition of the racing tire specialist Hoosier Racing Tire enhances the balance of our customer portfolio.

Despite these acquisitions and other activities, the share of sales with end users and industrial customers fell slightly to 27%. This was due, in the year under review, to modest demand in industrial business in general and to end markets dependent on oil and mining in particular.

Our industrial business in the ContiTech division will be expanded by purchasing the Hornschuch Group, a leading manufacturer of design, functional, foam, and compact foils as well as artificial leather. The acquisition will strengthen our global business outside the automotive industry in the long term.

6. Technological balance – combination of established and pioneering technologies

Our product portfolio should consist of a mix of profitable as well as viable established and pioneering technologies. We set and follow new trends and standards in high-growth markets and market segments. On 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 expanding our portfolio with software-based services and mobility services. This enables us to offer a competitive mix of our proven, established products and pioneering technologies such as eHorizon (electronic Horizon), a solution for sharing important route information.

7. Great people culture – a culture of inspiration

We aim to foster an inspiring management culture, in which our employees can enjoy demonstrating their full commitment and achieving top performance. A culture of trust and personal responsibility is being promoted in all divisions and departments, one in which we openly deal with and tolerate our mistakes – and learn from them. 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.

In the year under review, we established globally binding regulations for flexible working conditions for the first time. The package features options for working from home or elsewhere, for part-time and flextime, and for taking extended periods of leave (sabbaticals). We offer these flexibility programs at all levels and for all employees in 21 countries. They are thus available to around 200,000 employees, or about 90% of the global workforce.

Five overarching areas for pooling our business activities

Overarching business areas relate to our systems and products that are worked on by more than one division. In the year under review, we defined five overarching business areas, each of which is headed by a member of the Executive Board:

- Electrification
- Automated driving
- Mobility services
- Software-based services (servitization)
- Holistic connectivity

1. Electrification

Alongside technologies for optimizing the combustion engine, we are developing technologies that allow all-electric driving for limited periods or continuously. Our portfolio thus includes electronics solutions such as 48-volt drive systems, hybrid and plug-in variants, as well as all-electric motor solutions. Beyond brake-energy recuperation, our expertise also lies in power electronics, which is the intelligent management of energy that is provided while driving – by the combustion engine, the electric motor, the all-electric drive system and the battery. Continental firmly believes that the electric motor will become a viable alternative drive system in the long term.

We anticipate that 10% of vehicles produced globally in 2025 will run on electric power alone. In addition, nearly one in three will be fitted with a 48-volt or high-voltage hybrid drive system. This means that we are continuing to plan significant investments in these technologies.

2. Automated driving

Based on the advanced driver assistance systems that are already being developed today, it will be possible in the future to free up some of the time the driver spends in the vehicle – time in which the car monitors and controls the driving process. This subject has raised many justified questions and doubts that have not yet been answered definitively, such as who is liable in the event of an accident. But one thing is for sure. Vehicles will make far fewer mistakes when driving than humans do. With our sensor solutions based on camera, radar and laser technology, as well as our expertise in electronic control units and vehicle connectivity, we are starting out in a strong position. With regard to advanced driver assistance systems, we expect to break past the €2 billion mark for sensor technology sales in 2020 – doubling our sales in just five years. If we include vehicle-connectivity technologies, our sales of automated driving systems will then be over €3 billion.

3. Mobility services

As a result of increasing connectivity between vehicles as well as with traffic infrastructure, demand for mobility services is constantly growing – and digitalization is opening up a new market for software-only products for automobile manufacturers and end users. Examples include advanced traffic management, intelligent payment systems, maintenance management, and driving safety, as well as new technologies that go beyond the vehicle. Our growth plan includes key elements, such as Continental.cloud, to pave the way for mobility services and our eHorizon. Recently launched software-based services include solutions such as vAnalytics (a service platform for auto repair shops, dealers, and drivers), remote vehicle diagnostics (RVD) and over-the-air (OTA) keys.

4. Software-based services (servitization)

The servitization business area complements the current business model and existing products and systems with software services as an additional service that offers added benefits for our customer. One such example is ContiConnect, a new tire information and management system for truck and bus fleets, that we announced in the year under review. ContiConnect monitors, analyzes, and reports the tire pressure and temperature of the entire fleet based on data from the proven ContiPressureCheck sensors. If necessary, the system notifies the fleet manager and offers corrective action, for example by a Conti360° service partner. The associated online portal produces reports on the tire performance and overall efficiency of the fleet. Following its launch in the second quarter of 2017, ContiConnect will be available in key markets in the Asia-Pacific region, Europe, and North and South America. For our customers, this means a change from manual, routine tire care to automatically monitored tires and targeted care.

5. Holistic connectivity

Digitalization and interconnection of the physical world (the Internet of Things) is a significant driver of economic growth. It is extensive and comprises all manner of objects, products, and processes. Aided by digitalization, the Internet of Things could potentially connect 1.6 trillion objects. Today, 14 billion objects (about 1% of this potential) are already interconnected, which means there are still tremendous opportunities for connectivity that have yet to be seized. The positive effect of this development on the global economy is estimated at approximately U.S. $6 trillion in 2020. By 2020 alone, 50 billion devices and machines in addition to over 250 million vehicles will be interconnected, resulting in considerable potential sales for the automotive industry. The estimated market volume for 2020 is €57 billion.

Vehicles are thus also becoming part of the Internet – they are changing from a closed system to an open one. This trend is influencing a wide range of different systems and technologies, from vehicle electronics to interconnected services and big data analysis. Using our holistic connectivity vehicle, we have presented an intelligent future for mobility. Featuring context-based services, an intuitive human-machine interface, and IP-based network architecture, this demonstration vehicle gives insights into technologies and services for fully connected vehicles.

Based on our strategy and our five overarching business areas, we are striving to achieve sales of over €50 billion and ROCE of at least 20% by 2020.

Divisions and Business Units

Chassis & Safety Division

- 43,907 employees
- 112 locations in 22 countries
- Sales up 6.2% to €9.0 billion

For the Chassis & Safety division, the direction is clear: the future of mobility leads to automated driving. Integral active and passive safety technologies and products that support vehicle dynamics provide greater safety, comfort and convenience.

According to the World Health Organization, around 1.3 million people still die each year in traffic accidents around the world, and millions are injured. The main cause is human error. Studies show that drivers are partly to blame for more than 90% of accidents, and solely to blame for more than 70%. So in order to reduce the number of accidents further, it is necessary to help the driver drive. This will involve continually developing advanced driver assistance systems while increasing their fitment rates, and gradually automating driving tasks to the point of fully automated driving. Electronics are becoming ever more intelligent, providing the perfect foundation for achieving Vision Zero – our vision of accident-free driving.

Globalization, growth, and top performance are the key strategic driving forces of the division, which is subdivided into four business units:

- **Vehicle Dynamics** combines products and systems for lateral, longitudinal, and vertical dynamics. These include scalable electronic brake systems and software solutions for vehicle stability and ride comfort for cars and motorcycles, as well as chassis electronics and air suspension systems.

- **Hydraulic Brake Systems** is a leading supplier of hydraulic brake systems. The business unit develops and manufactures solutions for traditional braking technology and optimally adapted actuation systems. The product portfolio comprises both conventional products, like brake boosters and brake hoses, and a variety of braking products such as disk, parking and drum brakes, fixed calipers as well as the electric parking brake (EPB). The advantage of the EPB is that it replaces the parking brake and also integrates additional safety features.

- **Passive Safety & Sensorics** is working to drive forward the combining of vehicle-dynamics and vehicle-surroundings sensor systems with passive safety systems. This gives rise to integral high-performance protection systems for passengers, pedestrians, and cyclists. V2X communication (car-to-car and car-to-infrastructure) gives rise to swarm intelligence that enables vehicles to practically see “around corners” and thus implement anticipatory safety strategies.

- **Advanced Driver Assistance Systems** develops innovative advanced driver assistance systems, which are the foundation for increasing vehicle automation. These use vehicle-surroundings sensors such as cameras, radars and lidars, fulfilling various safety and convenience features. The systems assist drivers in everyday situations such as parking (with the 360°camera system Surround View) or driving in slow-moving traffic. Furthermore, in hazardous situations, these systems warn the driver and actively intervene if and when necessary (e.g. Emergency Brake Assist). Our products therefore play a key role in preventing accidents.

Our growth prospects

Opportunities for volume growth arise from a number of influencing factors such as:

- Greater use of advanced driver assistance systems due to growing awareness of safety among the population.

- Global market penetration of the electric parking brake, also in small vehicle segments.

- Increased market penetration for electronic brake systems (MK 100).

- The market launch of the innovative MK C1 electro-hydraulic brake in a “one-box design,” which combines brake actuation, brake booster, and control system all in the one system.

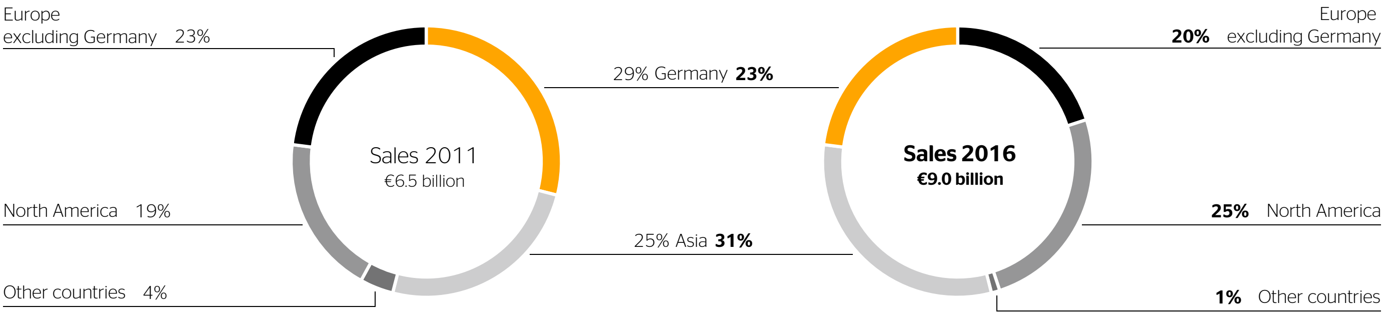
- Our growth in North America and the Asian markets as well as our expanding local presence.

- Stricter legislation for safety technologies worldwide and the assessment criteria of the European New Car Assessment Program (Euro NCAP).

The Chassis & Safety division is excellently prepared for the future in existing markets with innovative products and new developments. This is due to improved market penetration, increasing installation rates for ABS, ESC, sensors, and passive safety, and increasing use of advanced driver assistance systems and electric parking brakes in most vehicle classes. We are benefiting in particular from the favorable environment. The growth market of Asia and international legislation regarding the use of ABS (also for motorcycles in Europe in the future), electronic stability control (ESC), and airbags are paving the way for further growth.

Advanced driver assistance systems are being included to a greater extent in testing and assessment protocols. As such, it will be possible in the future to receive the maximum of five stars in the Euro NCAP rating only with the help of advanced driver assistance systems.

Chassis & Safety division: sales by market



Electronics play a decisive role in the continuous development of electronic advanced driver assistance and increasing automation. With as many as 90 control units for the powertrain, interior, and chassis, the electronics in an average car represent nearly a third of the value of a car when it rolls off the production line.

The markets are continuing to evolve. The number of projects with a functional portion is steadily increasing and must be closely linked with sensor development. With a view toward the evolving business in assisted and automated driving, the Chassis & Safety division established a central point of contact for commercial matters and all development activities in the Advanced Driver Assistance Systems (ADAS) business unit. The development organization of ADAS was structured in line with the three areas of expertise for assisted and automated driving: sensors, driving functions, and electronics.

The next major step includes connecting the individual electronic systems to expanded functional blocks and grouping them into domains. Integral safety – the interplay of active and passive safety – helps the driver to better deal with precarious situations and more effectively protect road users. As a result, the demand for complex vehicle functions and interconnected systems is growing rapidly.

Powertrain Division

- 37,502 employees
- 94 locations in 22 countries
- Sales up 3.6% to €7.3 billion

In the Powertrain division, we integrate innovative and efficient system solutions for the powertrains of today and tomorrow. In line with the central theme of clean power, our products make driving more environmentally compatible and cost-efficient, while also enhancing comfort, convenience and driving enjoyment.

We offer our customers a comprehensive portfolio of products ranging from gasoline and diesel injection systems, turbochargers, engine management and transmission control systems (including sensors and actuators), exhaust aftertreatment and fuel supply systems, through to components and systems for hybrid and electric drives.

The division is divided into five business units:

- **Engine Systems** pursues the aim of increasing power and performance as well as reducing consumption. The business unit develops and produces innovative system solutions for environmentally friendly, efficient and sustainable combustion engines.
- **Fuel & Exhaust Management** seeks to reduce the level of exhaust fumes released into the environment despite increasing traffic volumes. Its product portfolio includes fuel delivery modules and their components as well as catalytic converters and systems for exhaust-gas aftertreatment and selective catalytic reduction (SCR) dosing.
- **Hybrid Electric Vehicle** supplies main components for powertrain electrification in hybrid and electric vehicles. This business unit's top priority is tailor-made electrification – a cost-efficient strategy for powertrain electrification that is suitable for all vehicle types.
- **Sensors & Actuators** is committed to reducing emissions of carbon dioxide and pollutants. This is made possible by sensors and actuators working in combination with advanced engine management systems.
- **Transmission** develops and produces pioneering electronic and electromechanical control units for all relevant transmission types and powertrain applications. Products range from high-end systems to cost-optimized solutions for growth markets.

Our growth prospects

The need for individual mobility will continue to grow worldwide. At the same time, the legal limits for CO_2 and harmful vehicle emissions will continue to be tightened worldwide, resulting in a growing need for drive technologies with lower fuel consumption and reduced emissions. This trend is providing the Powertrain division with growth prospects in various market segments including:

- Electrified drive systems
- Electronic engine-management systems
- Direct injection and turbocharging
- Exhaust-gas aftertreatment

Our goal is to increase the efficiency of conventional combustion engines and to develop cost-efficient solutions for the electrification of the powertrain that are tailored to the needs of end customers.

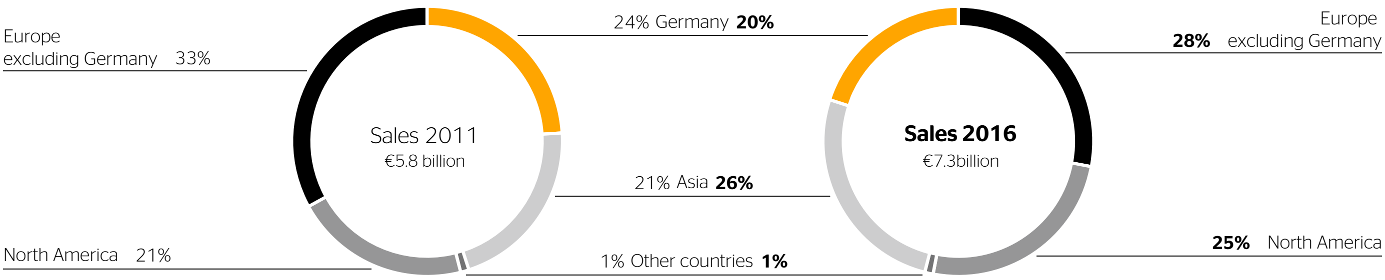
The growth market of electrified drive systems

In the medium term, electrification will make an indispensable contribution to more efficient vehicles with lower emissions. Continental sees the solutions for the mass market in graduated hybridization, or tailor-made electrification, and therefore offers a technology portfolio that car manufacturers can use to hybridize current vehicle platforms in grades from 12 volts to 400 volts, with a transparent cost-benefit ratio. One of our major focal points here is the new 48-Volt Eco Drive system. The new hybrid technology provides features that up to now have been found only in the considerably more expensive high-voltage hybrid systems – these features include the switching off of the combustion engine while driving (known as sailing or coasting), extremely quick and convenient premium engine start-up, and efficient brake-energy recovery (recuperation). The 48-Volt Eco Drive system can be combined with both gasoline and diesel engines, allowing in both cases for substantial reductions in fuel consumption and harmful emissions. For instance, according to the New European Driving Cycle (NEDC) this mild hybrid system reduces average consumption by 13% in a compact car with a 1.2-liter gasoline engine, while a reduction of as much as roughly 21% can be achieved in inner-city traffic. The system also helps to significantly reduce nitrogen-oxide emissions in diesel vehicles.

The growth market of electronic engine-management systems

A major challenge in the future will be to utilize the vehicle's thermal, mechanical, and electrical energy as efficiently and accurately as possible within a set of complex requirements. Whereas, today, electronic control systems generally rely on signals from sensors located within the vehicle, in the future they will increasingly use information from external sources as well, such as other vehicles or a cloud.

Powertrain division: sales by market



Connected energy management gives the end customer significant added value in the form of reduced consumption. The combustion engine is run more efficiently and is switched off as often as possible as part of a hybrid strategy. With the help of real-time traffic data or traffic light phases, the vehicle is able, for example, to autonomously decide when to switch the engine off without negatively impacting traffic flow or making the journey longer.

Rather than a single energy flow, the aim in the future will be to regulate the balance and direction of various energy flows. As a result of the diverse options presented by tailor-made electrification and of alternative fuels, the potential scope of functions in electronic control systems and interconnection across domain boundaries are increasing dramatically.

Modular designs, such as those in Continental's EMS 3 engine management architecture, are essential in order to implement this range of energy flows. This design is based on AUTOSAR 4.0 (standard for electronic components in the automotive industry) and is a key tool for handling the growing requirements of the future in terms of complexity, reliability, short development times, and the increasing range of models and functions.

The growth market of direct injection and turbocharging

Smaller, supercharged engines consume less fuel and therefore reduce CO_2 emissions. With our pioneering, innovative turbocharger and injector technology, we ensure that modern combustion engines can still compete with alternative drive systems over the long term with respect to efficiency, environmental friendliness, and performance. Our RAAX™ turbocharger (radial-axial) continues this success story.

The growth market of exhaust-gas aftertreatment

The SCR market is another growth market we cater to with our broad product portfolio. The introduction of the Euro 6 legislation cuts nitrogen limits by more than half in comparison with Euro 5. Downstream SCR exhaust-gas aftertreatment allows combustion to be further optimized for lower CO_2 emissions and reduced fuel consumption.

We also anticipate growth opportunities not only in the passenger-car market but also in the two-wheel segment and in the truck market.

Interior Division

- 43,344 employees
- 105 locations in 25 countries
- Sales up 2.1% to €8.3 billion

The Interior division specializes in information management in vehicles and beyond. We develop and produce information, communication, and network solutions. These enable us to control and optimize the complex flow of information between the driver, passengers, and the vehicle as well as mobile devices, other vehicles, and the outside world. To achieve this, we are involved in cross-sector collaborations with leading companies.

"Always On" is our vision of the holistically connected vehicle of the future, which acts as a partner in optimally assisting the driver and passengers. This vision centers on people. We implement intelligent technologies that are intuitive to understand and can be used holistically. We are laying the foundations for accelerated growth in the mobility services business area and for the enhancement of our often hardware-based portfolios with supporting services (servitization).

The division is made up of five business units:

- **Instrumentation & Driver HMI** is known for display and operating systems. The product range includes traditional complex and fully digital instrument clusters, high-definition touchscreen displays, and innovative head-up displays. Haptic controls, central input devices, interior cameras, and integrated systems for cockpit modules round off the product range.

- **Infotainment & Connectivity** focuses on infotainment systems and connecting the vehicle with the outside world. The main focus areas include integrating modern entertainment solutions, conveniently linking mobile devices, and telematics solutions.

- **Intelligent Transportation Systems** is geared toward services relating to the vehicle and the integration of data for transport infrastructure, vehicles and users utilizing information and communication technology. Applications that inform the driver about the route as well as travel, fleet, and traffic management features play an important role in this context.

- **Body & Security** develops and produces electronic systems that enable access to the vehicle, make key-interlock systems reliable, and ensure the availability of vehicle safety and convenience features.

- **Commercial Vehicles & Aftermarket** combines the various activities in the commercial and special-purpose vehicles segment as well as the trade activities in the replacement part business. This is also where our diagnosis system expertise is based. The global network of sales and service companies ensures proximity to our customers. Digital services add to the portfolio for connected fleets.

Our growth prospects

With a view to continuously expanding our business activities, we are concentrating on the following areas:

- Connecting the driver with the vehicle and the environment by expanding the infotainment range (e.g. integration of mobile devices and connection to the Continental.cloud).

- Expanding digitalized, intelligent mobility with mobility services.

- Enhancing our products with software-based services (servitization).

- Expanding systems and software expertise as well as entering into cross-sector collaborations with leading companies.

- Using technologies such as augmented reality.

- Enhancing the use of map data with our electronic horizon, eHorizon.

- Integrated functional and control systems for the growing number of specific vehicle requirements (holistic connectivity).

- Paving the way for automated driving by creating an interface between human and vehicle.

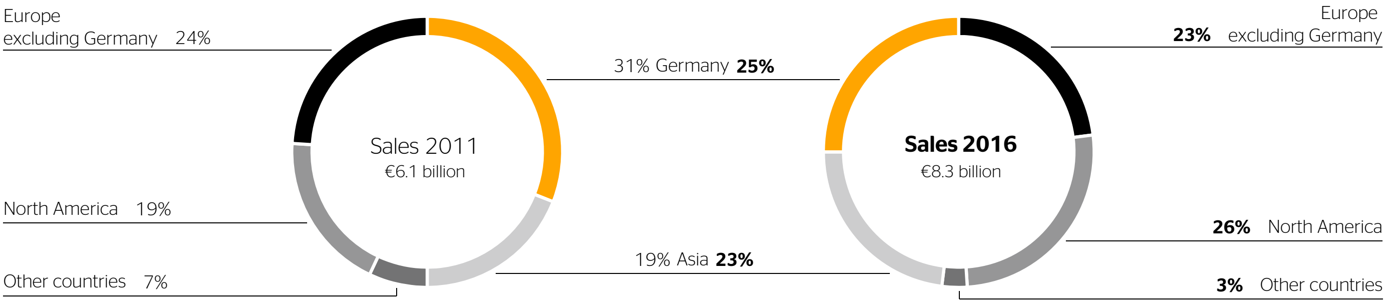
- Intelligent services for new legislative requirements such as tire-pressure monitoring and the automatic emergency call system.

As a result of our extensive portfolio of products and expertise, we are able to rapidly adapt our solutions for new segments across all platforms. We continue to pursue the aim of achieving a presence with our products on the global markets and stepping up our supply to Japanese automotive manufacturers. We rely on the high levels of customer satisfaction and innovative prowess we enjoy, as well as on systems expertise. We are also strengthening our service business activities. In 2016, we purchased a majority stake in Zonar Systems, a provider of smart fleet-management technology headquartered in the U.S.A.

For some years now, trends in the consumer goods industry have had an ever greater influence on what drivers expect when it comes to in-vehicle information systems. The number and surface area of displays in the vehicle are growing significantly – and this is an enduring trend. Our development team in the Instrumentation & Driver HMI business unit is working on solutions that reduce the burden on drivers amidst increasing information density and contribute to greater convenience when driving. These include, for example, fully digital instrument clusters and head-up displays.

Intuitive interaction with vehicles is taking on an ever greater role in this context. Technologies that are used for this include touch solutions for displays, touchpads, and other user interfaces. Tactile search and activation features help drivers with intuitive operation. Thanks to interior cameras, drivers are in constant dialog with their vehicles and receive relevant information at the right time and in the right manner. The vehicle can identify the driver's condition

Interior division: sales by market



using the camera and algorithms – which is important for automated driving, for example. We have already received initial product orders.

The trend toward the constantly connected vehicle is reflected above all in the Infotainment & Connectivity business unit. Cars are becoming part of the Internet of Everything. This is why we use a fast, reliable data connection such as the LTE standard (Long-Term Evolution). Besides secure data transmission, integration of applications is also of high importance. We accomplish this complex task through cross-sector collaboration with partners. Mobile devices such as smartphones, which have become virtually indispensable in people's daily lives, are particularly worth mentioning in this respect. Through reliable interaction with the vehicle components, the infotainment experience can be expanded and improved with new and current content. To make this possible, our platforms provide corresponding interfaces and support standards. As a result of dynamic trends in the field of entertainment electronics, legislative regulations are being pushed through to cover the safety aspects of driving. Our product portfolio already contains dedicated emergency call systems such as eCall. We constantly monitor the market and analyze other legislative developments, enabling us to respond rapidly to new demands.

In our Intelligent Transportation Systems business unit, we are focusing on three growth areas:

- Improving efficiency, safety, convenience, and comfort with our eHorizon (e.g. CO_2 reduction, support from advanced driver assistance systems, automated driving).
- The ability of vehicles to share information with each other in real time.
- Expanding the area of traffic management (e.g. travel planning, parking space management, fleet system solutions).

In the Body & Security business unit, vehicle connectivity also relates to the gateways and antenna modules sector as well. As a result of data security requirements, gateways are playing an increasingly important role. Technologies such as near field communication (NFC) and Bluetooth low energy (BLE) allow for the development of new convenience features with simple and secure integration of smartphones in the vehicle. For example, these include wireless smartphone charging in the vehicle and access to the vehicle via smartphone with a virtual key. Our joint venture OTA keys with Belgian automotive services specialist D'Ieteren offers development and implementation of various additional services relating to digital key management. We are meeting new legislative requirements with services for maintenance, safety, and convenience – such as our tire information systems with information for connected fleet systems, tread depth measurement, or convenient tire-pressure monitoring using a smartphone. The area of lighting is showing clear growth potential with the sharp increase in LED solutions. Here, we are positioning ourselves as an innovator in LED light controls and advanced light functions.

The Commercial Vehicles & Aftermarket business unit is continually expanding the growth market of additional services. We have added new solutions for commercial vehicles to our portfolio, such as ProViuMirror and ProViuDetect and electronic and aerodynamic solutions to save fuel. We are significantly enhancing our range of solutions for agricultural and construction vehicles. In addition to remote diagnostic solutions, our eHorizon offers significant added value to make commercial vehicles safer and more efficient. The integrated human-machine interface in commercial vehicles, including the head-up display, is an extremely noteworthy driving force in enhanced safety – particularly in connection with automated driving. Our success in the tachograph segment, as well as new legislation and the demand for additional services constitute the basis for further growth in Russia and North America. Clear added value for fleet operators is offered by the activities in digital fleet-management systems in terms of fuel savings, CO_2 reduction, efficiency, cost control, and compliance with legal provisions.

Tire Division

- 52,057 employees
- 75 locations in 47 countries
- Sales up 3.0% to €10.7 billion

Tires are the vehicle's only link with the road. They have to transmit all forces onto four areas of the road surface that are roughly the size of a postcard. In critical situations, it is the technology level of the tires that determines whether a vehicle is able to stop in time or stay in the correct lane during cornering maneuvers.

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.

The division is divided into six business units:

- **Passenger and Light Truck Tire Original Equipment** represents global business with automotive manufacturers. Products of the premium brand Continental are marketed worldwide in addition to products of the quality brand General Tire in North America. The product range also includes various run-flat systems that allow you to continue driving even if you get a puncture, so that you can reach the nearest auto repair shop.

Passenger and Light Truck Tire Replacement business is divided into the following business units:

- **EMEA** (Europe, Middle East and Africa)
- **The Americas** (North, Central, and South America)
- **APAC** (Asia and Pacific region)

In addition to the Continental premium brand and the Barum budget brand, which are sold all over the world, we also market the regional high-quality brands Uniroyal, Semperit, General Tire, Viking, Gislaved, Euzkadi, and Sime Tyres as well as the regional budget brands Mabor and Matador. Under the umbrella of ContiTrade, our European retail tire companies, with more than 2,000 tire outlets and franchises, are also assigned to Replacement Business EMEA.

- **Commercial Vehicle Tires** boasts an extensive range of truck, bus, and special-purpose tires. This business unit places its focus on entrepreneurial customers, providing them with suitable tires and accompanying services and solutions for professional tire management. This means lower overall costs for the whole fleet and thus optimal cost-effectiveness.

- **Two-Wheel Tires** has a broad spectrum of products to offer ranging from city, trekking, mountain-bike, and high-performance racing tires through to motorcycle tires (scooter, enduro, and high-performance road tires).

Distribution of sales
30% of sales in the Tire division relates to business with vehicle manufacturers, and 70% relates to the replacement business.

Our growth prospects
In the area of passenger and light truck tires, we pursue the evolutionary development of our premium products by continuously improving their key properties. This is done by:

- Specifically adapting new product lines to meet widely varying regional requirements with regard to temperature, road conditions, and legal provisions.
- Making further improvements in performance characteristics for the highly demanding and competitive product segments: high-performance tires and premium winter tires.
- The continual reduction of rolling resistance without compromising safety characteristics.

In addition, we use the other brands in our extensive portfolio to offer our trading partners solutions that are as individual as possible in all product segments.

In our premium segment in the Commercial Vehicle Tires business unit, we place particular emphasis on the following:

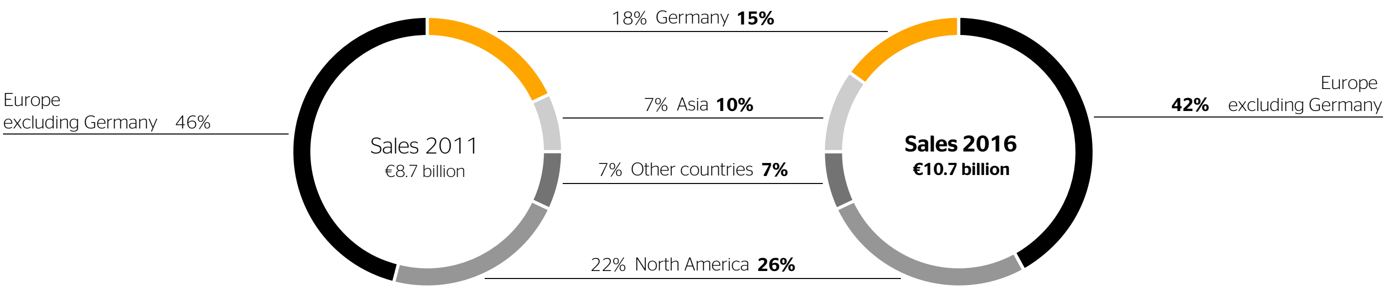
- Close collaboration with our fleet customers on the development of individual tire management solutions, including the use of digital technologies.
- The continuous expansion of our ContiLifeCycle range, from new tires to retreading.

In the Passenger and Light Truck Tires as well as the Commercial Vehicle Tires business units, the division also continues to pursue the following aims:

- The continuous expansion of production and sales capacity with a focus on the growth regions U.S.A., Europe and BRIC (Brazil, Russia, India, and China).
- The development of innovative materials such as natural rubber from dandelion roots. In the year under review, Continental succeeded in producing the first test tires for trucks from this sustainable material.

In 2016, the Tire division began the third phase of its long-term growth strategy, Vision 2025. In addition to the start of production at the new truck tire plant in Clinton, Mississippi, U.S.A., and the announced re-entry of the agricultural tire segment, major investments in the year under review also included further expansion of greenfield plants in Hefei, China, and Sumter, South Carolina, U.S.A. In addition, capacity has been expanded at several plants worldwide. In June, the new High Performance Technology Center at the Korbach location in Germany began operations. This center manufactures exceptionally sophisticated 19- to 23-inch tires for sports cars as well as organizing process optimization for all tire plants

Tire division: sales by market



worldwide. Furthermore, we acquired the racing-tire specialist Hoosier Racing Tire and the Bandvulc Group in the year under review. The acquisition of a leading U.K. fleet-management service provider and independent truck-tire retreader sustainably strengthens Continental's position on the U.K. and Irish market.

The PremiumContact 6, our new flagship for original equipment and replacement business in Europe, will be available from spring 2017. In addition to the most advanced safety features, it also offers considerably reduced rolling resistance and significantly improved comfort features.

In the Commercial Vehicle Tires business unit, we unveiled our new digital service ContiConnect to our customers in 2016. This tire-management system monitors and analyzes the tire pressure and temperature of the entire fleet based on data from ContiPressureCheck sensors. If necessary, ContiConnect notifies the fleet manager and offers corrective action, for example by a Conti360° service partner. The associated online portal produces analyses of the tire performance and overall efficiency of the fleet. Following its launch in the second quarter of 2017, this powerful package of solutions will be available in core markets in the Asia-Pacific region, Europe, and North and South America.

Another part of the digitalization strategy is Continental's iTires – truck and bus tires with built-in sensors – which started rolling off the production line in the year under review. Special-purpose tires for earth-moving vehicles, ContiEarth™ iTires, are also delivered with an integrated sensor.

New product launches included the steering-axle and drive-axle tire Conti EfficientPro, which boasts the EU label "A" for maximum fuel efficiency. In addition, the Conti LightPro tire line celebrated its debut: innovative, lightweight truck tires that allow for a roughly 80 kilogram increase in loading capacity for tank trucks transporting mineral oil. The truck tire portfolio of the Semperit, Barum, Uniroyal, and Matador brands for the EMEA region was fundamentally revised and presented to retailers as part of celebrations to mark the 110th anniversary of the Semperit brand.

Under the umbrella of ContiTrade, our sales network BestDrive has developed into a single cohesive network worldwide, operating across five continents. Consequently, the premium trademark BestDrive is experiencing a huge boost and market access is being made possible, particularly through the expansion of franchise partners. This has resulted in significantly greater presence, which has made the network more attractive, particularly to customers in the increasingly important fleet- and tire-management segments.

To further increase awareness of the Continental premium tire brand, we will focus on soccer sponsorship as a strategic communication platform in the future as well. As the official sponsor of the AFC Asian Cup 2019, which is due to take place in the United Arab Emirates, we have acquired an extensive rights package. We are continuing our sponsorship activities both in the U.S.A. and Canada as the official sponsor and exclusive tire partner of Major League Soccer, including its Cup and All-Star games, and also in Brazil, where we are the official sponsor and exclusive tire partner of the "Copa do Brasil" soccer cup.

In Europe, after 20 highly successful years as a leading sponsor of the biggest soccer events, we decided to change our strategy in 2016. The new positioning will be designed to tie in with Vision Zero – our vision of road traffic without deaths, injuries, or accidents – on a long-term basis. Together with the Chassis & Safety division, we are working to demonstrate how the combination of modern advanced driver assistance systems and premium tires contributes to better road safety. An ideal platform for this is offered by joint participation as an automotive supplier and exclusive tire partner for the Global NCAP campaign Stop the Crash, which aims to raise awareness about these very crash avoidance technologies, particularly in populous emerging economies. With its truck tires, Continental is also the new product partner of the KAMAZ Master racing team for the Dakar Rally, the most famous long-distance rally in the world. The vehicles will take on the 9,000-kilometer route in South America under extreme conditions with truck tires from the Continental premium brand.

ContiTech Division

- 42,909 employees
- 185 locations in 44 countries
- Sales up 1.8% to €5.5 billion

The ContiTech division develops, manufactures, and markets functional parts, intelligent components, and systems made of rubber, plastic, metal, and fabric for machine and plant engineering, mining, agriculture, the automotive industry, and for other important sectors.

At all times, we focus on using resources in a responsible manner. We lose no time in adapting major technological trends such as functional integration, lightweight design, and downsizing. To this end, we keep a large number of products and services readily available.

The division is divided into nine business units:

- **Air Spring Systems** focuses on components and complete systems for self-adjusting air suspension in commercial vehicles, buses, rail vehicles, stationary machines, and foundation bearings. Air actuators and rubber expansion joints are manufactured for plant and machine engineering.

- **Benecke-Kaliko Group** works in a close development partnership with the automotive industry and other industries to manufacture technical, decorative, and customizable surface materials.

- **Compounding Technology** supplies internal and external customers with rubber compounds and sheets for a wide range of applications. The materials, which are often developed specifically for particular customers, form the basis for various rubber products.

- **Conveyor Belt Group** is a development partner, manufacturer, and systems supplier of steel-cord and textile conveyor belts, crawler tracks, service material, and special products for a large number of industries. It also offers a global belt installation and maintenance service.

- **Elastomer Coatings** is known for innovative printing blankets for the printing and packaging industry, diaphragms, materials for life rafts, protective clothing and wetsuits, flexible tanks, and gas holder diaphragms, as well as insulating materials.

- **Industrial Fluid Solutions** was renamed from Industrial Fluid Systems in January 2017. The business unit develops and produces hoses and hose systems for small trade and construction, the food and beverage industry, chemical and petrochemical production, as well as for agriculture, mining, steel manufacture, machine engineering, and garden use.

- **Mobile Fluid Systems** develops and produces piping systems made from elastomeric hoses and tubes made of plastic, steel, stainless steel, or aluminum for the automotive and commercial vehicle industry.

- **Power Transmission Group** supplies products and systems ranging from drive belts through to complete belt drive systems that are used in the automotive industry, agriculture, the bicycle sector, machine and plant construction, and other industries.

- **Vibration Control** is a specialist in noise and vibration control, sealing technology, and lightweight technology for the automotive industry and industrial vehicles, as well as for machinery, plants, and motors in diverse industrial sectors.

Distribution of sales

52% of sales in the ContiTech division relates to business with vehicle manufacturers, and 48% relates to business with other industries and in the replacement market.

Our growth prospects

We see opportunities for growth in:

- Asia, North America and Europe

- Product innovations and new sectors

- Digitalization

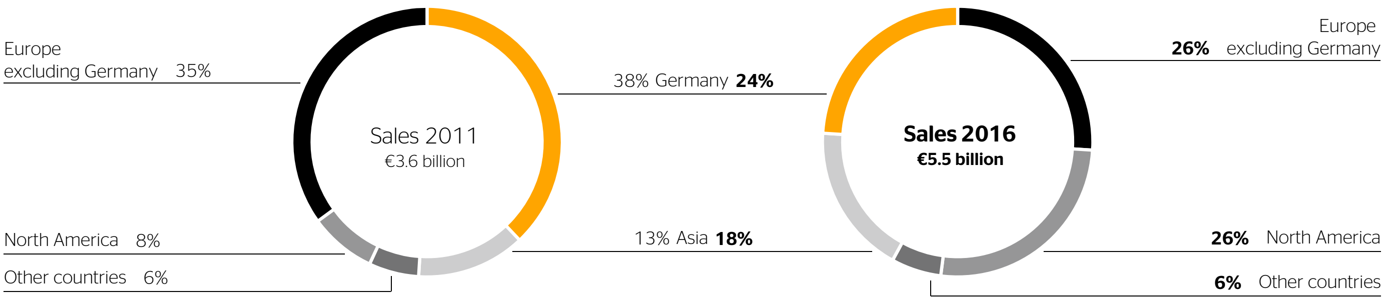
- Services tailored to our customers

In Air Spring Systems, we have strengthened our activities in the growth market of air springs and air-spring systems in railway engineering, particularly in Asia and the U.S.A., with the acquisition of an Australian specialist. In addition, we are working on new technologies that further reduce the noise level in rail transport. Increasing digitalization is also giving rise to growth opportunities. In the future, technically advanced air springs will be able to report information on height adjustment and load directly to the train driver and gather information on the rail network.

In the year under review, the Benecke-Kaliko Group reached an agreement on the purchase of the Hornschuch Group. The business unit will thereby strengthen its business with non-automotive solutions and tap new sales markets in North America. The Benecke-Kaliko Group has also opened a new plant in Changzhou, China, where it manufactures environmentally friendly, low-emission, and non-allergenic automotive interior materials. We continue to see further growth in Europe.

Compounding Technology anticipates increases in quantities at all compounding facilities to support the ContiTech companies' growth locally. At the production facility for rubber compounds in Changshu, China, that was opened in summer 2015, new compounds are going into production every month. The business unit is also profiting from the rising demand for special compounds.

ContiTech division: sales by market



The Conveyor Belt Group is strengthening its business outside of the mining industry to become less susceptible to market fluctuations. In addition to the agricultural sector, the business unit is focusing on the raw-materials processing industries, power plants, and cement factories, as well as steel manufacturers, port operators, the recycling industry, and the wood industry. To strengthen its presence in Africa, the business unit has opened a plant in Jorf Lasfar, Morocco, for the production of textile and steel-cord conveyor belts. There is further potential from increasing digitalization and additional maintenance and service models. Electronic conveyor belt monitoring systems improve the safety of conveyor belt systems and extend the service life of conveyor belts.

Elastomer Coatings sees considerable potential in printing blankets for digital and flexographic printing. ContiTech and Henkel Adhesive Technologies are therefore collaborating closely in functional printing and printed electronics. In addition, there are good market opportunities arising from the construction of a new coating factory at the location in Changshu, China, which will be used primarily for the production of fabrics for industrial applications from the start of 2017.

There is growth potential for Industrial Fluid Solutions arising from a recovery of the oil industry and from the expansion of activities in industries that are not directly dependent on oil. For example, we have expanded the water hose plant in Mount Pleasant, Iowa, U.S.A. With regard to increasing globalization, the business unit sees potential outside of its current focus areas of North America and Europe, particularly in Asia and Latin America.

For Mobile Fluid Systems, there is potential particularly in the growing market for hybrid and electric vehicles combined with solutions for integrated thermal management. In addition, we see new opportunities in 48-volt on-board power supply systems and in the general trend toward lightweight design. The volume of turbocharger lines will continue to increase, thanks to the use of smaller engines as well as the increase in requirements when it comes to larger engines. The business unit is also strengthening its regional presence, particularly in Asia and North America. In Qingdao, the foundations were laid for another Chinese plant to produce automotive hoses. Capacity increases at European locations reflect the increased demand in the region. Further opportunities are provided by the introduction of new, climate-friendly refrigerants, the resulting greater complexity of air-conditioning systems, as well as the tightening of emission standards with the consequent requirements for fuel and particulate filter lines.

The Power Transmission Group sees growth opportunities in automotive original equipment business, for example with projects for hybrid vehicles and belts for steering systems. The focus for the automotive aftermarket is on expanding the product range, with products such as water pump kits being offered. In the industrial segment, business with belts for elevators is increasing. Investments were therefore made in a new production hall in Dannenberg, Germany, and the production of elevator belts in Sanmen, China, was expanded. The business unit is also expanding the agricultural segment further and manufacturing belts specifically for agricultural machinery. In addition, the Power Transmission Group supplies belt systems for e-bikes and develops pedelec systems in collaboration with other business units of the Continental Corporation.

Vibration Control is continuing to consolidate its leading role in lightweight design and won several international awards for this in 2016. The new technology utilizing polyamide offers a weight reduction and a longer service life compared with previous components made from steel or aluminum. Further opportunities for growth arise from the use of renewable raw materials. At the 2016 International Motor Show Commercial Vehicles, we unveiled an intermediate propeller shaft bearing with rubber from dandelion roots for the first time. It stabilizes and minimizes the transmission of vibrations in the chassis.

Corporate Management

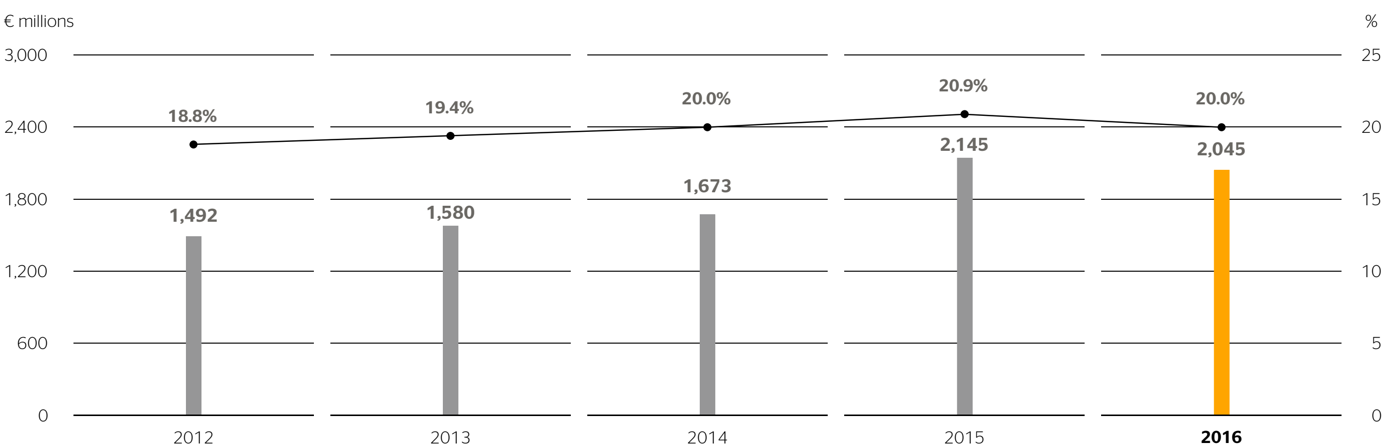
A core component of our strategy is the ongoing enhancement of the value of our company. The financing strategy fosters growth that adds value.

Value management

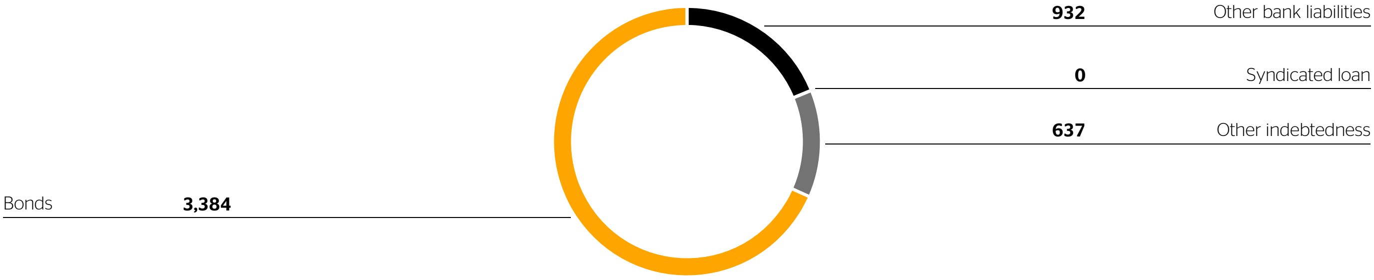
Key financial performance indicators for Continental relate to the development of sales, capital employed, and adjusted EBIT margin, as well as the amount of capital expenditure, and free cash flow. To allow us to use the financial performance indicators for management purposes as well, and to map the 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 operating earnings before interest and tax (EBIT), capital employed and the weighted average cost of capital (WACC), which is calculated from the proportional weight of equity and debt costs.

- Operating earnings before interest and tax (EBIT) are calculated from the ongoing sales process. The figure is the net total of sales and expenses plus income from at-equity accounted investees and from investments but before interest and income tax expense. Consolidated EBIT amounted to €4.1 billion in 2016.
- 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 2016, average operating assets amounted to €20.5 billion.
- The return on capital employed (ROCE) represents the ratio of these two calculated values. Comparing a figure from the statement of income (EBIT) with one from the statement of financial position (capital employed) produces an integral analysis. We deal with the problem of the different periods of analysis by calculating the capital employed as an average figure over the ends of quarterly reporting periods. ROCE amounted to 20.0% in 2016, once again significantly exceeding the cost of capital. Compared to the previous year, ROCE dropped by 0.9 percentage points. This was due to several isolated events in the Automotive Group in 2016, particularly in the third quarter, which had a negative impact on EBIT of around €480 million.
- 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 Value Contribution (CVC) **Return on capital employed (ROCE)**



Composition of gross indebtedness (€4,952 million)



Continental's weighted-debt capital cost rate. Based on a multi-year 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). The decline in ROCE of 0.9 percentage points in turn resulted in a CVC of €2,045.3 million in 2016, a drop of €99.9 million year-on-year.
- In the long term, enterprise value by our definition will increase only if the CVC shows positive growth from year to year. In 2016, the aforementioned negative effects caused CVC to fall for the first time after rising for six years in a row.

ROCE by division (in %)	**2016**	2015
Chassis & Safety	13.1	19.0
Powertrain	12.5	14.3
Interior	12.6	19.2
Tires	40.8	39.2
ContiTech	13.5	5.3
Continental Corporation	**20.0**	**20.9**

Financing strategy

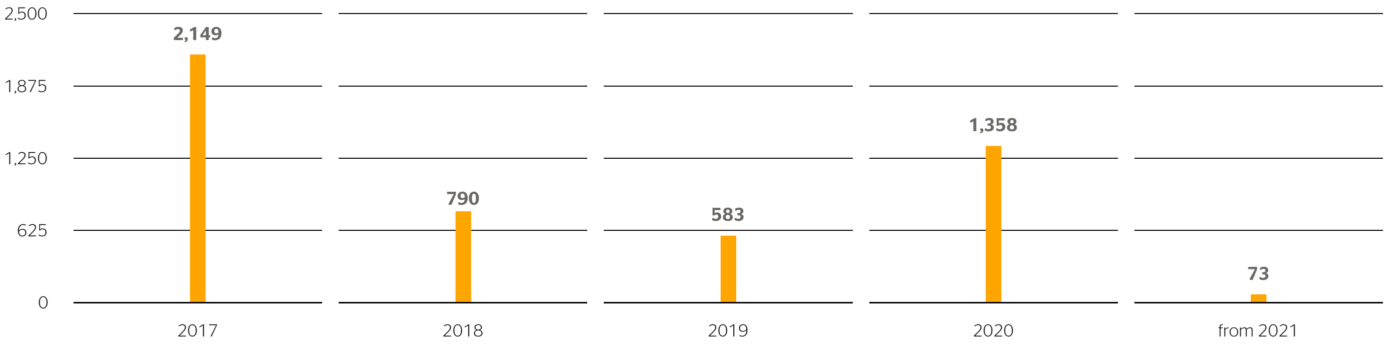
Our financing strategy aims to support value-adding growth of the Continental Corporation while at the same time complying with an equity and liabilities structure adequate for the risks and rewards of our business.

The central 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 needs is currently between 6% and 6.5% of sales. The reasons for this are the continuing increase in incoming orders in our automotive areas and the successful implementation of Vision 2025 in our Tire division, which will mean the expansion of tire 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 gearing ratio and the liquidity situation to achieve a constant improvement in the respective capital market environment. In general, our goal is to continue to keep the ratio of net indebtedness to equity (gearing ratio) below 20% in the coming years and ensure that it does not exceed 60% in general. If justified by extraordinary financing grounds or specific market circumstances, we can rise above this maximum level under certain conditions. The equity ratio should exceed 35%. In 2016 the equity ratio was 40.7% and the gearing ratio 19.0%.

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 2016, this mix consisted of bonds (68%), syndicated loan (0%), other bank liabilities (19%) and other indebtedness (13%) based on the gross indebtedness of €4,952.3 million. The term loan of over €1.5 billion that is part of the syndicated loan ended in April 2016. It was fully redeemed early by the end of March 2016 and was not extended. As a result, the committed volume of the syndicated loan, which just consists of the revolving tranche, likewise declined to €3.0 billion since the end of March 2016 (PY: €4.5 billion). The tranche of over €3.0 billion was extended by one year until April 2021. The financing mix will not change significantly.

Maturities of gross indebtedness (€4,952 million)



The corporation generally strives for liquidity as at the end of reporting periods of between €1.0 billion and €1.5 billion, which 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. Cash and cash equivalents amounted to €2,107.0 million as at December 31, 2016. There were also committed and unutilized credit lines of €3,888.4 million.

Gross indebtedness amounted to €4,952.3 million as at December 31, 2016. A key financing instrument is the syndicated loan with a revolving credit line of €3.0 billion that has been granted until April 2021. The revolving credit line had not been utilized as at December 31, 2016.

Around 67% of gross indebtedness is financed on the capital market in the form of bonds maturing between March 2017 and September 2020. The interest coupons vary between 0.0% and 3.125%. The repayment amounts are €750.0 million each in 2017 and 2018, and €500.0 million in 2019. In 2020, the amounts are €600.0 million and €750.0 million. In addition to the forms of financing already mentioned, there were also bilateral credit lines with various banks in the amount of €1,831.0 million as at December 31, 2016. In addition to finance leases, Continental's other corporate financing instruments currently include sale of receivables programs and commercial paper programs.

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 bonds each amounting to €750.0 million due in March 2017 and July 2018 are on the agenda for 2017 and 2018. In view of the bond that is due in March 2017, a euro bond of €600.0 million with an interest coupon of 0.0% was placed at the end of November 2016.

Further improvement in Continental's credit rating

In the reporting period, Continental was rated by the three rating agencies, Standard & Poor's (S&P), Fitch and Moody's. Even after the announcement of the three major acquisitions (Hoosier Racing Tire, Zonar Systems and the Hornschuch Group) and the change in the outlook for the year under review, all three agencies confirmed the credit rating of Continental AG in the investment-grade category. The reason for this continues to be the company's good operating performance. On May 11, 2016, the rating agency Standard & Poor's upgraded Continental AG from BBB with a positive outlook to BBB+ with a stable outlook. On October 24, 2016, Fitch also raised its credit rating to BBB+ with a stable outlook. Moody's did not change its credit rating for Continental AG.

Continental's credit rating

	December 31, 2016	December 31, 2015
Standard & Poor's[1]		
Long term	BBB+	BBB
Short term	A-2	A-2
Outlook	stable	positive
Fitch[2]		
Long term	BBB+	BBB
Short term	F2	F2
Outlook	stable	positive
Moody's[3]		
Long term	Baa1	Baa1
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.

Research and Development

Our technology strategy is geared toward developing innovative and trend-setting products, systems, solutions, and services for our customers.

The central topic for Continental is the mobility of today and tomorrow, which we are creating and shaping with our ideas and solutions. For this reason, all activities in the area of research and development (R&D) have a high level of strategic importance. At the same time, we keep our social responsibility in mind, which is why we consider all future issues and research activities from the perspective of clean, safe, and intelligent technology (CSI).

When developing our products, systems, solutions, and services for our customers, we systematically implement a defined technology strategy based on the major trends in mobility: automated driving, electric mobility, digitalization, and increasing urbanization.

Our technology strategy forms the framework for all the divisions at Continental. In the year under review, the individual areas of R&D activities were combined further and dialog was increased once again. The technology strategy is how we implement Continental's growth forces – while taking account of megatrends and the current market situation.

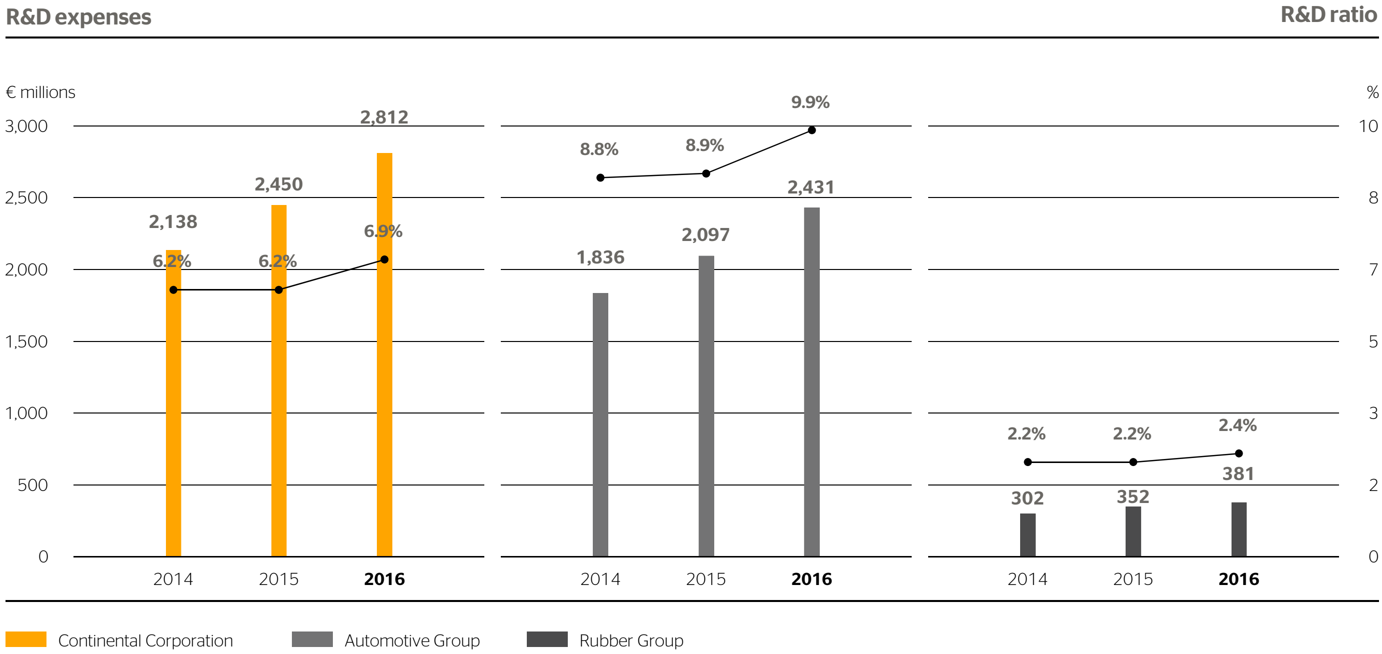
The management body responsible for adapting and evolving the technology strategy is the Executive Board. At the Executive Board technology review meetings – which are held regularly several times each fiscal year – the Executive Board follows, manages, and monitors Continental's technology portfolio. Technologies, innovations, business opportunities, and projects in the context of the technology strategy are thus actively managed.

Below the Executive Board, the corporate technology officer (CTO) is responsible for coordinating research and development activities. The CTO's tasks include ongoing planning and safeguarding of the long-term technology strategy, technology scouting, technology reviews, and constant expansion of the research network to further strengthen our technology leadership. This includes expanding the international research network not only internally but also externally, in order to benefit from continual sharing of knowledge. In 2016, for example, a research partnership in the field of artificial intelligence (AI) was set up between Continental and the University of Oxford. The purpose of the partnership is to research potential uses for artificial intelligence in future applications such as automated driving. In addition to the use and development of AI algorithms for future mobility applications, the research agenda also includes deep-learning algorithms (independent learning) for visual object detection and human-machine dialog. Furthermore, Continental held an international internal event for the R&D network as a shared platform for dialog during the reporting period. More than 156 employees from seven countries met here to share experiences and discuss the trends of tomorrow. One key topic was how R&D activities can better support value creation and growth.

Research and development expenses increase again

Expenditure for R&D for the corporation rose by 14.8% in the year under review to €2,811.5 million. This corresponds to an R&D ratio of 6.9%. In relation to automotive business, in which we generated sales of €24.5 billion in the year under review, the ratio is 9.9%. In comparison with this, the corporation's capital expenditure ratio is 6.4%, and that of the Automotive Group is 6.1%.

	2016		2015	
Research and development expenses	€ millions	% of sales	€ millions	% of sales
Chassis & Safety	773.4	8.6	691.2	8.2
Powertrain	701.5	9.6	708.7	10.0
Interior	956.0	11.5	697.3	8.6
Tires	260.9	2.4	244.9	2.4
ContiTech	119.7	2.2	107.5	2.0
Continental Corporation	**2,811.5**	**6.9**	**2,449.6**	**6.2**
Capitalization of research and development expenses	**105.9**		**78.7**	
in % of research and development expenses	3.6		3.1	
Depreciation on research and development expenses	**54.3**		**51.6**	



Moving toward automated driving: the High-Resolution 3D Flash Lidar

A large number of sensors enable vehicles to gather a wide range of data as they drive, including information about changing events such as traffic jams, accidents, traffic lights, warning signs, and the condition of the road surface. In the year under review, we expanded our sensor portfolio with our High-Resolution 3D Flash Lidar.

One key advantage of the High-Resolution 3D Flash Lidar sensor technology is that it allows for real-time 3D monitoring of a vehicle's surroundings. The technology provides a considerably more extensive and detailed picture of the vehicle's surroundings both by day and by night – even in adverse weather conditions. We are working on an integrated sensor solution to cover different driving situations and functionally optimize the display and segmentation of the vehicle's surroundings. In order to implement the next stages of automated driving, we need various technologies for vehicle-surroundings sensors. We already have proven high-performance solutions in the areas of radars, cameras, and data fusion. The latter are necessary to avoid being dependent on just one signal. We have added the High-Resolution 3D Flash Lidar technology to our technology portfolio to further strengthen and advance our leading position in the development of automated driving.

Analysis and monitoring for truck and bus fleets: ContiConnect

The new ContiConnect tire information and management system for truck and bus fleets monitors, analyzes and reports the tire pressure and temperature of the entire fleet based on data from ContiPressureCheck sensors. If necessary, ContiConnect notifies the fleet manager and offers corrective action, for example by a Conti360° service partner. The associated online portal produces reports on the tire performance and overall efficiency of the fleet. Following its launch in the second quarter of 2017, ContiConnect will be available in key markets in the Asia-Pacific region, Europe, and North and South America.

With ContiConnect, we are expanding our many years of experience in tire technology with new findings from sensor data from our truck and bus tires. For our customers, this means a change from manual, routine tire care to automatically monitored tires and targeted care. This makes Continental the ideal partner in an increasingly digital logistics sector.

Highly efficient brake system: the MK C1

MK C1 is more effective and lighter than conventional brake systems, and enables shorter braking distances. The integrated system also reduces pedal vibrations, meaning that the driver always feels the same force-travel characteristics in the pedal – thus providing a high level of comfort.

MK C1 combines the brake actuation feature, the brake booster and the control systems (ABS and ESC) into a compact, weight-saving braking module. The system weighs three to four kilograms less than a conventional braking system, depending on the basis of comparison. The electro-hydraulic MK C1 can build up brake pressure much faster than conventional hydraulic systems and therefore meets the increased pressure dynamic requirements for advanced driver assistance systems for preventing accidents and protecting pedestrians. In addition, the system meets the requirements for a regenerative braking system without any additional measures, while providing a high level of comfort. The MK C1 thus makes a major contribution to safe and dynamic driving and to energy efficiency as well.

The brake system went into production for the first time worldwide in Alfa Romeo's Giulia model.

Two in one: high-resolution dual display as central element of the vehicle interior

In addition to their home and their workplace, for more and more people the car is becoming another living space. And here they want to have high-quality equipment too.

To cater to this, Continental, for the first time, is equipping the 10th generation of the E-Class from Mercedes-Benz with two widescreen high-resolution displays that give the impression of being a single unit. As a central element of the vehicle interior, the dual display in the E-Class from Mercedes-Benz combines two screens in one module and enables the driver to access information intuitively. The display options are easier to understand than conventional solutions. For example, visual dial instruments can make room for large-scale added-value information. One display replaces the conventional instrument cluster and its analog instruments, while a second, central display is mounted above the center console. The displays provide realistic effects and high-quality graphics that perform cross-fading at high image-build-up speeds. The dual display lets the driver choose between three designs to customize how content is displayed on the screen. For example, the driver could hide the rev counter and replace it with other information such as navigation maps. At the same time, safety-related information is displayed in all operating conditions.

Better security and more personalization: biometrics in vehicles

Combining the keyless access control and start system PASE (passive start and entry) with biometric elements allows for better security and real personalization. To start the engine, for example, drivers will need more than just the right key inside the vehicle, depending on how the car manufacturer's system is configured. Only once drivers have confirmed their identity using a fingerprint sensor will they be able to start their cars. This two-factor authentication process significantly increases the vehicle's protection against theft. In addition, an interior camera enables enhanced vehicle personalization. A face recognition feature automatically personalizes a range of vehicle settings such as the seat and mirror position, music, temperature, and navigation. Biometrics can be integrated into any intelligent system, regardless of which access technology is used in the vehicle (Bluetooth low energy or low frequency).

In production cars for the first time worldwide: the 48-volt hybrid drive system

Hybrid Assist is the first 48-volt hybrid drive system from Continental to be used in production cars – in a diesel version of the new Renault models Scénic and Grand Scénic. This technology is a particularly cost-effective solution for significantly reducing fuel consumption and exhaust emissions.

In 2013, Continental engineers started working with Renault to develop a hybrid drive system that is so cost-effective to produce that it becomes an attractive option for mid-size vehicles. To achieve this, the partners decided to use low-voltage hybrid technology that operates at 48 volts – in contrast to the much more expensive high-voltage technology that operates at 300 to 400 volts generally used in hybrid vehicles. Nonetheless, significant savings are possible with the 48-volt system. With the mild hybrid system, Renault is therefore aiming for combined fuel consumption of 3.5 liters of diesel per 100 kilometers. The CO_2 emissions of the new Scénic are thus expected to fall to 92 grams per kilometer, setting a new CO_2 benchmark in this vehicle class. This is possible because the electric motor also operates as a generator, converting a large portion of the braking energy into electricity, which is temporarily stored in a small battery. This electricity can then be used to relieve the burden on the combustion engine. This is also the reason why nitrogen-oxide emissions and exhaust particulates decrease, especially in urban traffic, when a 48-volt drive system is combined with a diesel engine.

Other production launches for both diesel and gasoline vehicles are in the pipeline for Europe, China, and North America. Continental expects the market for 48-volt drive systems to grow significantly over the coming years. In 2025, approximately one in seven new vehicles across the world will be equipped with a 48-volt drive system.

For use in trucks: lightweight air springs

For use in trucks, we offer an air spring with an innovative lightweight plastic piston, which further reduces the weight of the vehicle and features an integrated buffer support for the first time. Full utilization of the inner volume improves the ride quality, meaning that the new lightweight air springs can replace elastic axle stops.

We are continuously reducing the weight of our air springs by replacing more and more steel or aluminum components with plastic ones. The pistons made using injection molding allow the entire inner volume of the piston to be utilized. The innovative design ensures good ride quality and simplifies installation in the vehicle. Standards for the quality, pay load, and efficiency of vehicles are constantly rising. As a result, light, weight-reducing components are now more important than ever. Compared with using steel components, lightweight air springs can reduce the weight of the vehicle by twelve kilograms per drive axle. The lightweight air springs are extremely corrosion-resistant and durable as well, which also increases the resale value of vehicles.

Sustainability

Our sustainability objectives are linked to our core business. These include using resources sparingly, promoting climate protection, and addressing our responsibility to our employees and to society.

We consider sustainable management to be a strategic task for corporate development and thus involve all relevant functions in mapping it out. In our Roadmap 2020, we defined the precise objectives for our four dimensions (corporate governance and corporate culture, employees and society, environment, products). These are linked to our core business: to bring about sustainable, individual mobility that is highly efficient, causes zero accidents, and is clean, intelligent, and affordable for all.

Our BASICS are the foundation of Continental's lasting success. These corporate guidelines outline our vision, mission, and values, which in turn define our corporate activities and the way we interact with one another and with all other stakeholders. They also underscore our careful use of resources, our social responsibility, and our culture of working for one another. They are our most important compass in this time of digital transformation, because our working world is changing profoundly. We believe this transformation presents considerable opportunities for our company, for climate protection and for road safety.

The interplay between our BASICS, our corporate governance guidelines, and our comprehensive code of conduct, to which all employees of the corporation are bound, gives rise to a responsible approach to corporate governance and oversight that is aimed at generating lasting added value. Our anti-corruption guidelines send a clear message on corruption and corruptibility.

Our compliance management system is based on a comprehensive analysis of the compliance risks potentially associated with structures and procedures, a specific market situation, or issues in particular regions.

Responsible corporate management also requires dealing with risks in a responsible manner. Continental has a corporation-wide internal control and risk management system that is used to analyze and manage the risks to the company.

As a signatory of the United Nations Global Compact, we support its ten principles in the areas of human rights, labor, the environment, and anti-corruption. We outline the progress we are making on the sustainability front in our sustainability report, which is based on the Global Reporting Initiative (GRI) standard. You can access this report online at www.continental-sustainability.com.

Profitability as a prerequisite

Our sustainability objectives and activities are also geared toward our company's success. Achieving our objectives with regard to employees, the environment, and society means that we are opening up the company to change, are able to identify opportunities and risks quicker, are remaining fit for the future, and are increasing the company's value.

Our employees – the foundation of our success

Respecting people, valuing their achievements, and fostering their abilities are the foundations of our HR work. Continental is a diverse company whose employees come from various ethnic, cultural, and religious backgrounds. We appreciate and encourage our employees' diverse ideas and experiences. These make us successful. By supporting them in the course of their professional development and fostering their talents, we are creating added value not only for our employees, but also for the company, our customers, and other stakeholders. In addition to training and development opportunities – not to mention fair wages and salaries – we also offer our employees attractive social benefits. The health of our employees and job security are top priorities as well.

Environmental and climate protection

Our environmental management system is based on global megatrends, which also form the basis of the corporation's overall strategy. This system incorporates all levels of the value chain and the entire life cycles of Continental products. As a result, our environmental responsibilities extend from research and development, the purchasing of raw materials and components, logistics and production, to the use and recycling of our products. Our service processes are geared toward continuously improving the use of resources in relation to business volume. We manufacture products that make an active contribution to protecting the environment and conserving resources throughout their entire service life as well as when they are eventually recycled.

Social obligations and responsibility

One of our basic values is trust. Trust requires integrity, honesty, and incorruptibility. Compliance with all the legal requirements that apply to Continental and its subsidiaries and adherence to internal regulations by management and employees form part of our obligations and shape our corporate culture. Through profitability, we lay the foundations for safeguarding jobs in many regions of the world. We also aim to create value for the people who live and work near our locations. Our voluntary activities focus on three areas in which we wish to position ourselves based on our business model, our challenges, or our self-image and where we aim to promote forward-looking development: social welfare and road safety, education and science, and sports.

Employees

Our people, our culture, our future – employees and corporate culture guarantee the success of our company.

Personnel work is an important part of our company's value creation. It plays an important and pioneering role as part of our growth strategy – after all, our employees and the way in which we work together within our organization are what guarantees our future success. They drive our technological progress and growth and lay the foundations today for the success of our company tomorrow.

We do not view our employees as "resources" – instead, we value them as people whose skills, abilities, and achievements represent the most valuable asset within our company. Our goal is to make optimal use of their skills and develop them in the best possible way. Our Human Relations (HR) department actively supports our employees in their professions and careers and encourages them to develop their talents. We thereby create tangible value: for our employees, our company, our customers, and all other stakeholders.

Our HR policy is holistic and based on working with and for one another. In our collaboration, we attach great importance to relationships with one another and to ensuring that the shared corporate values – Trust, Passion To Win, Freedom To Act, and For One Another – are put into practice. These values form the basis for our corporate culture and shape the way in which we interact with each other and with our customers and partners. We are convinced that values create value for our company. Continuous development of our corporate culture is therefore a vital part of ensuring our future viability and creating value.

Our HR policy is founded on two strategic pillars within which we implement different HR projects and initiatives. Based on these two pillars, we systematically develop our HR work further – and make it fit for the future:

- With "Industrialize Best Fit," we are industrializing HR management in the context of our "best fit" concept in order to meet our considerable need for employees with the right skills and abilities – now and in the future.

- "Enable Transformation" supports digital transformation at Continental so that we can make the most of the opportunities of digitalization throughout the corporation.

Industrialize Best Fit – meeting staffing needs with precision

In the year under review, we received 320,000 applications for salaried positions worldwide – with 80,000 in Germany alone – which demonstrate that Continental is a highly attractive employer for people all around the globe. At the same time, this large number presents the personnel systems and processes with particular challenges, since it is important to know our requirements and find the right applicant for the right position as efficiently as possible.

We are working on a number of closely related projects in the context of improving our HR data and systems, HR planning and recruitment, and employee development. In the medium term, what we are looking for at Continental is not somebody for a job, but rather the right position at the company for a particular candidate. What counts is the person who is the best fit for a vacant position. This means the person with exactly the right skills, abilities, and values for the job and for Continental. The better the fit between employees and their jobs at Continental, the more satisfied and motivated the employees will be, which are key factors for productivity and quality. This best fit is becoming increasingly important in light of the growing need for suitable employees.

The first proven signs of success: when filling salaried positions, we currently find the right job at the company for one out of eight newly hired employees, without them having actively applied for that specific position. In these cases, the applicants were not suitable for the advertised position, yet we were able to offer them an alternative job, in which they could put their talents and capabilities to the best possible use.

Strategic HR planning

In view of future growth and increasingly short innovation cycles, we need to act now to identify and secure future personnel requirements. This is why the HR teams around the world are involved in the product development process at an early stage, in close collaboration with the business units.

We rely on strategic HR planning that further increases the level of detail in our plans while also creating a uniform and reliable basis for the procedure for the cross-divisional HR strategy. In this context, we simulate firstly the expected development of our current workforce based on factors such as retirements and staff turnover, and secondly the personnel requirements that we need in order to successfully achieve our business goals. By comparing these two factors, we can identify the quantitative and qualitative requirements at an early stage so that we can build up the required expertise in good time. The results help us, for example, to identify how the challenges of digital transformation will affect the requirements for individual employees, so that corresponding training measures can be initiated on a preparatory basis in the next step.

With uniform processes and principles, we established a binding framework for requirements planning for the operational implementation of strategic HR planning as part of a pilot project in 2016. Around 48,000 Continental employees at 15 plants and 15 business units have already been recorded along with their individual skills and abilities. The process will be integrated throughout the corporation in the strategic business planning for 2017.

Big data analysis of HR data

Last year we supplemented our approach to strategic HR planning with a pilot project in the area of big data analysis at the technology center in Bangalore, India.

Structure of the workforce	Dec. 31, 2016	Dec. 31, 2015
Total number of employees	220,137	207,899
thereof permanent staff	206,162	193,694
outside Germany	152,136	141,199
in Germany	54,026	52,495
Trainees[1]	2,067	2,097
Female employees in %	27.0	27.1
Average years of service to the company[1]	14.6	14.7
Average age of employees in years[1]	43.3	43.2

1 In Germany.

Using an automated analysis of a wide range of internal data sources, around 700 individual skills were identified among our local engineers. The facts gained from this process with regard to our employees' hidden talents enable us to plan qualitative HR requirements for the future. This strategic approach enables us to provide our employees with precisely tailored training – so that we can respond to new trends, market developments, and technologies at an early stage. As a result, further big-data analyses for HR are already being prepared.

Diagnostic procedure to find the right employee

To further improve the best fit between applicants and vacant positions and thus enhance the quality of our recruitment processes, we initiated various diagnostic projects during the reporting year, including one at our location in San Luis Potosi, Mexico. This involved using extensive online and on-site tests when hiring employees for setting up a new plant. In this process, candidates did not apply for a specific position, but instead were given a recommendation as to which position represented the best fit for them.

We have also initiated pilot projects with scientifically validated and standardized online processes for salaried positions and expanded the range of test processes and the number of pilot countries. The aim of this process is to gain an impression of the applicant's skills at an early stage of the application process. The international roll-out of the online assessment process is planned for 2017.

Opening up opportunities for refugees

Integrating people of different origins and cultural backgrounds is an important part of our corporate culture. For over a year, we have been working with the German Federal Employment Agency on a new, specially developed program that makes it easier for refugees to enter the job market.

As with all of our personnel-related decisions, valid selection procedures are essential to ensure the best fit. The tests are conducted in the person's native language to ensure that candidates who are basically qualified can indeed enter a training program, even if their language skills are not yet sufficient. The first success story: around a quarter of the candidates showed the skills required for a trainee program at Continental, and some of them started a traineeship at our plants in September 2016. We have already offered 38 refugees career prospects in Germany.

In 2016, the Continental initiative for refugees won the HR Excellence Award, which is highly regarded in the HR industry.

Talent management with mySuccess@Continental

We support the professional and personal development of our employees and ensure that their skills and abilities grow in line with the requirements and prospects. At the same time, we need to employ a sufficient number of suitably qualified staff in order to achieve our ambitious growth targets.

To improve talent management even further, at the end of 2015 we introduced our new employee development cycle and a new system called mySuccess@Continental for global employee development. By the end of 2016 we had rolled it out at all Continental locations worldwide. The focus is on development plans, expectations, and individual target agreements as the basis for the selection of development programs and succession planning. We increase the visibility of the talents found within our corporation, and this transparency also improves diversity when it comes to staffing decisions. With mySuccess@Continental, employees have the opportunity to advance their careers in a more targeted manner.

Training program for automotive software developers

As part of our best-fit concept, we also give practically minded individuals and career changers the opportunity to develop "from career changers to career climbers" – at present, especially if they have specific skills in software and technology. For example, three-quarters of the automotive software developer training positions have been filled with people who have decided to discontinue their studies and start a trainee program at Continental instead.

Continental developed the training program for automotive software developers together with the trade unions, the works council, the German Chambers of Commerce and Industry, and the German Federal Institute for Vocational Education and Training. The training program focuses on the analysis and development of sophisticated program structures for vehicles and for the mobility of the future. In 2016, a total of 34 people decided to start an apprenticeship to become automotive software developers.

Standardized training conditions for work-study students

Continental has become one of the first DAX companies to establish standardized training conditions in Germany for its work-study students, who currently number more than 520 at 57 locations. This is based on a joint agreement with the trade unions IG Metall (metalworkers' union) and IG BCE (mining, chemical and energy industry union), in which remuneration, payment of tuition and examination fees, vacation entitlement, as well as vacation and Christmas pay are regulated on a uniform basis.

Enable transformation – accompanying digital transformation

Digital transformation is presenting major challenges for Continental, too. After all, the digitalization of working worlds is changing established and familiar structures. Product cycles are becoming shorter, which means companies need to be able to flexibly adapt to new customer requirements and rapidly develop new business models.

At the same time, digitalization offers our company many opportunities – both in terms of tapping new markets and also with regard to training our employees. For this reason, the Human Relations department is actively helping shape digital transformation. Competitive advantages emerge if the company and its workforce adapt to the new conditions more quickly and flexibly than others.

For Continental, this means that we need to think and act in a more agile, innovative, and interconnected manner. We are therefore promoting four key areas:

- Diversity management – is an essential requirement for creative ideas and alternative solution strategies.
- Inspiring leadership culture – increases the enjoyment derived from commitment and spurs people on to perform well.
- Flexible working conditions – enable our employees to maintain a healthy work/life balance.
- Lifelong learning and intensive exchange of knowledge between our employees – give rise to the best solutions for our customers.

Internal communication campaign – working in a new digital age

In the year under review, we launched a corporation-wide internal communication campaign in which Continental examines work in the context of digital transformation. It is our employees who support and shape the realignment of their working world with their talents, their ideas, their passion, and their drive. The campaign illustrates the opportunities arising from digitalization and change. In an overarching communicative framework, topics relating to diversity, leadership, flexibility, and learning are conveyed via all internal communication channels.

Active dialog with employees on our ConNext platform forms an important part of this communication. Between September and December 2016 alone, our employees visited the blog posts in the part of the campaign relating to flexible working conditions around 80,000 times. More than 100,000 file downloads and, for example, 784 active topic discussions demonstrate the employees' strong interest in actively helping to shape our future.

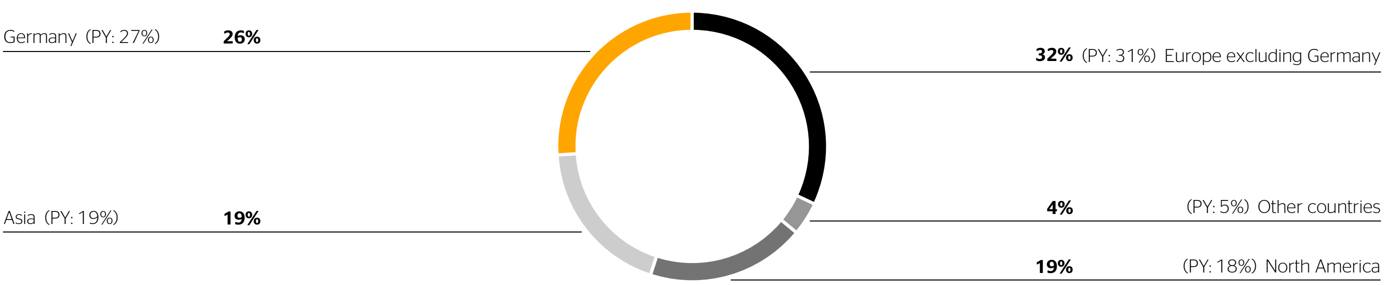
Equal opportunities and increasing diversity

Equal opportunities and diversity – we attach particular importance to these issues in our selection procedures and talent development. This is because we need diversity in terms of perspectives, characteristics, experience, and cultures for the innovative capability of our entire company. Our activities are currently focused on internationality and a balanced gender ratio. Today, 45% of our management team does not come from Germany. The percentage of women at management level worldwide has also increased again – from 10.5% in 2015 to 12.2% at present. We aim to staff 16% of all management positions with women by 2020. For more information about our targets for the percentage of women in management positions, please see the Corporate Governance Declaration in the Corporate Governance Report, which starts on page 21.

Diversity Days

Continental's first Diversity Day was held on June 7, 2016, in Hanover, Germany. Employees took part in workshops, discussions, and various activities on the topic of diversity. The aim of the event was to highlight the importance of diversity in its many different forms for Continental's success and thus encourage the workforce to actively promote it. There were additional Diversity Days at five

Employees by region



other locations around the world. For 2017, events are planned for our employees in Pisa, Italy; Regensburg and Babenhausen, Germany; Shanghai, China; and Toulouse, France; among other locations.

Bringing together local diversity networks

In 2016, we brought together local women's networks from the Continental Corporation under the umbrella of the Global Diversity Network, so that they can hold joint events and learn from and support one another. In this way, we are increasing the visibility and acceptance of different approaches and the requirements of an increasingly diverse workforce.

The first Women@Work event was held in the reporting year with 75 participants, mostly from North and South America. The aim of this event was to support young women with their career development, strengthen their impact, and increase their visibility within the corporation. An event for the EMEA (Europe, Middle East, and Africa) region is scheduled for the first quarter of 2017, and further meetings are to follow worldwide.

Global introduction of flexible working conditions

In 2016 we established globally applicable regulations for flexible working conditions – across all hierarchical levels and organizational areas. This is because our success grows with our employees, who are best able to develop their talents and thereby tackle the challenges of digitalization in a corporate culture with greater freedom. Flexible working conditions are essential for managing diversity and thus the pace of innovation within the company – and they also make us particularly attractive to the most talented people and young professionals. At Continental, the global approach for flexible working models covers part-time and flextime as well as options for working from home or elsewhere, and sabbaticals.

Country-specific solutions for 21 countries involved had been developed and adapted to regional requirements and legal conditions by the end of 2016. Implementation is planned for 2017. In identifying individual solutions for a personal work-life balance, operational requirements are taken into account and particular attention is paid to local labor law.

Environment

In the early 1990s, Continental introduced a corporate-wide environmental management system and extended its corporate strategy to include ecological targets and measures. Whereas in the early years the focus lay on conserving finite resources together with reducing harmful emissions and the company's environmental footprint, the scope of our current environmental management system now goes way beyond these objectives. Sustainable management at all stages of the value chain and throughout the entire life cycles of our products is now an integral part of our philosophy. This responsibility is gradually being implemented more widely in the supply chain so that we can continue to ingrain our strategic alignment as a sustainable company.

The environmental strategy for 2020 makes up the framework of our environmental management policy, and outlines a number of clear objectives, indicators, and measures. In 2016, we started updating our environmental strategy for the time up to 2030, aligning ourselves with the United Nations' 17 sustainable development goals (SDGs). The development of our strategy along the lines of the SDGs represents a further step toward global responsibility.

Environmental strategy and value creation

By committing ourselves to extensive sustainability goals, we are not only acting responsibly toward the environment and society – we are also thinking and acting in a forward-looking manner and in the interests of creating value for our company. We see the challenges that lie ahead – such as climate change, globalization and urbanization – as opportunities. These opportunities not only require our innovative prowess and the development of innovative technologies and efficient products, they also boost our competitiveness.

In the reporting year, Continental generated around a third of consolidated sales through products that are exceptionally energy efficient and/or reduce CO_2 emissions. Our environmental strategy and the achievement of our environmental targets pay off ecologically and economically.

Remanufacturing – sustainable growth driver in the automotive industry

Remanufacturing is part of our environmental strategy and supports the circular economy principles in terms of recycling products and product components. Rather than manufacturing products from scratch, non-functioning components are either repaired or partially replaced with new ones. This is particularly worthwhile when a product comprises both extremely durable components and wearable parts. In this way, the larger durable component is retained and does not have to be produced from scratch.

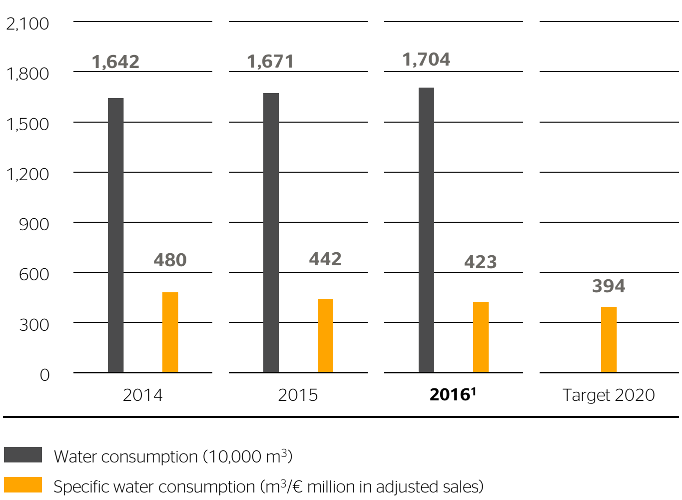
We not only protect the environment and conserve resources with energy and material savings of up to 90%, but also reduce CO_2 emissions per component, for example, by between 50% and 90%. At the same time, we also cut our costs and can pass these savings on to our customers through cheaper prices compared with new parts. In the reporting period, we expanded remanufacturing activities further and now offer an even broader range of replacement parts. Our original equipment customers call for remanufacturing in the production phase when components are still being developed because it is a worthwhile and resource-efficient principle. Auto repair shops are also very interested in this because having recycled products enables them to offer their customers an additional high-quality, reasonably priced product line alongside new parts.

The quality of recycled products is a top priority for us, which is why wearable parts are replaced only with new original Continental parts. Before they leave our plant, remanufactured parts have to pass the same tests as production parts. This means 100% performance and reliability with just 10% of the energy and raw materials costs, which is why we want to continue to expand our range of recycled parts.

Action plan to protect drinking water

Ecological problems and economic risks are closely intertwined. This is plain to see with the issue of water. Around 41% of the world's population is currently living in regions that, in part, experience extreme water shortages; 800 million people have no access to clean drinking water; and in many countries wastewater is still finding its way inexplicably into the water cycle. These and other problems will continue to intensify as a result of climate change, and at the latest then, there will be an economic impact – even for local companies. To prepare ourselves to tackle future risks, while at the same time making a contribution to sustainable development, we will place the issue of water higher on our environmental strategy agenda. An action plan for this will be formulated in 2017. It will contain a detailed water risk analysis and also prescribe region-specific objectives for the company locations.

Water consumption



1 Preliminary estimates.

Our role in the G20/B20 process
In November 2016, our chairman of the Executive Board, Dr. Elmar Degenhart, was appointed co-chair of the Energy, Climate, and Resource Efficiency Taskforce within the scope of the B20 process (Business 20, B20). In this role, Dr. Degenhart represents the whole automotive and automotive supplier industry. The B20 group represents 20 of the world's leading industrial and emerging countries: the G20. The mission of the B20 is to support the G20 with specific recommended actions, representation of interests, and expertise. The work of the taskforce focuses on formulating recommended measures on behalf of politicians that will make a key contribution to meeting the targets of the agreement reached at the 2015 United Nations Climate Change Conference (COP 21) in Paris. The spotlight will be on the automotive industry, in particular, and its contribution through climate-friendly products and the accelerated expansion of digitalization, as well as the associated efficient driving style of vehicles.

Within the taskforce, Continental is prioritizing a combined approach, which involves, on the one hand, extending the emissions trading system and, on the other hand, investing the money acquired through this in the expansion of broadband technology to improve energy efficiency and reduce emissions.

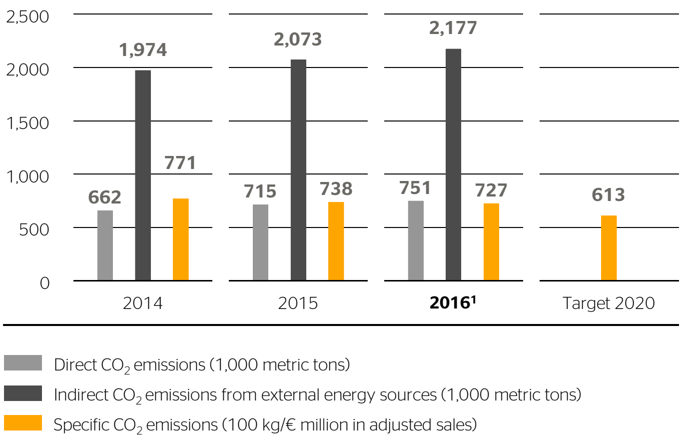
Through the cross-sector expansion of regenerative energies and the supply infrastructure, the automotive industry has the additional task of maximizing the potential for further CO_2 reductions. Both approaches boost the innovative capabilities and competitiveness of the automotive industry and allow it to develop sustainable and environmentally friendly products.

Sustainability in the supply chain
Sustainable and resource-efficient management within our supply chain as well is a key component of our environmental strategy. We promote and demand that our suppliers adopt a comprehensive environmental management policy and give them precise assistance in developing suitable energy and environmental management systems. At our Mexican locations of Jalisco and Guanajuato, we initiated a development partnership in 2015, which we continued in the reporting year. The project involves providing Mexican suppliers with training in sustainability and environmental protection. In 2016, we carried out a total of six on-site training sessions involving our suppliers' employees and environmental experts. Areas of focus for the workshops and advice sessions included reduction of CO_2 emissions, water management, waste prevention, and training on the adoption of environmental management systems in accordance with ISO 14001.

Improved environmental reporting
Since 2009, we have been responding on an annual basis to the extensive questions of the Carbon Disclosure Project (CDP) regarding our climate protection endeavors. Once a year, the organization publishes the environmental data of specific companies and assesses their environmental performance with respect to CO_2 emissions. These publications are based on company data and information on CO_2 emissions, the risks of these emissions for the climate, and the strategies and targets being pursued by participating companies for reducing emissions. The CDP then assesses these companies in relation to data transparency, target attainment, and management responsibility for global climate goals.

In 2016, Continental was once again given an improved rating compared with the previous year. Our rating was upgraded from level C to level B. This upgrade is testament to our active management for climate protection, and makes us one of the best companies in the automotive sector.

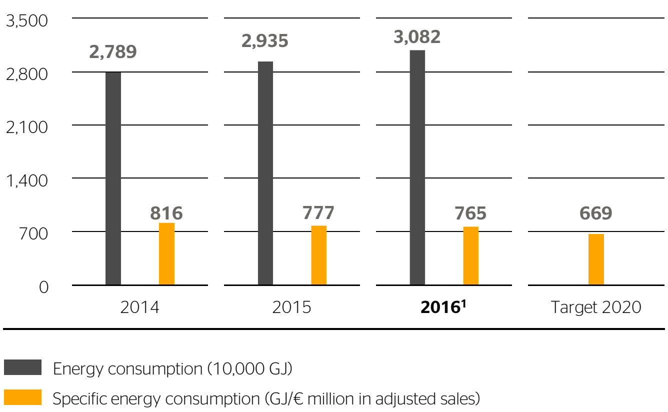
CO_2 emissions



1 Preliminary estimates.

Assessing third-party emissions
Our environmental reporting is based on the guidelines of the Global Reporting Initiative (GRI). Data is collected based largely on our internal guidelines for environmental reporting, taking into account the specific situations of the Automotive Group and the Rubber Group. In the reporting year, in addition to CO_2 emissions caused by combustion in our plants and purchased energy, known as scope 1 and scope 2, we also calculated the emissions caused by third-parties – by their services and preliminary services purchased from them (scope 3). The most significant sources com-

Energy consumption



1 Preliminary estimates.

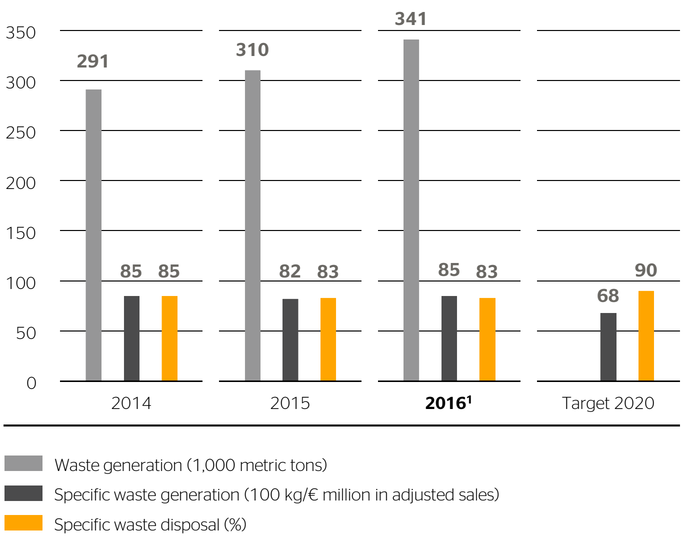
prise raw-materials consumption, logistics and transportation, waste, and upstream-chain emissions from the energy we use. The aim of this analysis is to gain a better understanding of the emissions generated by all of our business operations and to identify ways to reduce these emissions further.

Performance indicators with clear targets

We have set ourselves clear targets: to reduce our CO_2 emissions, energy and water consumption, and waste generation by 20% – in relation to adjusted sales, using 2013 as a basis – by 2020. We also intend to improve our waste recycling and reuse rate by two percentage points a year and make certification to environmental standard ISO 14001 compulsory for our strategic suppliers as well. Under these circumstances, we have defined an extensive catalog of individual measures that all serve the same goal, that is to continuously improve our environmental performance.

As in previous years, all environmental performance figures were audited as part of an independent limited assurance audit by auditing firm KPMG AG Wirtschaftsprüfungsgesellschaft.

Waste generation and disposal



1 Preliminary estimates.

Sustainability in production

In the reporting year, we awarded our internal Green Label Plant Award in a global context for the first time. Since 2015, the aim of this award has been to increase sustainability in production within the Automotive Group – in particular, resource efficiency with regard to energy, water, and waste – and further improve our environmental performance. Winners receive either gold, silver, or bronze awards, depending on the extent to which sustainable management has been established at the respective locations. All production sites are expected to reach at least bronze status by 2020 – at the end of 2016, 28% of locations had achieved this status.

Accolades in the reporting year

In October 2016, we won the gold Materialica Design + Technology Award in the “CO_2 Efficiency” category. Continental impressed the jury with its ultra-lightweight transmission adapter, which weighs less than half as much as its aluminum predecessor, thanks to the use of fiberglass-reinforced polyamide. Continental was rewarded for the major advancements it has made with this component in the field of lightweight technology. The component is being used primarily in premium-class cars, whose specific convenience, comfort and safety requirements have, up to now, gone hand in hand with greater weight. Using more lightweight and hence more highly functional materials saves fuel and lowers emissions – even in this vehicle segment. Continental also received the Altair Enlighten Award 2016 and the Lightweight Technology Innovation Award 2016 for its lightweight components.

Our “Taraxagum – Tires Made from Dandelion Rubber” project won no less than two awards in September. Tire prototypes made from natural rubber from the Russian dandelion plant were presented with the Innovation Award and the Green Award at Automechanika in Frankfurt am Main, Germany. We manufacture Taraxagum in an innovative production process from latex sap, which we obtain from the Russian dandelion plant. The use of this new kind of rubber lowers CO_2 emissions because it can be cultivated directly at the production site – which means it does not have to be transported all the way from the rubber belt around the equator. The first round of limited-production tires proves that dandelion rubber performs just as well as traditional natural rubber.

In October, Continental was presented with the Bavarian Energy Award 2016 in Nuremberg for a new block-type thermal power plant. The plant with a combined heat and power system is powered by natural gas, saving enough energy a year to supply around 350 households. In addition to heat and cold, it also supplies 1.3 megawatts of power, meeting a third of the electricity requirements of our Franconian location. Boasting a utilization rate of almost 80% of the energy used, the power plant supports our plans cut energy consumption and CO_2 emissions by an average of 20% by 2020.

In November, the Benecke-Kaliko Group business unit received a special sustainability prize at the Inovyn Awards ceremony. The award acknowledged Dynactiv Power, the energy-generating cover for water reservoirs. This opaque vinyl sheet is suitable for protecting large areas of water against pollution and evaporation in countries with lengthy dry seasons. This innovative cover retains up to 40% more water, which can be used to irrigate arable land, for example. The integrated solar modules also supply nearby households and pumping stations with self-sufficient electricity at the same time.

For more information about the environment and for our latest GRI Report, please visit www.continental-sustainability.com.

Social Responsibility

Operating globally also entails taking on social responsibility on a global level. By being committed to social responsibility, we are making a positive contribution to society while also creating value for our company. Our activities focus on social welfare, road safety, education, science, and sports. The following are a few examples.

We take on social responsibility mostly on a decentralized basis. Charitable projects, activities and donations are predominantly set up and organized by dedicated employees and supported by the company.

In particular emergency situations, Continental provides central support with national projects and challenges, or offers assistance in dealing with international humanitarian emergencies. In doing so, the corporation as a whole fulfills its social responsibility.

Support in international disasters

Ecuador and Japan both experienced severe earthquakes in April 2016. In response, we provided financial resources to support relief workers in the regions affected by the earthquakes. In Ecuador, we provided assistance with reconstruction work, while in Asia we added to the donations from local employees for the Japanese Red Cross. We thus helped with reconstruction in a non-bureaucratic way and supported the local economy.

In November 2016, financial donations went to the emergency team of the Welthungerhilfe aid agency, which runs an extensive program to help people who have been displaced from Mosul in northern Iraq. The initiative includes the provision of emergency accommodation, food and drinking water, and the distribution of aid packages. Another part of the program supports education and social cohesion between different sections of the population. With our donation, we also want to help make education possible even in extremely difficult situations.

Local involvement

Continental supports charitable initiatives with financial donations both large and small, with donations of goods, and with active involvement. In this context, our employees show their strong social commitment as good neighbors locally.

As part of the Northeim Dragon Boat Cup, we presented the Northeim branch of the lifesaving organization DLRG with a rubber boat and a protective suit for water rescue work. These will help the volunteer lifesavers do their vital jobs even better. The boat and the suit are both made from materials that are produced locally.

In Changshu, China, four employees visited a rehabilitation center for people with physical and mental disabilities. They gave the people living there warm blankets and electric tea kettles to help them withstand the cold winter better.

At an end-of-year party at the location in Regensburg, Germany, the employees initiated a fund-raising campaign. The donations collected benefited two initiatives: the children's cancer charity Deutsche Kinderkrebsnachsorge was pleased to obtain financial support, and the cystic fibrosis charity Mukoviszidose e. V. received a donation from the employees for the ninth time.

Education as an essential prerequisite for participating in society

Education is the key to the future – for people, for society, and for every company. Continental promotes education, helping to make future generations fit for tomorrow's world.

For example, our Hungarian plants maintain close relationships with educational institutions. In the summer, they supported a one-week summer camp at Budapest University of Technology and Economics. At the "Children's University," pupils aged between nine and 14 were given an insight into university life and introduced to various areas of science in an entertaining way. The main objective of the summer camp is to help children grow and develop, and particularly to get them interested in science.

Recognizing and incorporating diversity and providing access to education for people with different origins and cultural backgrounds is part of our system of values. In creating education and employment prospects for refugees, we are putting our values into practice. For over a year, we have been working with the German Federal Employment Agency on a new, specially developed program that helps refugees enter the job market and offers them career prospects.

Sport brings people together

The language of sports is universal. It is understood all around the world. It overcomes language, social, and national barriers. For this reason, we have been promoting various initiatives for competitive and recreational sports for many years.

The HAJ Hanover Marathon takes place once a year; many Continental employees participated again in 2016. Over 1,000 of our employees from more than 25 countries ran a total distance of almost 14,000 kilometers to earn the title of "Most Progressive Company" for the fifth time in a row. The prize money was donated to a charity that cares for seriously ill children and their siblings.

Public dialog

Dialog with the public takes place as part of various different initiatives. One topic that will affect our future in many parts of the company is automated driving. To this end, Continental has created the platform www.2025ad.com to help advance public debate in this area. On www.2025ad.com, experts and consumers have the opportunity to form and communicate their opinions on technical, legal, and social aspects of future mobility.

Surveys on the future of work

In order to respond optimally as an employer to the needs of future generations of employees and to address social issues, Continental regularly conducts surveys of students and people in employment. The annual surveys were introduced in Germany back in 2004, and later in Romania, China and Brazil.

In the 13th representative survey in Germany in the year under review, we asked questions such as the extent to which people know about the power of digitalization to change the world of work. Around 1,000 employees aged between 35 and 50 were surveyed. One of the findings was that often people have not given much thought to how and when digitalization will have an impact.

According to the survey, 81% of the students and 68% of the employees surveyed rated the importance of digitalization in working life as high. But at the same time, many of those surveyed find it difficult to explain what digitalization of the working world means to them. Around a third said that the term does not mean anything at all to them. While students think mainly of smart technology and communication when it comes to digitalization of the world of work, employees generally tend to associate digital transformation with the idea of the paperless office that has already been propagated for decades.

Less than half of those surveyed – 46% of the students and 38% of the employees – expect digitalization to make life simpler. 41% of students and 43% of employees see more opportunities than risks in digital transformation. Around two-thirds of those surveyed believe that more investment in the expansion of digital infrastructure is required.

In our view, companies have a major responsibility to give people guidance while also involving them in and letting them shape change processes. We have therefore stepped up our communication activities, including internal ones, since digitalization has not only enormous technological significance, but also a strong social dimension.

Economic Report General Conditions

Macroeconomic Development

In Germany, the solid growth of the previous year also continued in the year under review. According to the German Federal Statistical Office, gross domestic product (GDP) grew by 1.9% compared to 2015 and thus exceeded the forecast of 1.7% issued by the International Monetary Fund (IMF) in January 2016. Positive momentum came from within Germany as well as from abroad. Consumers and especially the government increased their spending. Private investment rose as well, particularly in the construction industry. On balance, foreign trade also had a positive effect on GDP growth, as exports rose faster than imports.

According to the IMF's current estimate, the economy in the eurozone grew by 1.7% in 2016, performing in line with the IMF's forecast of January 2016. Most countries recorded an increase in consumer and government spending and in private investment. Economic development was supported by the monetary policy of the European Central Bank (ECB), which stepped up its expansive measures again in March 2016.

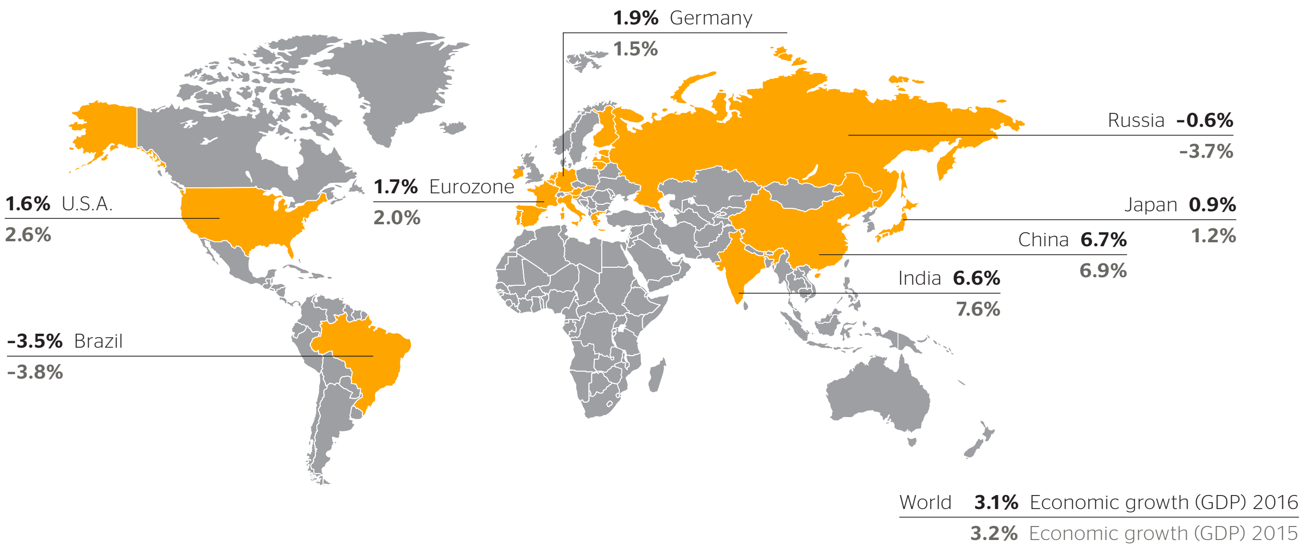
In the U.S.A., GDP growth initially decelerated in the first half of 2016. Growth was curbed primarily by declining private investment. However, economic activity picked up pace again significantly in the second half of the year. Private investment and exports increased noticeably. With a 1.6% rise in GDP in the year under review, the U.S.A. fell short of the 2.6% forecast by the IMF in January 2016 on the whole. The U.S. Federal Reserve (Fed) acted cautiously over the course of the year, waiting until December 2016 to hike up interest rates by 25 basis points for the second time.

GDP growth in Japan was curbed by the appreciation of the Japanese yen in the year under review. GDP was boosted by increased public spending and a slight upturn in consumer spending. Overall, the Japanese economy may have grown 0.9% year-on-year in 2016 based on current expectations, partly due to the very expansive monetary policy of its central bank. The growth would therefore have been somewhat weaker than the 1.0% forecast by the IMF at the start of the year.

According to the IMF's WEO update (World Economic Outlook, WEO) from January 2017, emerging and developing economies recorded growth totaling 4.1% in the year under review, the same as in the previous year. As in previous years, China and India were the main growth drivers. With a reported increase in GDP of 6.7%, the Chinese economy performed better than the IMF's forecast of 6.3% at the start of 2016. By contrast, the IMF reports that India's GDP increase of 6.6% fell well short of the forecast of 7.5% made at the start of the year. This was due to the Indian government's cash reform in November 2016, which had a significant negative impact on consumer spending in the fourth quarter. The Russian economy stabilized over the course of 2016 thanks to the recovery of the price of crude oil and other raw materials, contracting by only 0.6% according to preliminary estimates after 3.7% in the previous year. As expected, however, the Brazilian economy remained in recession in 2016 with a 3.5% decline in GDP on the basis of preliminary data.

In January 2016, the IMF had forecast a 3.4% expansion in the global economy for the year under review. However, the IMF's January 2017 WEO Update indicates that the lower growth rates in the U.S.A. and several other countries caused global economic growth to slow to 3.1% in 2016 after 3.2% in the previous year.

Year-on-year economic growth (GDP) in 2016



Sources: IMF – World Economic Outlook Update 1/2017, Eurostat, statistical offices of the respective countries, Bloomberg.

Development of Key Customer Sectors

The most important market segment for Continental is the global supply business with the manufacturers of passenger cars and commercial vehicles, accounting for 73% of sales in fiscal 2016 (PY: 72%). The second-biggest market segment for Continental is global replacement tire business for passenger cars and commercial vehicles. Because passenger cars and light commercial vehicles weighing less than 6 metric tons make up a considerably higher share of vehicle production and replacement tire business, their development is particularly important to our economic success.

Continental's biggest sales region is still Europe, which accounted for 50% of sales in the year under review (PY: 49%), followed by North America with 26% (PY: 26%) and Asia with 21% (PY: 20%).

Development of new passenger car registrations
Demand for passenger cars in Europe (EU-28 and EFTA) rose sharply in 2016. On the basis of preliminary data from the German Association of the Automotive Industry (Verband der Automobilindustrie, VDA), the number of new passenger car registrations rose by almost 7% to 15.1 million units compared to the previous year. In addition to the continuing economic recovery, this strong demand was also attributable to the low interest rates and relatively high replacement demand. Among the major markets, this development was particularly pronounced in the year under review in Italy and Spain, with increases of 16% and 11% respectively. Demand for passenger cars rose by 5% in both Germany and France and by 2% in the U.K.

In the U.S.A., demand for light commercial vehicles, especially pickup trucks, rose by 7% year-on-year in 2016 due to low fuel prices and favorable lending rates. By contrast, demand for passenger cars fell by around 9%. Overall, the number of new car registrations reached a new record of 17.5 million units in the year under review, but this equated to growth of only 0.4%. After a rise of 3% in the first quarter, demand leveled off over the rest of the year to the same overall level as in the previous year.

In Japan, the subdued economic situation and low level of consumer confidence resulted in a 7% decline in demand for passenger cars in the first quarter of 2016. Over the rest of the year, demand for passenger cars initially stabilized in the second and third quarters before picking up in the fourth quarter by 6% compared to the weak fourth quarter of the previous year. In 2016 as a whole, demand for passenger cars in Japan fell 2% short of the previous year due to the weak first half of the year.

In China, the halving of sales tax on purchases of passenger cars with a cubic capacity of less than 1.6 liters – to 5% at the start of the fourth quarter of 2015 – continued to have a positive impact in the year under review. In the second half of 2016, demand was also boosted as purchases were brought forward as a result of uncertainty over whether the tax cut, which was due to expire at the end of 2016, would be extended. According to the VDA, passenger car sales volumes in China increased by a total of 18% to 23.7 million units in 2016.

India posted a 7% rise in demand for passenger cars in 2016. On a quarterly basis, there was an increase of 2% in the first quarter, 7% in the second, 18% in the third, and 2% in the fourth. The lower growth in the final quarter was due to the collapse in demand following the government's surprise announcement of the cash reform in early November.

In both Brazil and Russia, demand for passenger cars fell further in 2016 as a result of recession, stabilizing at a low level during the course of the year. Sales volumes fell by 20% in Brazil and by 11% in Russia in the year under review.

According to preliminary data, global new passenger car registrations increased by almost 5% to 91.3 million units in 2016 thanks to strong sales growth in China, Europe, and India.

Development of production of passenger cars and light commercial vehicles
The situation in Europe was divided in the first half of 2016. In Western Europe, the rise in demand for passenger cars also resulted in higher production of passenger cars and light commercial vehicles weighing less than 6 metric tons in most countries. In Eastern Europe and particularly in Russia, by contrast, the continuing decline in demand resulted in a corresponding decline in production figures. In the third quarter, Russia recorded stabilization at

New registrations/sales of passenger cars

millions of units	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	**2016 Total**	Δ Prior Year
Europe (EU-28 and EFTA)	3.9	4.2	3.5	3.5	**15.1**	7%
U.S.A.	4.1	4.5	4.5	4.4	**17.5**	0%
Japan	1.2	0.9	1.0	1.0	**4.1**	-2%
Brazil	0.5	0.5	0.5	0.5	**2.0**	-20%
Russia	0.3	0.4	0.3	0.4	**1.4**	-11%
India	0.7	0.7	0.8	0.7	**3.0**	7%
China	5.5	5.2	5.6	7.5	**23.7**	18%
Worldwide	**22.1**	**22.3**	**21.9**	**25.0**	**91.3**	**5%**

Sources: VDA (countries/regions) and Renault (worldwide).

Production of passenger cars and light commercial vehicles

millions of units	2016	2015	2014	2013	2012
Europe[1]	21.4	20.7	19.9	19.2	19.0
North America	17.8	17.5	17.0	16.2	15.4
South America	2.8	3.1	3.8	4.5	4.3
Asia[2]	49.5	47.1	45.8	44.0	42.0
Other markets	1.0	1.0	0.9	0.8	0.7
Worldwide	**92.5**	**89.4**	**87.4**	**84.7**	**81.4**

Source: IHS Inc., preliminary figures and own estimates.
1 Western, Central and Eastern Europe, including Russia and Turkey.
2 Asia including Kazakhstan, Uzbekistan, Middle East and Oceania with Australia.

slightly above the previous year's low level, while production in Germany and France was below the high prior-year figures due to the lower number of working days. In the fourth quarter, passenger car production in Germany only just reached the level of the previous year. Turkey posted the highest volume growth in the fourth quarter. Passenger car plants in France, the U.K., Czechia, and Russia reported significant increases as well. Overall, preliminary data shows that the production of passenger cars and light commercial vehicles in Europe increased 3% year-on-year in 2016.

In North America, production of light commercial vehicles, particularly pickup trucks, was expanded in the year under review thanks to increased demand, whereas passenger car production decreased year-on-year. Preliminary data indicates that total production of passenger cars and light commercial vehicles increased by 2% in 2016.

Asia also presented a mixed picture in 2016 compared to the previous year. Particularly in China and India, there was a further increase in the production of passenger cars and light commercial vehicles as a result of increased demand. By contrast, production volumes decreased in countries such as South Korea and Japan. Preliminary data shows that production in Asia as a whole grew by 5% in 2016.

In South America, low demand led to a further decrease in the production of passenger cars and light commercial vehicles, but this stabilized at a low level during the course of the year. In the fourth quarter, the previous year's quarterly figure was exceeded again for the first time in twelve quarters. According to preliminary data, production volumes decreased by 10% overall in the year under review.

On the basis of preliminary data, global production of passenger cars and light commercial vehicles grew by over 3% in 2016.

Development of production of medium and heavy commercial vehicles

In Europe, the rise in goods transportation by road, particularly in Western Europe, resulted in increased demand for trucks in 2016. As a result, production of medium and heavy commercial vehicles could be expanded significantly in Germany, France and the Netherlands. Overall, production of commercial vehicles weighing more than 6 metric tons in Europe increased by nearly 3% year-on-year according to preliminary data.

In North America, commercial vehicle production fell sharply in the first quarter of 2016 after low incoming orders in the fourth quarter of 2015. It stabilized at a high level in subsequent quarters, but did not reach the volumes of the previous year. According to preliminary data, production declined by 13% in 2016 as a whole.

In China, production of medium and heavy commercial vehicles increased again in the year under review after the substantial decline in the previous year. India also saw a sharp rise in production volumes. By contrast, production in Japan was down on the previous year's level. Preliminary data shows that commercial vehicle production in Asia grew by 10% overall in 2016.

According to preliminary figures, South America posted a decline of around 23% in commercial vehicle production in 2016. This downward trend slowed over the course of the year.

Production of medium and heavy commercial vehicles

thousands of units	2016	2015	2014	2013	2012
Europe[1]	625	609	569	634	604
North America	505	579	549	468	486
South America	80	104	184	246	184
Asia[2]	1,789	1,633	1,840	1,845	1,764
Other markets	0	0	0	0	0
Worldwide	**2,999**	**2,924**	**3,143**	**3,193**	**3,038**

Source: IHS Inc., preliminary figures and own estimates.
1 Western, Central and Eastern Europe, including Russia and Turkey.
2 Asia including Kazakhstan, Uzbekistan, Middle East and Oceania with Australia.

Sales of replacement tires for passenger cars and light commercial vehicles

millions of units	2016	2015	2014	2013	2012
Europe	332	327	324	313	311
North America	283	278	277	264	255
South America	63	65	64	63	59
Asia	431	409	397	376	353
Other markets	45	43	41	39	37
Worldwide	**1,154**	**1,122**	**1,103**	**1,056**	**1,015**

Source: LMC International Ltd., preliminary figures and own estimates.

According to preliminary data, global production of medium and heavy commercial vehicles rose by nearly 3% in 2016.

Development of replacement tire markets for passenger cars and light commercial vehicles

In Europe – Continental's most important market for replacement tires for passenger cars and light commercial vehicles weighing less than 6 metric tons – the recovery in demand that began in the previous year initially continued in 2016 but slowed down over the course of the year. According to preliminary data, sales volumes of replacement tires for passenger cars and light commercial vehicles rose by almost 2% year-on-year in the year under review.

In North America, preliminary figures show that there was a 2% increase in demand for replacement tires for passenger cars and light commercial vehicles in 2016. The main reason for this was the rising number of kilometers driven due to low gasoline prices.

Asia experienced a further increase in demand for replacement tires for passenger cars and light commercial vehicles in 2016. Particularly in China – the most important Asian market – preliminary data indicates that demand climbed by 8% in the year under review. However, India and the countries of the Middle East also posted a noticeable rise in sales of replacement tires. In Asia as a whole, volumes of replacement tires for passenger cars and light commercial vehicles rose by more than 5% in 2016 according to preliminary data.

In South America, preliminary figures indicate that demand for replacement tires for passenger cars and light commercial vehicles fell by about 3% in 2016 due to the difficult economic situation.

Based on preliminary data, global sales volumes of replacement tires for passenger cars and light commercial vehicles rose by 3% in 2016.

Development of replacement tire markets for medium and heavy commercial vehicles

According to preliminary data, demand for replacement tires for medium and heavy commercial vehicles weighing more than 6 metric tons in Europe rose by over 3% in 2016. Demand mainly increased in Western Europe, whereas in Eastern Europe it stagnated.

According to preliminary data, demand for replacement tires for medium and heavy commercial vehicles in North America, our other core market for replacement commercial vehicle tires alongside Europe, increased by 2% year-on-year in 2016. Demand picked up in Mexico in particular.

According to preliminary data, demand for replacement tires for medium and heavy commercial vehicles in Asia rose by 4% in 2016. There was a significant rise in sales volumes in China, but also in India and the Middle East.

In South America, demand for replacement tires for medium and heavy commercial vehicles also declined initially in 2016 due to weaker economic activity, before stabilizing again over the course of the year. According to preliminary figures, the previous year's sales volumes were exceeded by 1% overall.

According to preliminary data, global sales volumes of replacement tires for medium and heavy commercial vehicles in the year under review increased by 3% year-on-year.

Sales of replacement tires for medium and heavy commercial vehicles

millions of units	2016	2015	2014	2013	2012
Europe	23.7	22.9	23.4	22.7	21.0
North America	23.2	22.8	22.0	20.0	20.0
South America	13.6	13.5	14.0	13.7	12.5
Asia	86.9	83.4	84.8	83.4	79.4
Other markets	7.5	7.2	6.9	6.3	5.9
Worldwide	**154.9**	**149.8**	**151.3**	**146.2**	**138.9**

Source: LMC International Ltd., preliminary figures and own estimates.

Development of Raw Materials Markets

Various raw materials such as steel, aluminum, copper, precious metals, and plastics are key input materials for a wide range of different electronic, electromechanical and mechanical components. We need these components, in turn, in order to manufacture our products and systems for the automotive industry.

For this reason, developments in the prices of raw materials usually influence Continental's production costs indirectly, in most cases, via changes in costs at our suppliers. Depending on the contractual arrangement, these cost changes are either passed on to us after a certain amount of time or redefined in upcoming contract negotiations.

In the year under review, the mine closures of various raw materials producers led to a shortage in the supply of most raw materials, which stabilized their prices after the declines of previous years. Some raw materials even saw hefty price rises in the latter part of the year under review. Other raw materials saw a drop in their average price again in 2016 compared to their average price in the previous year.

Carbon steel and stainless steel are input materials for many of the mechanical components such as stamped, turned, and drawn parts and die casting parts integrated by Continental into its products. In the year under review, the significant recovery in global market prices for iron ore and coking coal led to a corresponding cost increase in steel production, which resulted in a noticeable increase in the prices for carbon steel. This was compounded by the introduction of anti-dumping measures in the European Union. Average prices for carbon steel rose in Europe by around 9% year-on-year. By contrast, average prices for stainless steel were relatively stable in 2016 with an increase of around 1%. Although the average price for the important alloying element nickel stabilized in the year under review, it remained 19% below the comparatively high average price for the previous year. This compensated for cost increases of other raw materials for stainless steel.

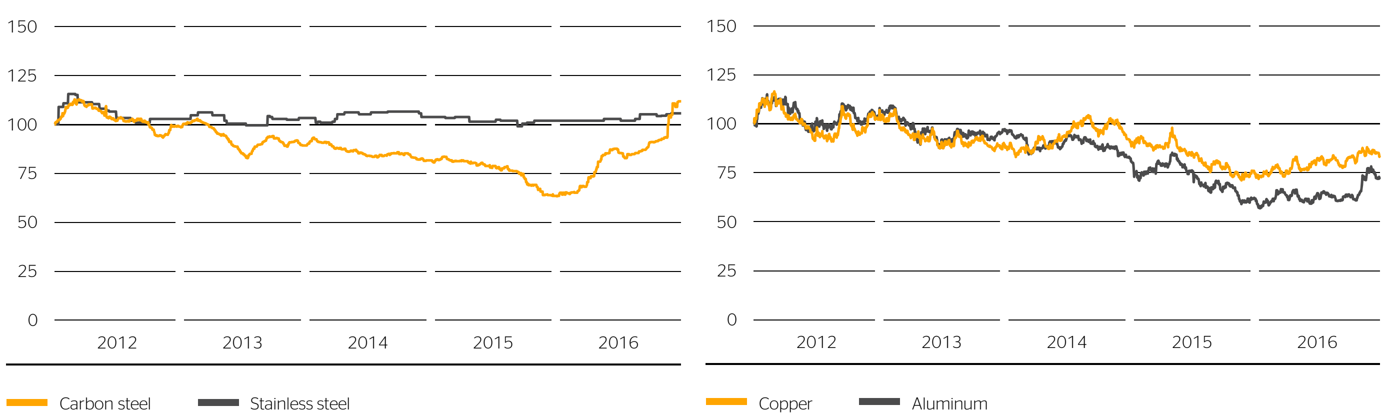
Aluminum is used by Continental primarily for die casting parts and stamped and bent components, while copper is used in particular for electric motors and mechatronic components. In 2016, the average price of copper quoted for the year decreased by 11% on a U.S. dollar basis and on a euro basis compared to the average price for the previous year. At the end of 2016, however, the quoted price of copper was up 18% on a U.S. dollar basis and 21% on a euro basis compared to the end of the previous year. The average price of aluminum declined by around 4% on a U.S. dollar basis and on a euro basis. By the end of 2016, the price of aluminum had increased compared to the end of 2015 by 12% on a U.S. dollar basis and 16% on a euro basis.

We and our suppliers use precious metals such as gold, silver, platinum and palladium to coat a wide range of components. Comparing the average prices per troy ounce in U.S. dollars in 2016 and 2015, the prices of gold and silver increased by 8% and 9% respectively, while the quoted prices for platinum and palladium decreased by 6% and 11% respectively. The changes on a euro basis were nearly identical.

We and our suppliers require various plastic granulates, known as resins, primarily for manufacturing housing components. The trend of falling prices for these plastic granulates in the previous year persisted during the first half of 2016, before the increased oil price triggered a recovery in prices in the second half of the year. This left an average price decline for the year of around 8% on a U.S. dollar basis and around 7% on a euro basis.

Price development of selected raw materials – Automotive Group

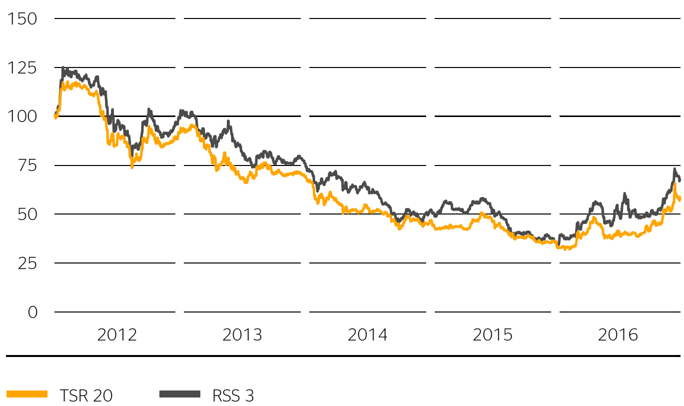
indexed to January 1, 2012

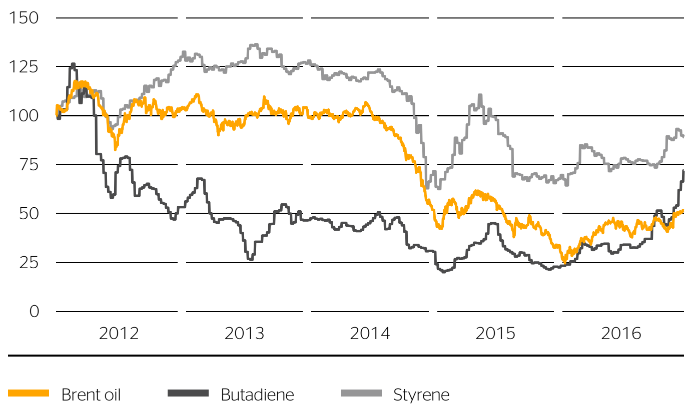


Sources:
Carbon steel: hot-rolled coil Europe from The Steel Index Ltd. (€ per metric ton).
Stainless steel: stainless steel strip 2 mm 304 CR Europe from Metal Bulletin (€ per metric ton).
Copper, aluminum: rolling three-month contracts from the London Metal Exchange (U.S. $ per metric ton).

Price development of selected raw materials – Rubber Group

indexed to January 1, 2012





Sources:
Natural rubber TSR 20, RSS3: rolling one-month contracts from the Singapore Exchange (U.S. $ cents per kg).
Brent crude oil: Europe Brent Forties Oseberg Ekofisk price from Bloomberg (U.S. $ per barrel).
Butadiene, styrene: South Korea export price (FOB) from PolymerUpdate.com (U.S. $ per metric ton).

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

The price of crude oil – the most important basic building block for synthetic rubber input materials such as butadiene and styrene and also for carbon black and various other chemicals – fell temporarily below U.S. $30 per barrel in January 2016, marking a 13-year low. Over the rest of the first half of 2016, it recovered to a level of around U.S. $50 per barrel. After major oil-exporting countries agreed to reduce production, the price for crude oil rose to U.S. $55 per barrel at the end of 2016. However, the average price declined by around 16% year-on-year on a U.S. dollar basis and on a euro basis.

The recovery in the price of crude oil also led in 2016 to an increase in the price of butadiene, the main input material for synthetic rubber. Against the backdrop of declining supply after plant shut-downs in the previous year, the growing demand caused a price surge at the end of the year under review. At the end of December 2016, the quoted price for butadiene was 216% higher on a U.S. dollar basis than at the end of 2015. On a euro basis, the price rise was 229%. Compared to the previous year, the average price for the year increased by about one quarter on a U.S. dollar basis and on a euro basis.

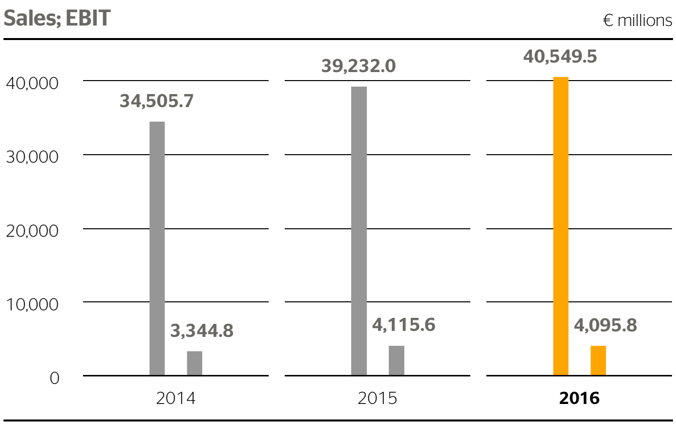
The crude oil price recovery also caused other input materials for synthetic rubber to become more expensive in 2016. For example, the price of styrene had increased by 33% on a U.S. dollar basis and 38% on a euro basis by the end of the year under review compared to the end of 2015. By contrast, the average price of styrene for the year decreased by nearly 4% on a U.S. dollar basis and 3% on a euro basis in 2016 compared to the average price in the previous year.

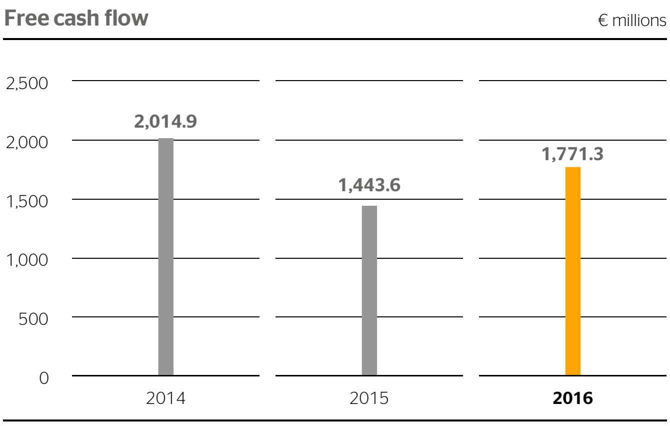
The higher synthetic rubber prices and the rising demand for rubber also resulted in a recovery of natural rubber prices in the year under review. From the seven-year low at the start of the year under review, the price of the natural rubber TSR 20 had increased by 64% on a U.S. dollar basis and 70% on a euro basis by the end of 2016. The price of ribbed smoked sheets (RSS) rose even more sharply, nearly doubling with a price increase of 91% on a U.S. dollar basis and 98% on a euro basis by the end of the year under review. By contrast, the average price of TSR 20 for the year remained nearly unchanged from the average price in the previous year on a U.S. dollar basis and on a euro basis in 2016. The average price of ribbed smoked sheets for the year increased by 5% on a U.S. dollar basis and 6% on a euro basis.

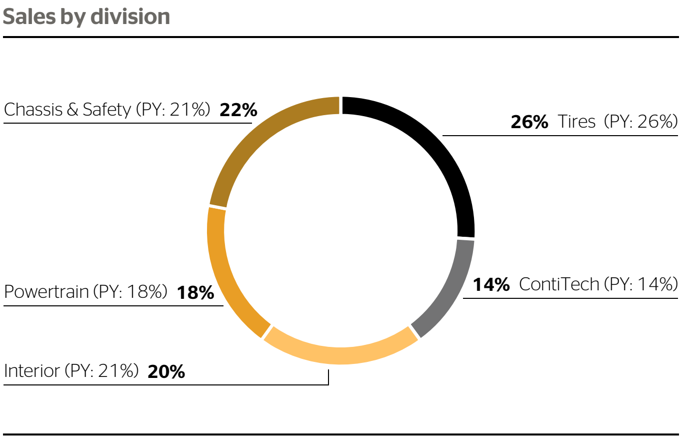
All in all, Continental saw sinking cost advantages from the purchase of raw materials over the course of the year due to the mounting price rises for many raw materials.

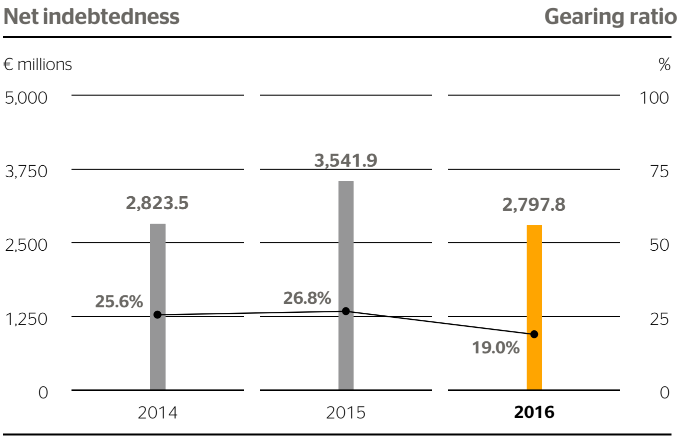
Earnings, Financial and Net Assets Position

- Sales up 3.4% at €40.5 billion
- Earnings per share at €14.01
- Free cash flow before acquisitions at €2.3 billion









Earnings Position

- Sales up 3.4%
- Sales up 4.7% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT down 0.6%

Continental Corporation in € millions	2016	2015	Δ in %
Sales	40,549.5	39,232.0	3.4
EBITDA	6,057.4	6,001.4	0.9
in % of sales	14.9	15.3	
EBIT	4,095.8	4,115.6	–0.5
in % of sales	10.1	10.5	
Net income attributable to the shareholders of the parent	2,802.5	2,727.4	2.8
Earnings per share in €	14.01	13.64	2.8
Research and development expenses	2,811.5	2,449.6	14.8
in % of sales	6.9	6.2	
Depreciation and amortization[1]	1,961.6	1,885.8	4.0
thereof impairment[2]	58.6	93.6	
Operating assets as at December 31	21,068.7	19,678.5	7.1
Operating assets (average)	20,453.1	19,680.7	3.9
ROCE	20.0	20.9	
Capital expenditure[3]	2,593.0	2,178.8	19.0
in % of sales	6.4	5.6	
Number of employees as at December 31[4]	220,137	207,899	5.9
Adjusted sales[5]	40,261.7	39,232.0	2.6
Adjusted operating result (adjusted EBIT)[6]	4,341.2	4,369.0	–0.6
in % of adjusted sales	10.8	11.1	

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 3.4%
Sales up 4.7% before changes in the scope of consolidation and exchange rate effects
Consolidated sales climbed by €1,317.5 million or 3.4% year-on-year in 2016 to €40,549.5 million (PY: €39,232.0 million). Before changes in the scope of consolidation and exchange rate effects, sales were up by 4.7%. The further rise in sales was boosted by the increase in the production of cars, station wagons, and light commercial vehicles combined with a vehicle mix more favorable for us. The growth in the Automotive divisions was strongest in Asia, especially in China.

Changes in the scope of consolidation contributed to the increase in sales, but were more than offset by negative exchange-rate effects.

Adjusted EBIT down 0.6%
The corporation's adjusted EBIT declined by €27.8 million or 0.6% year-on-year in 2016 to €4,341.2 million (PY: €4,369.0 million), equivalent to 10.8% (PY: 11.1%) of adjusted sales. For more information, please refer to the "Comparison of the past fiscal year against forecast" section in the Outlook for the Continental Corporation.

The corporation's adjusted EBIT for the fourth quarter of 2016 increased by €244.1 million or 23.2% compared with the same quarter of the previous year to €1,298.0 million (PY: €1,053.9 million), equivalent to 12.4% (PY: 10.5%) of adjusted sales.

The regional distribution of sales changed as follows in 2016 as compared to the previous year:

Sales by region in %	2016	2015
Germany	21	21
Europe excluding Germany	29	28
North America	26	26
Asia	21	20
Other countries	3	5

EBIT down 0.5%

EBIT was down by €19.8 million year-on-year in 2016 to €4,095.8 million (PY: €4,115.6 million), a decrease of 0.5%. The return on sales fell to 10.1% (PY: 10.5%). For more information, please refer to the "Comparison of the past fiscal year against forecast" section in the Outlook for the Continental Corporation.

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €143.6 million (PY: €137.9 million) in the year under review.

ROCE amounted to 20.0% (PY: 20.9%).

Special effects in 2016

In the context of the plant closure in Melbourne, Australia, restructuring expenses totaling €23.3 million were incurred in the Automotive Group (Chassis & Safety €0.2 million; Powertrain €1.0 million; Interior €22.1 million), of which €9.4 million was attributable to impairment on property, plant and equipment.

The planned closure of the location in Gravatai, Brazil, resulted in restructuring expenses totaling €4.4 million in the Interior division. This included impairment on property, plant and equipment in the amount of €3.1 million.

The disposal of equity interests held as financial assets resulted in total income of €5.0 million (Powertrain €1.1 million; Tires €3.9 million).

Due to the current market situation, impairment totaling €33.1 million on intangible assets was recognized for the Conveyor Belt Group and Industrial Fluid Solutions (formerly Industrial Fluid Systems) business units in the ContiTech division.

A subsequent purchase price adjustment in connection with the acquisition of Veyance Technologies resulted in income totaling €27.0 million in the ContiTech division.

Other purchase price adjustments resulted in total expense of €1.0 million (Interior €0.1 million; ContiTech €0.9 million).

The sale of the steel cord business in Brazil, coupled with the fulfillment of conditions imposed by antitrust authorities, resulted in expense totaling €15.9 million in the ContiTech division. This figure comprises a loss on disposal of €9.3 million, market value adjustments totaling €6.0 million, and sales tax receivables that can no longer be utilized in the amount of €0.6 million.

In the ContiTech division, the temporary cessation of conveyor belt production in Volos, Greece, resulted in restructuring expenses of €11.2 million, of which €3.4 million was attributable to impairment on property, plant and equipment.

The ContiTech division also incurred restructuring expenses of €3.1 million in Chile. This included impairment on property, plant and equipment in the amount of €0.9 million.

Further restructuring expenses and the reversal of restructuring provisions no longer required resulted in expense of €1.2 million (Powertrain -€1.1 million; Interior €0.1 million; ContiTech -€0.2 million). This included reversal of impairment losses on property, plant and equipment for the ContiTech division in the amount of €0.4 million.

Other impairment and reversal of impairment losses on property, plant and equipment resulted in expense totaling €9.1 million (Chassis & Safety €1.3 million; Powertrain €7.6 million; Tires €0.2 million; ContiTech €0.0 million).

Total consolidated expense from special effects in 2016 amounted to €70.3 million.

Special effects in 2015

In the Tire division, impairment on property, plant and equipment resulted in expenses totaling €6.8 million. This affected the locations in Modipuram and Partapur, India, in the amount of €5.2 million and the location in Puchov, Slovakia, in the amount of €1.6 million.

The sale of the shares in General Tyre East Africa Ltd., Arusha, Tanzania, resulted in income of €0.9 million in the Tire division.

In the ContiTech division, the location in Salzgitter, Germany, is gradually being scaled back on account of follow-up orders not being received. In this context, restructuring expenses totaling €15.7 million were incurred, of which €0.3 million was attributable to impairment on property, plant and equipment.

The closure of the location in Bowmanville, Canada, resulted in restructuring expenses of €19.9 million in the ContiTech division, of which €7.4 million was attributable to impairment on property, plant and equipment.

Restructuring expenses totaling €8.2 million were incurred in the ContiTech division for the location in Tianjin, China, including impairment on property, plant and equipment and intangible assets in the amount of €6.5 million.

Due to the market situation in the mining business and oil production business, impairment totaling €71.9 million on intangible assets and property, plant and equipment was also recognized in the ContiTech division for the Conveyor Belt Group business unit. This related to the locations in Aneng, China, in the amount of €44.8 million; in Bayswater, Australia, in the amount of €25.3 million; in Thetford, U.K., in the amount of €1.3 million; and in Perth, Australia, in the amount of €0.5 million.

Disposal of business operations gave rise to purchase price adjustments resulting in total income of €0.5 million (Interior -€0.3 million; ContiTech €0.8 million).

In addition, there were purchase price adjustments from the purchase of companies resulting in a total gain of €1.3 million (Tires €1.7 million; ContiTech -€0.4 million).

In the ContiTech division, income of €1.6 million resulted from bargain purchases from purchase price allocation.

Restructuring expenses and the reversal of restructuring provisions no longer required resulted in a total positive special effect of €3.9 million (Powertrain €0.1 million; Interior €3.8 million). This includes a reversal of impairment losses amounting to €0.5 million for the Powertrain division.

Overall, impairment and reversal of impairment losses on property, plant and equipment resulted in a negative effect of €1.2 million (Chassis & Safety €0.1 million; Powertrain -€1.0 million; Interior -€0.3 million).

Total consolidated expense from special effects in 2015 amounted to €115.5 million.

Procurement

The purchasing volume rose by around 2% year-on-year to €26.3 billion in 2016, of which approximately €17.5 billion was attributable to production materials. The prices of key input materials and many raw materials reached a low in the first half of 2016. In the following months, the prices of many raw materials then rose. Due to the very low price level in the first half of the year, raw materials were cheaper on average during the year than in the previous year.

Reconciliation of EBIT to net income

€ millions	**2016**	2015	Δ in %
Chassis & Safety	580.8	814.3	–28.7
Powertrain	378.0	395.6	–4.4
Interior	567.8	804.5	–29.4
Tires	2,289.4	2,085.2	9.8
ContiTech	399.2	170.6	134.0
Other/consolidation	–119.4	–154.6	–22.8
EBIT	**4,095.8**	**4,115.6**	**–0.5**
Net interest result	–117.0	–245.6	–52.4
Earnings before tax	**3,978.8**	**3,870.0**	**2.8**
Income tax expense	–1,096.8	–1,090.4	0.6
Net income	**2,882.0**	**2,779.6**	**3.7**
Non-controlling interests	–79.5	–52.2	52.3
Net income attributable to the shareholders of the parent	**2,802.5**	**2,727.4**	**2.8**
Basic earnings per share in €, undiluted	14.01	13.64	2.8

Reconciliation of sales to adjusted sales and of EBITDA to adjusted operating result (adjusted EBIT) 2016

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Sales	**8,977.6**	**7,319.5**	**8,324.7**	**10,717.4**	**5,462.5**	**–252.2**	**40,549.5**
Changes in the scope of consolidation[1]	–	–42.8	–74.5	–75.8	–95.5	0.8	–287.8
Adjusted sales	**8,977.6**	**7,276.7**	**8,250.2**	**10,641.6**	**5,367.0**	**–251.4**	**40,261.7**
EBITDA	**954.6**	**756.2**	**904.2**	**2,828.7**	**730.9**	**–117.2**	**6,057.4**
Depreciation and amortization[2]	–373.8	–378.2	–336.4	–539.3	–331.7	–2.2	–1,961.6
EBIT	**580.8**	**378.0**	**567.8**	**2,289.4**	**399.2**	**–119.4**	**4,095.8**
Amortization of intangible assets from purchase price allocation (PPA)	0.3	11.5	38.4	10.7	82.7	–	143.6
Changes in the scope of consolidation[1]	9.1	0.4	9.3	9.6	3.1	–	31.5
Special effects							
Impairment[3]	1.3	7.6	0.0	0.2	33.1	–	42.2
Restructuring[4]	0.2	2.1	26.4	–	14.5	–	43.2
Gains and losses from disposals of companies and business operations	–	–1.1	0.1	–3.9	10.2	–	5.3
Other	–	–	–	–	–20.4	–	–20.4
Adjusted operating result (adjusted EBIT)	**591.7**	**398.5**	**642.0**	**2,306.0**	**522.4**	**–119.4**	**4,341.2**

Reconciliation of sales to adjusted sales and of EBITDA to adjusted operating result (adjusted EBIT) 2015

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Sales	**8,449.7**	**7,068.5**	**8,154.8**	**10,408.8**	**5,367.8**	**–217.6**	**39,232.0**
Changes in the scope of consolidation[1]	–	–	–	–	–	–	–
Adjusted sales	**8,449.7**	**7,068.5**	**8,154.8**	**10,408.8**	**5,367.8**	**–217.6**	**39,232.0**
EBITDA	**1,160.3**	**730.7**	**1,082.2**	**2,604.3**	**577.2**	**–153.3**	**6,001.4**
Depreciation and amortization[2]	–346.0	–335.1	–277.7	–519.1	–406.6	–1.3	–1,885.8
EBIT	**814.3**	**395.6**	**804.5**	**2,085.2**	**170.6**	**–154.6**	**4,115.6**
Amortization of intangible assets from purchase price allocation (PPA)	0.8	8.2	17.4	7.8	103.7	–	137.9
Changes in the scope of consolidation[1]	–	–	–	–	–	–	–
Special effects							
Impairment[3]	–0.1	1.0	0.3	6.8	71.9	–	79.9
Restructuring[5]	0.0	–0.1	–3.8	–	43.8	–	39.9
Gains and losses from disposals of companies and business operations	–	–	0.3	–0.9	–0.8	–	–1.4
Other	–	–	–	–1.7	–1.2	–	–2.9
Adjusted operating result (adjusted EBIT)	**815.0**	**404.7**	**818.7**	**2,097.2**	**388.0**	**–154.6**	**4,369.0**

1 Changes in the scope of consolidation include additions and disposals as part of share and asset deals. Adjustments were made for additions in the reporting year and for disposals in the comparative period of the prior year.
2 Excluding impairment on financial investments.
3 Impairment also includes necessary reversal of impairment losses. This item does not include impairment that arose in connection with a restructuring and impairment on financial investments.
4 This includes impairment and reversal of impairment losses totaling €16.4 million (Chassis & Safety €0.2 million; Powertrain €0.7 million; Interior €11.6 million; ContiTech €3.9 million).
5 This includes impairment of €14.2 million in the ContiTech division and reversal of impairment losses of €0.5 million in the Powertrain division.

Research and development

Research and development expenses rose by €361.9 million or 14.8% year-on-year to €2,811.5 million (PY: €2,449.6 million), corresponding to 6.9% (PY: 6.2%) of sales.

In the Chassis & Safety, Powertrain and Interior divisions, costs in connection with initial product development projects in the original equipment business are capitalized. Costs are capitalized as at the time at which we are named as a supplier and have successfully achieved a specific pre-release stage. Capitalization ends with the approval for unlimited volume production. The costs of customer-specific applications, pre-production prototypes and testing for products already being sold do not qualify as development expenditure which may be recognized as an intangible asset. Capitalized development expenses are amortized on a straight-line basis over a useful life of three years and recognized in the cost of sales. In Continental's opinion, the assumed useful life reflects the period for which an economic benefit is likely to be derived from the corresponding development projects. €105.9 million (PY: €78.7 million) of the development costs incurred in the three divisions in 2016 qualified for recognition as an asset.

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

This results in a capitalization ratio of 3.6% (PY: 3.1%) for the corporation.

Depreciation and amortization

Depreciation and amortization increased by €75.8 million to €1,961.6 million (PY: €1,885.8 million), equivalent to 4.8% of sales as in the previous year. This included impairment totaling €58.6 million (PY: €93.6 million).

Net interest result

Negative net interest result improved by €128.6 million year-on-year to €117.0 million (PY: €245.6 million) in 2016.

Interest expense – not including the effects of foreign currency translation, changes in the fair value of derivative instruments and of available-for-sale financial assets – totaled €308.8 million in 2016, which was €23.0 million lower than the figure for the previous year of €331.8 million. At €140.6 million, interest expense resulting from bank borrowings, capital market transactions and other financing instruments was €32.5 million lower than the prior-year figure of €173.1 million. The major portion related to expense of €86.1 million (PY: €99.9 million) from the bonds issued by Continental AG, Conti-Gummi Finance B.V., Maastricht, Netherlands, and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., and to expense of €8.6 million (PY: €21.7 million) from the utilization of the syndicated loan.

Interest expense for the bonds decreased by €13.8 million in 2016 compared to the previous year. This is attributable chiefly to the early redemption in September 2015 of the U.S. dollar bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in September 2012 with a volume of U.S. $950.0 million and the considerably lower-interest euro bond with a volume of €500.0 million that was issued by the same company in November 2015 for the partial refinancing of financial liabilities. The conclusion of cross-currency interest rate swaps firstly secures against the currency risks arising from this bond's denomination in euros, and secondly the euro-based fixed interest rate of 0.5% p.a. is exchanged for a U.S.-dollar-based fixed interest rate averaging 2.365% p.a. By contrast, an interest rate of 4.5% p.a. still had to be paid for the U.S. dollar bond redeemed early in 2015.

The €13.1 million decline in interest expense for the syndicated loan resulted in particular from the considerably lower utilization of the term loan of €1.5 billion originally maturing in April 2016 as compared to the previous year. Early repayments on this term loan totaling €1,150.0 million were already made in the fourth quarter of 2015. At the end of March 2016, the remaining amount of €350.0 million was repaid early.

The interest expense on expected pension obligations as well as on long-term employee benefits resulted in interest expense totaling €168.2 million (PY: €158.7 million) in 2016. This does not include the interest expense related to the defined benefit obligations of the pension funds.

Interest income in 2016 increased by €6.0 million year-on-year to €101.4 million (PY: €95.4 million). Of this, expected income from long-term employee benefits and from pension funds amounted to €75.9 million (PY: €63.9 million). This does not include the interest income related to the plan assets of the pension funds.

Valuation effects from changes in the fair value of derivative instruments and from the development of exchange rates resulted in a positive overall contribution to earnings of €90.1 million (PY: negative contribution to earnings of €22.1 million) in 2016. This was attributable in particular to the development of the Mexican peso in relation to the U.S. dollar. In the previous year, there was a valuation loss of €36.9 million relating to the reporting of an early redemption option for the U.S. dollar bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in September 2012 and redeemed early in September 2015. In 2016, available-for-sale financial assets gave rise to a positive effect of €0.3 million (PY: €12.9 million).

Income tax expense

Income tax expense for fiscal 2016 amounted to €1,096.8 million (PY: €1,090.4 million). The tax rate was 27.6% after 28.2% in the previous year.

As in the previous year, foreign tax rate differences, incentives and tax holidays had positive effects in the year under review. The tax rate was negatively impacted by non-cash allowances on deferred tax assets totaling €78.6 million (PY: €114.2 million), of which €11.7 million (PY: €35.3 million) was for previous years. Furthermore, as in the previous year, the tax rate was negatively affected by non-deductible expenses and non-imputable foreign withholding tax. This was countered by the recognition of deferred tax assets totaling €80.8 million.

Net income attributable to the shareholders of the parent

The net income attributable to the shareholders of the parent increased by €75.1 million in 2016 to €2,802.5 million (PY: €2,727.4 million). This corresponds to earnings per share of €14.01 (PY: €13.64).

Employees

The number of employees in the Continental Corporation rose by 12,238 from 207,899 in 2015 to 220,137. The number of employees in the Automotive Group rose by 8,865 as a result of increased production volumes, the continual expansion of research and development, and the acquisition of Zonar Systems in the Interior division. In the Rubber Group, the increase in the number of employees by 3,363 was chiefly attributable to the expansion of production capacity and sales channels and to the acquisitions of the Bandvulc Group and Hoosier Racing Tire.

Employees by region in %	**2016**	2015
Germany	26	27
Europe excluding Germany	32	31
North America	19	18
Asia	19	19
Other countries	4	5

Financial Position

› Free cash flow before acquisitions at €2.3 billion
› Cash flow arising from investing activities above €3 billion
› Net indebtedness drops below €3 billion

Reconciliation of cash flow
EBIT decreased by €19.8 million to €4,095.8 million after €4,115.6 million in 2015.

Interest payments resulting in particular from the bonds and the syndicated loan declined by €68.5 million to €136.1 million (PY: €204.6 million).

Income tax payments increased by €32.0 million to €1,047.3 million (PY: €1,015.3 million).

The cash-effective increase in working capital led to a cash outflow of €210.1 million (PY: €106.7 million). This resulted from an increase in operating receivables in the amount of €631.7 million (PY: €447.2 million), which was more than offset by the increase in operating liabilities in the amount of €748.1 million (PY: €400.0 million). In addition, inventories increased by €326.5 million (PY: €59.5 million) in the fiscal year.

Cash flow from operating activities rose by €22.5 million year-on-year to €4,938.1 million (PY: €4,915.6 million) in 2016, corresponding to 12.2% (PY: 12.5%) of sales.

Cash flow arising from investing activities amounted to an outflow of €3,166.8 million (PY: €3,472.0 million). Capital expenditure on property, plant and equipment, and software was up €413.7 million from €2,178.8 million to €2,592.5 million before finance leases and the capitalization of borrowing costs. The net amount from the acquisition and disposal of companies and business operations resulted in a total cash outflow of €511.6 million (PY: €1,243.1 million) in 2016. This cash outflow is mainly attributable to the acquisitions of Hoosier Racing Tire and Zonar Systems.

Free cash flow for fiscal 2016 amounted to €1,771.3 million (PY: €1,443.6 million). This corresponds to an increase of €327.7 million compared with the previous year.

Capital expenditure (additions)
Capital expenditure for property, plant and equipment, and software amounted to €2,593.0 million in 2016. Overall, there was an increase of €414.2 million compared with the previous year's level of €2,178.8 million, with the Tire, Interior, Powertrain, and Chassis & Safety divisions contributing to this. Capital expenditure amounted to 6.4% (PY: 5.6%) of sales.

Financing and indebtedness
As at the end of 2016, gross indebtedness amounted to €4,952.3 million (PY: €5,244.8 million), down €292.5 million on the previous year's level.

Based on quarter-end values, 62.6% (PY: 47.6%) of gross indebtedness after hedging measures had fixed interest rates on average over the year.

The carrying amount of the bonds increased by €599.0 million from €2,784.5 million in the previous year to €3,383.5 million as at the end of fiscal 2016. This increase is due to Continental AG's successful placement of a euro bond with a nominal volume of €600.0 million with investors in Germany and abroad on November 28, 2016, under Continental's Debt Issuance Programme (DIP). The issue price was 99.41%. This bond has a term of three years and two months and an interest rate of 0.0% p.a. It was issued particularly in view of the €750.0 million euro bond from Conti-Gummi Finance B.V., Maastricht, Netherlands, that is due for redemption in March 2017.

Bank loans and overdrafts amounted to €931.9 million (PY: €1,725.7 million) as at December 31, 2016, and were therefore down €793.8 million on the previous year's level.

At the time a new syndicated loan was concluded in April 2014 with a committed volume of €4.5 billion, it consisted of a term loan for an amount of €1.5 billion that matured in April 2016 and a revolving credit line of €3.0 billion that has been granted until April 2019. There were two contractual amendments to the term of the revolving tranche. In April 2015 and in April 2016, all the banks involved approved a one-year extension in each case. This financing commitment is therefore available to Continental until April 2021. Early repayments on the term loan totaling €1,150.0 million were already made in the fourth quarter of 2015. At the end of March 2016, the €350.0 million still remaining from this loan as at the end of 2015 was repaid early. As a result, the committed volume of the syndicated loan, which consists of the revolving tranche only, has likewise declined to €3.0 billion since the end of March 2016. The revolving credit line had not been utilized as at the end of December 2016. In the previous year, it was utilized by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in the amount of €297.9 million.

Other indebtedness decreased by €97.7 million to €636.9 million (PY: €734.6 million) as at the end of 2016. This decrease was primarily due to lower utilization of sale of receivables programs. At the end of 2016, utilization of these programs totaled €487.1 million and was thus €151.0 million lower than the previous year's level of €638.1 million. As in the previous year, five programs for the sale of receivables with a total financing volume of €1,069.3 million (PY: €1,061.6 million) were used within the Continental Corporation as at the end of 2016.

Cash and cash equivalents, derivative instruments and interest-bearing investments were up by €451.6 million at €2,154.5 million (PY: €1,702.9 million). This increase related mainly to cash and cash equivalents, which amounted to €2,107.0 million as at the end of 2016 (PY: €1,621.5 million).

Net indebtedness decreased by €744.1 million as compared to the end of 2015 to €2,797.8 million (PY: €3,541.9 million). The gearing ratio improved significantly year-on-year to 19.0% (PY: 26.8%).

As at December 31, 2016, Continental had liquidity reserves totaling €5,995.4 million (PY: €5,233.0 million), consisting of cash and cash equivalents of €2,107.0 million (PY: €1,621.5 million) and committed, unutilized credit lines totaling €3,888.4 million (PY: €3,611.5 million).

The restrictions that may impact the availability of capital are also understood as comprising all existing restrictions on the cash and cash equivalents. In the Continental Corporation, the aforementioned cash and cash equivalents are restricted with regard to pledged amounts and balances in countries with foreign exchange restrictions or other barriers to accessing liquidity. Taxes to be paid on the transfer of cash assets from one country to another are not usually considered to represent a restriction on cash and cash equivalents. As at December 31, 2016, unrestricted cash and cash equivalents totaled €1,673.9 million (PY: €1,381.2 million).

Reconciliation of net indebtedness

€ millions	**2016**	2015
Long-term indebtedness	2,803.7	3,175.0
Short-term indebtedness	2,148.6	2,069.8
Long-term derivate instruments and interest-bearing investments	–19.7	–17.1
Short-term derivate instruments and interest-bearing investments	–27.8	–64.3
Cash and cash equivalents	–2,107.0	–1,621.5
Net indebtedness	**2,797.8**	**3,541.9**
Change in net indebtedness	**744.1**	

Reconciliation of change in net indebtedness

€ millions	**2016**	2015
Net indebtedness at the beginning of the reporting period	**3,541.9**	**2,823.5**
Cash flow arising from operating activities	4,938.1	4,915.6
Cash flow arising from investing activities	–3,166.8	–3,472.0
Cash flow before financing activities (free cash flow)	**1,771.3**	**1,443.6**
Dividends paid	–750.0	–650.0
Dividends paid to and cash changes from equity transactions with non-controlling interests	–55.6	–62.5
Non-cash changes	–39.9	–315.7
Other	–112.4	–1,068.8
Foreign exchange effects	–69.3	–65.0
Change in net indebtedness	**744.1**	**–718.4**
Net indebtedness at the end of the reporting period	**2,797.8**	**3,541.9**

Net Assets Position

- › **Equity at €14.7 billion**
- › **Equity ratio at 40.7%**
- › **Gearing ratio at 19.0%**

Total assets
At €36,174.9 million (PY: €32,835.7 million), total assets as at December 31, 2016, were €3,339.2 million higher than on the same date in the previous year. Goodwill of €6,857.3 million was up by €216.7 million compared to the previous year's figure of €6,640.6 million. Other intangible assets climbed by €177.7 million to €1,514.1 million (PY: €1,336.4 million). Property, plant and equipment increased by €999.2 million to €10,538.1 million (PY: €9,538.9 million). Deferred tax assets were up €166.4 million at €1,836.1 million (PY: €1,669.7 million). Inventories rose by €393.1 million to €3,753.2 million (PY: €3,360.1 million) and trade accounts receivable increased by €669.8 million to €7,392.7 million (PY: €6,722.9 million), both as a result of the growth in business activities. The short-term other assets climbed by €185.1 million to €989.0 million (PY: €803.9 million). At €2,107.0 million, cash and cash equivalents were up €485.5 million from €1,621.5 million on the same date in the previous year.

Non-current assets
Non-current assets rose by €1,654.4 million year-on-year to €21,321.0 million (PY: €19,666.6 million). In relation to the individual items of the statement of financial position, this is due primarily to the €216.7 million increase in goodwill to €6,857.3 million (PY: €6,640.6 million), the €177.7 million increase in other intangible assets to €1,514.1 million (PY: €1,336.4 million), the €999.2 million increase in property, plant and equipment to €10,538.1 million (PY: €9,538.9 million) and the €166.4 million increase in deferred tax assets to €1,836.1 million (PY: €1,669.7 million).

Current assets
At €14,853.9 million, current assets were €1,684.8 million higher than the previous year's figure of €13,169.1 million. In the year under review, inventories rose by €393.1 million to €3,753.2 million (PY: €3,360.1 million) and trade accounts receivable increased by €669.8 million to €7,392.7 million (PY: €6,722.9 million). Cash and cash equivalents climbed by €485.5 million to €2,107.0 million (PY: €1,621.5 million).

Equity
Equity was €1,520.9 million higher than in the previous year at €14,734.8 million (PY: €13,213.9 million). This was due primarily to the increase in retained earnings of €2,052.9 million. The gearing ratio improved from 26.8% to 19.0%. The equity ratio rose slightly from 40.2% to 40.7% in the period under review.

Non-current liabilities
At €7,885.9 million, non-current liabilities were up €364.9 million from €7,521.0 million in the previous year. The rise was mainly attributable to the €695.8 million increase in long-term employee benefits to €4,392.3 million (PY: €3,696.5 million). This was countered by the €371.3 million decrease in long-term indebtedness to €2,803.7 million (PY: €3,175.0 million), which resulted primarily from two offsetting effects. The reclassification of the euro bond with a nominal volume of €750.0 million issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, and of the sale of receivables program with Crédit Agricole Corporate and Investment Bank, Paris, France, in the amount of €200.0 million to short-term indebtedness was partly offset by an increase in long-term indebtedness from the placement of a euro bond with a nominal volume of €600.0 million by Continental AG in November 2016.

Current liabilities
At €13,554.2 million, current liabilities were up €1,453.4 million from €12,100.8 million in the previous year. Within this item, trade accounts payable rose by €754.2 million to €6,248.0 million (PY: €5,493.8 million), while short-term provisions for other risks and obligations increased by €300.9 million to €1,146.4 million (PY: €845.5 million). At €1,187.3 million, short-term other financial liabilities were up €120.9 million on the previous year's figure of €1,066.4 million.

Operating assets
The corporation's operating assets increased by €1,390.2 million year-on-year to €21,068.7 million (PY: €19,678.5 million) as at December 31, 2016.

Total working capital was up €330.9 million at €4,971.1 million (PY: €4,640.2 million). This development was essentially due to the €692.0 million increase in operating receivables to €7,465.9 million (PY: €6,773.9 million) and the €393.1 million rise in inventories to €3,753.2 million (PY: €3,360.1 million). This was countered by the €754.2 million increase in operating liabilities to €6,248.0 million (PY: €5,493.8 million).

Non-current operating assets amounted to €19,432.1 million (PY: €17,960.9 million), up €1,471.2 million year-on-year. Goodwill increased by €216.7 million to €6,857.3 million (PY: €6,640.6 million). In addition to exchange rate effects of €36.7 million, this change resulted from additions of €180.0 million. Property, plant and equipment increased by €999.2 million to €10,538.1 million (PY: €9,538.9 million) due to investing activities. Other intangible assets climbed by €177.7 million to €1,514.1 million (PY: €1,336.4 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €143.6 million (PY: €137.9 million) reduced the value of intangible assets.

Consolidated statement of financial position

Assets in € millions	Dec. 31, 2016	Dec. 31, 2015
Goodwill	6,857.3	6,640.6
Other intangible assets	1,514.1	1,336.4
Property, plant and equipment	10,538.1	9,538.9
Investments in at-equity accounted investees	384.8	345.8
Long-term other assets	2,026.7	1,804.9
Non-current assets	**21,321.0**	**19,666.6**
Inventories	3,753.2	3,360.1
Trade accounts receivable	7,392.7	6,722.9
Short-term other assets	1,601.0	1,464.6
Cash and cash equivalents	2,107.0	1,621.5
Current assets	**14,853.9**	**13,169.1**
Total assets	**36,174.9**	**32,835.7**

Equity and liabilities in € millions	Dec. 31, 2016	Dec. 31, 2015
Total equity	**14,734.8**	**13,213.9**
Non-current liabilities	**7,885.9**	**7,521.0**
Trade accounts payable	6,248.0	5,493.8
Short-term other provisions and liabilities	7,306.2	6,607.0
Current liabilities	**13,554.2**	**12,100.8**
Total equity and liabilities	**36,174.9**	**32,835.7**
Net indebtedness	**2,797.8**	**3,541.9**
Gearing ratio in %	**19.0**	**26.8**

The purchase of Zonar Systems in a share deal resulted in a €322.0 million increase in operating assets in the Interior division.

The Tire division posted an increase in operating assets due to the acquisition of Hoosier Racing Tire with €117.4 million, the acquisition of the Bandvulc Group with €51.2 million, and another acquisition with €15.7 million.

As a result of an asset deal, the Powertrain division's operating assets rose by €22.0 million.

In the ContiTech division, a share deal resulted in a €14.4 million increase in operating assets.

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

Exchange rate effects increased the corporation's total operating assets by €221.5 million (PY: €273.4 million) in the year under review.

Average operating assets of the corporation rose by €772.4 million to €20,453.1 million as compared to the previous year (€19,680.7 million).

Reconciliation to operating assets in 2016

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Total assets	**7,118.5**	**5,163.0**	**7,030.2**	**8,095.8**	**3,986.8**	**4,780.6**	**36,174.9**
Cash and cash equivalents	–	–	–	–	–	2,107.0	2,107.0
Short- and long-term derivate instruments, interest-bearing investments	–	–	–	–	–	47.5	47.5
Other financial assets	10.6	42.5	14.7	20.4	7.2	18.0	113.4
Less financial assets	**10.6**	**42.5**	**14.7**	**20.4**	**7.2**	**2,172.5**	**2,267.9**
Less other non-operating assets	**–**	**0.4**	**–44.2**	**–11.1**	**5.9**	**616.3**	**567.3**
Deferred tax assets	–	–	–	–	–	1,836.1	1,836.1
Income tax receivables	–	–	–	–	–	124.7	124.7
Less income tax assets	**–**	**–**	**–**	**–**	**–**	**1,960.8**	**1,960.8**
Segment assets	**7,107.9**	**5,120.1**	**7,059.7**	**8,086.5**	**3,973.7**	**31.0**	**31,378.9**
Total liabilities and provisions	**3,877.4**	**2,766.6**	**2,990.4**	**3,295.3**	**1,644.7**	**6,865.7**	**21,440.1**
Short- and long-term indebtedness	–	–	–	–	–	4,952.3	4,952.3
Interest payable and other financial liabilities	–	–	–	–	–	101.9	101.9
Less financial liabilities	**–**	**–**	**–**	**–**	**–**	**5,054.2**	**5,054.2**
Deferred tax liabilities	–	–	–	–	–	371.5	371.5
Income tax payables	–	–	–	–	–	783.6	783.6
Less income tax liabilities	**–**	**–**	**–**	**–**	**–**	**1,155.1**	**1,155.1**
Less other non-operating liabilities	**1,279.0**	**871.7**	**689.6**	**980.7**	**539.5**	**560.1**	**4,920.6**
Segment liabilities	**2,598.4**	**1,894.9**	**2,300.8**	**2,314.6**	**1,105.2**	**96.3**	**10,310.2**
Operating assets	**4,509.5**	**3,225.2**	**4,758.9**	**5,771.9**	**2,868.5**	**–65.3**	**21,068.7**

Reconciliation to operating assets in 2015

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
Total assets	**6,539.8**	**4,612.9**	**6,362.4**	**7,254.3**	**4,036.6**	**4,029.7**	**32,835.7**
Cash and cash equivalents	–	–	–	–	–	1,621.5	1,621.5
Short- and long-term derivate instruments, interest-bearing investments	–	–	–	–	–	81.4	81.4
Other financial assets	9.6	46.0	17.3	22.6	8.0	5.3	108.8
Less financial assets	**9.6**	**46.0**	**17.3**	**22.6**	**8.0**	**1,708.2**	**1,811.7**
Less other non-operating assets	**5.8**	**0.8**	**–35.2**	**–3.9**	**0.6**	**477.2**	**445.3**
Deferred tax assets	–	–	–	–	–	1,669.7	1,669.7
Income tax receivables	–	–	–	–	–	149.7	149.7
Less income tax assets	**–**	**–**	**–**	**–**	**–**	**1,819.4**	**1,819.4**
Segment assets	**6,524.4**	**4,566.1**	**6,380.3**	**7,235.6**	**4,028.0**	**24.9**	**28,759.3**
Total liabilities and provisions	**3,147.6**	**2,413.3**	**2,516.6**	**3,025.5**	**1,517.3**	**7,001.5**	**19,621.8**
Short- and long-term indebtedness	–	–	–	–	–	5,244.8	5,244.8
Interest payable and other financial liabilities	–	–	–	–	–	48.4	48.4
Less financial liabilities	**–**	**–**	**–**	**–**	**–**	**5,293.2**	**5,293.2**
Deferred tax liabilities	–	–	–	–	–	361.2	361.2
Income tax payables	–	–	–	–	–	719.8	719.8
Less income tax liabilities	**–**	**–**	**–**	**–**	**–**	**1,081.0**	**1,081.0**
Less other non-operating liabilities	**1,055.0**	**706.8**	**541.6**	**865.9**	**498.3**	**499.2**	**4,166.8**
Segment liabilities	**2,092.6**	**1,706.5**	**1,975.0**	**2,159.6**	**1,019.0**	**128.1**	**9,080.8**
Operating assets	**4,431.8**	**2,859.6**	**4,405.3**	**5,076.0**	**3,009.0**	**–103.2**	**19,678.5**

Automotive Group

Automotive Group in € millions	**2016**	2015	Δ in %
Sales	24,496.4	23,574.5	3.9
EBITDA	2,615.0	2,973.2	-12.0
in % of sales	10.7	12.6	
EBIT	1,526.6	2,014.4	-24.2
in % of sales	6.2	8.5	
Research and development expenses	2,430.9	2,097.2	15.9
in % of sales	9.9	8.9	
Depreciation and amortization[1]	1,088.4	958.8	13.5
thereof impairment[2]	21.4	0.7	
Operating assets as at December 31	12,493.6	11,696.7	6.8
Operating assets (average)	11,978.3	11,237.5	6.6
ROCE	12.7	17.9	
Capital expenditure[3]	1,497.0	1,274.7	17.4
in % of sales	6.1	5.4	
Number of employees as at December 31[4]	124,753	115,888	7.6
Adjusted sales[5]	24,379.9	23,574.5	3.4
Adjusted operating result (adjusted EBIT)[6]	1,632.2	2,038.4	-19.9
in % of adjusted sales	6.7	8.6	

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

The Automotive Group comprises three divisions:

› The **Chassis & Safety** division (22% of consolidated sales) develops, produces, and markets intelligent systems to improve driving safety and vehicle dynamics.

› The **Powertrain** division (18% of consolidated sales) integrates innovative and efficient system solutions for the powertrains of today and tomorrow.

› The **Interior** division (20% of consolidated sales) specializes in information management in vehicles. It develops and produces information, communication and network solutions.

The 14 business units in total generated 60% of consolidated sales in the year under review.

Key raw materials for the Automotive Group are steel, aluminum, precious metals, copper, and plastics. One point of focus when it comes to purchasing materials and semifinished products is electronics and electromechanical components, which together make up around 44% of the corporation's purchasing volume for production material.

Development of the Chassis & Safety Division

- Sales up 6.2%
- Sales up 7.5% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT down 27.4%

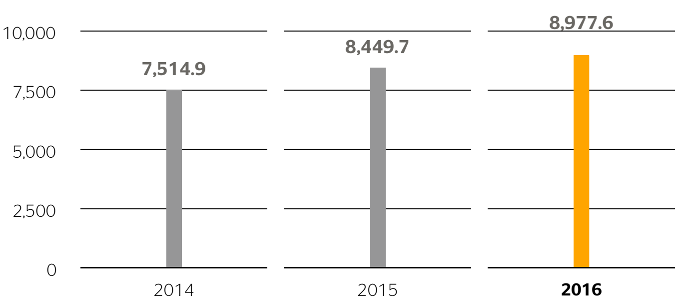
Sales volumes

In the Vehicle Dynamics business unit, the number of electronic brake systems sold in 2016 increased by 6% year-on-year. In the Hydraulic Brake Systems business unit, the sales volume of brake boosters was up slightly compared to the previous year. The portion of brake calipers integrated in electric parking brakes was up 48% on the previous year's level, thus more than compensating for the decline in sales figures for brake calipers, which were down 7% year-on-year. In the Passive Safety & Sensorics business unit, the sales volume of air bag control units rose by 15% year-on-year. Unit sales of advanced driver assistance systems were up 36%.

Sales up 6.2%
Sales up 7.5% before changes in the scope of consolidation and exchange rate effects

Sales in the Chassis & Safety division rose by 6.2% year-on-year to €8,977.6 million (PY: €8,449.7 million) in 2016. Before changes in the scope of consolidation and exchange rate effects, sales rose by 7.5%.

Sales € millions



Adjusted EBIT down 27.4%

The Chassis & Safety division's adjusted EBIT fell by €223.3 million or 27.4% year-on-year in 2016 to €591.7 million (PY: €815.0 million), equivalent to 6.6% (PY: 9.6%) of adjusted sales. For more information, please refer to the "Comparison of the past fiscal year against forecast" section in the Outlook for the Continental Corporation.

EBIT down 28.7%

In comparison to the previous year, the Chassis & Safety division posted a decline in EBIT of €233.5 million, or 28.7%, to €580.8 million (PY: €814.3 million) in 2016. The return on sales fell to 6.5% (PY: 9.6%). For more information, please refer to the "Comparison of the past fiscal year against forecast" section in the Outlook for the Continental Corporation.

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €0.3 million (PY: €0.8 million).

ROCE amounted to 13.1% (PY: 19.0%).

Special effects in 2016

Impairment and reversal of impairment losses on property, plant and equipment resulted in expense totaling €1.3 million.

In the context of the plant closure in Melbourne, Australia, restructuring expenses of €0.2 million were incurred in the Chassis & Safety division. These expenses were attributable to impairment on property, plant and equipment.

Special effects in 2016 had a negative impact totaling €1.5 million in the Chassis & Safety division.

Special effects in 2015

Impairment and reversal of impairment losses on property, plant and equipment resulted in a positive impact from special effects totaling €0.1 million in the Chassis & Safety division in 2015.

Procurement

The procurement market for Chassis & Safety saw stable development in 2016 and the provision of production supplies went smoothly to a large extent. The only problems to arise related to the supply of semiconductors by a Japanese supplier whose production activities were affected by earthquakes. The downward trend in prices for industrial metals did not continue in 2016. Instead, a consolidation phase at the beginning of 2016 was followed by an increase in the second half of the year. Import duties for steel from China brought about a significant rise in market prices for flat steels in Europe and North America.

Research and development

Research and development expenses rose by €82.2 million or 11.9% year-on-year to €773.4 million (PY: €691.2 million), corresponding to 8.6% (PY: 8.2%) of sales.

Depreciation and amortization

Depreciation and amortization rose by €27.8 million compared to fiscal 2015 to €373.8 million (PY: €346.0 million) and amounted to 4.2% (PY: 4.1%) of sales. This included impairment totaling €1.5 million in 2016 (PY: reversal of impairment losses totaling €0.1 million).

Chassis & Safety in € millions	**2016**	2015	Δ in %
Sales	8,977.6	8,449.7	6.2
EBITDA	954.6	1,160.3	–17.7
in % of sales	10.6	13.7	
EBIT	580.8	814.3	–28.7
in % of sales	6.5	9.6	
Research and development expenses	773.4	691.2	11.9
in % of sales	8.6	8.2	
Depreciation and amortization[1]	373.8	346.0	8.0
thereof impairment[2]	1.5	–0.1	
Operating assets as at December 31	4,509.5	4,431.8	1.8
Operating assets (average)	4,448.7	4,277.7	4.0
ROCE	13.1	19.0	
Capital expenditure[3]	523.7	470.3	11.4
in % of sales	5.8	5.6	
Number of employees as at December 31[4]	43,907	40,062	9.6
Adjusted sales[5]	8,977.6	8,449.7	6.2
Adjusted operating result (adjusted EBIT)[6]	591.7	815.0	–27.4
in % of adjusted sales	6.6	9.6	

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

Operating assets
Operating assets in the Chassis & Safety division rose by €77.7 million year-on-year to €4,509.5 million (PY: €4,431.8 million) as at December 31, 2016.

Working capital was up €209.5 million at €739.2 million (PY: €529.7 million). Inventories increased by €104.9 million to €485.7 million (PY: €380.8 million). Operating receivables rose by €287.4 million to €1,693.9 million (PY: €1,406.5 million) as at the reporting date. Operating liabilities were up €182.8 million at €1,440.4 million (PY: €1,257.6 million).

Non-current operating assets amounted to €4,755.9 million (PY: €4,591.4 million), up €164.5 million year-on-year. Goodwill increased by €6.0 million to €2,657.4 million (PY: €2,651.4 million) as a result of exchange rate effects. Property, plant and equipment increased by €155.6 million to €1,876.0 million (PY: €1,720.4 million) due to investing activities. Other intangible assets declined by €14.9 million to €103.0 million (PY: €117.9 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €0.3 million (PY: €0.8 million) did not have any significant impact on intangible assets.

Exchange rate effects increased the Chassis & Safety division's total operating assets by €8.6 million (PY: €74.3 million) in the fiscal year.

Average operating assets in the Chassis & Safety division climbed by €171.0 million to €4,448.7 million as compared to fiscal 2015 (€4,277.7 million).

Capital expenditure (additions)
Additions to the Chassis & Safety division rose by €53.4 million year-on-year to €523.7 million (PY: €470.3 million). Capital expenditure amounted to 5.8% (PY: 5.6%) of sales.

In addition to increasing production capacity in Europe, investments were made in expanding the locations in North America and Asia. Production capacity for the Vehicle Dynamics, Hydraulic Brake Systems, Passive Safety & Sensorics, and Advanced Driver Assistance Systems business units was expanded in particular. Important additions related to the creation of new production facilities for electronic brake systems.

Employees
The number of employees in the Chassis & Safety division rose by 3,845 to 43,907 (PY: 40,062). In all business units, the increase in staff numbers was due to an adjustment in line with greater sales volumes. In addition, the continuous expansion of research and development activities, particularly in the Advanced Driver Assistance Systems, Vehicle Dynamics, and Passive Safety & Sensorics business units, also led to a rise in the number of employees. Capacity was increased in all business units, particularly in best-cost countries.

Development of the Powertrain Division

- Sales up 3.6%
- Sales up 5.1% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT down 1.5%

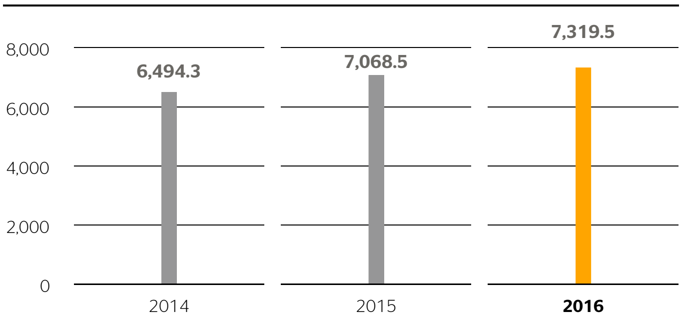
Sales volumes

In the Engine Systems business unit, sales volumes of engine control units, injectors, pumps and turbochargers increased year-on-year in fiscal 2016. The Sensors & Actuators business unit is continuing to record growth. Boosted by stricter exhaust gas legislation, higher sales figures were achieved for exhaust gas sensors in particular. In the Hybrid Electric Vehicle business unit, the sales volumes for power electronics and on-board power supply systems did not match the previous year's level, whereas the sales volumes for battery systems were up slightly year-on-year. The sales figures of the Transmission business unit were up slightly year-on-year in fiscal 2016. Sales volumes in the Fuel & Exhaust Management business unit increased in comparison to the previous year.

Sales up 3.6%
Sales up 5.1% before changes in the scope of consolidation and exchange rate effects

Sales in the Powertrain division rose by 3.6% year-on-year to €7,319.5 million (PY: €7,068.5 million) in 2016. Before changes in the scope of consolidation and exchange rate effects, sales were up by 5.1%.

Sales € millions



Adjusted EBIT down 1.5%

The Powertrain division's adjusted EBIT fell by €6.2 million or 1.5% year-on-year in 2016 to €398.5 million (PY: €404.7 million), equivalent to 5.5% (PY: 5.7%) of adjusted sales.

EBIT down 4.4%

Compared with the previous year, the Powertrain division posted a decrease in EBIT of €17.6 million, or 4.4%, to €378.0 million (PY: €395.6 million) in 2016. The return on sales fell to 5.2% (PY: 5.6%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €11.5 million (PY: €8.2 million).

ROCE amounted to 12.5% (PY: 14.3%).

Special effects in 2016

Impairment and reversal of impairment losses on property, plant and equipment resulted in expense totaling €7.6 million.

In the context of the plant closure in Melbourne, Australia, restructuring expenses totaling €1.0 million were incurred in the Powertrain division, of which €0.7 million was attributable to impairment on property, plant and equipment.

Additional restructuring expenses and the reversal of restructuring provisions no longer required resulted in expense of €1.1 million overall.

The disposal of an equity interest held as a financial asset resulted in income of €1.1 million.

Special effects in 2016 had a negative impact totaling €8.6 million in the Powertrain division.

Special effects in 2015

Overall, minor impairment and reversal of impairment losses on property, plant and equipment resulted in a negative special effect of €1.0 million in the Powertrain division.

Restructuring expenses and the reversal of restructuring provisions no longer required resulted in a positive special effect of €0.1 million. This included a reversal of impairment losses amounting to €0.5 million.

Special effects in 2015 had a negative impact totaling €0.9 million in the Powertrain division.

Procurement

With the procurement markets for Powertrain remaining consistently stable in the year under review, there were no supply shortfalls. Average prices for precious and industrial metals traded in U.S. dollars were somewhat higher than the previous year's level. The procurement cooperation with the Schaeffler Group was successfully continued.

Research and development

Research and development expenses fell by €7.2 million or 1.0% year-on-year to €701.5 million (PY: €708.7 million), corresponding to 9.6% (PY: 10.0%) of sales.

Depreciation and amortization

Depreciation and amortization rose by €43.1 million compared to fiscal 2015 to €378.2 million (PY: €335.1 million) and amounted to 5.2% (PY: 4.7%) of sales. This included impairment totaling €8.3 million in 2016 (PY: €0.5 million).

Powertrain in € millions	**2016**	2015	Δ in %
Sales	7,319.5	7,068.5	3.6
EBITDA	756.2	730.7	3.5
in % of sales	10.3	10.3	
EBIT	378.0	395.6	–4.4
in % of sales	5.2	5.6	
Research and development expenses	701.5	708.7	–1.0
in % of sales	9.6	10.0	
Depreciation and amortization[1]	378.2	335.1	12.9
thereof impairment[2]	8.3	0.5	
Operating assets as at December 31	3,225.2	2,859.6	12.8
Operating assets (average)	3,015.8	2,767.8	9.0
ROCE	12.5	14.3	
Capital expenditure[3]	544.4	468.4	16.2
in % of sales	7.4	6.6	
Number of employees as at December 31[4]	37,502	35,364	6.0
Adjusted sales[5]	7,276.7	7,068.5	2.9
Adjusted operating result (adjusted EBIT)[6]	398.5	404.7	–1.5
in % of adjusted sales	5.5	5.7	

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

Operating assets
Operating assets in the Powertrain division increased by €365.6 million year-on-year to €3,225.2 million (PY: €2,859.6 million) as at December 31, 2016.

Working capital increased by €3.2 million to €332.6 million (PY: €329.4 million). Inventories were up €106.8 million to €443.5 million (PY: €336.7 million). Operating receivables rose by €139.7 million to €1,294.1 million (PY: €1,154.4 million) as at the reporting date. Total operating liabilities were up €243.3 million at €1,405.0 million (PY: €1,161.7 million).

Non-current operating assets amounted to €3,249.1 million (PY: €2,960.7 million), up €288.4 million year-on-year. Goodwill increased by €9.0 million to €1,004.8 million (PY: €995.8 million). This included exchange rate effects of €8.2 million. An asset deal resulted in a rise in goodwill of €0.8 million in the Powertrain division. At €1,993.0 million, property, plant and equipment was €169.9 million above the previous year's level of €1,823.1 million. Other intangible assets climbed by €74.0 million to €155.4 million (PY: €81.4 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €11.5 million (PY: €8.2 million) reduced the value of intangible assets.

Overall, an asset deal resulted in a €22.0 million increase in operating assets in the Powertrain division. Other changes in the scope of consolidation did not result in any additions or disposals of operating assets.

Exchange rate effects increased the Powertrain division's total operating assets by €10.0 million (PY: €69.2 million) in the fiscal year.

Average operating assets in the Powertrain division climbed by €248.0 million to €3,015.8 million as compared to fiscal 2015 (€2,767.8 million).

Capital expenditure (additions)
Additions to the Powertrain division increased by €76.0 million year-on-year to €544.4 million (PY: €468.4 million). Capital expenditure amounted to 7.4% (PY: 6.6%) of sales.

In the Powertrain division, production capacity was increased at the German locations and in China, the U.S.A., Czechia, and Romania. Important additions related to the Engine Systems and Sensors & Actuators business units. In the Engine Systems business unit, manufacturing facilities for engine injection systems were expanded in particular.

Employees
The number of employees in the Powertrain division rose by 2,138 compared with the previous year to 37,502 (PY: 35,364). The increase in the workforce resulted from the adjustment in line with higher sales volumes and the continual expansion in research and development.

Development of the Interior Division

- Sales up 2.1%
- Sales up 3.3% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT down 21.6%

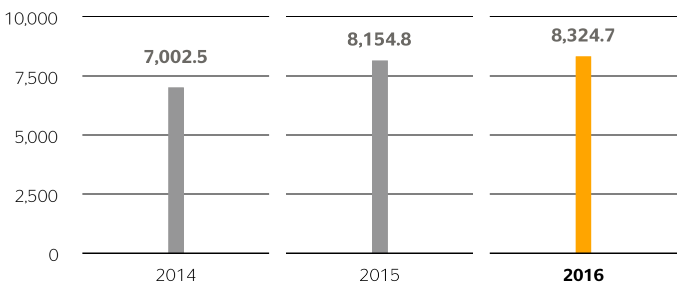
Sales volumes

Sales volumes in the Body & Security business unit were significantly above the previous year's level in fiscal 2016. There were increases particularly in North America and Asia. In the Infotainment & Connectivity business unit, new multimedia products that went into production could not compensate for products that were discontinued worldwide. Despite production starts and increased sales volumes in Asia and the U.S.A., sales volumes for radio and connectivity systems were down year-on-year due to the end of volume production in Europe. Sales volumes in the Commercial Vehicles & Aftermarket business unit were below the previous year's level overall. This was due chiefly to the weaker tachograph market for commercial vehicles in Russia and Brazil and the lack of toll business in Western Europe. In the Instrumentation & Driver HMI business unit, sales figures in 2016 were higher than in the previous year. There was an increase, particularly on the European market, as a result of production starts and increased demand.

Sales up 2.1%
Sales up 3.3% before changes in the scope of consolidation and exchange rate effects

Sales in the Interior division rose by 2.1% year-on-year to €8,324.7 million (PY: €8,154.8 million) in 2016. Before changes in the scope of consolidation and exchange rate effects, sales were up by 3.3%.

Sales € millions



Adjusted EBIT down 21.6%

The Interior division's adjusted EBIT fell by €176.7 million or 21.6% year-on-year in 2016 to €642.0 million (PY: €818.7 million), equivalent to 7.8% (PY: 10.0%) of adjusted sales. For more information, please refer to the "Comparison of the past fiscal year against forecast" section in the Outlook for the Continental Corporation.

EBIT down 29.4%

Compared with the previous year, the Interior division posted a decrease in EBIT of €236.7 million, or 29.4%, to €567.8 million (PY: €804.5 million) in 2016. The return on sales fell to 6.8% (PY: 9.9%). For more information, please refer to the "Comparison of the past fiscal year against forecast" section in the Outlook for the Continental Corporation.

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €38.4 million (PY: €17.4 million).

ROCE amounted to 12.6% (PY: 19.2%).

Special effects in 2016

In the context of the plant closure in Melbourne, Australia, restructuring expenses totaling €22.1 million were incurred in the Interior division, of which €8.5 million was attributable to impairment on property, plant and equipment.

The planned closure of the location in Gravatai, Brazil, resulted in restructuring expenses totaling €4.4 million. This included impairment on property, plant and equipment in the amount of €3.1 million.

The reversal of restructuring provisions no longer required resulted in income of €0.1 million.

A purchase price adjustment resulted in expense of €0.1 million.

Special effects in 2016 had a negative impact totaling €26.5 million in the Interior division.

Special effects in 2015

In the Interior division, the disposal of a business operation gave rise to a purchase price adjustment resulting in expense of €0.3 million.

An impairment loss on property, plant and equipment resulted in expense of €0.3 million.

In addition, the reversal of restructuring provisions no longer required resulted in income totaling €3.8 million.

Special effects in 2015 had a positive impact totaling €3.2 million in the Interior division.

Procurement

For Interior, the year 2016 was dominated by supply problems as a result of earthquakes in the Kumamoto region of Japan. Demand for microcontrollers from a Japanese supplier could not be covered sufficiently. Aside from this, the suppliers were able to meet demand in full for electronic and electromechanical components. In the interests of active risk management, the process of nominating alternative supply options for key components was advanced.

Interior in € millions	**2016**	2015	Δ in %
Sales	8,324.7	8,154.8	2.1
EBITDA	904.2	1,082.2	–16.4
in % of sales	10.9	13.3	
EBIT	567.8	804.5	–29.4
in % of sales	6.8	9.9	
Research and development expenses	956.0	697.3	37.1
in % of sales	11.5	8.6	
Depreciation and amortization[1]	336.4	277.7	21.1
thereof impairment[2]	11.6	0.3	
Operating assets as at December 31	4,758.9	4,405.3	8.0
Operating assets (average)	4,513.8	4,192.0	7.7
ROCE	12.6	19.2	
Capital expenditure[3]	428.9	336.0	27.6
in % of sales	5.2	4.1	
Number of employees as at December 31[4]	43,344	40,462	7.1
Adjusted sales[5]	8,250.2	8,154.8	1.2
Adjusted operating result (adjusted EBIT)[6]	642.0	818.7	–21.6
in % of adjusted sales	7.8	10.0	

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

The share of displays in total procurement volumes for the Interior division and the size of the displays have both increased further.

Research and development
Research and development expenses rose by €258.7 million or 37.1% year-on-year to €956.0 million (PY: €697.3 million), corresponding to 11.5% (PY: 8.6%) of sales.

Depreciation and amortization
Depreciation and amortization rose by €58.7 million compared to fiscal 2015 to €336.4 million (PY: €277.7 million) and amounted to 4.0% (PY: 3.4%) of sales. This included impairment of €11.6 million in 2016 (PY: €0.3 million).

Operating assets
Operating assets in the Interior division increased by €353.6 million year-on-year to €4,758.9 million (PY: €4,405.3 million) as at December 31, 2016.

Working capital increased by €11.3 million to €686.0 million (PY: €674.7 million). Inventories increased by €120.0 million to €763.0 million (PY: €643.0 million). Operating receivables rose by €76.6 million to €1,443.8 million (PY: €1,367.2 million) as at the reporting date. Operating liabilities were up €185.3 million at €1,520.8 million (PY: €1,335.5 million).

Non-current operating assets amounted to €4,702.5 million (PY: €4,220.9 million), up €481.6 million year-on-year. Goodwill increased by €160.2 million to €2,562.5 million (PY: €2,402.3 million). In addition to exchange rate effects of €15.4 million, the increase was also attributable in the amount of €144.8 million to the acquisition of Zonar Systems. At €1,394.4 million, property, plant and equipment was €165.1 million above the previous year's level of €1,229.3 million. Other intangible assets climbed by €136.5 million to €591.8 million (PY: €455.3 million). This increase was due mainly to the acquisition of Zonar Systems, which accounted for €158.8 million. Amortization of intangible assets from purchase price allocation (PPA) in the amount of €38.4 million (PY: €17.4 million) reduced the value of intangible assets.

Overall, the acquisition of Zonar Systems in a share deal resulted in a €322.0 million rise in the Interior division's operating assets. Other changes in the scope of consolidation did not result in any additions or disposals of operating assets.

Exchange rate effects increased the Interior division's total operating assets by €25.9 million (PY: €60.6 million) in the fiscal year.

Average operating assets in the Interior division climbed by €321.8 million to €4,513.8 million as compared to fiscal 2015 (€4,192.0 million).

Capital expenditure (additions)

Additions to the Interior division rose by €92.9 million year-on-year to €428.9 million (PY: €336.0 million). Capital expenditure amounted to 5.2% (PY: 4.1%) of sales.

In addition to the expansion of production capacity at the German locations, investments were also made in Czechia, Mexico, Romania, China, and the U.S.A. Investments focused primarily on the expansion of manufacturing capacity for the Instrumentation & Driver HMI and Body & Security business units. In the Instrumentation & Driver HMI business unit, manufacturing facilities for display solutions were expanded in particular.

Employees

The number of employees in the Interior division rose by 2,882 to 43,344 (PY: 40,462). The rise in staff numbers is due to the continuing expansion in research and development and the adjustment in line with greater volumes. Capacity was boosted in best-cost countries in particular. The increase related to the Body & Security, Commercial Vehicles & Aftermarket, Instrumentation & Driver HMI, and Intelligent Transportation Systems business units, while Infotainment & Connectivity remained at the previous year's level. In addition, the acquisition of Zonar Systems resulted in a further increase in staff numbers.

Rubber Group

Rubber Group in € millions	**2016**	2015	Δ in %
Sales	16,097.6	15,704.6	2.5
EBITDA	3,559.6	3,181.5	11.9
in % of sales	22.1	20.3	
EBIT	2,688.6	2,255.8	19.2
in % of sales	16.7	14.4	
Research and development expenses	380.6	352.4	8.0
in % of sales	2.4	2.2	
Depreciation and amortization[1]	871.0	925.7	-5.9
thereof impairment[2]	37.2	92.9	
Operating assets as at December 31	8,640.4	8,085.0	6.9
Operating assets (average)	8,561.4	8,556.6	0.1
ROCE	31.4	26.4	
Capital expenditure[3]	1,094.1	903.4	21.1
in % of sales	6.8	5.8	
Number of employees as at December 31[4]	94,966	91,603	3.7
Adjusted sales[5]	15,926.3	15,704.6	1.4
Adjusted operating result (adjusted EBIT)[6]	2,828.4	2,485.2	13.8
in % of adjusted sales	17.8	15.8	

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.

The Rubber Group comprises two divisions:

› The **Tire** division (26% of consolidated sales) is known for maximizing safety through short braking distances and excellent grip as well as reducing fuel consumption by minimizing rolling resistance.

› The **ContiTech** division (14% of consolidated sales) develops, manufactures, and markets products for machine and plant engineering, mining, the automotive industry, and for other important sectors.

The 15 business units in total generated 40% of consolidated sales in the year under review.

In 2016, the Rubber Group benefited from the very weak development on the raw materials markets at the beginning of the year. In particular, primary products for rubber compounds recorded further price decreases in this period. However, raw materials prices increased significantly over the course of the year. This was due chiefly to the recovery in the price of crude oil, which also resulted in a sharp rise in the prices of raw materials such as natural rubber. However, exchange rate developments had a negative impact. Some countries recorded year-on-year price increases due to exchange rate effects.

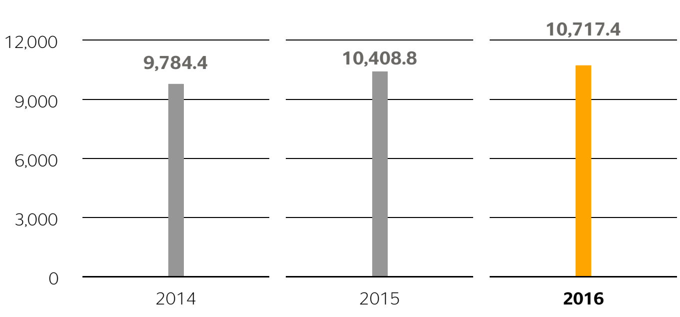
Development of the Tire Division

- Sales up 3.0%
- Sales up 4.7% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 10.0%

Sales volumes
In 2016, sales figures for passenger and light truck tires in both original equipment business and tire replacement business were up on the previous year's level. Sales figures in commercial vehicle tire business were also around 4% higher than in the previous year. For the first time, the Tire division sold more than 150 million tires in one year.

Sales up 3.0%
Sales up 4.7% before changes in the scope of consolidation and exchange rate effects
Sales in the Tire division rose by 3.0% year-on-year to €10,717.4 million (PY: €10,408.8 million) in 2016. Before changes in the scope of consolidation and exchange rate effects, sales were up by 4.7%.

Sales € millions



Adjusted EBIT up 10.0%
The Tire division's adjusted EBIT rose by €208.8 million or 10.0% year-on-year in 2016 to €2,306.0 million (PY: €2,097.2 million), equivalent to 21.7% (PY: 20.1%) of adjusted sales.

EBIT up 9.8%
In comparison to the previous year, the Tire division posted an increase in EBIT of €204.2 million, or 9.8%, to €2,289.4 million (PY: €2,085.2 million) in 2016. The return on sales rose to 21.4% (PY: 20.0%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €10.7 million (PY: €7.8 million).

ROCE amounted to 40.8% (PY: 39.2%).

Special effects in 2016
Impairment on property, plant and equipment resulted in expense totaling €0.2 million.

The disposal of an equity interest held as a financial asset resulted in income of €3.9 million.

Special effects in 2016 had a positive impact totaling €3.7 million in the Tire division.

Special effects in 2015
Impairment on property, plant and equipment resulted in expense totaling €6.8 million. This affected the locations in Modipuram and Partapur, India, in the amount of €5.2 million and the location in Puchov, Slovakia, in the amount of €1.6 million.

The sale of the shares in General Tyre East Africa Ltd., Arusha, Tanzania, resulted in income of €0.9 million.

Acquisitions of companies gave rise to purchase price adjustments resulting in total income of €1.7 million.

Special effects in 2015 had a negative impact totaling €4.2 million in the Tire division.

Procurement
The prices of natural rubber and oil-based raw materials reached a low in the first half of 2016. In the following two quarters, prices then increased significantly. Input materials such as butadiene and raw materials such as natural rubber recorded a very sharp price increase in the fourth quarter. This was driven by expectations of stronger growth stimuli in North America, increased demand for raw materials in China and the associated speculation. On average, however, the price level in 2016 as a whole was lower than in the previous year. Nonetheless, in some countries, such as Brazil and Malaysia, there was a considerably less significant positive effect or even an increase in the prices of many raw materials due to exchange rate effects.

Research and development
Expenses for research and development rose by €16.0 million or 6.5% year-on-year to €260.9 million (PY: €244.9 million), corresponding to 2.4% of sales as in the previous year.

Depreciation and amortization
Depreciation and amortization increased by €20.2 million to €539.3 million compared to €519.1 million in fiscal 2015. As in the previous year, it was equivalent to 5.0% of sales. This included impairment of €0.2 million (PY: €6.8 million) in 2016.

Tires in € millions	**2016**	2015	Δ in %
Sales	10,717.4	10,408.8	3.0
EBITDA	2,828.7	2,604.3	8.6
in % of sales	26.4	25.0	
EBIT	2,289.4	2,085.2	9.8
in % of sales	21.4	20.0	
Research and development expenses	260.9	244.9	6.5
in % of sales	2.4	2.4	
Depreciation and amortization[1]	539.3	519.1	3.9
thereof impairment[2]	0.2	6.8	
Operating assets as at December 31	5,771.9	5,076.0	13.7
Operating assets (average)	5,612.7	5,322.2	5.5
ROCE	40.8	39.2	
Capital expenditure[3]	882.1	658.2	34.0
in % of sales	8.2	6.3	
Number of employees as at December 31[4]	52,057	48,955	6.3
Adjusted sales[5]	10,641.6	10,408.8	2.2
Adjusted operating result (adjusted EBIT)[6]	2,306.0	2,097.2	10.0
in % of adjusted sales	21.7	20.1	

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.

Operating assets

Operating assets in the Tire division increased by €695.9 million year-on-year to €5,771.9 million (PY: €5,076.0 million) as at December 31, 2016.

The Tire division posted a €121.9 million increase in working capital to €2,335.7 million (PY: €2,213.8 million). Inventories increased by €78.0 million to €1,430.8 million (PY: €1,352.8 million). Operating receivables increased by €138.7 million to €2,096.9 million (PY: €1,958.2 million) as at the reporting date. Operating liabilities were up €94.8 million at €1,192.0 million (PY: €1,097.2 million).

Non-current operating assets were up €623.4 million year-on-year at €4,418.6 million (PY: €3,795.2 million). This increase was primarily due to the €508.6 million rise in property, plant and equipment to €3,944.7 million (PY: €3,436.1 million). Goodwill increased by €31.1 million to €207.2 million (PY: €176.1 million). In addition to minor exchange rate effects, this development was attributable to the acquisition of Hoosier Racing Tire with €13.9 million, the acquisition of the Bandvulc Group with €9.0 million, and another acquisition with €8.1 million. Other intangible assets climbed by €78.1 million to €146.3 million (PY: €68.2 million). Amortization of intangible assets from purchase price allocation (PPA) in the amount of €10.7 million (PY: €7.8 million) reduced the value of intangible assets.

Overall, the acquisition of Hoosier Racing Tire with €117.4 million, the acquisition of the Bandvulc Group with €51.2 million, and another acquisition with €15.7 million resulted in an increase in operating assets. Other changes in the scope of consolidation did not result in any notable additions or disposals of operating assets.

Exchange rate effects increased the Tire division's total operating assets by €145.9 million (PY: €23.0 million) in the year under review.

Average operating assets in the Tire division increased by €290.5 million to €5,612.7 million compared with fiscal 2015 (€5,322.2 million).

Capital expenditure (additions)

Additions to the Tire division rose by €223.9 million year-on-year to €882.1 million (PY: €658.2 million). Capital expenditure amounted to 8.2% (PY: 6.3%) of sales.

In the Tire division, production capacity was expanded in Europe, North America, and Asia. There were major additions relating to the expansion of existing production sites in Sumter, South Carolina, U.S.A.; Hefei, China; Lousado, Portugal; and Puchov, Slovakia. At the tire plant in Korbach, Germany, investments were made in the construction of the High Performance Technology Center. Quality assurance and cost-cutting measures were also implemented.

Employees

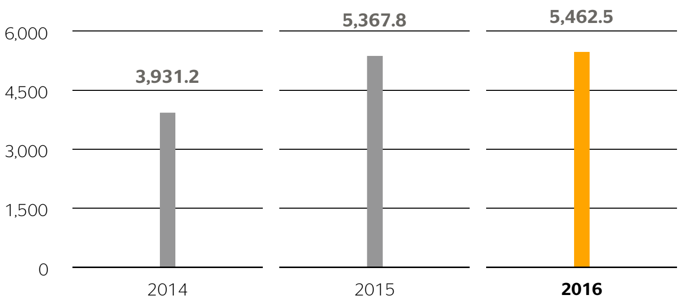
The number of employees in the Tire division increased by 3,102 to 52,057 (PY: 48,955). At the production companies, the increase in staff numbers was due to the ongoing expansion of the plants in Camacari, Brazil; Puchov, Slovakia; Sumter, South Carolina, U.S.A.; and Hefei, China. The higher number of employees is also attributable to the acquisition of the Bandvulc Group and Hoosier Racing Tire.

Development of the ContiTech Division

- Sales up 1.8%
- Sales up 2.5% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 34.6%

Sales up 1.8%
Sales up 2.5% before changes in the scope of consolidation and exchange rate effects
Sales in the ContiTech division rose by 1.8% year-on-year to €5,462.5 million (PY: €5,367.8 million) in 2016. Before changes in the scope of consolidation and exchange rate effects, sales were up by 2.5%. Sales in automotive original equipment and particularly in the replacement business increased in comparison to the previous year. In industrial business, however, sales did not reach the previous year's level. This was due mainly to continuing weak development in the mining and oil production business.

Sales € millions



Adjusted EBIT up 34.6%
The ContiTech division's adjusted EBIT rose by €134.4 million or 34.6% year-on-year in 2016 to €522.4 million (PY: €388.0 million), equivalent to 9.7% (PY: 7.2%) of adjusted sales.

EBIT up 134.0%
In comparison to the previous year, the ContiTech division posted an increase in EBIT of €228.6 million, or 134.0%, to €399.2 million (PY: €170.6 million) in 2016. The return on sales rose to 7.3% (PY: 3.2%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €82.7 million (PY: €103.7 million).

ROCE amounted to 13.5% (PY: 5.3%).

Special effects in 2016
Due to the current market situation, impairment totaling €33.1 million on intangible assets was recognized for the Conveyor Belt Group and Industrial Fluid Solutions (formerly Industrial Fluid Systems) business units.

A subsequent purchase price adjustment in connection with the acquisition of Veyance Technologies resulted in income totaling €27.0 million.

A further purchase price adjustment resulted in expense of €0.9 million.

The sale of the steel cord business in Brazil, coupled with the fulfillment of conditions imposed by antitrust authorities, resulted in expense totaling €15.9 million. This figure comprises a loss on disposal of €9.3 million, market value adjustments totaling €6.0 million, and sales tax receivables that can no longer be utilized in the amount of €0.6 million.

The temporary cessation of conveyor belt production in Volos, Greece, resulted in restructuring expenses of €11.2 million, of which €3.4 million was attributable to impairment on property, plant and equipment.

Restructuring expenses of €3.1 million were incurred in Chile, including impairment on property, plant and equipment in the amount of €0.9 million.

Additional restructuring expenses and the reversal of restructuring provisions no longer required resulted in expense of €0.2 million overall. This included reversal of impairment losses on property, plant and equipment in the amount of €0.4 million.

Impairment and a reversal of an impairment loss on property, plant and equipment did not result in any effect on earnings overall.

Special effects in 2016 had a negative impact totaling €37.4 million in the ContiTech division.

Special effects in 2015
In the ContiTech division, the location in Salzgitter, Germany, is gradually being scaled back on account of follow-up orders not being received. In this context, restructuring expenses totaling €15.7 million were incurred, of which €0.3 million was attributable to impairment on property, plant and equipment.

The closure of the location in Bowmanville, Canada, resulted in restructuring expenses of €19.9 million, of which €7.4 million was attributable to impairment on property, plant and equipment.

Restructuring expenses totaling €8.2 million were incurred in the ContiTech division for the location in Tianjin, China, including impairment on property, plant and equipment and intangible assets in the amount of €6.5 million.

Due to the market situation in the mining business and oil production business, impairment totaling €71.9 million on intangible assets and property, plant and equipment was also recognized for the Conveyor Belt Group business unit. This related to the locations

ContiTech in € millions	2016	2015	Δ in %
Sales	5,462.5	5,367.8	1.8
EBITDA	730.9	577.2	26.6
in % of sales	13.4	10.8	
EBIT	399.2	170.6	134.0
in % of sales	7.3	3.2	
Research and development expenses	119.7	107.5	11.3
in % of sales	2.2	2.0	
Depreciation and amortization[1]	331.7	406.6	–18.4
thereof impairment[2]	37.0	86.1	
Operating assets as at December 31	2,868.5	3,009.0	–4.7
Operating assets (average)	2,948.7	3,234.4	–8.8
ROCE	13.5	5.3	
Capital expenditure[3]	212.0	245.2	–13.5
in % of sales	3.9	4.6	
Number of employees as at December 31[4]	42,909	42,648	0.6
Adjusted sales[5]	5,367.0	5,367.8	0.0
Adjusted operating result (adjusted EBIT)[6]	522.4	388.0	34.6
in % of adjusted sales	9.7	7.2	

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

in Aneng, China, in the amount of €44.8 million; in Bayswater, Australia, in the amount of €25.3 million; in Thetford, U.K., in the amount of €1.3 million; and in Perth, Australia, in the amount of €0.5 million.

Disposals and acquisitions of companies and business operations gave rise to purchase price adjustments resulting in total income of €0.4 million.

Bargain purchases from purchase price allocation resulted in income of €1.6 million.

Special effects in 2015 had a negative impact totaling €113.7 million in the ContiTech division.

Procurement

As a result of continued weak demand on the raw materials markets, the prices of many raw materials decreased again. In particular, carbon black prices were down significantly year-on-year. This price decrease was due to the low quoted prices of crude oil, particularly in the first quarter of 2016. In the second half of the year, there was a considerable increase in the prices of rubber and oil-based products.

Research and development

Research and development expenses rose by €12.2 million or 11.3% year-on-year to €119.7 million (PY: €107.5 million), corresponding to 2.2% (PY: 2.0%) of sales.

Depreciation and amortization

Depreciation and amortization declined by €74.9 million compared to fiscal 2015 to €331.7 million (PY: €406.6 million) and amounted to 6.1% (PY: 7.6%) of sales. This included impairment totaling €37.0 million in 2016 (PY: €86.1 million).

Operating assets

Operating assets in the ContiTech division declined by €140.5 million year-on-year to €2,868.5 million (PY: €3,009.0 million) as at December 31, 2016.

Working capital was down €30.6 million at €903.5 million (PY: €934.1 million). Inventories fell by €16.7 million to €630.1 million (PY: €646.8 million). Operating receivables rose by €51.8 million to €946.8 million (PY: €895.0 million) as at the reporting date. Operating liabilities were up €65.7 million at €673.4 million (PY: €607.7 million).

Non-current operating assets were down €87.0 million year-on-year at €2,295.9 million (PY: €2,382.9 million). This decrease was due primarily to the €95.0 million decline in intangible assets to €516.4 million (PY: €611.4 million). Property, plant and equipment was down €0.9 million year-on-year at €1,330.8 million (PY: €1,331.7 million). Goodwill increased by €10.3 million to €425.3 million (PY: €415.0 million). In addition to exchange rate effects of €6.9 million, this increase was also attributable to a share deal of €3.4 million. Amortization of intangible assets from purchase price allocation (PPA) in the amount of €82.7 million (PY: €103.7 million) reduced the value of intangible assets.

Overall, a share deal resulted in a €14.4 million increase in operating assets in the ContiTech division. Other changes in the scope of consolidation did not result in any notable additions or disposals of operating assets.

Exchange rate effects increased the ContiTech division's total operating assets by €30.8 million (PY: €46.2 million) in the fiscal year.

Average operating assets in the ContiTech division declined by €285.7 million to €2,948.7 million as compared to fiscal 2015 (€3,234.4 million).

Capital expenditure (additions)
Additions to the ContiTech division decreased by €33.2 million year-on-year to €212.0 million (PY: €245.2 million). Capital expenditure amounted to 3.9% (PY: 4.6%) of sales.

In the ContiTech division, the production facilities at German locations and in China, Hungary, the U.S.A., Mexico, and Serbia were expanded and established. Production capacity for the Mobile Fluid Systems and Benecke-Kaliko Group business units was expanded in particular. There were major additions relating to the expansion of existing production sites for the Mobile Fluid Systems business unit in Subotica, Serbia, and Szeged, Hungary. The division also invested in the construction of a new plant for the Elastomer Coatings business unit in Changshu, China, and in the establishment of an additional production site for the Benecke-Kaliko Group business unit in Changzhou, China. In addition, investments were made in all business units to rationalize existing production processes.

Employees
The number of employees in the ContiTech division increased by 261 compared with the previous year to 42,909 (PY: 42,648). This increase in the workforce was due chiefly to higher volumes in the Mobile Fluid Systems and Benecke-Kaliko Group business units. In the Conveyor Belt Group business unit, by contrast, there was a decrease in the number of employees as a result of structural measures and consolidation programs, particularly at the locations in Aneng, China; Volos, Greece; and Bowmanville, Canada.

Continental AG >
Short Version in acc. with *HGB*

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

Unlike the consolidated financial statements, the annual financial statements of Continental AG are prepared in accordance with German commercial law (the German Commercial Code, *Handelsgesetzbuch – HGB)* and the German Stock Corporation Act *(Aktiengesetz – AktG)*. The management report of Continental AG has been combined with the consolidated report of the Continental Corporation in accordance with Section 315 (3) *HGB*, as the parent company's future risks and opportunities and its expected development are inextricably linked to that of the corporation as a whole. In addition, the following presentation of the parent company's business performance, including its results, net assets, and financial position, provides a basis for understanding the Executive Board's proposal for the distribution of net income.

Continental AG acts solely as a management and holding company for the Continental Corporation. The regulations of the Accounting Directive Implementation Act *(Bilanzrichtlinie-Umsetzungsgesetz – BilRUG)* that came into force on July 23, 2015, were applied for the first time this fiscal year. For better comparability with the previous year, the *BilRUG* version of the income statement breakdown was also applied to fiscal 2015. The breakdown of the income statement was expanded to include items for sales and the cost of sales.

Total assets increased by €812.1 million year-on-year to €19,066.0 million (PY: €18,253.9 million). On the assets side, the change is due primarily to the €286.3 million increase in receivables from affiliated companies and the €519.5 million increase in cash and cash equivalents.

Net assets and financial position of Continental AG	**Dec. 31, 2016**	Dec. 31, 2015
Assets in € millions		
Intangible assets	40.2	39.1
Property, plant and equipment	3.2	2.2
Investments	10,990.7	10,997.2
Non-current assets	**11,034.1**	**11,038.5**
Inventories	0.0	0.0
Receivables and other assets	7,421.5	7,132.2
Cash and cash equivalents	579.2	59.7
Current assets	**8,000.7**	**7,191.9**
Prepaid expenses and deferred charges	**31.2**	**23.5**
Total assets	**19,066.0**	**18,253.9**
Shareholders' equity and liabilities in € millions		
Subscribed capital	512.0	512.0
Capital reserves	4,179.1	4,179.1
Revenue reserves	54.7	54.7
Accumulated profits brought forward from the previous year	264.1	99.2
Net income	839.0	915.0
Shareholders' equity	**5,848.9**	**5,760.0**
Provisions	**755.6**	**763.7**
Liabilities	**12,461.5**	**11,730.2**
Total equity and liabilities	**19,066.0**	**18,253.9**
Gearing ratio in %	78.4	81.9
Equity ratio in %	30.7	31.6

Investments decreased by €6.5 million year-on-year to €10,990.7 million (PY: €10,997.2 million) and now account for 57.6% of total assets after 60.3% in the previous year. This decrease was due mainly to the internal sale of 60% of the shares in Continental Automotive Corporation (Lianyungang) Co., Ltd., Lianyungang, China.

At €31.2 million (PY: €23.5 million), prepaid expenses and deferred charges were up €7.7 million. This rise resulted primarily from the increase in other prepaid expenses.

On the equity and liabilities side, liabilities to affiliated companies increased by €626.3 million year-on-year to €9,783.6 million (PY: €9,157.3 million), corresponding to 6.8%. On November 28, 2016, Continental AG placed a euro bond with a nominal volume of €600.0 million. As a result, bonds increased to €2,168.3 million as at the end of the reporting period (PY: €1,568.3 million). This was countered by a €487.5 million decline in bank loans and overdrafts to €471.5 million (PY: €959.0 million). The decline was attributable in particular to early repayment of €350.0 million on the term loan maturing in April 2016 under the syndicated loan.

Provisions fell by €8.1 million to €755.6 million (PY: €763.7 million) due to the decrease of €14.3 million for pension provisions and of €12.3 million for other provisions. This was countered by a €18.5 million increase in tax provisions to €515.9 million (PY: €497.4 million).

Equity increased from €5,760.0 million in the previous year to €5,848.9 million. The decrease as a result of the dividend payment for 2015 in the amount of €750.0 million was offset by the net income of €839.0 million generated in fiscal 2016. As a result of the increase in total assets, the equity ratio fell from 31.6% to 30.7%.

Due to the first-time application of the *BilRUG*, the expenses and income from corporate overheads as well as cost credits and charges from or for other subsidiaries that were included in other operating income and other operating expenses in the previous year were reclassified mainly to sales and the cost of sales. For better comparability, the previous year's figures were adjusted in line with the new presentation requirement.

Net investment income declined by €206.7 million year-on-year to €1,129.5 million (PY: €1,336.2 million). As in the previous year, it mainly consisted of profit and loss transfers from the subsidiaries. The income from profit transfers resulted particularly from Continental Caoutchouc-Export-GmbH, Hanover, in the amount of €742.6 million; Formpolster GmbH, Hanover, in the amount of €197.6 million; and Continental Automotive GmbH, Hanover, in the amount of €69.3 million. This was countered by expenses of €89.9 million from absorbing the loss of UMG Beteiligungsgesellschaft mbH, Hanover. In addition, gains on the disposal of equity investments were received in the amount of €85.3 million.

The negative net interest result improved by €4.5 million year-on-year to €95.7 million in fiscal 2016 (PY: €100.2 million). Within this item, interest expense fell by €15.9 million to €133.5 million (PY: €149.4 million). The decline in interest expense resulted primarily from the considerably lower utilization of the term loan of €1.5 billion originally maturing in April 2016 under the syndicated loan as compared to the previous year. Early repayments on the term loan totaling €1,150.0 million were already made in the fourth quarter of 2015. At the end of March 2016, the remaining amount of €350.0 million was repaid early.

Earnings position of Continental AG in € millions	**2016**	2015[1]	2015[2]
Sales	201.0	161.2	
Cost of sales	–194.8	–156.6	
Gross margin on sales	**6.2**	**4.6**	
General administrative expenses	–144.5	–151.3	–151.3
Other operating income	36.9	21.1	182.3
Other operating expenses	–36.6	–68.7	–225.3
Net investment income	1,129.5	1,336.2	1,336.2
Income from other securities and long-term loans	10.4	14.1	14.1
Net interest result	–95.7	–100.2	–100.2
Result from activities	**906.2**	**1,055.8**	**1,055.8**
Income tax expense	–67.2	–140.8	–140.8
Net income	**839.0**	**915.0**	**915.0**
Accumulated profits brought forward from the previous year	264.1	99.2	99.2
Retained earnings	**1,103.1**	**1,014.2**	**1,014.2**

1 In the version of the HGB after the introduction of the BilRUG.
2 In the version of the HGB before the introduction of the BilRUG.

Interest income was down €11.4 million year-on-year at €37.8 million (PY: €49.2 million), due primarily to the decrease in interest and similar income from affiliated companies.

Income tax expense of €67.2 million (PY: €140.8 million) resulted from current expenses in Germany and non-imputable foreign withholding tax.

After taking this income tax expense into account, Continental AG posted net income for the year of €839.0 million (PY: €915.0 million). The after-tax return on equity was 14.3% (PY: 15.9%).

Taking into account the accumulated profits brought forward from the previous year of €264.1 million, retained earnings amounted to €1,103.1 million. The Supervisory Board and the Executive Board will propose to the Annual Shareholders' Meeting the distribution of a dividend of €4.25 per share. With 200,005,983 shares entitled to dividends, the total distribution will amount to €850,025,427.75. The remaining amount is to be carried forward to new account.

We expect stable income from profit and loss transfers and investment income from the subsidiaries in fiscal 2017.

Other Information ›
Dependent Company Report

Final declaration from the Executive Board's report on relations with affiliated companies pursuant to Section 312 of the German Stock Corporation Act *(Aktiengesetz – AktG)*
In fiscal 2016, Continental AG was a dependent company of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, as defined under Section 312 *AktG*. In line with Section 312 (1) *AktG*, the Executive Board of Continental AG has prepared a report on relations with affiliated companies, which contains the following final declaration:

"We declare that the company received an appropriate consideration for each transaction and measure listed in the report on relations with affiliated companies from January 1 to December 31, 2016, under the circumstances known to us at the time the transactions were made or the measures taken or not taken. To the extent the company suffered any detriment thereby, the company was granted the right to an appropriate compensation before the end of the 2016 fiscal year. The company did not suffer any detriment because of taking or refraining from measures."

Takeover Disclosures and Notes

Report Pursuant to Section 289 (4) and Section 315 (4) *HGB*

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

2. Shareholdings exceeding 10% of voting rights
   For details of the equity interests exceeding 10% of the voting rights (reported level of equity interest), please refer to the notice in accordance with the German Securities Trading Act *(Wertpapierhandelsgesetz – WpHG)* under Note 38 to the consolidated financial statements.

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

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

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

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

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

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

   b) The Executive Board may only buy back shares under the conditions codified in Section 71 *AktG*. The Annual Shareholders' Meeting has not authorized the Executive Board to acquire treasury shares in line with Section 71 (1) Number 8 *AktG*.

7. Material agreements of the company subject to a change of control following a takeover bid and their consequences
   The following material agreements are subject to a change of control at Continental AG:

   a) As at the reporting date, the agreement concluded on April 24, 2014, for a syndicated loan originally amounting to €4.5 billion consists only of a revolving tranche of €3.0 billion. This agreement grants each creditor the right to terminate the agreement prematurely and to demand repayment of the loans granted by it if one person or several persons acting in concert acquire control of Continental AG and subsequent negotiations concerning a continuation of the loan do not lead to an agreement. The term "control" is defined as the holding of more than 50% of the voting rights or if Continental AG concludes a domination agreement as defined under Section 291 *AktG* with Continental AG as the company dominated.

   b) The bonds issued by Continental AG on July 9 and on September 2, 2013, at a nominal amount of €750 million each, the bond issued by a subsidiary of Continental AG, Conti-Gummi Finance B.V., Maastricht, Netherlands, on September 12, 2013, also at a nominal amount of €750 million and guaranteed by Continental AG, the bond issued by another subsidiary of Continental AG, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., on November 19, 2015, at a nominal amount totaling €500 million, and the euro bond of €600 million issued by Continental AG on November 28, 2016, entitle each bondholder to demand that the respective issuer redeem or acquire the bonds held by the bondholder at a price established in the bond conditions in the event of a change of control at Continental AG. The bond conditions define a change of control as the sale of all or substantially all of the company's assets to third parties that are not affiliated with the company, or as one person or several persons acting in concert, pursuant to Section 2 (5) of the German Takeover Act *(Wertpapiererwerbs- und Übernahmegesetz – WpÜG)*, holding more than 50% of the voting rights in Continental AG by means of acquisition or as a result of a merger or other form of combination with the participation of Continental AG. The holding of voting rights by Schaeffler GmbH (operating as IHO Verwaltungs GmbH following legal restructuring within the corporation), its legal successors, or its affiliated companies does not constitute a change of control within the meaning of the bond conditions.

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

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

8. Compensation agreements of the company with members of the Executive Board or employees for the event of a take-over bid
   No compensation agreements have been concluded between the company and the members of the Executive Board or employees providing for the event of a takeover bid.

Remuneration of the Executive Board

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

Corporate Governance Declaration Pursuant to Section 289a *HGB*

The Corporate Governance Declaration pursuant to Section 289a of the German Commercial Code *(Handelsgesetzbuch – HGB)* is available to our shareholders at www.continental-corporation.com under the Corporate Governance section of our Investor Relations site.

Report on Risks and Opportunities

Continental's overall risk 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 the risks and opportunities that arise 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 a sustainable growth in value.

Risk and Opportunity Management and Internal Control System

In order to operate successfully as a company in our 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 22. The risk management system in turn also includes the early risk identification system in accordance with Section 91 (2) of the German Stock Corporation Act *(Aktiengesetz – AktG)*.

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

Pursuant to sections 289 (5) and 315 (2) of the German Commercial Code *(Handelsgesetzbuch – HGB)*, the main characteristics of the internal control and risk management system in respect of the accounting process must be described. All parts of the risk management system and internal control system which 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) and deal with the corresponding effects on the automotive sector, 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 in March 2016, Continental defines the general conditions for our 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.

Since May 1, 2016, the GRC system has incorporated all components of risk reporting and the examination of the effectiveness of the Financial Reporting ICS. Risks are identified, assessed, and reported at the organizational level that is also responsible for managing the identified risks. A multi-stage assessment process is used to involve also the higher-level organizational units. The GRC system thus includes all reporting levels, from the company level to the top corporate level.

Risk reporting

At the corporate level, the responsibilities of the GRC Committee – chaired by the Executive Board member responsible for Finance, Controlling, Compliance, Law, and IT – include identifying which risks are significant for the corporation. The GRC Committee regularly informs the entire 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 (exchange rate risks, product liability risks, legal risks, etc.) and assessment criteria, centrally developed function-specific questionnaires as well as the Financial Reporting ICS's process and control descriptions. The key controls in business processes (purchase to pay, order to cash, asset management, HR, IT authorizations and the financial statement closing process) are thus tested with respect to their effectiveness.

All major subsidiaries carry out a semi-annual 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.

In addition, 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 AG has set up a Compliance & Anti-Corruption Hotline to give the 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 manipulation, 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 counter measures at the corporation level. It regularly reports to the Executive Board and recommends further measures if needed. The Executive Board discusses and resolves the measures, and reports to the Supervisory Board's Audit Committee. The responsible bodies continually monitor the development of all identified risks and the progress of actions initiated. Regular audits of the risk management process by Corporate Audit guarantee its efficiency 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. As part of the implementation of our integrated GRC, there was a fundamental reassessment of the significant risks, as a result of which some individual risks mentioned in the previous year are no longer assessed as material and therefore are no longer mentioned. 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.

Financial Risks

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

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

In order to finance its current business activities as well as its investments and payment obligations, Continental concluded a syndicated loan agreement in April 2014 from which risks may arise. This loan agreement was last renegotiated in April 2016. Under the terms of the syndicated loan agreement, the lenders have the right to demand repayment of the loan in the event of a change of control at Continental AG. The requirements for and consequences of a change in control in accordance with the terms of the bonds or the syndicated loan agreement are described in detail in the Takeover Disclosures and Notes section. The loans and bonds cited here could also immediately become due and payable if other financing agreements of more than €75.0 million are not repaid on time or are prematurely called for repayment.

Furthermore, in addition to other obligations, this syndicated loan agreement also requires Continental to comply with a financial covenant. This provides for a maximum leverage ratio (calculated from the ratio of Continental's consolidated net indebtedness to consolidated adjusted EBITDA) of 3.00.

Owing to the market and operational risks presented below, it cannot be ruled out that under certain extreme circumstances it may not be possible for Continental to comply with the ratio described previously. If Continental fails in this obligation, the creditors are entitled to declare their loans and bonds immediately due and payable. After the term loan of €1.5 billion was repaid in full by the end of March 2016, the committed volume of the syndicated loan now just consists of the revolving tranche of €3.0 billion (due in April 2021). This had not been utilized as at the end of fiscal 2016.

The leverage ratio was 0.38 as at December 31, 2016. The financial covenant was complied with at all times.

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

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

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

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

In order to quantify the possible effects of transaction-related exchange-rate risks from financial instruments on the earnings position of the Continental Corporation, transaction currencies with a significant exchange-rate risk within the next 12 months were identified using a mathematical model based on historical volatility. If the exchange rates of these currencies all develop disadvantageously for Continental at the same time, then the potential negative effect on the corporation's earnings position, calculated based on a 10% change in the current closing rate, would amount to between €100 million and €200 million.

Risks Related to the Markets in which Continental Operates

Continental could be exposed to material risks in connection with a global financial and economic crisis.
Continental generates a large percentage (73%) of its sales from automobile manufacturers (original equipment manufacturers, OEMs). The remainder of Continental's sales is generated from the replacement or industrial markets, mainly in the replacement markets for passenger-car and truck tires, and to a lesser extent in the non-automotive end-markets of the other divisions.

During the global economic crisis in 2008 and 2009, automotive sales and production deteriorated substantially, resulting in a sharp decline in demand for Continental's products among its OEM customers. At present it is not known if the current economic situation in Europe will persist. If this is not the case, automobile production in this region could fall again and remain at a low level for an extended period of time. This would impact Continental's business and earnings situation, especially in Europe, where Continental generated 50% of its sales in 2016. A prolonged weakness in or deterioration of the European automotive market would be likely to adversely affect Continental's sales and results of operations. Tax increases that reduce consumers' disposable income could be another factor to weaken demand on the vehicle markets in Europe. Especially in the member states of the EU, tax increases are a likely response to the increase in public debt and the EU's aid measures for its member states. Furthermore, Continental's five largest OEM customers (Daimler, Fiat-Chrysler, Ford, General Motors, and VW) generated approximately 43% of the Continental Corporation's sales in 2016. If one or more of Continental's OEM customers is lost or terminates a supply contract prematurely, the original investments made by Continental to provide such products or outstanding claims against such customers could be wholly or partially lost.

Based on a scenario analysis that assumes a 20% decrease in sales in the next fiscal year, and taking account of restructuring measures required as a result, we anticipate a decline of around 6 percentage points in the EBIT margin and of 3 to 4 percentage points in the adjusted EBIT margin.

Continental operates in a cyclical industry.
Global production of vehicles and, as a result, sales to OEM customers (from whom Continental currently generates 73% of its sales) experience major fluctuations in some cases. They depend, among other things, on general economic conditions, disposable income and consumer spending and preferences, which can be affected by a number of factors, including fuel costs as well as the availability and cost of consumer financing. As the volume of automotive production fluctuates, the demand for Continental's products also fluctuates, as OEMs generally do not commit to purchasing minimum quantities from their suppliers, or to fixed prices. It is

difficult to predict future developments in the markets Continental serves, which also makes it harder to estimate the requirements for production capacity. Since its business is characterized by high fixed costs, Continental is subject to the risk of underutilization of its facilities (particularly in the Automotive Group) or having insufficient capacity to meet customer demand if the markets in which Continental is active either decline or grow faster than Continental has anticipated. To reduce the impact of the potential risk resulting from this dependence on the automotive industry, Continental is strengthening its replacement business and industrial business, including by means of acquisitions.

Continental is reliant on certain markets.
In 2016, Continental generated 50% of its total sales in Europe and 21% in Germany alone. By comparison, 26% of Continental's total sales in 2016 were generated in North America, 21% in Asia, and 3% in other countries. Therefore, in the event of an economic downturn in Europe, particularly in Germany, for example, Continental's business and earnings situation could be affected more extensively than its competitors'. Furthermore, the automotive and tire markets in Europe and North America are largely saturated. Continental is therefore seeking to generate more sales in emerging markets, particularly Asia, to mitigate the effects of its strong focus on Europe and Germany. In the current global economic situation, adverse changes in the geographical distribution of automotive demand could also cause Continental to suffer. The current level of automotive production is driven mainly by solid demand from the European and North American markets, while demand in Asia consolidated at a high level and gained momentum again only as a result of tax incentives. In other key emerging economies such as Brazil or Russia, demand even fell by a double-digit percentage as a result of the current recession in those countries. It is not known if the current development in North America and Europe will prove sustainable. If demand falls in Asia after the expiration of purchase incentives and is not compensated for by an increase on another regional market, this could also adversely affect demand for Continental products. To minimize these risks, Continental is striving to achieve a regional sales balance, as described in the corporate strategy.

Continental is exposed to risks associated with the market trends and developments that could affect the vehicle mix sold by OEMs.
Continental currently generates 73% of its sales from OEMs, mainly in its Automotive Group. Global production of vehicles and, as a result, business with OEM customers are currently subject to a number of market trends and technical developments that may affect the vehicle mix sold by OEMs.

- Due to increasingly stringent consumption and emission standards throughout the industrial world, including the EU, the U.S.A. and Japan, car manufacturers are increasingly being forced to develop environmentally compatible technologies aimed at lowering fuel consumption as well as CO_2 and particulate emissions. These developments have caused a trend toward lower-consumption vehicles. The emerging markets are focusing strongly on the small car segment as their introduction to mobility.
- In recent years, the market segment of affordable cars has grown steadily, particularly in emerging markets such as China, India and Brazil, as well as in Eastern Europe.
- Over the past decade, hybrid electric vehicles, which combine a conventional internal-combustion-engine drive system with an electric drive system, have become increasingly popular. Their market share will increase further in the coming years. Furthermore, the first purely electric vehicles that use one or more electric motors for propulsion have already been launched. If the industry is able to develop electric vehicles in line with consumers' expectations, these could gain a considerable market share in the medium to long term.

As a result of the market trends and technical developments described previously, the vehicle mix sold by Continental's customers has shifted considerably in the last few years and may also change further in the future. As a technology leader, Continental is reacting to this development with a balanced and innovative product portfolio.

Risks Related to Continental's Business Operations

Continental is exposed to risks in connection with its pension commitments.
Continental provides defined benefit pension plans in Germany, the U.S.A., the U.K. and certain other countries. As of December 31, 2016, the pension obligations amounted to €6,525.9 million. These existing obligations are financed predominantly through externally invested pension plan assets. In 2006, Continental established legally independent trust funds under contractual trust arrangements (CTAs) for the funding of pension obligations of certain subsidiaries in Germany. In 2007, Continental assumed additional pension trust arrangements in connection with the acquisition of Siemens VDO. As of December 31, 2016, Continental's net pension obligations (defined benefit obligations less the fair value of plan assets) amounted to €3,844.3 million.

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

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

If the discount rates used to calculate net pension obligations were to decrease by 0.5 percentage points at the end of the year, ceteris paribus, this would lead to a rise in net pension obligations in a range from €600 million to €700 million, which would not be reduced by taking measures to minimize risk. However, this would not affect EBIT.

Continental is exposed to warranty and product liability claims.

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

The quantifiable risks from warranty and product liability claims as at December 31, 2016, taking into account provisions, amounted to between €100 million and €200 million.

Continental depends on a limited number of key suppliers for certain products.

Continental is subject to the potential risk of unavailability of certain raw materials and production materials. Although Continental's general policy is to source input products from a number of different suppliers, single sourcing cannot always be avoided and, consequently, Continental is dependent on certain suppliers in the Rubber Group as well as with respect to certain products manufactured in the Automotive Group. Since Continental's procurement logistics are mostly organized on a just-in-time or just-in-sequence basis, supply delays, cancellations, strikes, insufficient quantities or inadequate quality can lead to interruptions in production and, therefore, have a negative impact on Continental's business operations in these areas. Continental tries to limit these risks by endeavoring to select suppliers carefully and monitoring them regularly. However, if one of Continental's suppliers is unable to meet its delivery obligations for any reason (e.g. insolvency, destruction of production plants or refusal to perform following a change in control), Continental may be unable to source input products from other suppliers upon short notice at the required volume. The economic crisis in 2008 and 2009, in addition to the natural disasters in Japan and Thailand, have shown how quickly the financing strength and ability of some automotive suppliers to deliver can be impaired, even resulting in insolvency. This mainly affected Tier-2 and Tier-3 suppliers (suppliers who sell their products to Tier-1 or Tier-2 suppliers respectively), while Tier-1 suppliers (suppliers who sell their products to OEMs directly) were not affected to the same degree. Such developments and events can cause delays in the delivery or completion of Continental products or projects and could result in Continental having to purchase products or services from third parties at higher costs or even to financially support its own suppliers. Furthermore, in many cases OEM customers have approval rights with respect to the suppliers used by Continental, which could make it impossible for Continental to source input products from other suppliers upon short notice if the relevant OEM customer has not already approved other suppliers at an earlier point in time. All of this could lead to order cancellations or even claims for damages. Furthermore, Continental's reputation amongst OEM customers could suffer, with the possible consequence that they select a different supplier.

In addition to the possible risk of limited availability of individual components, this dependence also results in an increased potential risk of rising prices for these components. Continental does not actively hedge against the risk of rising prices of electronic components or raw materials by using derivative instruments. Therefore, if Continental is unable to compensate for the increased costs by selecting alternative suppliers or is unable to pass on these costs to customers, such price increases could have a significant adverse effect on Continental's results of operations.

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

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

Legal and Environmental Risks

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

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

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

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

Continental could be threatened with fines and claims for damages for alleged or actual antitrust behavior.
In May 2005, the Brazilian competition authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Indústria Automotiva Ltda., Guarulhos, Brazil (CBIA), following a complaint of anticompetitive behavior in the area of commercialization of tachographs. On August 18, 2010, the Brazilian antitrust authorities determined an "invitation to cartel" and imposed a fine of BRL 12 million (around €3.5 million) on CBIA, which was then reduced to BRL 10.8 million (around €3.1 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 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, Bugan-myeon, 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 KFTC has appealed this decision. On November 13, 2014, the competent South Korean criminal court also imposed a fine of KRW 200 million (around €158,000). Following CAE's appeal, this fine was reduced to KRW 100 million (around €79,000). The Supreme Court of South Korea rejected CAE's further appeal on March 24, 2016. On November 24, 2014, CAE and Continental Automotive Korea Ltd., Seongnam-si, South Korea, entered into an agreement in which the two companies admit to charges of violating U.S. antitrust law and agree to pay a fine of U.S. $4.0 million (around €3.8 million). The competent U.S. court confirmed the agreement on April 1, 2015. Claims for damages by alleged victims remain unaffected by the fines imposed. Continental has conducted internal audits in certain business units to check compliance with antitrust law. These audits revealed anticompetitive behavior with respect to product groups. Continental took measures to end this behavior. There is a risk that antitrust authorities may conduct investigations due to this behavior and impose fines and that third parties, especially customers, may file claims for damages. The amount of such fines and any subsequent claims is unknown from the current perspective, but could be significant. It also cannot be ruled out that future internal audits may reveal further actual or potential violations of antitrust law that in turn could result in fines and claims for damages. In addition, alleged or actual antitrust behavior could seriously disrupt the relationships with business partners. In September 2014, the European Commission conducted a search at a subsidiary of Continental. The Commission alleged that there were indications of violations against EU antitrust law and initiated proceedings against Continental and two of its subsidiaries. However, it is not clear in what amount the Commission will impose fines on Continental and/or its subsidiaries. If the European Commission finds that Continental and/or its subsidiaries can be charged with antitrust violations, it could impose a fine that, taking into account the sales of Continental or the subsidiary in question and the severity and duration of violations, cannot exceed 10% of Continental's consolidated sales in the previous year. Even if the European Commission only ascertains antitrust violations of a subsidiary, it cannot be ruled out that it will nonetheless hold the parent company jointly liable for a fine. In addition to the risk of fines, there is also the possibility of claims for damages by third parties in the event of a violation of EU antitrust law.

As a precaution, Continental has recognized provisions for expenses from antitrust proceedings. Because the risks from such proceedings can be estimated only to a very limited extent, it cannot be ruled out that the expenses actually incurred may exceed the provisions recognized for this purpose. In accordance with IAS 37.92, no further disclosures are made with regard to the proceedings and the related measures so as not to adversely affect the company's interests in the proceedings.

Continental is exposed to risks from legal disputes.
Companies from the Continental Corporation are involved in a number of legal and arbitration proceedings and could become involved in other such proceedings in future. These proceedings could involve substantial claims for damages or payments, particularly in the U.S.A. For more information on legal disputes, see Note 33 of the Notes to the Consolidated Financial Statements.

Material Opportunities

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

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

There are opportunities for Continental if the sales markets develop better than anticipated.
If demand for automobiles and replacement tires develops better than we have anticipated, particularly on the European market, this would have positive effects on Continental's sales and earnings due to the high share of sales generated in this region (50%).

There are opportunities for Continental if there is a stable price level on the raw materials markets relevant to us.
Continental's earnings situation is affected to a significant extent by the cost of raw materials, electronic components and energy. For the Automotive Group divisions, this particularly relates to the cost of steel and electronic components. If we succeed even better than before in offsetting possible cost increases or compensating for them through higher prices for our products, this would then have a positive effect on Continental's earnings. The earnings situation of the Rubber Group divisions is significantly impacted by the cost of oil and of natural and synthetic rubber. If prices for natural and synthetic rubber in particular settle down at the level of 2016, this could have a positive impact on Continental's earnings. We currently anticipate that prices, particularly of rubber, will rise again over the course of 2017 as a result of the assumed increase in demand on the global tire replacement and industrial markets.

There are opportunities for Continental from changes in the legal framework.
Further tightening of the regulatory provisions on fuel consumption and emission standards for motor vehicles in developing markets, too, could trigger higher demand for Continental's products. With our comprehensive portfolio of gasoline and diesel systems including sensors, actuators and tailor-made electronics, through to fuel supply systems, engine management and transmission control units, down to systems and components for hybrid and electric drives, as well as with tires with optimized rolling resistance and tires for hybrid vehicles, we are already providing solutions that enable compliance with such changes in the legal framework and can therefore react fast to changes that arise in the regulatory provisions. An increase in the installation rates for these products due to increased regulatory provisions would have a positive influence on our sales and earnings.

Additional legal regulations with the aim of further improving traffic safety would also provide an opportunity for a rise in demand for Continental's products. We are already among the leading providers of electronic brake systems as well as control electronics for airbags and seat belts. Based on our broad product portfolio for active vehicle safety, we have developed more advanced safety systems over the past years, including emergency brake assist, lane departure warning and blind spot detection systems, as well as the head-up display. At present, these systems are mainly optionally installed in luxury vehicles.

There are opportunities for Continental from an intensified trend toward vehicle hybridization.
If the trend toward vehicle hybridization intensifies, with the effect that hybrid technology then represents more of a cost-effective alternative than previously expected due to economies of scale, this would have a positive impact on Continental, since Continental is already well positioned on these future markets with its products.

There are opportunities for Continental from the intelligent interconnection of advanced driver assistance systems and driver information systems with the Internet.
By intelligently connecting advanced driver assistance systems and driver information systems with the Internet, we are laying the foundations for gradually making automated driving possible in the coming years. We also plan to implement fully automated driving in the coming decade by means of collaborations with leading providers from the technology and Internet sector. To this end, we are developing new cross-divisional system, service and software solutions that can offer substantial growth potential for Continental with positive effects on its future sales and attainable margins.

There are opportunities for Continental involving digitalization and the intelligent use of automotive data.
Continental is convinced that the car of the future will be connected to the Internet. Experts estimate potential sales of more than €57 billion resulting from the digitalization of the physical world and the corresponding possibility of using the Internet of Things for the automotive industry by 2020. This digitalization is opening up a new market for mobility services that enables Continental to tap new business areas with its Continental.cloud and eHorizon, which are paving the way for such services. In addition, the increasing digitalization of our products gives us the opportunity to offer our customers software-based services as well as the product itself (servitization). Additional sales in these fields would bring Continental closer to achieving its strategic goal of greater independence from the automotive industry.

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

Statement on Overall Risk and Opportunities Situation

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

In the current year, it remains to be seen how further political developments in North America, Europe and China will affect the economy and our business development – and whether the prevailing volatile situation will affect our company – and if so, to what extent.

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

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

Report on Expected Developments
Future General Conditions

Forecast of Macroeconomic Development

In its January 2017 World Economic Outlook Update, the International Monetary Fund (IMF) predicts that gross domestic product (GDP) in Germany will grow 1.5% in the current fiscal year. One reason for the lower growth is that there are fewer working days compared with 2016; another is the anticipated smaller increase in government spending than in the previous year. The IMF expects the eurozone's GDP to grow by 1.6% in 2017 and the upturn in domestic demand to continue in 2017.

For the U.S.A., the IMF forecasts a sharp increase in GDP growth to initially 2.3% this year. Depending on the actual scope of the fiscal policy measures announced by the new government, this forecast is likely to change during the course of the year. Above all, economic activity could be curbed in 2017 by a further appreciation of the U.S. dollar and the announced interest rate hikes by the U.S. Federal Reserve (Fed).

The IMF expects Japan's moderate growth to continue and forecasts GDP growth of 0.8%. The negative interest rates as well as increasing private incomes and government spending continue to have a positive effect.

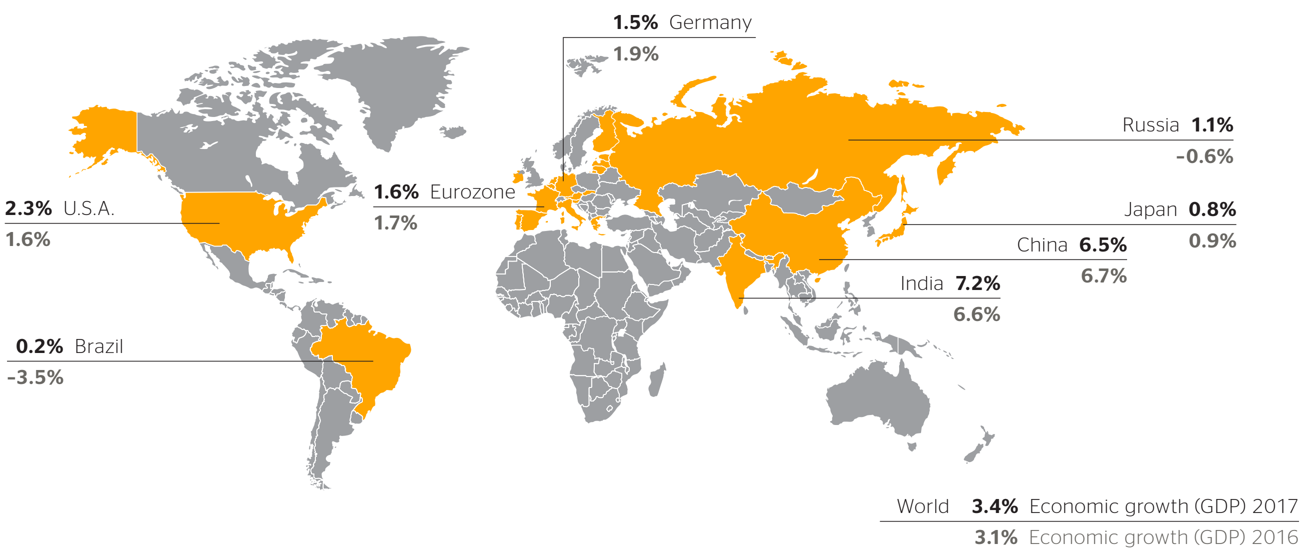
According to the IMF, emerging and developing economies are expected to record GDP growth of 4.5% in 2017. The IMF sees India, whose economy is forecast to grow 7.2%, and China, with GDP growth of 6.5%, as the main growth drivers here. After the recessions in Russia and Brazil curbed the growth of the emerging and developing economies in 2016, this effect will be much smaller in 2017 due to the stabilization of the economic situation in these two economies. The IMF expects Russia's GDP to grow by 1.1% and Brazil's to increase slightly by 0.2% in 2017.

Based upon these estimates, the IMF forecasts an increase in growth of 0.3 percentage points to 3.4% for the global economy in 2017.

The IMF sees considerable risks in an increase in political discord in many countries. In addition, the growing tendency toward protectionism in many places could have a negative effect on international trade and the global economy. Furthermore, the IMF continues to see a risk of slower growth in advanced economies and a risk of turbulence on financial markets resulting from new bank crises in heavily indebted countries. According to the IMF, geopolitical tensions in various countries are noticeably slowing down the economic development of these countries.

In 2017, the IMF primarily sees opportunities in stronger-than-expected fiscal policy measures in the U.S.A. and/or China with corresponding positive effects on their primary trading partners.

Year-on-year economic growth (GDP) forecast for 2017



Sources: IMF – World Economic Outlook Update 1/2017, Eurostat, statistical offices of the respective countries, Bloomberg.

Forecast for Key Customer Sectors

Forecast for production of passenger cars and light commercial vehicles
For the global production of passenger cars and light commercial vehicles weighing less than 6 metric tons, we currently expect growth of 1% to almost 94 million units in 2017.

In 2017, China is once again expected to generate the most growth in production volumes worldwide. After the very sharp rise in the previous year and the increase in sales tax from 5% to 7.5%, we expect, however, growth to amount to only just under 4% or around 1.1 million units. We also expect India, Japan, and South Korea to record rises in production volumes. For Asia as a whole, we anticipate a 3% rise in production to around 51 million units. We expect passenger car production in Europe to grow by 2% in 2017. In Western Europe, we anticipate stable development of domestic demand, combined with generally stagnating export figures. In Eastern Europe, we currently expect passenger car demand and production to recover slightly. In North America, we currently consider a 3% decline in production to be probable in view of the high level of production already achieved. There are sales opportunities arising from the still relatively old pool of passenger cars in the U.S.A. and Europe. In South America, passenger car production is likely to stabilize in 2017; we expect a slight increase of 2% here.

Forecast for production of medium and heavy commercial vehicles
We estimate that global production of commercial vehicles weighing more than 6 metric tons will grow by 1% in 2017. The individual regions are likely to develop very differently.

The main reason for the weaker global growth compared to the previous year is the continuing decline in commercial vehicle production in North America in 2017. Although we expect this to stabilize over the course of the year, we anticipate a decline of 5% in 2017. We expect a decline of 2% for Europe in 2017. For Asia, we expect further production growth of 4% following the sharp rise in the previous year. We expect a slight increase in production of 1% in South America.

Forecast for replacement tire markets for passenger cars and light commercial vehicles
The positive trend in demand for replacement tires for passenger cars and light commercial vehicles weighing less than 6 metric tons is expected to continue in almost all regions in 2017. On a global level, we expect demand to increase by 2%.

Nearly three-quarters of this is likely to be attributable to the Asian market with growth of 4%, which will still be driven by demand in China as a result of the increased vehicle stock, as well as by rising demand in India, Indonesia, and other countries. In Europe, we expect a continuing rise in demand for replacement tires for passenger cars and light commercial vehicles in Western and Eastern Europe in 2017, which should cause sales volumes in Europe as a whole to increase by 2%. In North America, demand should increase by 2% as a result of the continuing rise in mileage. In South America, we also expect tire sales volumes to increase by 2%.

Forecast for replacement tire markets for medium and heavy commercial vehicles
Global demand for replacement tires for commercial vehicles weighing more than 6 metric tons is likely to gain momentum and grow by 3% in 2017 due to rising tonnage in most countries and regions.

Asia remains a major driver here, as the continuing economic growth is increasing transport volumes. We therefore again expect demand for replacement tires for medium and heavy commercial vehicles to go up by 4%. In Europe, we currently expect sales volumes of replacement tires for medium and heavy commercial vehicles to increase by 2%. We expect demand to grow by around 1% in North America and 2% in South America.

Forecast for vehicle production and sales volumes in the tire replacement business

	Vehicle production				Replacement sales of tires			
	of passenger cars and light commercial vehicles in millions of units		of medium and heavy commercial vehicles in thousands of units		for passenger cars and light commercial vehicles in millions of units		for medium and heavy commercial vehicles in millions of units	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Europe	21.7	21.4	613	625	337	332	24.1	23.7
North America	17.4	17.8	480	505	287	283	23.4	23.2
South America	2.8	2.8	81	80	65	63	13.8	13.6
Asia	50.9	49.5	1,861	1,789	449	431	90.0	86.9
Other markets	1.0	1.0	0	0	45	45	7.5	7.5
Worldwide	**93.9**	**92.5**	**3,034**	**2,999**	**1,182**	**1,154**	**158.9**	**154.9**

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

Outlook for the Continental Corporation

Forecast process

Continental reports its expectations regarding the development of the important production and sales markets already in January of the current fiscal year. This forms the basis of our forecast for the corporation's key performance indicators, which we publish at the same time. These include sales and the adjusted EBIT margin for the corporation. In addition, we provide information on the assessment of important factors influencing the earnings before interest and tax (EBIT). These include the expected negative or positive effect of the estimated development of raw materials prices for the current year, the expected development of special effects and the amount of amortization from purchase price allocation. We thus allow investors, analysts, and other interested parties to determine the corporation's EBIT. Furthermore, we publish an assessment of the development of the net interest result and the tax rate for the corporation, which in turn allows the corporation's net income to be determined. We also publish a forecast of the capital expenditures planned for the current year and the free cash flow before acquisitions. In February of the current fiscal year, we supplement this forecast for the corporation with a forecast of the sales and adjusted EBIT margins of the two core business areas: the Automotive Group and the Rubber Group. We then publish this forecast in March as part of our annual financial press conference and our annual report for the previous year. The forecast for the current year is reviewed continually. Possible changes to the forecast are described at the latest in the financial report for the respective quarter. At the start of the subsequent year, i.e. when the annual report for the previous year is prepared, a comparison is made with the forecast published in the annual report for the year before.

Since 2015, Continental has compiled a medium-term forecast in addition to the targets for the current year. This comprises the corporate strategy, the incoming orders in the Automotive Group and the medium-term targets of the Rubber Group. Accordingly, we want to generate sales of more than €50 billion and a return on capital employed (ROCE) of at least 20% in 2020. These medium-term targets were confirmed again after the review in 2016.

Comparison of the past fiscal year against forecast

We did not achieve the adjusted EBIT margin of the Automotive Group specified in our forecast compiled in February 2016. This was due to several independent and singular events, which required the outlook for the adjusted EBIT margin in the Automotive Group to be lowered from more than 8.5% to more than 6.5% on October 17, 2016.

Potential negative effects totaling approximately €390 million were attributable to the Chassis & Safety and Interior divisions due to warranties for products, the majority of which were supplied between 2004 and 2010, and due to potential expenditures for pending antitrust proceedings. As a precautionary measure, provisions were made as at September 30, 2016, for these potential negative effects. These costs will largely be paid in 2017.

Moreover, the situation at one microcontroller supplier deteriorated as a result of several earthquakes in the Kumamoto region of Japan in fiscal 2016 to such an extent that the Interior division was hit by lost sales of at least €100 million in the year under review. Special cargo deliveries, product adjustments and increased manufacturing costs had a negative impact on EBIT of around €50 million.

In addition, higher-than-expected outlay for research and development negatively affected the Interior and Powertrain divisions by a total of around €60 million.

Only a small portion of these negative effects could be compensated for. All in all, the aforementioned events had a negative impact on the Automotive Group's reported and adjusted EBIT of around €480 million in total. However, the sales forecast of around €25 billion was still achieved. Before negative exchange rate effects, the Automotive Group's sales amounted to €24.9 billion.

Comparison of fiscal 2016 against forecast

	Corporation				Automotive Group		Rubber Group	
	Sales[1]	Adjusted EBIT margin	Capital expenditure in % of sales	Free cash flow[2]	Sales[1]	Adjusted EBIT margin	Sales[1]	Adjusted EBIT margin
January 2016	~ €41 billion	> 10.5%	~ 6%	> €1.8 billion				
Annual Report 2015	**~ €41 billion**	**> 10.5%**	**~ 6%**	**> €1.8 billion**	**~ €25 billion**	**> 8.5%**	**> €16 billion**	**~ 15.5%**
Financial Report as at March 31, 2016	~ €41 billion	~ 11%	~ 6%	> €2 billion	~ €25 billion	> 8.5%	> €16 billion	> 16%
Half-Year Financial Report as at June 30, 2016	~ €41 billion	> 11%	~ 6%	> €2 billion	~ €25 billion	> 8.5%	> €16 billion	> 17%
Financial Report as at September 30, 2016	~ €41 billion	> 10.5%	~ 6%	> €2 billion	~ €25 billion	> 6.5%	> €16 billion	> 17%
2016 reported	**€40.5 billion**	**10.8%**	**6.4%**	**€2.3 billion**	**€24.5 billion**	**6.7%**	**€16.1 billion**	**17.8%**

1 Constant currency exchange rates assumed for the forecast. The negative exchange rate effects for the corporation amounted to €827 million in 2016. They are about evenly split between the two core business areas.
2 Before acquisitions.

By contrast, we comfortably achieved the other targets from our forecast (see table). Consolidated sales amounted to €40.5 billion and were influenced by negative exchange rate effects of €827 million. The corporation's adjusted EBIT margin was 10.8%. The Rubber Group's sales were over €16 billion, as planned, and the adjusted EBIT margin of 17.8% exceeded our forecast of August 2016 by 0.8 percentage points.

The negative net interest result was better than expected thanks to the good development of free cash flow, the overall positive valuation effects from changes in the fair value of derivative instruments, and the development of exchange rate trends. These two valuation effects alone had a positive impact of €90 million on the negative net interest result in 2016. The tax rate was slightly below our forecast of approximately 30%. The free cash flow before acquisitions was €2.3 billion despite the high capital expenditure ratio and thus comfortably above our forecast of at least €1.8 billion.

Order situation

The Automotive Group continued to experience a positive trend in incoming orders in the past fiscal year. All three Automotive divisions considerably increased their goods on order compared to the previous year. All together, the Automotive divisions Chassis & Safety, Powertrain, and Interior acquired orders for a total value of more than €35 billion for the entire duration of the deliveries for the vehicles. These lifetime sales are based primarily on assumptions regarding production volumes of the respective vehicle or engine platforms, the agreed cost reductions, and the development of key raw materials prices. The volume of orders calculated in this way represents a reference point for the resultant sales achievable in the medium term that may, however, be subject to deviations if these factors change. Should the assumptions prove to be correct, the lifetime sales are a good indicator for the sales volumes that can be achieved in the Automotive Group in three to four years.

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

Outlook for the Continental Corporation

For fiscal 2017, we anticipate an increase in global light vehicle production (passenger cars, station wagons and light commercial vehicles) of 1% to nearly 94 million units. We expect demand on Continental's key replacement passenger tire markets – Europe and North America – to grow by a total of 10 million replacement tires or 2% in each case. Based on these market assumptions and provided that exchange rates remain constant, we anticipate an increase in consolidated sales to more than €43 billion in 2017.

We have set ourselves the goal for the corporation of achieving a consolidated adjusted EBIT margin of more than 10.5% for fiscal 2017. With regard to the development of the adjusted EBIT margin, the lower expectation in comparison to the previous year is mainly attributable to the expected additional expenses due to the rising prices of raw materials in the Rubber Group. For the Automotive Group, assuming constant currency exchange rates, we anticipate sales growth of 6% to approximately €26 billion with an adjusted EBIT margin of around 8.5%. For the Rubber Group, we expect sales to grow to more than €17 billion and the adjusted EBIT margin to be more than 15%.

In 2017, we anticipate a negative effect of approximately €500 million from the rising prices of raw materials in the Rubber Group. This is based on the assumption of an average price of U.S. $2.25 per kilogram (2016: U.S. $1.38 per kilogram) for natural rubber (TSR 20) and U.S. $2.45 per kilogram (2016: U.S. $1.13 per kilogram) for butadiene, a base material for synthetic rubber. We also expect costs for carbon black to increase by more than 20% compared to the average prices in 2016. For the Rubber Group, every U.S. $10 increase in the average price of crude oil equates to a negative annual gross effect on EBIT of around U.S. $50 million. The average price of North Sea Brent was around U.S. $44 in 2016.

We expect the negative net interest result to be around €200 million in 2017. The year-on-year increase is because we do not expect the previous year's overall positive valuation effects from changes in the fair value of derivative instruments and from the development of exchange rates to recur this year. The tax rate should again be less than 30% in 2017.

For 2017, we expect negative special effects to total approximately €100 million. Amortization from purchase price allocations, resulting primarily from the acquisitions of Veyance Technologies (acquired in 2015), Elektrobit Automotive (acquired in 2015) and the Hornschuch Group (acquired in 2017), is expected to total approximately €200 million and to affect mainly the ContiTech and Interior divisions.

In fiscal 2017, the capital expenditure ratio before financial investments will increase to around 6.5% of sales. Approximately 57% of capital expenditure will be attributable to the Automotive Group and 43% to the Rubber Group.

The largest projects within the Chassis & Safety division in 2017 are the global expansion of production capacity for the MK 100 and for the MK C1 brake generations in the Vehicle Dynamics business unit. In addition, major investments are planned for the global expansion of capacity for long- and short-range radar sensors and multi-function cameras in the Advanced Driver Assistance Systems business unit. In its Transmission business unit, the Powertrain division is investing in new production capacity for fully integrated transmission control systems (automatic transmission) in

Sibiu, Romania. The Engine Systems business unit is investing primarily in the global expansion of capacity for gasoline high-pressure injectors and gasoline high-pressure pumps. In addition, production capacity for gasoline turbochargers will be expanded at the locations in China and North America. Further investments are also planned in the Hybrid Electric Vehicle business unit for 48-Volt Eco Drive projects in China, Germany, and North America. Investments in the Interior division will focus on the expansion of production capacity for central displays in Germany and North America.

In the Tire division, investments in 2017 will focus on the expansion of passenger tire production in Eastern Europe, China, and North America. In the area of commercial vehicle tires, the emphasis will be on the expansion of production capacity in North America. In the ContiTech division, investments this year will concentrate on the relocation of a plant in the Mobile Fluid Systems business unit and the expansion of production in the Benecke-Kaliko Group business unit in China.

As at the end of 2016, Continental's net indebtedness amounted to €2.8 billion. In the future, we intend to continue strengthening industrial business in particular, in line with our objective of reducing our dependency on the automotive original equipment sector. The acquisition of further companies for this purpose has not been ruled out. Another focus will be the selective reinforcement of our technological expertise in future-oriented fields within the Automotive Group. For 2017, we are planning on free cash flow of approximately €2 billion before acquisitions. One reason for this year-on-year decrease is an increase in the capital expenditure ratio. Another reason is that a larger portion of the negative effects from warranties and potential antitrust fines provisioned for in 2016 will result in cash outflow in 2017.

The start to 2017 has confirmed our expectations for the full year.

Consolidated Financial Statements

Statement of the Executive Board

The Executive Board of Continental AG is responsible for the preparation, completeness, and integrity of the consolidated financial statements, the management report for the corporation and Continental AG, as well as for the other information provided in the annual report. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and include any necessary and appropriate estimates. The management report for the corporation and Continental AG contains an analysis of the net assets, financial and earnings position of the corporation, as well as further information provided in accordance with the provisions of the German Commercial Code *(Handelsgesetzbuch – HGB)*.

An effective internal management and control system is employed to ensure that the information used for the preparation of the consolidated financial statements, including the management report for the corporation and Continental AG as well as for internal reporting, is reliable. This includes standardized guidelines at corporation level for accounting and risk management in accordance with Section 91 (2) of the German Stock Corporation Act *(Aktiengesetz – AktG)* and an integrated financial control system as part of the corporation's value-oriented management, plus audits by Corporate Audit. The Executive Board is thus in a position to identify significant risks at an early stage and to take countermeasures.

KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, Germany, was engaged as the auditor for fiscal 2016 by the Annual Shareholders' Meeting of Continental AG. The audit mandate was issued by the Audit Committee of the Supervisory Board. KPMG audited the consolidated financial statements prepared in accordance with IFRS and the management report for the corporation and Continental AG. The auditor issued the report presented on the following page.

The consolidated financial statements, the management report for the corporation and Continental AG, the auditor's report, and the risk management system in accordance with Section 91 (2) *AktG* are discussed in detail by the Audit Committee of the Supervisory Board together with the auditor. These documents relating to the annual financial statements and these reports will then be discussed with the entire Supervisory Board, also in the presence of the auditor, at the meeting of the Supervisory Board held to approve the financial statements.

Hanover, February 6, 2017

The Executive Board

Independent Auditor's Report

We have audited the consolidated financial statements prepared by the Continental Aktiengesellschaft, Hanover, comprising the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and the notes to the consolidated financial statements together with the management report for the Group and the company for the fiscal year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Article 315a paragraph 1 *HGB* are the responsibility of the parent company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Article 317 *HGB* and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a paragraph 1 *HGB* and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements, complies with the legal regulations, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hanover, February 21, 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Ufer Wirtschaftsprüfer	Papenberg Wirtschaftsprüfer

Consolidated Statement of Income

€ millions	See Note	2016	2015
Sales		**40,549.5**	**39,232.0**
Cost of sales		–29,783.0	–29,056.8
Gross margin on sales		**10,766.5**	**10,175.2**
Research and development expenses		–2,811.5	–2,449.6
Selling and logistics expenses		–2,251.0	–2,179.0
Administrative expenses		–1,012.6	–925.5
Other expenses and income	6	–665.8	–567.7
Income from at-equity accounted investees	8	69.7	61.4
Other income from investments	8	0.5	0.8
Earnings before interest and tax		**4,095.8**	**4,115.6**
Interest income	9	101.4	95.4
Interest expense	9	–218.4	–341.0
Net interest result		**–117.0**	**–245.6**
Earnings before tax		**3,978.8**	**3,870.0**
Income tax expense	10	–1,096.8	–1,090.4
Net income		**2,882.0**	**2,779.6**
Non-controlling interests		–79.5	–52.2
Net income attributable to the shareholders of the parent		2,802.5	2,727.4
Basic earnings per share in €	35	**14.01**	**13.64**
Diluted earnings per share in €	35	**14.01**	**13.64**

Consolidated Statement of Comprehensive Income

€ millions	**2016**	2015
Net income	**2,882.0**	**2,779.6**
Reclassification within equity not affecting net income	0.4	0.1
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit plans[1]	-363.9	-80.9
Fair value adjustments[1]	-520.6	-62.9
Reclassification from disposals of pension obligations	-0.4	-0.1
Portion for at-equity accounted investees[2]	0.0	-0.1
Currency translation[1]	-1.0	-35.2
Tax on other comprehensive income	158.1	17.4
Items that may be reclassified subsequently to profit or loss		
Currency translation[1]	-97.2	159.3
Difference from currency translation[1]	-103.1	149.5
Reclassification adjustments to profit and loss	–	1.0
Portion for at-equity accounted investees[2]	5.9	8.8
Available-for-sale financial assets	1.2	-14.3
Fair value adjustments	1.5	-1.4
Reclassification adjustments to profit and loss	-0.3	-12.9
Cash flow hedges	8.9	-5.7
Fair value adjustments	-8.0	-0.8
Reclassification adjustments to profit and loss	16.9	-4.9
Portion for at-equity accounted investees[2]	0.0	0.0
Tax on other comprehensive income	20.2	23.2
Other comprehensive income	**-430.8**	**81.6**
Comprehensive income	**2,451.6**	**2,861.3**
Attributable to non-controlling interests	-75.8	-76.7
Attributable to the shareholders of the parent	2,375.8	2,784.6

1 Including non-controlling interests.
2 Including taxes.

Consolidated Statement of Financial Position

Starting with the year under review, 2016, the structure of the equity and liabilities side has been presented in an adjusted form to increase transparency with regards to employee benefits. All of the following figures from comparative periods as well as disclosures have been adjusted accordingly.

Assets

€ millions	See Note	**Dec. 31, 2016**	Dec. 31, 2015	Jan. 1, 2015[1]
Goodwill	11	6,857.3	6,640.6	5,769.1
Other intangible assets	11	1,514.1	1,336.4	443.3
Property, plant and equipment	12	10,538.1	9,538.9	8,446.4
Investment property	13	10.3	16.0	17.5
Investments in at-equity accounted investees	14	384.8	345.8	298.5
Other investments	15	43.1	14.1	10.7
Deferred tax assets	16	1,836.1	1,669.7	1,573.4
Defined benefit assets	24	24.3	18.9	1.6
Long-term derivative instruments and interest-bearing investments	28	19.7	17.1	301.2
Long-term other financial assets	17	66.4	47.6	41.9
Long-term other assets	18	26.8	21.5	19.7
Non-current assets		**21,321.0**	**19,666.6**	**16,923.3**
Inventories	19	3,753.2	3,360.1	2,987.6
Trade accounts receivable	20	7,392.7	6,722.9	5,846.2
Short-term other financial assets	17	455.5	434.7	382.5
Short-term other assets	18	989.0	803.9	731.3
Income tax receivables		124.7	149.7	60.3
Short-term derivative instruments and interest-bearing investments	28	27.8	64.3	63.1
Cash and cash equivalents	21	2,107.0	1,621.5	3,243.8
Assets held for sale	22	4.0	12.0	3.0
Current assets		**14,853.9**	**13,169.1**	**13,317.8**
Total assets		**36,174.9**	**32,835.7**	**30,241.1**

1 A third statement of financial position as at the start of the 2015 fiscal year has been prepared, as the structure of the equity and liabilities side has been adjusted starting from the year under review, 2016.

Equity and liabilities

€ millions	See Note	**Dec. 31, 2016**	Dec. 31, 2015	Jan. 1, 2015[1]
Subscribed capital		512.0	512.0	512.0
Capital reserves		4,155.6	4,155.6	4,155.6
Retained earnings		11,534.7	9,481.8	7,404.3
Other comprehensive income		–1,932.3	–1,363.1	–1,399.8
Equity attributable to the shareholders of the parent		**14,270.0**	**12,786.3**	**10,672.1**
Non-controlling interests		464.8	427.6	352.5
Total equity	23	**14,734.8**	**13,213.9**	**11,024.6**
Long-term employee benefits	24	4,392.3	3,696.5	3,641.2
Deferred tax liabilities	16	371.5	361.2	178.5
Long-term provisions for other risks and obligations	25	204.2	171.8	182.0
Long-term indebtedness	27	2,803.7	3,175.0	5,077.4
Long-term other financial liabilities	29	97.1	94.9	48.7
Long-term other liabilities	31	17.1	21.6	13.2
Non-current liabilities		**7,885.9**	**7,521.0**	**9,141.0**
Short-term employee benefits	24	1,314.1	1,269.4	1,093.1
Trade accounts payable	30	6,248.0	5,493.8	4,861.6
Income tax payables	26	783.6	719.8	577.3
Short-term provisions for other risks and obligations	25	1,146.4	845.5	732.7
Short-term indebtedness	27	2,148.6	2,069.8	1,354.2
Short-term other financial liabilities	29	1,187.3	1,066.4	883.6
Short-term other liabilities	31	726.2	634.1	572.7
Liabilities held for sale	32	–	2.0	0.3
Current liabilities		**13,554.2**	**12,100.8**	**10,075.5**
Total equity and liabilities		**36,174.9**	**32,835.7**	**30,241.1**

1 A third statement of financial position as at the start of the 2015 fiscal year has been prepared, as the structure of the equity and liabilities side has been adjusted starting from the year under review, 2016.

Consolidated Statement of Cash Flows

€ millions	See Note	**2016**	2015[1]
Net income		**2,882.0**	**2,779.6**
Income tax expense	10	1,096.8	1,090.4
Net interest result	9	117.0	245.6
EBIT		**4,095.8**	**4,115.6**
Interest paid		-136.1	-204.6
Interest received		24.2	31.1
Income tax paid	10, 26	-1,047.3	-1,015.3
Dividends received		45.1	48.0
Depreciation, amortization, impairment and reversal of impairment losses	6, 11, 12, 13	1,961.6	1,885.8
Income from at-equity accounted and other investments, incl. impairment and reversal of impairment losses	8, 14	-70.2	-62.2
Gains/losses from the disposal of assets, companies and business operations		-15.3	-16.9
Changes in			
inventories	19	-326.5	-59.5
trade accounts receivable	20	-631.7	-447.2
trade accounts payable	30	748.1	400.0
employee benefits and other provisions	24	384.8	213.4
other assets and liabilities		-94.4	27.4
Cash flow arising from operating activities		**4,938.1**	**4,915.6**
Cash flow from the disposal of property, plant and equipment, and intangible assets	11, 12	53.0	35.7
Capital expenditure on property, plant and equipment, and software	11, 12	-2,592.5	-2,178.8
Capital expenditure on intangible assets from development projects and miscellaneous	11	-115.7	-85.8
Cash flow from the disposal of companies and business operations	5	4.6	13.8
Acquisition of companies and business operations	5	-516.2	-1,256.9
Cash flow arising from investing activities		**-3,166.8**	**-3,472.0**
Cash flow before financing activities (free cash flow)		**1,771.3**	**1,443.6**
Changes in short-term debt		-496.1	-774.1
Proceeds from the issuance of long-term debt		659.7	549.2
Principal repayments on long-term debt		-503.6	-2,133.4
Successive purchases		-109.7	-27.3
Dividends paid		-750.0	-650.0
Dividends paid to and cash changes from equity transactions with non-controlling interests		-55.6	-62.5
Cash and cash equivalents arising from first consolidation of subsidiaries		0.6	0.5
Cash flow arising from financing activities		**-1,254.7**	**-3,097.6**
Change in cash and cash equivalents		**516.6**	**-1,654.0**
Cash and cash equivalents as at January 1		1,621.5	3,243.8
Effect of exchange rate changes on cash and cash equivalents		-31.1	31.7
Cash and cash equivalents as at December 31	21	**2,107.0**	**1,621.5**

1 The prior-year comparative figures have been adjusted in accordance with the current structure.

Consolidated Statement of Changes in Equity

					Difference from					
€ millions	Subscribed capital[1]	Capital reserves	Retained earnings	Successive purchases[2]	remeasurement of defined benefit plans[3]	currency translation[4]	financial instruments[5]	Subtotal	Non-controlling interests	**Total**
As at Jan. 1, 2015	**512.0**	**4,155.6**	**7,404.3**	**-19.4**	**-1,339.6**	**-51.1**	**10.3**	**10,672.1**	**352.5**	**11,024.6**
Net income	–	–	2,727.4	–	–	–	–	2,727.4	52.2	**2,779.6**
Comprehensive income	–	–	0.1	–	-81.0	152.1	-14.0	57.2	24.5	**81.7**
Net profit for the period	**–**	**–**	**2,727.5**	**–**	**-81.0**	**152.1**	**-14.0**	**2,784.6**	**76.7**	**2,861.3**
Dividends paid	–	–	-650.0	–	–	–	–	-650.0	-69.3	**-719.3**
Successive purchases	–	–	–	-21.2	–	–	–	-21.2	-11.5	**-32.7**
Other changes[6]	–	–	–	0.8	–	–	–	0.8	79.2	**80.0**
As at Dec. 31, 2015	**512.0**	**4,155.6**	**9,481.8**	**-39.8**	**-1,420.6**	**101.0**	**-3.7**	**12,786.3**	**427.6**	**13,213.9**
Net income	–	–	2,802.5	–	–	–	–	2,802.5	79.5	**2,882.0**
Comprehensive income	–	–	0.4	–	-363.2	-71.0	7.1	-426.7	-3.7	**-430.4**
Net profit for the period	**–**	**–**	**2,802.9**	**–**	**-363.2**	**-71.0**	**7.1**	**2,375.8**	**75.8**	**2,451.6**
Dividends paid/resolved	–	–	-750.0	–	–	–	–	-750.0	-48.0	**-798.0**
Successive purchases	–	–	–	-142.3	–	–	–	-142.3	-13.3	**-155.6**
Other changes[6]	–	–	–	0.2	–	–	–	0.2	22.7	**22.9**
As at Dec. 31, 2016	**512.0**	**4,155.6**	**11,534.7**	**-181.9**	**-1,783.8**	**30.0**	**3.4**	**14,270.0**	**464.8**	**14,734.8**

See Notes 2, 5 and 23 to the consolidated financial statements.
1 Divided into 200,005,983 shares outstanding.
2 Includes an amount of -€70.8 million (PY: -€4.0 million) from successive purchases of shares in fully consolidated companies, an amount of -€2.3 million (PY: -€17.2 million) from a subsequent purchase price adjustment, and an amount of €0.2 million (PY: €0.8 million) relating to effects from the first-time consolidation of previously non-consolidated subsidiaries. The reporting period also includes the addition of a put option of -€54.0 million for the acquisition of remaining shares in a fully consolidated company and a call option of -€15.2 million, which were recognized in other comprehensive income as part of an acquisition.
3 Includes shareholder's portion of €0.0 million (PY: -€0.1 million) in non-realized gains and losses from pension obligations of at-equity accounted investees.
4 Includes shareholder's portion of €5.9 million (PY: €8.8 million) in the foreign currency translation of at-equity accounted investees.
5 The change in the difference arising from financial instruments, including deferred taxes, was due mainly to changes in the fair values of the cash flow hedges of €5.9 million (PY: -€3.8 million) for interest and currency hedging and to available-for-sale financial assets of €1.2 million (PY: -€10.2 million).
6 Other changes in non-controlling interests due to changes in the scope of consolidation and capital increases.

Notes to the Consolidated Financial Statements

Starting with the year under review, 2016, the structure of the equity and liabilities side has been presented in an adjusted form to increase transparency with regards to employee benefits. All of the following figures from comparative periods as well as disclosures have been adjusted accordingly.

1. Segment Reporting

Notes to segment reporting
In accordance with the provisions of IFRS 8, *Operating Segments*, Continental AG's segment reporting is based on the management approach with regard to segment identification, under which information regularly provided to the chief operating decision maker for decision-making purposes is considered decisive.

Given the affinity of certain products, these have been combined as segments. This can mainly be seen in product requirements, market trends, customer groups and distribution channels.

The activities of the Continental Corporation are divided into the following segments:

Chassis & Safety develops, produces, and markets intelligent systems to improve driving safety and vehicle dynamics.

Powertrain integrates innovative and efficient system solutions for the powertrains of today and tomorrow.

Interior specializes in information management in vehicles. It develops and produces information, communication and network solutions.

Tires is known for maximizing safety through short braking distances and excellent grip as well as reducing fuel consumption by minimizing rolling resistance.

ContiTech develops, manufactures, and markets products for machine and plant engineering, mining, the automotive industry, and for other important sectors.

Other/consolidation
This comprises centrally managed subsidiaries and affiliates, such as holding, financing and insurance companies, as well as the holding function of Continental AG and certain effects of consolidation. It also contains the effects on earnings of uncertain risks, particularly those in connection with contractual and similar claims or obligations representing, among other things, risks from investments that cannot currently be assigned to the individual operating units.

Internal control and reporting within the Continental Corporation are based on International Financial Reporting Standards (IFRS) as described in Note 2. The corporation measures the performance of its segments on the basis of their adjusted operating result (adjusted EBIT). Their performance is expressed as the return on sales (adjusted EBIT divided by adjusted sales) and as the return on capital employed (ROCE), which represents EBIT as a percentage of average operating assets. Intersegment sales and other proceeds are determined at arm's length prices. For administrative services performed by centrally operated companies or by the corporation's management, costs are calculated on an arm's length basis in line with utilization. Where direct allocation is not possible, costs are assigned according to the services performed.

The segment assets comprise the operating assets of the assets side of the statement of financial position as at the end of the reporting period. The segment liabilities show the operating asset parts on the liabilities side of the statement of financial position.

Capital expenditure relates to additions to property, plant and equipment, and software, as well as additions to capitalized finance leases and capitalized borrowing costs in line with IAS 23. Depreciation and amortization include the scheduled diminution of and the impairment on intangible assets, property, plant and equipment, and investment properties as well as the impairment on goodwill. This figure does not include impairment on financial investments.

Non-cash expenses/income mainly include the changes in provisions for pension liabilities – except for contributions to or withdrawals from the associated funds – and the profit or loss of and impairment and reversal of impairment losses on the value of at-equity accounted investees.

In the segment information broken down by country and region, sales are allocated on the basis of the domicile of the respective customers; in contrast, capital expenditure and segment assets are allocated on the basis of the domicile of the respective companies.

Viewed across all segments, Continental recorded sales totaling €5,608.5 million (PY: €5,647.1 million) with a group of companies under common control in the year under review.

In 2016, more than 20% of sales were generated both in Germany and in the U.S.A. Other than this, there were no countries except China in which more than 10% of sales were made in the period under review.

For information on the objectives, policies and processes for managing capital, please see the Corporate Management section of the Management Report.

Segment report for 2016

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ Consolidation	Continental Corporation
External sales	8,958.4	7,219.1	8,308.6	10,696.2	5,367.2	–	40,549.5
Intercompany sales	19.2	100.4	16.1	21.2	95.3	–252.2	–
Sales (total)	**8,977.6**	**7,319.5**	**8,324.7**	**10,717.4**	**5,462.5**	**–252.2**	**40,549.5**
EBIT (segment result)	580.8	378.0	567.8	2,289.4	399.2	–119.4	4,095.8
in % of sales	6.5	5.2	6.8	21.4	7.3	–	10.1
thereof income from at-equity accounted investees	22.6	3.8	27.0	15.3	0.2	0.8	69.7
Capital expenditure[1]	523.7	544.4	428.9	882.1	212.0	1.9	2,593.0
in % of sales	5.8	7.4	5.2	8.2	3.9	–	6.4
Depreciation and amortization[2]	373.8	378.2	336.4	539.3	331.7	2.2	1,961.6
thereof impairment[3]	1.5	8.3	11.6	0.2	37.0	–	58.6
Internally generated intangible assets	0.0	57.4	48.6	–	–	-0.1	105.9
Significant non-cash expenses/income	30.9	–20.6	4.6	8.1	–8.8	13.5	27.7
Segment assets	7,107.9	5,120.1	7,059.7	8,086.5	3,973.7	31.0	31,378.9
thereof investments in at-equity accounted investees	113.2	54.3	113.7	94.1	1.8	7.7	384.8
Segment liabilities	2,598.4	1,894.9	2,300.8	2,314.6	1,105.2	96.3	10,310.2
Operating assets as at December 31	4,509.5	3,225.2	4,758.9	5,771.9	2,868.5	–65.3	21,068.7
Operating assets (average)	4,448.7	3,015.8	4,513.8	5,612.7	2,948.7	–86.6	20,453.1
ROCE	13.1	12.5	12.6	40.8	13.5	–	20.0
Number of employees as at December 31[4]	43,907	37,502	43,344	52,057	42,909	418	220,137
Adjusted sales[5]	8,977.6	7,276.7	8,250.2	10,641.6	5,367.0	–251.4	40,261.7
Adjusted operating result (adjusted EBIT)[6]	591.7	398.5	642.0	2,306.0	522.4	–119.4	4,341.2
in % of adjusted sales	6.6	5.5	7.8	21.7	9.7	–	10.8

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

Segment report for 2015

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ Consolidation	Continental Corporation
External sales	8,427.2	6,994.1	8,144.4	10,387.7	5,278.6	–	39,232.0
Intercompany sales	22.5	74.4	10.4	21.1	89.2	-217.6	–
Sales (total)	**8,449.7**	**7,068.5**	**8,154.8**	**10,408.8**	**5,367.8**	**-217.6**	**39,232.0**
EBIT (segment result)	814.3	395.6	804.5	2,085.2	170.6	-154.6	4,115.6
in % of sales	9.6	5.6	9.9	20.0	3.2	–	10.5
thereof income from at-equity accounted investees	22.1	2.6	23.4	12.1	0.3	0.9	61.4
Capital expenditure[1]	470.3	468.4	336.0	658.2	245.2	0.7	2,178.8
in % of sales	5.6	6.6	4.1	6.3	4.6	–	5.6
Depreciation and amortization[2]	346.0	335.1	277.7	519.1	406.6	1.3	1,885.8
thereof impairment[3]	-0.1	0.5	0.3	6.8	86.1	–	93.6
Internally generated intangible assets	10.5	6.3	61.8	–	–	0.1	78.7
Significant non-cash expenses/income	2.0	-26.0	-2.4	-1.1	-9.9	4.4	-33.0
Segment assets	6,524.4	4,566.1	6,380.3	7,235.6	4,028.0	24.9	28,759.3
thereof investments in at-equity accounted investees	96.0	50.3	103.0	87.4	1.7	7.4	345.8
Segment liabilities	2,092.6	1,706.5	1,975.0	2,159.6	1,019.0	128.1	9,080.8
Operating assets as at December 31	4,431.8	2,859.6	4,405.3	5,076.0	3,009.0	-103.2	19,678.5
Operating assets (average)	4,277.7	2,767.8	4,192.0	5,322.2	3,234.4	-113.4	19,680.7
ROCE	19.0	14.3	19.2	39.2	5.3	–	20.9
Number of employees as at December 31[4]	40,062	35,364	40,462	48,955	42,648	408	207,899
Adjusted sales[5]	8,449.7	7,068.5	8,154.8	10,408.8	5,367.8	-217.6	39,232.0
Adjusted operating result (adjusted EBIT)[6]	815.0	404.7	818.7	2,097.2	388.0	-154.6	4,369.0
in % of adjusted sales	9.6	5.7	10.0	20.1	7.2	–	11.1

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

Reconciliation of sales to adjusted sales and of EBITDA to adjusted operating result (adjusted EBIT) 2016

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ Consolidation	Continental Corporation
Sales	**8,977.6**	**7,319.5**	**8,324.7**	**10,717.4**	**5,462.5**	**–252.2**	**40,549.5**
Changes in the scope of consolidation[1]	–	–42.8	–74.5	–75.8	–95.5	0.8	–287.8
Adjusted sales	**8,977.6**	**7,276.7**	**8,250.2**	**10,641.6**	**5,367.0**	**–251.4**	**40,261.7**
EBITDA	**954.6**	**756.2**	**904.2**	**2,828.7**	**730.9**	**–117.2**	**6,057.4**
Depreciation and amortization[2]	–373.8	–378.2	–336.4	–539.3	–331.7	–2.2	–1,961.6
EBIT	**580.8**	**378.0**	**567.8**	**2,289.4**	**399.2**	**–119.4**	**4,095.8**
Amortization of intangible assets from purchase price allocation (PPA)	0.3	11.5	38.4	10.7	82.7	–	143.6
Changes in the scope of consolidation[1]	9.1	0.4	9.3	9.6	3.1	–	31.5
Special effects							
Impairment[3]	1.3	7.6	0.0	0.2	33.1	–	42.2
Restructuring[4]	0.2	2.1	26.4	–	14.5	–	43.2
Gains and losses from disposals of companies and business operations	–	–1.1	0.1	–3.9	10.2	–	5.3
Other	–	–	–	–	–20.4	–	–20.4
Adjusted operating result (adjusted EBIT)	**591.7**	**398.5**	**642.0**	**2,306.0**	**522.4**	**–119.4**	**4,341.2**

Reconciliation of sales to adjusted sales and of EBITDA to adjusted operating result (adjusted EBIT) 2015

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ Consolidation	Continental Corporation
Sales	**8,449.7**	**7,068.5**	**8,154.8**	**10,408.8**	**5,367.8**	**–217.6**	**39,232.0**
Changes in the scope of consolidation[1]	–	–	–	–	–	–	–
Adjusted sales	**8,449.7**	**7,068.5**	**8,154.8**	**10,408.8**	**5,367.8**	**–217.6**	**39,232.0**
EBITDA	**1,160.3**	**730.7**	**1,082.2**	**2,604.3**	**577.2**	**–153.3**	**6,001.4**
Depreciation and amortization[2]	–346.0	–335.1	–277.7	–519.1	–406.6	–1.3	–1,885.8
EBIT	**814.3**	**395.6**	**804.5**	**2,085.2**	**170.6**	**–154.6**	**4,115.6**
Amortization of intangible assets from purchase price allocation (PPA)	0.8	8.2	17.4	7.8	103.7	–	137.9
Changes in the scope of consolidation[1]	–	–	–	–	–	–	–
Special effects							
Impairment[3]	–0.1	1.0	0.3	6.8	71.9	–	79.9
Restructuring[5]	0.0	–0.1	–3.8	–	43.8	–	39.9
Gains and losses from disposals of companies and business operations	–	–	0.3	–0.9	–0.8	–	–1.4
Other	–	–	–	–1.7	–1.2	–	–2.9
Adjusted operating result (adjusted EBIT)	**815.0**	**404.7**	**818.7**	**2,097.2**	**388.0**	**–154.6**	**4,369.0**

1 Changes in the scope of consolidation include additions and disposals as part of share and asset deals. Adjustments were made for additions in the reporting year and for disposals in the comparative period of the prior year.
2 Excluding impairment on financial investments.
3 Impairment also includes necessary reversal of impairment losses. This item does not include impairment that arose in connection with a restructuring and impairment on financial investments.
4 This includes impairment and reversal of impairment losses totaling €16.4 million (Chassis & Safety €0.2 million; Powertrain €0.7 million; Interior €11.6 million; ContiTech €3.9 million).
5 This includes impairment of €14.2 million in the ContiTech segment and reversal of impairment losses of €0.5 million in the Powertrain segment.

Reconciliation of EBIT to net income

€ millions	2016	2015
Chassis & Safety	580.8	814.3
Powertrain	378.0	395.6
Interior	567.8	804.5
Tires	2,289.4	2,085.2
ContiTech	399.2	170.6
Other/consolidation	–119.4	–154.6
EBIT	**4,095.8**	**4,115.6**
Net interest result	–117.0	–245.6
Earnings before tax	**3,978.8**	**3,870.0**
Income tax expense	–1,096.8	–1,090.4
Net income	**2,882.0**	**2,779.6**
Non-controlling interests	–79.5	–52.2
Net income attributable to the shareholders of the parent	**2,802.5**	**2,727.4**

Segment report by region

€ millions	Germany	Europe excluding Germany	North America	Asia	Other countries	Continental Corporation
External sales 2016	**8,410.2**	**11,599.9**	**10,394.6**	**8,604.9**	**1,539.9**	**40,549.5**
External sales 2015	8,380.5	11,040.7	10,236.9	7,990.0	1,583.9	39,232.0
Capital expenditure 2016[1]	**648.4**	**794.4**	**572.4**	**501.0**	**76.8**	**2,593.0**
Capital expenditure 2015[1]	597.2	628.0	428.8	448.7	76.1	2,178.8
Segment assets as at Dec. 31, 2016	**10,038.5**	**7,716.2**	**7,259.5**	**5,664.5**	**700.2**	**31,378.9**
Segment assets as at Dec. 31, 2015	9,735.9	7,089.3	6,298.4	5,103.2	532.5	28,759.3
Number of employees as at Dec. 31, 2016[2]	**57,105**	**69,972**	**40,850**	**42,475**	**9,735**	**220,137**
Number of employees as at Dec. 31, 2015[2]	55,408	65,363	38,493	39,138	9,497	207,899

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

Reconciliation to operating assets in 2016

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ Consolidation	Continental Corporation
Total assets	**7,118.5**	**5,163.0**	**7,030.2**	**8,095.8**	**3,986.8**	**4,780.6**	**36,174.9**
Cash and cash equivalents	–	–	–	–	–	2,107.0	2,107.0
Short- and long-term derivative instruments, interest-bearing investments	–	–	–	–	–	47.5	47.5
Other financial assets	10.6	42.5	14.7	20.4	7.2	18.0	113.4
Less financial assets	**10.6**	**42.5**	**14.7**	**20.4**	**7.2**	**2,172.5**	**2,267.9**
Less other non-operating assets	**–**	**0.4**	**-44.2**	**-11.1**	**5.9**	**616.3**	**567.3**
Deferred tax assets	–	–	–	–	–	1,836.1	1,836.1
Income tax receivables	–	–	–	–	–	124.7	124.7
Less income tax assets	**–**	**–**	**–**	**–**	**–**	**1,960.8**	**1,960.8**
Segment assets	**7,107.9**	**5,120.1**	**7,059.7**	**8,086.5**	**3,973.7**	**31.0**	**31,378.9**
Total liabilities and provisions	**3,877.4**	**2,766.6**	**2,990.4**	**3,295.3**	**1,644.7**	**6,865.7**	**21,440.1**
Short- and long-term indebtedness	–	–	–	–	–	4,952.3	4,952.3
Interest payable and other financial liabilities	–	–	–	–	–	101.9	101.9
Less financial liabilities	**–**	**–**	**–**	**–**	**–**	**5,054.2**	**5,054.2**
Deferred tax liabilities	–	–	–	–	–	371.5	371.5
Income tax payables	–	–	–	–	–	783.6	783.6
Less income tax liabilities	**–**	**–**	**–**	**–**	**–**	**1,155.1**	**1,155.1**
Less other non-operating liabilities	**1,279.0**	**871.7**	**689.6**	**980.7**	**539.5**	**560.1**	**4,920.6**
Segment liabilities	**2,598.4**	**1,894.9**	**2,300.8**	**2,314.6**	**1,105.2**	**96.3**	**10,310.2**
Operating assets	**4,509.5**	**3,225.2**	**4,758.9**	**5,771.9**	**2,868.5**	**-65.3**	**21,068.7**

Reconciliation to operating assets in 2015

€ millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ Consolidation	Continental Corporation
Total assets	**6,539.8**	**4,612.9**	**6,362.4**	**7,254.3**	**4,036.6**	**4,029.7**	**32,835.7**
Cash and cash equivalents	–	–	–	–	–	1,621.5	1,621.5
Short- and long-term derivative instruments, interest-bearing investments	–	–	–	–	–	81.4	81.4
Other financial assets	9.6	46.0	17.3	22.6	8.0	5.3	108.8
Less financial assets	**9.6**	**46.0**	**17.3**	**22.6**	**8.0**	**1,708.2**	**1,811.7**
Less other non-operating assets	**5.8**	**0.8**	**-35.2**	**-3.9**	**0.6**	**477.2**	**445.3**
Deferred tax assets	–	–	–	–	–	1,669.7	1,669.7
Income tax receivables	–	–	–	–	–	149.7	149.7
Less income tax assets	**–**	**–**	**–**	**–**	**–**	**1,819.4**	**1,819.4**
Segment assets	**6,524.4**	**4,566.1**	**6,380.3**	**7,235.6**	**4,028.0**	**24.9**	**28,759.3**
Total liabilities and provisions	**3,147.6**	**2,413.3**	**2,516.6**	**3,025.5**	**1,517.3**	**7,001.5**	**19,621.8**
Short- and long-term indebtedness	–	–	–	–	–	5,244.8	5,244.8
Interest payable and other financial liabilities	–	–	–	–	–	48.4	48.4
Less financial liabilities	**–**	**–**	**–**	**–**	**–**	**5,293.2**	**5,293.2**
Deferred tax liabilities	–	–	–	–	–	361.2	361.2
Income tax payables	–	–	–	–	–	719.8	719.8
Less income tax liabilities	**–**	**–**	**–**	**–**	**–**	**1,081.0**	**1,081.0**
Less other non-operating liabilities	**1,055.0**	**706.8**	**541.6**	**865.9**	**498.3**	**499.2**	**4,166.8**
Segment liabilities	**2,092.6**	**1,706.5**	**1,975.0**	**2,159.6**	**1,019.0**	**128.1**	**9,080.8**
Operating assets	**4,431.8**	**2,859.6**	**4,405.3**	**5,076.0**	**3,009.0**	**-103.2**	**19,678.5**

2. General Information and Accounting Principles

Continental Aktiengesellschaft (Continental AG), whose registered office is Vahrenwalder Strasse 9, Hanover, Germany, is the parent company of the Continental Corporation and a listed stock corporation. It is registered in the commercial register (HR B No. 3527) of the Hanover Local Court *(Amtsgericht)*. Continental AG is a supplier to the automotive industry, with worldwide operations. The areas of business and main activities in which Continental AG is engaged are described in more detail in Note 1 on Segment Reporting. By way of resolution of the Executive Board of February 6, 2017, the consolidated financial statements of Continental AG for fiscal 2016 were approved and will be submitted to the electronic German Federal Gazette *(elektronischer Bundesanzeiger)* and published there.

The consolidated financial statements of Continental AG as at December 31, 2016, have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union, in accordance with EU Regulation (EC) No. 1606/2002 in conjunction with Section 315a (1) of the German Commercial Code *(Handelsgesetzbuch – HGB)*. The term IFRS also includes the International Accounting Standards (IAS) and the interpretations issued by the International Financial Reporting Standards Interpretations Committee or its predecessor the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). All International Financial Reporting Standards mandatory for fiscal 2016 have been applied, subject to endorsement by the European Union.

The consolidated financial statements have been prepared on the basis of amortized cost, except for those financial assets categorized as available-for-sale and derivative instruments recognized at fair value.

The annual financial statements of companies included in the corporation have been prepared using accounting principles consistently applied throughout the corporation, in accordance with IFRS 10. The end of the reporting period for the subsidiary financial statements is the same as the end of the reporting period for the consolidated financial statements.

The consolidated financial statements have been prepared in euros. Unless otherwise stated, all amounts are shown in millions of euros. Please note that differences may arise as a result of the use of rounded amounts and percentages.

Consolidation principles

All major subsidiaries that Continental AG controls in accordance with the provisions of IFRS 10 have been included in the consolidated financial statements and fully consolidated. To meet this definition, Continental AG must have the decision-making power to control the relevant activities and a right to variable returns from the associated company. Furthermore, it must be able to use its decision-making power to determine the amount of these returns. The companies consolidated may therefore also include companies that are controlled by Continental AG irrespective of the share of voting rights by way of other substantial rights such as contractual agreements, as is the case with structured units included in the consolidated financial statements.

The consolidation of subsidiaries is based on the purchase method, by offsetting the acquisition cost against the proportion of net assets attributed to the parent company at fair value at the date of acquisition. Intangible assets not previously recognized in the separate financial statements of the acquired company are carried at fair value. Intangible assets identified in the course of a business combination, including for example brand names, patents, technology, customer relationships and order backlogs, are recognized separately at the date of acquisition only if the requirements under IAS 38 for an intangible asset are met. Measurement at the time of acquisition is usually provisional only. Increases or reductions of assets and liabilities that become necessary within 12 months after the acquisition are adjusted retrospectively to the date of acquisition accordingly. Significant adjustments are presented in the notes to the financial statements.

Any positive remaining amount is capitalized as goodwill. The share of non-controlling interests is measured using the pro rata (remeasured) net assets of the subsidiary. In order to ensure the recoverability of goodwill arising from an as yet incomplete measurement and the corresponding purchase price allocation, the goodwill is allocated provisionally to the affected business units as at the end of the reporting period. This provisional allocation can deviate significantly from the final allocation. Any negative difference that arises is recognized in other income after the fair value of the acquired assets and liabilities has again been reviewed.

Non-controlling interests in the net assets of subsidiaries that are not attributable to the corporation are shown under “non-controlling interests” as a separate component of total equity.

Once control has been obtained, any differences arising from successive purchases of shares from non-controlling interests between the purchase price and the carrying amount of those non-controlling interests are recognized outside profit or loss.

Where there are successive purchases of shares resulting in control, the difference between the carrying amount and the fair value at the time of first-time consolidation for those shares already held is recognized in profit and loss under other expenses and income.

Significant investments where Continental AG can exert significant influence on the associated companies are accounted for using the equity method. Associates are included using the equity method in which the carrying amount is adjusted to reflect the share in the associate’s net equity. If the annual financial statements of the associates are not available, the pro rata earnings or losses are recognized as necessary based on estimated amounts. Goodwill arising from first-time consolidation is reported using the equity method. Goodwill is not amortized but the carrying amount of investments in associates consolidated using the equity method is tested for impairment if there are relevant indications.

Companies that are dormant or have only a low level of business activity and therefore no significant impact on the net assets, financial and earnings position of the Continental Corporation are not included in the consolidated financial statements. Such companies are recognized in the consolidated financial statements at cost unless there are listings for these shares on the capital markets and unless the calculation of fair value is expected to provide a significant improvement of the presentation of financial statements.

Intercompany receivables and liabilities, in addition to income and expenses, are eliminated on consolidation. Intercompany profits arising from internal transactions, and dividend payments made within the corporation, are eliminated on consolidation. Deferred taxes on the elimination of intercompany transactions are carried in the amount derived from the average income tax rate for the corporation.

Currency translation

The assets and liabilities of foreign subsidiaries with a functional currency other than the euro are translated into euros at the year-end middle rates (closing rate). The statement of comprehensive income is translated at the average exchange rates for the year. Differences resulting from currency translation are recognized in the difference from currency translation in equity until the disposal of the subsidiary, without recognizing deferred taxes.

In the separate financial statements of Continental AG and its subsidiaries, foreign currency receivables and liabilities are measured on recognition at the transaction rate and adjusted at the end of the reporting period to the related spot rates. Gains and losses arising on foreign currency translation are recognized in profit or loss, except for certain loans. Foreign currency adjustments relating to the translation of intercompany financing made in the functional currency of one of the parties, are recognized in the difference from currency translation in equity if repayment of these intercompany loans is not expected in the foreseeable future.

Goodwill is recognized directly as an asset of the subsidiary acquired and therefore also translated into euros for subsidiaries whose functional currencies are not the euro at the end of the reporting period using the middle rate (closing rate). Differences resulting from foreign currency translation are recognized in the difference from currency translation in equity.

The following table summarizes the exchange rates used in currency translation that had a material effect on the consolidated financial statements:

Currencies		Closing rate		Average rate for the year	
€1 in		**Dec. 31, 2016**	Dec. 31, 2015	**2016**	2015
Brazil	BRL	3.43	4.32	3.86	3.69
Switzerland	CHF	1.07	1.08	1.09	1.07
China	CNY	7.32	7.08	7.35	6.97
Czechia	CZK	27.02	27.02	27.03	27.29
United Kingdom	GBP	0.86	0.74	0.82	0.73
Hungary	HUF	310.45	315.27	311.47	309.94
Japan	JPY	123.23	131.34	120.31	134.31
South Korea	KRW	1,267.91	1,282.88	1,284.96	1,256.06
Mexico	MXN	21.85	18.97	20.67	17.60
Malaysia	MYR	4.73	4.70	4.58	4.33
Philippines	PHP	52.37	51.14	52.57	50.52
Romania	RON	4.54	4.53	4.49	4.45
U.S.A.	USD	1.05	1.09	1.11	1.11
South Africa	ZAR	14.43	17.06	16.29	14.15

Revenue recognition
Only sales of products and services resulting from the ordinary business activities of the company are shown as revenue. Continental recognizes revenue for product sales when there is proof or an agreement to the effect that delivery has been made and the risks have been transferred to the customer. In addition, it must be possible to reliably measure the amount of revenue and the recoverability of the receivable must be assumed.

Revenues from made-to-order production are recognized using the percentage-of-completion method. The ratio of costs already incurred to the estimated total costs associated with the contract serves as the basis of calculation. Expected losses from these contracts are recognized in the reporting period in which the current estimated total costs exceed the sales expected from the respective contract. The percentage-of-completion method is of no significance to the Continental Corporation.

Product-related expenses
Costs for advertising, sales promotion and other sales-related items are expensed as incurred. Provisions are recognized for probable warranty claims on sold products on the basis of past experience, as well as legal and contractual terms. Additional provisions are recognized for specific known cases.

Research and development expenses
Research and development expenses comprise expenditure on research and development and expenses for customer-specific applications, prototypes and testing. Advances and reimbursements from customers are netted against expenses at the time they are invoiced. In addition, the expenses are reduced by the amount relating to the application of research results from the development of new or substantially improved products, if the related activity fulfills the recognition criteria for internally generated intangible assets set out in IAS 38. This portion of the expenses is capitalized as an asset and amortized over a period of three years from the date that the developed products become marketable. However, expenses for customer-specific applications, pre-production prototypes or tests for products already being marketed (application engineering) do not qualify as development expenditure which may be recognized as an intangible asset. Furthermore, expenses incurred directly in connection with the start-up of new operations or the launch of new products or processes are recognized directly in profit or loss.

New developments for the original equipment business are not marketable until Continental AG has been nominated as the supplier for the particular vehicle platform or model and, furthermore, has successfully fulfilled preproduction release stages. Moreover, these release stages serve as the prerequisite to demonstrate the technical feasibility of the product, especially given the high demands imposed on comfort and safety technology. Accordingly, development costs are recognized as an asset only as at the date of nomination as supplier and fulfillment of a specific pre-production release stage. The development is considered to be completed once the final approval for the unlimited production is granted. Only very few development projects fulfill the recognition criteria.

Although suppliers are nominated by original equipment manufacturers with the general obligation to supply products over the entire life of the particular model or platform, these supply agreements constitute neither long-term contracts nor firm commitments, in particular because the original equipment manufacturers make no commitments in regard of the purchase quantities. For this reason, all pre-production expenses – with the exception of the capitalized development costs as previously described – are recognized immediately in profit or loss.

Interest and investment income and expenses

Interest income and expenses are recognized for the period to which they relate. Distributions from financial instruments categorized as available-for-sale are recognized at the time of payment.

Dividends receivable are recognized upon the legal entitlement to payment.

Earnings per share

Earnings per share are calculated on the basis of the weighted average number of shares outstanding. Treasury stock is deducted for the period it is held. Diluted earnings per share also include shares from the potential exercise of option or conversion rights. The corresponding expenses that would no longer be incurred after the conversion or exchange are eliminated.

Statement of financial position classification

Assets and liabilities are reported as non-current assets and liabilities in the statement of financial position if they have a remaining term of over one year and, conversely, as current assets and liabilities if the remaining term is shorter. Liabilities are treated as current if there is no unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Provisions for pensions and other post-employment benefits, other employee benefits, as well as deferred tax assets and liabilities are accounted for as non-current. If assets and liabilities have both current and non-current portions, the amounts are classified separately and shown as current and non-current assets or liabilities.

Goodwill

Goodwill corresponds to the difference between the purchase cost and the fair value of the acquired assets and liabilities of a business combination. Goodwill is not subject to amortization; it is tested for impairment at least annually and, if necessary, impaired.

Intangible assets

Purchased intangible assets are carried at acquisition costs and internally generated intangible assets at their production costs, provided that the conditions for recognition of an internally generated intangible asset are met in accordance with IAS 38. If intangible assets have finite useful lives, they are amortized on a straight-line basis over a useful life of three to eight years. Intangible assets with indefinite useful lives are tested at least annually for impairment and, if necessary, impaired.

Property, plant and equipment

Property, plant and equipment is carried at cost less straight-line depreciation. If necessary, additional impairment is recognized on the affected items.

Production cost consists of the direct costs and attributable material and manufacturing overheads, including depreciation.

Under certain conditions, portions of the borrowing costs are capitalized as part of the acquisition cost. This also applies to finance leases and investment property.

As soon as an asset is available for its intended use, subsequent cost is capitalized only to the extent the related modification changes the function of the asset or increases its economic value and the cost can be clearly identified. All other subsequent expenditure is recognized as current maintenance expense.

Property, plant and equipment is broken down into the lowest level of the components that have significantly different useful lives and, to the extent integrated in other assets, when they are likely to be replaced or overhauled during the overall life of the related main asset. Maintenance and repair costs are recognized in profit or loss as incurred. The corporation has no property, plant or equipment that by the nature of its operation and deployment can be repaired and serviced only in intervals over several years. The useful lives are up to 25 years for buildings and land improvements; up to 20 years for technical equipment and machinery; and up to 12 years for operating and office equipment.

Government grants

Government grants are reported if there is reasonable assurance that the conditions in place in connection with the grants will be fulfilled and that the grants will be awarded.

Monetary grants that are directly attributable to depreciable fixed assets are deducted from the cost of the assets in question. All other monetary grants are recognized as income in line with planning and are presented alongside the corresponding expenses. Non-monetary government grants are recognized at fair value.

Investment property

Land and buildings held for the purpose of generating rental income instead of production or administrative purposes are carried at depreciated cost. Depreciation is charged on a straight-line basis over the useful lives, which correspond to those for real estate in use by the company.

Leases

Continental leases property, plant and equipment, especially buildings. If the substantial risks and rewards from the use of the leased asset are controlled by Continental, the agreement is treated as a finance lease and an asset and related financial liability are recognized. In the case of an operating lease, where the economic ownership remains with the lessor, only the lease payments are recognized as incurred and charged to income. Other arrangements, particularly service contracts, are also treated as leases to the extent they require the use of a particular asset to fulfill the arrangement and the arrangement conveys a right to control the use of the asset.

Impairment
The corporation immediately reviews intangible assets and property, plant and equipment, investment property and goodwill as soon as there is an indication of impairment (triggering event). Impairment is assessed by comparing the carrying amount with the recoverable amount. The recoverable amount is the higher of the fair value less cost of disposal and the present value of the expected future cash flows from the continued use of the asset (value in use). If the carrying amount is higher than the recoverable amount, the difference is recognized as impairment. If the indications for the prior recognition of impairment no longer apply, the impairment losses are reversed for intangible assets, property, plant and equipment, and investment property.

Capitalized goodwill is tested for impairment once per year in the fourth quarter at the level of cash-generating units (CGU). CGUs are the strategic business units that come below the segments (subsegments) and are the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. This represents the lowest level at which goodwill is monitored for internal management purposes. The impairment test is performed by comparing the carrying amount of the business unit including its goodwill and the recoverable amount of this business unit. The recoverable amount in this case is the value in use calculated on the basis of discounted cash flows before interest and tax. Impairment is recognized to the extent the carrying amount exceeds the recoverable amount for a business unit. If the reasons for this cease to apply in future, impairment losses on goodwill are not reversed.

The expected cash flows for the business units are derived from long-term planning that covers the next five years and is approved by the management. The plans are based in particular on assumptions for macroeconomic developments, as well as trends in sales prices, raw materials prices and exchange rates. In addition to these market forecasts, past developments and experience are also taken into account. The perpetuity beyond the period of five years is extrapolated using the expected long-term growth rates for the individual business units. For the two cash-generating units High Voltage Power Applications and Low Voltage & Control Unit Applications of the Hybrid Electric Vehicle (HEV) business unit, a detailed model with long-term detailed planning was used as a basis due to the specific situation of a start-up. Owing to the finite project terms in the Steering CGU, the planning period was extended until the projects end in 2023.

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

Annual impairment testing was performed on the basis of the bottom-up business plan for the next five years approved by management in the period under review. In the year under review, for the CGUs of the Automotive Group, the cash flows were discounted with an interest rate before tax of 11.5% (PY: 11.7%); for the Rubber Group the interest rate was 9.3% (PY: 9.7%). These two pre-tax WACCs are based on the capital structure of the respective relevant peer group on average over the last five years. The risk-free interest rate is 1.1% and the market risk premium 6.5% in both cases. Borrowing costs were calculated as the total of the risk-free interest rate plus the credit spreads of peer group companies rated by Standard & Poor's, Moody's or Fitch. The sources of this information were data from Bloomberg.

The long-term growth rate for the CGUs of the Interior, Chassis & Safety and Powertrain segments was 1.5% in the year under review (PY: 1.5%). For the CGUs of the Tire and ContiTech segments, the long-term growth rate was 0.5% (PY: 0.5%). These growth rates do not exceed the long-term average growth rates for the fields of business in which the CGUs operate.

The impairment testing of goodwill for 2016 determined no requirements for impairment.

Assuming a 0.5 percentage point increase in the discount rate to 12.0% before tax for the Automotive Group and 9.8% before tax for the Rubber Group would not result in goodwill impairment. There would be no asset impairment. Reducing long-term growth rates by 0.5 percentage points would not have resulted in goodwill impairment. There would be no asset impairment. If sales in perpetuity would decline by 5.0%, this would not result in goodwill impairment. There would be no asset impairment.

Assets held for sale and related liabilities
Individual non-current assets or a group of non-current assets and related liabilities are classified separately as held for sale in the statement of financial position if their disposal has been resolved and is probable. Assets held for sale are recognized at the lower of their carrying amount and their fair value less costs to sell, and are no longer depreciated once they are classified as held for sale.

Financial instruments
A financial instrument in accordance with IAS 32 is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include non-derivative financial instruments such as trade accounts receivable and payable, securities and financial receivables or liabilities and other financial liabilities. They also include derivative instruments that are used to hedge against risks from changes in exchange rates and interest rates.

Non-derivative financial instruments
Non-derivative financial instruments are recognized at the settlement date, i.e. the date at which the asset is delivered to or by Continental AG.

Non-derivative financial assets are classified under one of the following four categories according to the purpose for which they are held. The classification is reviewed at the end of each reporting period and affects whether the financial asset is reported as non-current or current as well as determining whether measurement is at cost or fair value.

- Changes in the fair value of financial assets at fair value through profit and loss – which are either designated as such (fair value option) on initial recognition or are classified as held for trading – are recognized immediately in the income statement. In addition, they are reported as current financial assets if they are either held for trading purposes or are expected to be realized within 12 months of the end of the reporting period. The fair value option is not applied in the Continental Corporation.

- Held-to-maturity financial assets – which have fixed or determinable payments as well as a fixed maturity and are intended to be held until that maturity, together with the ability to retain these assets until maturity – are recognized at amortized cost and reported as non-current or current financial assets in accordance with their term. Any impairment is reported in profit or loss. No financial assets are classified as held-to-maturity at present.

- Loans and receivables – which have fixed or determinable payments and are not quoted in an active market – are measured at amortized cost less any necessary impairment. They are reported in the statement of financial position in accordance with their term as non-current or current financial assets.

- Financial assets – which were categorized as available for sale – are measured at fair value and reported as non-current or current financial assets according to the expected date of sale. Unrealized gains or losses are recognized in other reserves in equity, net of tax effects, until the date of derecognition. In the event of a significant or long-lasting decline in fair value to below cost, the impairment is recognized immediately in profit or loss. Reversal of impairment losses on equity instruments is recognized outside profit or loss. Reversal of impairment losses on debt instruments is recognized in profit or loss. Unless there is a price quoted on an active market and unless the calculation of fair value is expected to provide a significant improvement of the presentation of financial statements, for example in the case of investments in unconsolidated affiliated companies or other equity investments, the assets are measured at cost.

Liabilities arising from non-derivative financial instruments may be recognized either at amortized cost or at fair value through profit and loss. In the consolidated financial statements of Continental AG, all non-derivative financial liabilities are generally measured at amortized cost, which as a rule comprises the remaining principal balance and issuing costs, net of any unamortized premium or discount. Liabilities from finance leases are shown at the present value of the remaining lease payments based on the implicit lease interest rate. Financial obligations with fixed or determinable payments that comprise neither financial liabilities nor derivative financial liabilities and are not quoted in an active market are reported in the statement of financial position under other financial liabilities in accordance with their term.

In the case of information reported in accordance with IFRS 7, classification is in line with the items disclosed in the statement of financial position and/or the measurement category used in accordance with IAS 39.

Hybrid financial instruments
Financial instruments that have both a debt and an equity component are classified and measured separately by those components. Instruments under this heading primarily include bonds with warrants and convertible bonds. In the case of convertible bonds, the fair value of the share conversion rights is recognized separately in capital reserves at the date the bond is issued and therefore deducted from the liability incurred by the bond. Fair values of conversion rights from bonds with below-market interest rates are calculated based on the present value of the difference between the coupon rate and the market rate of interest. The interest expense for the debt component is calculated for the term of the bond based on the market interest rate at the date of issue for a comparable bond without conversion rights. The difference between the deemed interest and the coupon rate increases the carrying amount of the bond indebtedness. In the event of maturity or conversion, the equity component previously recognized in capital reserves at the date of issue is offset against the accumulated retained earnings in accordance with the option permitted by IAS 32.

Derivative instruments
Derivative instruments are only used to hedge statement of financial position items or forecast cash flows, and are measured at their fair values. The fair value is generally the market or exchange price. In the absence of an active market, the fair value is determined using financial models, for example by discounting expected future cash flows at the market rate of interest or by applying recognized option pricing models. Derivative instruments are recognized at the date when the obligation to buy or sell the instrument arises.

Changes in the fair values of derivative instruments used for fair value hedging purposes to offset fluctuations in the market value of recognized assets or liabilities are charged to income together with the changes in value of the hedged item. Changes in the fair values of derivative instruments used to hedge future cash flows where effectiveness is demonstrated are recognized in the difference from financial instruments in equity until the associated hedged transaction is settled.

In the hedging of foreign currency risks from net investments in foreign operations the effective portion of the change in value of the hedges together with the effect from the currency translation of the net investment is recognized in the difference from currency translation in equity. The accumulated currency effects are not reclassified in profit and loss until the foreign operations are sold or liquidated.

If the criteria for hedge accounting are not met or the hedge becomes ineffective, the changes in fair value of the specific derivative instrument are recognized in net income as incurred, independently of the hedged item.

Embedded derivatives
Non-derivative host contracts are regularly inspected for embedded derivatives, for example, contractual payment terms neither in the functional currency of one of the contractual partners nor in a typical trading currency. Embedded derivatives must be separated from the host contract if the assessment finds that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. Embedded derivatives to be separated are measured at fair value and corresponding changes in value are charged to income.

Receivables
Receivables are carried at their nominal value. Valuation allowances on special items are recognized in specific cases where default is known, or based on experience. Default risks leading to lower payment inflows usually manifest themselves in financial difficulties, non-fulfillment, probable insolvency or breach of contract on the part of the customer.

Continental sells some of its trade accounts receivable under sale of receivables programs with banks. Receivables are recognized in the statement of financial position when the risks and rewards, in particular credit and default risk, have not been essentially transferred. The repayment obligations from these sales are, as a rule, then shown as short-term financial liabilities.

Inventories
Inventories are recognized at the lower of cost and net realizable value. Acquisition cost is generally determined using the weighted-average method. Production cost includes direct costs, production-related material costs, overheads and depreciation. Inventory risks resulting from decreased marketability or excessive storage periods are accounted for with write-downs.

Other assets
Other assets are recognized at amortized cost. Allowances are recognized as appropriate to reflect any possible risk related to recoverability.

Accounting for income taxes
Income taxes are measured using the concept of the statement of financial position liability method in accordance with IAS 12. Tax expenses and refunds that relate to income are recognized as income taxes. Accordingly, late payment fines and interest arising from subsequently assessed taxes are reported as tax expenses as soon as it becomes probable that the recognition of a reduction in taxes will be rejected.

Current taxes owed on income are recognized as expenses when they are incurred.

Deferred taxes include expected tax payments and refunds from temporary differences between the carrying amounts in the consolidated financial statements and the related tax bases, as well as from the utilization of loss carryforwards. No deferred tax is recognized for non-tax-deductible goodwill. The deferred tax assets and liabilities are measured at the applicable tax rates related to the period when the temporary differences are expected to reverse. Changes in tax rates are recognized once the rate has been substantially enacted. Deferred tax assets are not recognized if it is not probable that they will be realized in the future.

Employee benefits
The retirement benefits offered by the corporation comprise both defined benefit and defined contribution plans.

Pension liabilities under defined benefit plans are actuarially measured pursuant to IAS 19 (revised 2011), using the projected unit credit method that reflects salary, pension, and employee fluctuation trends. The discount rate to determine the present value is based on long-term loans in the respective capital market. Actuarial gains and losses are recognized in other comprehensive income. Expenses for the interest cost on pension liabilities and income from the pension funds are reported separately in the net interest result.

Accordingly, the interest effects of other long-term employee benefits are reported in the net interest result. Pension liabilities for some companies of the corporation are covered by pension funds. Furthermore, plan assets comprise all assets, as well as claims from insurance contracts, that are held exclusively toward payments to those entitled to pensions and are not available to meet the claims of other creditors. Pension obligations and plan assets are reported on a net basis in the statement of financial position.

The other post-employment benefits also shown under the employee benefits relate to obligations to pay for health costs for retired workers in the U.S.A. and Canada in particular.

Defined contribution plans represent retirement benefits where the company only contributes contractually fixed amounts for current service entitlements, which are generally invested by independent, external asset managers until the date of retirement of the employee. The fixed amounts are partly dependent on the level of the employee's own contribution. The company gives no guarantees of the value of the asset after the fixed contribution, either at the retirement date or beyond. The entitlement is therefore settled by the contributions paid in the year.

Provisions for other risks and obligations
Provisions are recognized when a legal or constructive obligation has arisen that is likely to result in a future cash outflow to third parties and the amount can be reliably determined or estimated. The provisions are recognized as at the end of the reporting period at the value at which the obligations could probably be settled or transferred to a third party. Non-current provisions such as litigation or environmental risks are discounted to their present value. The resulting periodic interest charge for the provisions is shown under the net interest result including an effect from a change in interest.

Non-financial liabilities
Current non-financial liabilities are carried at their payable amount. Non-current non-financial liabilities are measured at amortized cost.

Share-based remuneration
Cash-settled share-based remuneration is measured at fair value using the Monte Carlo simulation model. The liabilities are recognized under other financial liabilities until the end of the holding period.

Estimates
Proper and complete preparation of the consolidated financial statements requires management to make estimates and assumptions affecting the assets, liabilities and disclosures in the notes, as well as the income and expenses for the period.

The most important estimates relate to the determination of the useful lives of intangible assets and property, plant and equipment; the impairment testing of goodwill and non-current assets, in particular the underlying cash flow forecasts and discount rates; the recoverability of amounts receivable and other assets as well as income tax receivable; the financial modeling parameters for stock option plans; the recognition and measurement of liabilities and provisions, especially the actuarial parameters for pensions and other post-employment obligations; and the probabilities of claims and amounts of settlements for warranty, litigation or environmental risks.

The assumptions and estimates are based on the information currently available at the date of preparation of the consolidated financial statements. The underlying information is regularly reviewed and updated to reflect actual developments as necessary.

Consolidated Statement of Cash Flows
The statement of cash flows shows the sources during the period that generated cash and cash equivalents as well as the application of cash and cash equivalents. This includes all cash and cash equivalents and demand deposits. Cash equivalents are short-term, highly liquid financial investments that can be readily converted into known cash amounts and are subject to an insignificant risk of changes in value.

The restrictions that may impact the availability of capital are also understood as comprising all existing restrictions on the cash and cash equivalents. In the Continental Corporation, the cash and cash equivalents are restricted with regard to pledged amounts and balances in countries with foreign exchange restrictions or other barriers to accessing liquidity. Taxes to be paid on the transfer of cash assets from one country to another are not usually considered to represent a restriction on cash and cash equivalents.

Financial investments are considered to be cash equivalents only if they have a remaining term not exceeding three months.

3. New Accounting Pronouncements

In accordance with EU Regulation (EC) No. 1606/2002 in conjunction with Section 315a (1) of the German Commercial Code *(Handelsgesetzbuch – HGB)* Continental AG has prepared its consolidated financial statements in compliance with the IFRS as adopted by the European Union under the endorsement procedure. Thus IFRS are only required to be applied following endorsement of a new standard by the European Union.

The following endorsed standards, interpretations issued in relation to published standards and amendments that were applicable to the consolidated financial statements of Continental AG became effective in 2016 and have been adopted accordingly:
The amendments to IAS 1, *Presentation of Financial Statements (Disclosure Initiative)*, provide improved presentation and disclosure guidelines. The amendments address materiality and aggregation, presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments and the consequential amendments to other standards are required to be applied for annual periods beginning on or after January 1, 2016. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The amendments to IAS 16, *Property, Plant and Equipment*, and IAS 38, *Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)*, clarify when a method of depreciation or amortization based on revenue may be appropriate. Depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate. For intangible assets the amendment introduces a rebuttable presumption that amortization based on revenue generated by using the asset is not appropriate. The presumption may only be rebutted where the intangible asset is expressed as a measure of revenue; or where highly correlation between revenue and the consumption of the economic benefits can be demonstrated. The amendments and the consequential amendment to IFRIC 12, *Service Concession Arrangements*, are required to be applied for annual periods beginning on or after January 1, 2016. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The amendments to IAS 16, *Property, Plant and Equipment*, and IAS 41, *Agriculture (Agriculture: Bearer Plants)*, require bearer plants to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The amendments and the consequential amendments to other standards are required to be applied for annual periods beginning on or after January 1, 2016. The amendments had no effect on the consolidated financial statements of Continental AG.

The amendments to IAS 19, *Employee Benefits (Defined Benefit Plans: Employee Contributions)*, clarify the accounting for contributions from employees or third parties with regard to defined benefit plans. IAS 19 (revised 2011) requires that contributions that are set out in the formal terms of a defined benefit plan and that are linked to the service rendered are required to be attributed to periods of service as a reduction of service cost (negative benefit). The amendments provide for an option in respect of such contributions. If the amount of the contributions depends on the number of years of service, the amendments require that those contributions must be attributed to periods of service using the projected unit credit method. If the amount of the contributions is independent of the number of years of service, the entity is permitted to recognize such contributions as a reduction of service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service. The amendments are required to be applied for annual periods beginning on or after February 1, 2015. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The amendments to IAS 27, *Separate Financial Statements (Equity Method in Separate Financial Statements)*, introduce the equity method as one of the options to account for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The amendments and the consequential amendments to other standards are required to be applied for annual periods beginning on or after January 1, 2016. The amendments had no effect on the consolidated financial statements of Continental AG.

The amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 12, *Disclosure of Interests in Other Entities*, and IAS 28, *Investments in Associates and Joint Ventures (Investment Entities: Applying the Consolidation Exception)*, clarify the application of the consolidation exception for investment entities. The exception from preparing consolidated financial statements is available to intermediate parent entities that are subsidiaries of investment entities when the investment entity parent measures its subsidiaries at fair value. If an investment entity parent has a subsidiary that is itself an investment entity and provides investment-related services or activities, the investment entity parent shall measure that subsidiary at fair value. In case such subsidiary is not an investment entity, it acts as an extension of the parent entity and will be consolidated. A non-investment entity that has an interest in an associate or joint venture that is an investment entity may, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. An investment entity that measures all of its subsidiaries at fair value shall present the disclosures relating to investment entities required by IFRS 12. The amendments are required to be applied for annual periods beginning on or after January 1, 2016. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The amendments to IFRS 11, *Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations),* provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, *Business Combinations*, it shall apply, to the extent of its share all of the principles on business combinations accounting in IFRS 3, and other IFRSs, except for those principles that conflict with the guidance of IFRS 11. The information that is required in those IFRSs in relation to business combinations shall be disclosed. The amendments and the consequential amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, are required to be applied for annual periods beginning on or after January 1, 2016. The amendments had no significant effect on the consolidated financial statements of Continental AG.

Under the IASB's fifth annual improvements project *(Improvements to IFRSs, December 2013, Cycle 2010–2012)*, the following amendments became effective in 2016:

- The amendment to IFRS 2, *Share-based Payment*, clarifies the definition of 'vesting condition' by introducing separate definitions for 'performance condition' and 'service condition'. Furthermore, the amendment clarifies the definition of 'market condition'. The amendment is required to be applied to share-based payment transactions for which the grant date is on or after July 1, 2014.

- The amendment to IFRS 3, *Business Combinations*, clarifies that an obligation to pay contingent consideration that meets the definition of a financial instrument shall be classified as a financial liability or as equity on the basis of the definitions in IAS 32, *Financial Instruments: Presentation*. Furthermore, the standard clarifies that non-equity contingent considerations, whether financial or non-financial, are measured at fair value at each reporting date, with changes in fair value recognized in profit or loss. Consequential amendments have been made to IFRS 9, *Financial Instruments*, IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and IAS 39, *Financial Instruments: Recognition and Measurement*. The amendment is required to be applied to business combinations for which the acquisition date is on or after July 1, 2014.

- The amendments to IFRS 8, *Operating Segments*, require disclosure of the judgment made by management when operating segments have been aggregated. Furthermore, the amendments require a reconciliation of the total of the reportable segments' assets to the entity's assets if segment assets are reported.

- The amendment to IFRS 13, *Fair Value Measurement*, clarifies in the basis for conclusions that the consequential amendments to IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 9, *Financial Instruments*, do not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial. The bases for conclusions on IAS 39 and IFRS 9 have been amended accordingly.

- The amendment to IAS 16, *Property, Plant and Equipment*, and the amendment to IAS 38, *Intangible Assets*, clarify the calculation of the accumulated depreciation at the revaluation date when the revaluation method is used.

- The amendment to IAS 24, *Related Party Disclosures*, clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

The amendments are required to be applied for annual periods beginning on or after February 1, 2015. The amendments had no significant effect on the consolidated financial statements of Continental AG.

Under the IASB's seventh annual improvements project *(Improvements to IFRSs, September 2014, Cycle 2012–2014)*, the following amendments became effective in 2016:

- The amendments to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, introduce guidance in cases of reclassifications from 'held for sale' to 'held for distribution to owners' (or vice versa). Such reclassifications without any time lag are considered a continuation of the original plan of disposal. Furthermore the amendments clarify that assets that no longer meet the criteria for held for distribution to owners (and not meet the criteria for held for sale) should be treated as assets that cease to be classified as held for sale.

- The amendments to IFRS 7, *Financial Instruments: Disclosures*, provide guidance to clarify whether servicing contracts constitute continuing involvement in a transferred financial asset for the purposes of applying the transfer disclosure requirements. Furthermore the amendments address the applicability of the amendments to IFRS 7 regarding the offsetting of financial assets and financial liabilities to condensed interim financial statements. Correspondingly IFRS 1, *First-time Adoption of International Financial Reporting Standards*, was amended.

- The amendment to IAS 19, *Employee Benefits*, addresses the determination of the discount rate used to discount post-employment benefit obligations. The amendment clarifies that the depth of the market for high quality corporate bonds should be assessed at a currency level.

- The amendment to IAS 34, *Interim Financial Reporting*, clarifies the meaning of disclosure of information “elsewhere in the interim financial report.” The amendment clarifies that disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other part of the interim financial report that is available to users of the financial statement on the same terms and at the same time as the interim financial statements.

The amendments are required to be applied for annual periods beginning on or after January 1, 2016. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The following standards, interpretations issued in relation to published standards, and amendments have already been endorsed by the EU but will not take effect until a later date: IFRS 9, *Financial Instruments*, replaces IAS 39, *Financial Instruments: Recognition and Measurement*. The final IFRS 9 and the consequential amendments to other standards and interpretations are required to be applied for annual periods beginning on or after January 1, 2018. The Continental AG plans to apply IFRS 9 initially in fiscal 2018.

Currently, the implementation project regarding IFRS 9 in the corporation has not yet been completed. The actual impact of adopting IFRS 9 on the consolidated financial statements of Continental AG in 2018 is not known and cannot be reliably estimated because it is dependent on the financial instruments that the corporation holds and the economic conditions at that time as well as accounting elections and judgments that the corporation will make in the future. The new standard requires the analysis of accounting processes and internal controls related to reporting financial instruments in the corporation and adjustments of these if necessary. This part of the project has also not yet been completed. However, the corporation has performed a preliminary assessment of the potential impact of adopting of IFRS 9 based on its positions at December 31, 2016 and hedging relationships designated during 2016 under IAS 39.

- Classification and measurement:
  IFRS 9 includes new requirements on the classification and measurement of financial instruments, especially financial assets, based on the business model in which assets are managed and on their cash flow characteristics. IFRS 9 supersedes the present categories of IAS 39 for financial assets (“held to maturity,” “loans and receivables,” “available for sale” and “held for trading”) by the measurement categories “at amortised cost,” “at fair value through profit or loss (FVTPL)” and “at fair value through other comprehensive income (FVOCI).” In the last measurement category, there are differences regarding the reclassification of other comprehensive income, which depend on the financial instrument. Derivative instruments embedded in financial assets are not accounted for separately anymore under IFRS 9. Instead it will be assessed for classification as whole. The existing requirements of IAS 39 regarding the classification of financial liabilities are largely adopted by IFRS 9. In contrast to IAS 39 with application of the fair value option under IFRS 9 the portion of the change in the fair value due to changes in the entity’s own credit risk should be presented in other comprehensive income.

  Based on its preliminary assessment regarding the results of the currently running implementation project, Continental AG does not believe that the standard and the consequential amendments, if applied at December 31, 2016, would have had a significant effect on the accounting of financial assets and financial liabilities in the corporation in the area of classification and measurement of financial assets and financial liabilities. Based on the preliminary knowledge it is expected that for the major part of financial assets in the consolidated financial statements of Continental AG the “held to collect” business model will be applied. Furthermore it is expected that the cash flows of the financial assets in the consolidated financial statements of Continental AG largely fulfill the IFRS 9 criteria, i.e. consist solely of interest and principal. Currently the Continental AG does not intend to apply the fair value option.

- Impairment:
  For calculating impairment the standard replaces the incurred loss model with an expected credit loss model. The new impairment model will apply to financial assets measured at amortized cost or at fair value through other comprehensive income (except for investments in equity instruments), contract assets that result from IFRS 15, *Revenue from Contracts with Customers*, and lease receivables. Under IFRS 9, loss allowances will be measured on the basis of 12-month expected credit losses or on the basis of lifetime expected credit losses. 12-month expected credit losses result from possible default events within 12 month after the reporting date. Lifetime expected credit losses result from all possible default events over the expected life of a financial instrument. Lifetime expected credit loss measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition, and 12-month expected credit loss measurement applies if it has not. There are exceptions for trade receivables, contract assets according to IFRS 15 and lease receivables. For these positions the lifetime expected credit loss measurement has to be applied (trade receivables and contract assets according to IFRS 15 without a significant financing component) or may be applied (trade receivables and contract assets according to IFRS 15 with a significant financing component and lease receivables).

  In the currently running implementation project, the analysis regarding the impact of the implementation regulation has not yet been completed. Therefore, no clear statement can be deducted as to whether the standard and the consequential amendments, if applied as at December 31, 2016, would have had a significant effect on impairment in the consolidated financial statements of Continental AG in the area of impairment.

› Hedge accounting:
When initially applying IFRS 9, Continental AG may choose, as accounting policy, to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. Continental AG currently plans to apply IFRS 9 for hedge accounting with the effective date of January 1, 2018.

The regulation of IFRS 9 introduces a new (general) hedge accounting model with the aim of aligning risk management more closely with the accounting. IFRS 9 includes new requirements regarding rebalancing of hedge relationships and prohibits voluntary discontinuations of hedge accounting. Furthermore, in the future it is possible that additional risk management strategies, which involve hedging a risk component (other than foreign currency risk) of a non-financial item, will likely qualify for hedge accounting. Continental AG has no hedges of such risk components.

With the application of IFRS 9, the corporation may elect that forward points and the cross-currency basis spread of the hedging instrument can be separately accounted for as a cost of hedging. In this case, these components will be recognized in other comprehensive income and accumulated in a cost of hedging reserve as a separate equity component and subsequently accounted for as gains and losses accumulated in the cash flow hedge reserve. The advantageousness of the application of this approach is currently being analyzed.

Based on its preliminary assessment regarding the results of the currently running implementation project, it is not foreseeable that the standard and the consequential amendments, if applied at December 31, 2016, would have had a significant effect on the hedge accounting in the consolidated financial statements of the Continental AG. The preliminary assessment of the group indicates that the current hedge accounting is in accordance with the requirements of IFRS 9 under the condition that there are changes in the process of documentation and effectiveness test. The corporation's preliminary assessment also indicates that the expected changes in accounting policies for costs of hedging would have had no significant effect if applied to the hedge accounting of the corporation during 2016.

› Disclosures:
IFRS 9 introduces new presentation requirements and new disclosures, especially about hedge accounting, credit risk and expected credit losses. At the moment the corporation identifies the required data and makes the comparison to current processes. In this context there is also an analysis in the group about changes in systems, processes and control workflows.

› Transition:
Changes in accounting policies resulting from adoption of IFRS 9 will generally be applied retrospectively. The corporation plans to take advantage of the exemption that comparative information for prior periods with respect to classification and measurement (including impairment) do not have to be restated as at initial application. Differences between the previous carrying amounts and the carrying amounts as at the beginning of the first reporting period (January 1, 2018) which result from the adoption of IFRS 9 will be recognized in equity. Furthermore, the new regulations for hedge accounting are to be applied prospectively. The corporation has not made a final decision regarding the retrospective application of the exemption regarding forward points or cross-currency basis spreads. The determination of the business model within which a financial asset is held and the application of the election to designate certain investments in equity instruments not held for trading as at FVOCI have to be made on the basis of facts and circumstances that exist at the date of initial application.

IFRS 15, *Revenue from Contracts with Customers*, replaces existing revenue recognition guidance and supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions Involving Advertising Services*. In accordance with IFRS 15, the amount is to be recognized as revenue which is expected for the transfer of promised goods or services to customers in exchange for those goods or services. The relevant point in time or period of time is primarily the transfer of control of the goods or services (control approach). To determine when to recognize revenue, and at what amount a five-step model has to be applied in accordance with the core principle. With the amendments to IFRS 15, *Effective Date of IFRS 15*, the IASB has decided to defer the effective date of IFRS 15 by one year. As a result, the standard and the consequential amendments to other standards and interpretations are required to be applied for annual periods beginning on or after January 1, 2018.

Currently an implementation project is running to implement the requirements of IFRS 15 and the consequential amendments in the Continental Corporation. As part of this, the effects are currently being analyzed, especially with regard to goods without an alternative use, how to depict our various products over the product life cycle, variable consideration of the transaction price, and multi-component contracts, as well as the transfer of control to the customer according to IFRS 15.

By applying and implementing the five-step model in the Continental Corporation for contracts with customers, distinct performance obligations are identified. The transaction price will be determined – and allocated to the performance obligations – according to the requirements of IFRS 15. In particular, variable consideration in contracts with customers such as rebates, bonus agreements or other kinds of price concessions, is analyzed, measured and included in the revenue recognition. The allocation of the transaction price in the case of more than one performance obligation at hand is performed by using observable prices if possible. Otherwise the allocation is performed using the adjusted market assessment approach or the approach of cost plus a margin. For every performance obligation that is distinct within the context of the contract, the revenue recognition is determined to be at a point in time or to be satisfied over time.

According to the analysis of the revenues in the Continental Corporation, the two main revenue streams are goods and services, with goods being the larger part. Our customers in the Automotive Group are mostly original equipment manufacturers, while the majority of the Tire segment's revenue comes from the replacement business. About half of the ContiTech segment's customers are from industries.

Multi-component contracts that contain distinct performance obligations with different types of satisfaction according to IFRS 15 – i.e. satisfaction at a point in time or over time – and which are allocated to different time periods, are not material for the Continental Corporation according to our analysis up to now. Based on our analysis of the revenues, performance obligations owed to customers will be satisfied mainly at a point in time, according to IFRS 15.

Effective date for IFRS 15 for the Continental Corporation is January 1, 2018. The effects of the first application of IFRS 15 on contracts with customers that are not fulfilled at that point in time will be recorded as a cumulative effect to the opening balance sheet, using the cumulative effect method as the transition method. As practically expedient, we plan to make use of IFRS 15.C5 c) for the transition.

At present, it has not yet been possible to make a statement on or further quantification of the impact of the aforementioned points on our revenues. For this reason, it cannot be ruled out that the application of IFRS 15 will have an effect on the amount of and the point in time at which sales are recognized in the Continental Corporation in the future. However, we assume – based on our ongoing assessment of the impact the application of IFRS 15 will have – that we will be able to give additional quantitative information before the date of first application.

The following standards, interpretations issued in relation to published standards, and amendments are not yet endorsed by the EU and will become effective at a later date:
The amendments to IAS 7, *Statement of Cash Flows (Disclosure Initiative*), are intended to improve information about an entity's financing activities. The amendments are required to be applied for annual periods beginning on or after January 1, 2017. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IAS 12, *Income Taxes (Recognition of Deferred Tax Assets for Unrealized Losses)*, address the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments clarify that unrealized losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes give rise to deductible temporary differences, regardless of whether it is expected to hold the debt instrument until maturity or to sell the debt instrument. The amendments specify how to determine future taxable profits regarding the accounting of deferred tax assets. Furthermore, the amendments clarify that an entity in general has to assess a deductible temporary difference in combination with all of its other deductible temporary differences. If tax law restricts the utilization of losses to deduction against income of a specific type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendments are required to be applied for annual periods beginning on or after January 1, 2017. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IAS 40, *Investment Property (Transfers of Investment Property)*, clarify that a transfer into, or out of investment property should be made only when there has been a change in use of the property. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The amendments clarify that the list of evidence in the standard is a non-exhaustive list of examples. The amendments are required to be applied for annual periods beginning on or after January 1, 2018. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 2, *Share-based Payment (Classification and Measurement of Share-based Payment Transactions)*, address the measurement for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity settled. Furthermore, the amendments introduce an exemption for cases in which an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment. The employer has to pay that amount to the tax authority. The amendments clarify that those transactions would be classified as equity-settled in its entirety if it would have been so classified had it not included the net settlement feature. The amendments are required to be applied for annual periods beginning on or after January 1, 2018. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 4, *Insurance Contracts (Applying IFRS 9, Financial Instruments with IFRS 4, Insurance Contracts)*, addresses the concerns about the different effective dates of IFRS 9 and the new insurance contract standard. The amendments introduce two possible optional solutions: the temporary exemption from IFRS 9 in limited circumstances and the overlay approach. The latter permits insurers to reclassify from profit or loss to other comprehensive income any changes in the fair value of financial assets held in respect of an activity that is connected with contracts within the scope of IFRS 4, if these changes are recognized in profit or loss under IFRS 9 but not under IAS 39. With respect to the temporary exemption from IFRS 9, the amendment is effective for annual periods beginning on or after January 1, 2018. The overlay approach can be applied from the period in which the insurer first applies IFRS 9. Accordingly, both the temporary exemption and the 'overlay approach' are expected to cease to be applicable, at the latest, at the point in time the new insurance standard becomes effective. The amendments are not expected to have any effect on the future consolidated financial statements of Continental AG.

The amendments to IFRS 10, *Consolidated Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)*, eliminate an inconsistency between both standards. The amendments clarify that the accounting treatment for sales or contribution of assets between an investor and its associates or joint venture depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a business in accordance with IFRS 3, *Business Combinations*. In case the non-monetary assets constitute a business full gain or loss will be recognized by the investor. If the definition of a business is not met, the gain or loss is recognized by the investor to the extent of the other investor's interests. With the amendments to IFRS 10 and IAS 28, *Effective Date of Amendments to IFRS 10 and IAS 28*, the IASB has decided to defer indefinitely the effective date of the amendments. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

With the clarifications to IFRS 15, *Revenue from Contracts with Customers*, the IASB makes targeted amendments to IFRS 15 with respect to the topics – identifying performance obligations, principal versus agent considerations and licensing. The clarifications are required to be applied for annual periods beginning on or after January 1, 2018. For the expected effects on the future consolidated financial statements of Continental AG, please refer to IFRS 15, *Revenue from Contracts with Customers*.

IFRS 16, *Leases,* replaces the existing guidance for the accounting of leases and supersedes IAS 17, *Leases;* IFRIC 4, *Determining Whether an Arrangement Contains a Lease*; SIC-15, *Operating Leases – Incentives*; and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for the lessee and the lessor.

IFRS 16 includes significant changes to lessee accounting with the removal of the distinction between finance lease and operating lease and the general recognition of all leases in the statement of financial position. In accordance with IFRS 16 the lessee shall recognize a right-of-use asset and a corresponding lease liability. Furthermore, IFRS 16 does not require a company to recognize the assets and liabilities for short-term leases and the leases for which the underlying assets are of low value. Continental AG has not yet decided to what extent the exceptions will be applied.

Regarding the lessor accounting, the standard maintains the requirements of IAS 17. Accordingly, a lessor will continue to classify its leases as finance or operating leases.

The standard and the amendments to other standards shall be applied for annual periods beginning on or after January 1, 2019. When adapting to the new lease standard, the company can select either the full retrospective approach or the modified retrospective approach including optional practical expedients. At this stage, Continental AG prefers to select the modified retrospective approach as the transition method for initially applying IFRS 16 as of January 1, 2019.

Continental AG has initiated an analysis to determine the effects on its consolidated financial statements. The most significant impact that has been recently identified is that Continental AG as lessor will account for new assets and liabilities based on operating leases of administration and production buildings as well as warehouses. Moreover, the impacts on the consolidated income statement are to be expected due to the substitution of the straight-line expenses from operating leases with the depreciation charges of the right-of-use assets and the interest expenses resulting from the measurement of lease liabilities. Subsequently, a positive effect on EBIT at the expense of the interest position is expected.

Quantitative effects on the earnings and net assets position of Continental based on the implementation of IFRS 16 cannot yet be determined. The effects depend on the pending decisions about simplifications and practical expedients as well as additional leases, which Continental AG will contract until the effective date of IFRS 16. It is expected that the standard will have a significant effect on the future consolidated financial statements of Continental AG. Information regarding quantitative effects is expected to be disclosed prior to first application of the standard.

IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, addresses the question how to determine the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The interpretation clarifies that for the purpose of determining the exchange rate the date of transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The interpretation is required to be applied for annual periods beginning on or after January 1, 2018. The interpretation is not expected to have a significant effect on the future consolidated financial statements of Continental AG.

Under the IASB's eighth annual improvements project *(Improvements to IFRSs, December 2016, Cycle 2014–2016)*, the following amendments will become effective at a later date:

› The amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards (Deletion of short-term exemptions for first-time adopters),* delete some of the short-term exemptions from IFRSs which are not relevant anymore through the passage of time. The amendments are required to be applied for annual periods beginning on or after January 1, 2018. The amendments are not expected to have any effect on the future consolidated financial statements of Continental AG.

- The amendments to IFRS 12, *Disclosure of Interests in Other Entities (Clarification of the scope of the standards)*, clarify that the requirements in IFRS 12 apply to entity's interests that are classified as non-current assets held for sale or as discontinued operations in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, except for the disclosed summarized financial information in accordance with IFRS 12.B17. The amendments must be applied for annual periods beginning on or after January 1, 2017. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

- The amendments to IAS 28, *Investment in Associates and Joint Ventures (Measuring an associate or joint venture at fair value)*, address the question whether an entity has an investment-by-investment choice for measuring investments in an associate or a joint venture at fair value through profit or loss. The option is applicable for investments in an associate or a joint venture which are held by an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds. The amendments clarify that an entity shall make the election separately for each associate or joint venture, at initial recognition of the associate or joint venture. Furthermore, the amendments deal with the accounting for cases in which an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity. The election to retain fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries is made separately for each investment entity associate or joint venture, at the later of the date on which the investment entity associate or joint venture is initially recognized, the associate or joint venture becomes an investment entity and the investment entity associate or joint venture first become a parent.

The amendments are required to be applied for annual periods beginning on or after January 1, 2018. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

4. Companies Consolidated and Information on Subsidiaries and Investments

Companies consolidated
In addition to the parent company, the consolidated financial statements include 510 (PY: 502) domestic and foreign companies that Continental Aktiengesellschaft incorporates according to the regulations of IFRS 10 or that are classified as joint arrangements or associated companies. Of these, 396 (PY: 386) are fully consolidated and 114 (PY: 116) are accounted for using the equity method.

The number of consolidated companies has increased by a total of eight since the previous year. Seven companies were formed, 13 were acquired, and one previously unconsolidated unit was included in consolidation for the first time. Five companies were liquidated, one was deconsolidated, and one was sold. In addition, the number of companies consolidated was reduced by six as a result of mergers.

The additions to the scope of consolidation in 2016 essentially result from the acquisition of the Bandvulc Group.

A total of 42 (PY: 47) companies whose assets and liabilities, expenses and income, individually and combined, are not material for the net assets, financial and earnings position of the corporation, are not included in consolidation. 41 (PY: 46) of these are affiliated companies, 5 (PY: 9) of which are currently inactive. One further company not included in consolidation (PY: 1) is an associated company. This unit is active.

Information on subsidiaries and investments
As at December 31, 2016, non-controlling interests were not of significance to the corporation. There are no significant restrictions in terms of access to or the use of assets of the corporation due to statutory, contractual or regulatory restrictions or property rights of non-controlling interests.

With a share of voting rights of 51% each, Noisetier SAS, Paris, France, and Continental Teves Taiwan Co., Ltd., Tainan, Taiwan, are not fully consolidated as, under the companies' statutes, these interests are not enough to direct the relevant activities of these investments.

Continental AG consolidates ten structured entities. These structured entities are characterized, among other things, by limited activities and a narrowly defined business purpose. Continental holds no voting rights or investments in the fully consolidated structured entities. However, Continental directs the business activities of these entities on the basis of contractual rights. The shareholders therefore have no influence. Furthermore, Continental is also exposed to variable returns from these units and can influence these by directing business activities. There are no significant shares or rights in non-consolidated structured entities.

Further information on equity investments and an overview of the German corporations and partnerships that utilized the exemption provisions of Section 264 (3) of the German Commercial Code *(Handelsgesetzbuch – HGB)* and Section 264b *HGB* can be found in Note 39.

5. Acquisition and Disposal of Companies and Business Operations

Acquisition of companies and business operations

A share deal and further asset deals took place in the Tire segment. The purchase prices totaling €12.0 million were paid in cash. The purchase price allocation resulted in goodwill of €8.1 million and intangible assets of €1.9 million. Other than this, there was no material effect on the net assets, financial and earnings position of the Continental Corporation as at December 31, 2016.

On July 2, 2016, Continental UK Group Holdings Ltd., West Drayton, U.K., acquired the Bandvulc Group by signing a contract to purchase 100% of the shares in B.V. Environmental Ltd., Devon, U.K. The Bandvulc Group is a leading U.K. fleet-management service provider and independent truck-tire retreader. The transaction, which took effect immediately, strengthens the Tire segment's position in the U.K. and Irish markets in the long term. With more than 40 years of experience in hot retreading and casing management, the Bandvulc Group has had close working relationships with Continental for more than 25 years. This transaction also gives the Bandvulc Group new opportunities for expansion by providing access to Continental's global network of customers and fleet services. The Bandvulc Group has established a broad fleet portfolio covering a range of major retailers, supermarkets, and logistics companies. The acquisition includes the tire maintenance service network, which comprises five service centers and 75 service vans. In 2015, the Bandvulc Group generated sales of approximately €74.3 million with around 380 employees. The purchase price was €77.5 million and was paid in cash. The incidental acquisition costs of €1.3 million were recognized as other expenses. The purchase price allocation resulted in goodwill of €9.0 million and intangible assets of €14.9 million. Since the transaction was closed on July 2, 2016, the Bandvulc Group has generated sales of €35.8 million and contributed net income after tax of €1.2 million. Other than this, there was no material effect on the net assets, financial and earnings position of the Continental Corporation as at December 31, 2016.

As at October 3, 2016, Continental Tire the Americas, LLC, Columbus, Ohio, U.S.A., acquired 100% of the shares in Hoosier Racing Tire Corp., Lakeville, Indiana, U.S.A., with the aim of supporting its growth strategy, particularly in the ultra-high-performance area. The company was established in 1957 and currently employs around 500 people. It has for many years enjoyed an excellent reputation. Hoosier Racing Tire supplies tires for use in most races worldwide, with a strong focus on high performance and quality. The provisional purchase price was €129.6 million and was paid in cash in the amount of €126.1 million. In addition, the transaction resulted in a purchase price liability of €3.5 million. The incidental acquisition costs of €0.5 million were recognized as other expenses. The provisional purchase price allocation resulted in intangible assets of €66.8 million and goodwill of €13.9 million for the Tire segment. If the transaction had already been completed on January 1, 2016, net income after tax would have been €19.2 million higher and sales would have been up by €79.2 million. Since the transaction was closed on October 3, 2016, Hoosier Racing Tire has generated sales of €9.4 million and, with negative earnings after tax of €7.7 million, impacted net income accordingly. Other than this, there was no material effect on the net assets, financial and earnings position of the Continental Corporation as at December 31, 2016.

In the Powertrain segment, an asset deal with a purchase price of €26.7 million was concluded. The purchase price allocation resulted in goodwill of €0.8 million and intangible assets of €25.0 million. Other than this, there was no material effect on the net assets, financial and earnings position of the Continental Corporation as at December 31, 2016.

A share deal took place in the ContiTech segment. The purchase price of €12.6 million was paid in cash. The purchase price allocation resulted in goodwill of €3.4 million and intangible assets of €7.2 million. Other than this, there was no material effect on the net assets, financial and earnings position of the Continental Corporation as at December 31, 2016.

In the Interior segment, Continental Automotive, Inc., Wilmington, Delaware, U.S.A., acquired 80.58% of the shares in Zonar Systems, Inc., Seattle, Washington, U.S.A., with effect from November 1, 2016, in order to strengthen current service business activities in fleet management. Founded in 2001, the company employs over 300 people and provides technological solutions for managing public and private commercial vehicle fleets in the U.S.A. These include commercial vehicle fleets as well as fleets for commercial trucking and passenger transport. Its overall range of solutions promotes road safety, operating efficiency, and lower fuel consumption. Pooling the complementary strengths of Continental and Zonar Systems will give rise to one of the key providers in this sector, which will develop and offer additional solutions for intelligent fleet management in the future. In fiscal 2015, Zonar Systems generated sales of approximately €83 million. The provisional purchase price was €239.1 million and was paid in cash. The incidental acquisition costs of €1.2 million were recognized as other expenses. The provisional purchase price allocation resulted in intangible assets of €157.9 million, non-controlling interests of €22.7 million, and goodwill of €144.8 million for the Interior segment. This goodwill is attributable to the expansion of the portfolio, enhanced expertise in the field of mobility services, and access to a broad customer base and existing sales channels. In addition to the business combination, call and put options for the acquisition of non-controlling interests were also concluded. These were accounted for using the present access method. The call option is accounted for as an equity instrument and the put option as an other financial liability. If the transaction had already been completed on January 1, 2016, net income after tax would have been €2.2 million lower and sales would have been up by €73.9 million. Since the transaction was closed on November 1, 2016, Zonar Systems has generated sales of €9.8 million and, with negative earnings after tax of €5.0 million, impacted net income accordingly. Other than this, there was no material effect on the net assets, financial and earnings position of the Continental Corporation as at December 31, 2016.

An acquisition of remaining shares in a company was completed in the period under review. The resulting difference between the purchase price and the carrying amount of the shares acquired of €0.2 million was reported under other comprehensive income.

Continental Automotive Holding (Shanghai) Co., Ltd., Shanghai, China, acquired the remaining shares in Continental Automotive Wuhu Co., Ltd., Wuhu, China, for a purchase price of €81.4 million with effect from September 21, 2016. The resulting difference between the purchase price and the carrying amount of the shares acquired of €70.4 million was reported under other comprehensive income.

The assets and liabilities included in the consolidated statement of financial position for the first time as a result of the aforementioned transactions were carried in the following amounts:

Acquired net assets in € millions	Fair value at date of first-time consolidation
Other intangible assets	274.7
Property, plant and equipment	71.5
Deferred tax assets	1.2
Long-term other financial assets	3.5
Long-term other assets	2.6
Inventories	37.8
Trade accounts receivable	56.3
Short-term other financial assets	1.4
Short-term other assets	8.7
Income tax receivables	2.6
Cash and cash equivalents	41.5
Long-term employee benefits	–2.8
Deferred tax liabilities	–69.6
Long-term provisions for other risks and obligations	–9.0
Long-term other liabilities	–0.3
Short-term employee benefits	–30.7
Trade accounts payable	–29.4
Income tax payables	–0.7
Short-term provisions for other risks and obligations	–3.4
Short-term indebtedness	–3.3
Short-term other financial liabilities	–3.4
Short-term other liabilities	–9.0
Purchased net assets	**340.2**
Purchase price	497.5
Non-controlling interests	22.7
Goodwill	**180.0**

Disposal of companies and business operations

As part of the acquisition of Veyance Technologies in January 2015, Continental agreed with the antitrust authorities in the U.S.A. and Brazil to sell Veyance Technologies' South American steel cord business. As at September 1, 2016, the steel cord business in São Paulo, Brazil, was sold to Solina Global Corporation Ltd., Hong Kong, China, a subsidiary of the Thai company Teak Capital Corporation. The disposal resulted in loss on property, plant and equipment totaling €15.3 million, including expense for market value adjustments totaling €6.0 million.

Notes to the Consolidated Statement of Income

6. Other Expenses and Income

€ millions	2016	2015
Other expenses	–949.1	–776.4
Other income	283.3	208.7
Other expenses and income	**–665.8**	**–567.7**

Other expenses

€ millions	2016	2015
Expenses for provisions	526.6	297.3
Litigation and environmental risks	137.8	58.5
Impairment on property, plant and equipment, and intangible assets	62.6	95.3
Realized and unrealized foreign currency exchange losses	59.1	122.5
Expenses for termination benefits	56.3	70.3
Expenses for valuation allowances for doubtful accounts	16.9	34.0
Losses on the sale of property, plant and equipment, and from scrapping	12.4	10.2
Losses on the sale of companies and business operations	10.3	0.3
Incidental acquisition costs from acquisitions of companies and business operations	3.4	9.9
Compensation to customers and suppliers	2.6	6.0
Other	61.1	72.1
Other expenses	**949.1**	**776.4**

Other expenses increased by €172.7 million to €949.1 million (PY: €776.4 million) in the reporting period.

Additions to specific warranty provisions and provisions for restructuring measures resulted in expenses totaling €526.6 million (PY: €297.3 million). In the context of the plant closure in Melbourne, Australia, restructuring expenses totaling €13.9 million were incurred in the Chassis & Safety, Powertrain, and Interior segments. The planned closure of the location in Gravatai, Brazil, resulted in restructuring expenses of €1.3 million in the Interior segment. In the ContiTech segment, the temporary cessation of conveyor belt production in Volos, Greece, resulted in restructuring expenses of €7.8 million.

In connection with provisions for litigation and environmental risks, there were expenses of €137.8 million (PY: €58.5 million).

Impairment on intangible assets and property, plant and equipment amounted to €62.6 million (PY: €95.3 million) in the reporting period. Due to the current market situation, impairment totaling €33.1 million on intangible assets and property, plant and equipment was recognized for the Conveyor Belt Group and Industrial Fluid Systems (since January 2017: Industrial Fluid Solutions) business units.

In the year under review, expenses of €59.1 million (PY: €122.5 million) were incurred as a result of foreign currency translations from operating receivables and liabilities in foreign currencies not classified as indebtedness.

Personnel adjustments not related to restructuring led to expenses for severance payments of €56.3 million (PY: €70.3 million).

The expenses resulting from creditworthiness allowances on receivables were €16.9 million (PY: €34.0 million).

Losses of €12.4 million (PY: €10.2 million) arose from the sale of property, plant and equipment and from scrapping activities in 2016.

Disposals of companies and business operations resulted in losses of €10.3 million (PY: €0.3 million).

Incidental acquisition costs of €3.4 million (PY: €9.9 million) were incurred for the acquisition of companies and business operations. Compensation from customer and supplier claims that are not warranties resulted in expenses of €2.6 million (PY: €6.0 million) in the reporting period.

The “Other” item also includes expenses for other taxes and losses due to force majeure.

Other income

€ millions	2016	2015
Gain on the reversal of provisions	122.6	100.4
Compensation from customers and suppliers	37.2	26.5
Gain on the sale of property, plant and equipment	22.7	17.1
Gain from the reimbursement of customer tooling expenses	17.5	4.1
Litigation and environmental risks	13.5	3.5
Gain on the sale of companies and business operations	5.0	1.7
Reversal of impairment losses on property, plant and equipment	4.0	1.7
Other	60.8	53.7
Other income	**283.3**	**208.7**

Other income increased by €74.6 million to €283.3 million (PY: €208.7 million) in the reporting period.

The reversal of specific warranty provisions and provisions for restructuring measures resulted in income of €122.6 million (PY: €100.4 million) in the reporting period.

Income of €22.7 million (PY: €17.1 million) was generated from the sale of property, plant and equipment in the period under review.

Reimbursements for customer tooling resulted in income of €17.5 million (PY: €4.1 million) in 2016.

The reversal of provisions for litigation and environmental risks resulted in income totaling €13.5 million (PY: €3.5 million).

Disposals of companies and business operations resulted in income of €5.0 million (PY: €1.7 million) in 2016.

Reversal of impairment losses on property, plant and equipment resulted in total income of €4.0 million (PY: €1.7 million).

Other income includes proceeds from license agreements and income from insurance compensation due to damage to property, plant and equipment caused by force majeure. In addition, government grants amounting to €13.7 million (PY: €9.0 million) that were not intended for investments in non-current assets were recognized in profit or loss in the “Other” item.

7. Personnel Expenses

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

€ millions	2016	2015
Wages and salaries	7,890.8	7,454.5
Social security contributions	1,517.9	1,423.7
Pension and post-employment benefit costs	287.0	286.4
Personnel expenses	**9,695.7**	**9,164.6**

Compared to the 2015 reporting year, personnel expenses rose by €531.1 million to €9,695.7 million (PY: €9,164.6 million). This rise is due in particular to global recruitment activities and acquisitions in the Tire segment and the Interior segment.

The average number of employees in 2016 was 216,019 (PY: 204,662). As at the end of the year, there were 220,137 (PY: 207,899) employees in the Continental Corporation. Please also see the comments in the Management Report.

8. Income from Investments

€ millions	2016	2015
Income from at-equity accounted investees	69.7	61.4
Other income from investments	0.5	0.8

Net investment income particularly includes the share of earnings of companies accounted for using the equity method in the amount of €69.7 million (PY: €61.4 million).

9. Net Interest Result

€ millions	2016	2015
Interest and similar income	25.5	31.5
Interest income from long-term employee benefits and from pension funds	75.9	63.9
Interest income	**101.4**	**95.4**
Interest and similar expenses	-138.2	-172.1
Finance lease expenses	-2.0	-2.5
Gains/losses from foreign currency translation	157.1	12.7
Gains/losses from changes in the fair value of derivative instruments	-67.0	-34.8
Gains from available-for-sale financial assets	0.3	12.9
Interest expense for long-term provisions and liabilities	-0.4	1.5
Interest expense from long-term employee benefits	-168.2	-158.7
Interest expense	**-218.4**	**-341.0**
Net interest result	**-117.0**	**-245.6**

Negative net interest result improved by €128.6 million year-on-year to €117.0 million (PY: €245.6 million) in 2016.

Interest expense – not including the effects of foreign currency translation, changes in the fair value of derivative instruments and of available-for-sale financial assets – totaled €308.8 million in 2016, which was €23.0 million lower than the figure for the previous year of €331.8 million. At €140.6 million, interest expense resulting from bank borrowings, capital market transactions and other financing instruments was €32.5 million lower than the prior-year figure of €173.1 million. The major portion related to expense of €86.1 million (PY: €99.9 million) from the bonds issued by Continental AG, Conti-Gummi Finance B.V., Maastricht, Netherlands, and Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., and to expense of €8.6 million (PY: €21.7 million) from the utilization of the syndicated loan.

Interest expense for the bonds decreased by €13.8 million in 2016 compared to the previous year. This is attributable chiefly to the early redemption in September 2015 of the U.S. dollar bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in September 2012 with a volume of U.S. $950.0 million and the considerably lower-interest euro bond with a volume of €500.0 million that was issued by the same company in November 2015 for the partial refinancing of financial liabilities. The conclusion of cross-currency interest rate swaps firstly secures against the currency risks arising from this bond's denomination in euros, and secondly the euro-based fixed interest rate of 0.5% p.a. is exchanged for a U.S.-dollar-based fixed interest rate averaging 2.365% p.a. By contrast, an interest rate of 4.5% p.a. still had to be paid for the U.S. dollar bond redeemed early in 2015.

The €13.1 million decline in interest expense for the syndicated loan resulted in particular from the considerably lower utilization of the term loan of €1.5 billion originally maturing in April 2016 as compared to the previous year. Early repayments on this term loan totaling €1,150.0 million were already made in the fourth quarter of 2015. At the end of March 2016, the remaining amount of €350.0 million was repaid early.

The interest expense on expected pension obligations as well as on long-term employee benefits resulted in interest expense totaling €168.2 million (PY: €158.7 million) in 2016. This does not include the interest expense related to the defined benefit obligations of the pension contribution funds.

Interest income in 2016 increased by €6.0 million year-on-year to €101.4 million (PY: €95.4 million). Of this, expected income from long-term employee benefits and from pension funds amounted to €75.9 million (PY: €63.9 million). This does not include the interest income related to the plan assets of the pension contribution funds.

Valuation effects from changes in the fair value of derivative instruments and from the development of exchange rates resulted in a positive overall contribution to earnings of €90.1 million (PY: negative contribution to earnings of €22.1 million) in 2016. This was attributable in particular to the development of the Mexican peso in relation to the U.S. dollar. In the previous year, there was a valuation loss of €36.9 million relating to the reporting of an early redemption option for the U.S. dollar bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in September 2012 and redeemed early in September 2015. In 2016, available-for-sale financial assets gave rise to a positive effect of €0.3 million (PY: €12.9 million).

10. Income Tax Expense

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

€ millions	**2016**	2015
Current taxes (domestic)	-136.7	-166.7
Current taxes (foreign)	-1,043.2	-889.3
Deferred taxes (domestic)	-106.0	-95.8
Deferred taxes (foreign)	189.1	61.4
Income tax expense	**-1,096.8**	**-1,090.4**

The average domestic tax rate in 2016 was 30.6% (PY: 30.4%). This takes into account a corporate tax rate of 15.0% (PY: 15.0%), a solidarity surcharge of 5.5% (PY: 5.5%) and a trade tax rate of 14.8% (PY: 14.6%).

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

€ millions	**2016**	2015
Earnings before tax	**3,978.8**	**3,870.0**
Expected tax expense at the domestic tax rate	-1,217.5	-1,176.5
Foreign tax rate differences	202.4	188.1
Non-deductible expenses and non-imputable withholding taxes	-179.2	-121.9
Incentives and tax holidays	119.9	88.8
First-time recognition of deferred tax assets likely to be realized	80.8	34.7
Non-recognition of deferred tax assets unlikely to be realized	-78.6	-114.2
Realization of previously non-recognized deferred taxes	33.5	17.7
Local income tax with different tax base	-31.7	-31.5
Taxes for previous years	-28.2	18.6
Tax effect from at-equity accounted investees	20.4	17.9
Effects from changes in enacted tax rate	-15.5	-10.1
Effects from sale of impairment on investments	-1.3	–
Other	-1.8	-2.0
Income tax expense	**-1,096.8**	**-1,090.4**
Effective tax rate in %	**27.6**	**28.2**

The reduction in the tax expense from the difference in foreign tax rates primarily reflects the volume of activities in Eastern Europe and Asia.

As in the previous year, foreign tax rate differences, incentives and tax holidays had positive effects in the year under review. The tax rate was negatively impacted by non-cash allowances on deferred tax assets totaling €78.6 million (PY: €114.2 million), of which €11.7 million (PY: €35.3 million) was for previous years. Furthermore, as in the previous year, the tax rate was negatively affected by non-deductible expenses and non-imputable foreign withholding tax. This was countered by the recognition of deferred tax assets totaling €80.8 million. Please see Note 16.

The tax effects from government incentives and tax holidays increased in comparison to the previous year. In addition to the ongoing utilization of incentives in Europe and Asia as in the previous year, the utilization of government incentives in the U.S.A. had a further positive impact in the reporting year.

In the year under review, local income taxes of €31.7 million (PY: €31.5 million) were incurred with a different tax base, mainly in Hungary and the U.S.A.

The result of at-equity accounted investees included in net income resulted in tax income of €20.4 million (PY: €17.9 million) in the year under review.

The effects of the change in tax rate relate to the remeasurement of deferred tax assets and liabilities due to changes in the law already taking effect with regard to future applicable tax rates.

The following table shows the total income tax expense including the items reported under reserves recognized directly in equity:

€ millions	**Dec. 31, 2016**	Dec. 31, 2015
Income tax expense (acc. to Consolidated Statement of Income)	–1,096.8	–1,090.4
Tax income on other comprehensive income	178.4	40.5
Remeasurement of defined benefit plans	158.1	17.4
Portion for at-equity accounted investees	0.1	–0.1
Currency translation	23.4	17.1
Available-for-sale financial assets	0.0	4.1
Cash flow hedges	–3.2	2.0
Total income tax expense	**–918.4**	**–1,049.9**

Notes to the Consolidated Statement of Financial Position

11. Goodwill and Other Intangible Assets

€ millions	Goodwill	Capitalized development expenses[1]	Other intangible assets	Advances to suppliers	Total other intangible assets
As at January 1, 2015					
Cost	**8,332.1**	403.2	3,952.3	18.9	**4,374.4**
Accumulated amortization	**-2,563.0**	-273.1	-3,658.0	–	**-3,931.1**
Book value	**5,769.1**	**130.1**	**294.3**	**18.9**	**443.3**
Net change in 2015					
Book value	**5,769.1**	130.1	294.3	18.9	**443.3**
Foreign currency translation	**107.0**	0.0	26.7	-0.1	**26.6**
Additions	**–**	78.7	81.8	8.5	**169.0**
Additions from first consolidation of subsidiaries[2]	**764.5**	–	1,026.2	–	**1,026.2**
Transfers	**–**	–	16.8	-16.8	**0.0**
Disposals	**–**	–	-0.1	-0.3	**-0.4**
Amortization	**–**	-51.6	-205.7	–	**-257.3**
Impairment[3]	**–**	–	-71.0	–	**-71.0**
Book value	**6,640.6**	**157.2**	**1,169.0**	**10.2**	**1,336.4**
As at December 31, 2015					
Cost	**9,210.4**	322.5	2,090.4	10.2	**2,423.1**
Accumulated amortization	**-2,569.8**	-165.3	-921.4	–	**-1,086.7**
Book value	**6,640.6**	**157.2**	**1,169.0**	**10.2**	**1,336.4**
Net change in 2016					
Book value	**6,640.6**	157.2	1,169.0	10.2	**1,336.4**
Foreign currency translation	**36.7**	-0.7	29.4	0.1	**28.8**
Additions	**–**	105.9	61.3	17.2	**184.4**
Additions from first consolidation of subsidiaries	**180.0**	–	274.7	–	**274.7**
Reclassification to assets held for sale	**–**	–	0.0	–	**0.0**
Transfers	**–**	–	7.6	-7.6	**0.0**
Disposals	**–**	0.0	-0.7	-0.1	**-0.8**
Amortization	**–**	-54.3	-222.0	–	**-276.3**
Impairment[3]	**–**	–	-33.1	–	**-33.1**
Book value	**6,857.3**	**208.1**	**1,286.2**	**19.8**	**1,514.1**
As at December 31, 2016					
Cost	**9,429.1**	310.1	2,446.1	19.8	**2,776.0**
Accumulated amortization	**-2,571.8**	-102.0	-1,159.9	–	**-1,261.9**
Book value	**6,857.3**	**208.1**	**1,286.2**	**19.8**	**1,514.1**

1 Not including development costs for internally generated software.
2 Including subsequent adjustment from purchase price allocations.
3 Impairment also includes necessary reversal of impairment losses.

Acquisitions of companies in 2016 resulted in an addition to goodwill totaling €180.0 million (PY: €764.5 million). In the year under review, there were no subsequent changes to the previous year's provisional purchase price allocations.

The carrying amount of goodwill relates principally to the acquisitions of Siemens VDO (2007), Continental Teves (1998), the automotive electronics business from Motorola (2006), Elektrobit Automotive (2015), Veyance Technologies (2015), and Continental Temic (2001).

The table below shows the goodwill of each cash-generating unit, in line with the current organizational structure in the respective fiscal year:

	Goodwill		
€ millions	**Dec. 31, 2016**		Dec. 31, 2015
Vehicle Dynamics	1,305.6	Vehicle Dynamics	1,300.9
Hydraulic Brake Systems	415.4	Hydraulic Brake Systems	412.1
Passive Safety & Sensorics	552.5	Passive Safety & Sensorics	550.9
Advanced Driver Assistance Systems	366.5	Advanced Driver Assistance Systems	368.0
Continental Engineering Services	17.4	Continental Engineering Services	19.5
Chassis & Safety	**2,657.4**	**Chassis & Safety**	**2,651.4**
Engine Systems	460.5	Engine Systems	455.4
Fuel & Exhaust Management	79.4	Fuel & Exhaust Management	79.2
Sensors & Actuators	212.3	Sensors & Actuators	210.2
Transmission	252.6	Transmission	251.0
Powertrain	**1,004.8**	**Powertrain**	**995.8**
Instrumentation & Driver HMI	598.1	Instrumentation & Driver HMI	597.7
Infotainment & Connectivity	572.3	Infotainment & Connectivity	568.7
Body & Security	722.3	Body & Security	717.7
Commercial Vehicles & Aftermarket	669.8	Commercial Vehicles & Aftermarket	518.2
Interior	**2,562.5**	**Interior**	**2,402.3**
Passenger and Light Truck Tire Original Equipment	2.0	Passenger and Light Truck Tire Original Equipment	2.0
Passenger and Light Truck Tire Replacement Business, EMEA	133.9	Passenger and Light Truck Tire Replacement Business, EMEA	133.6
Passenger and Light Truck Tire Replacement Business, The Americas	13.9	Passenger and Light Truck Tire Replacement Business, The Americas	–
Commercial Vehicles Tires	57.4	Commercial Vehicles Tires	40.5
Tires	**207.2**	**Tires**	**176.1**
Air Spring Systems	23.7	Air Spring Systems	19.6
Benecke-Kaliko Group	11.2	Benecke-Kaliko Group	11.2
Compounding Technology	1.8	Compounding Technology	1.8
Conveyor Belt Group	119.7	Conveyor Belt Group	119.2
Elastomer Coatings	14.2	Elastomer Coatings	14.2
Fluid Technology	–	Fluid Technology	200.0
Mobile Fluid Systems	51.5	Mobile Fluid Systems	–
Industrial Fluid Systems[1]	152.1	Industrial Fluid Systems[1]	–
Power Transmission Group	48.3	Power Transmission Group	48.4
Vibration Control	0.6	Vibration Control	0.6
CT Other	2.3	CT Other	–
ContiTech	**425.4**	**ContiTech**	**415.0**
Continental Corporation	**6,857.3**	**Continental Corporation**	**6,640.6**

1 Since January 2017: Industrial Fluid Solutions.

The additions to other intangible assets from consolidation changes are attributable primarily to customer relationships and know-how. Other additions related mainly to software in the amount of €51.6 million (PY: €74.7 million). Under IAS 38, €105.9 million (PY: €78.7 million) of the total development costs incurred in 2016 qualified for recognition as an asset.

Amortization of other intangible assets amounted to €276.3 million (PY: €257.3 million), €221.0 million (PY: €205.8 million) of which is included in the consolidated statement of income under the cost of sales and €55.3 million (PY: €51.5 million) of which is included in administrative expenses.

The other intangible assets include carrying amounts adjusted for translation-related currency effects and not subject to amortization in the amount of €112.2 million. These relate in particular to the VDO brand name in the amount of €71.2 million, the Elektrobit brand name in the amount of €30.4 million, the Phoenix brand name in the amount of €4.2 million, and the Matador brand name in the amount of €3.2 million. The remaining other intangible assets mainly comprise the carrying amount of software amounting to €130.2 million (PY: €143.2 million), which is amortized on a straight-line basis as scheduled.

12. Property, Plant and Equipment

The additions to property, plant and equipment from changes in consolidation essentially relate to the acquisitions of Hoosier Racing Tire (€39.4 million), the Bandvulc Group (€14.5 million), and Zonar Systems (€8.7 million). Please see Note 5.

Investments in the Chassis & Safety segment focused on both increasing production capacity in Europe and expanding the locations in North America and Asia. Production capacity for the Vehicle Dynamics and Hydraulic Brake Systems business units was expanded in particular. Important additions related to the creation of new production facilities for electronic brake systems. In San Luis Potosi, Mexico, investments were made in the construction of a new plant for the Hydraulic Brake Systems business unit.

In the Powertrain segment, production capacity was increased at the German locations and in China, the U.S.A., the Czechia, and Romania. Important additions related to the Engine Systems and Sensors & Actuators business units. In the Engine Systems business unit, manufacturing capacity for engine injection systems was expanded in particular.

In the Interior segment, there were major investments in expanding production capacity at German locations and the Czechia, Mexico, Romania, China, and the U.S.A. Investments focused primarily on the expansion of manufacturing capacity for the Instrumentation & Driver HMI and Body & Security business units. In the Instrumentation & Driver HMI business unit, manufacturing capacity for display solutions was expanded in particular.

In the Tire segment, production capacity was expanded in Europe, in North America, and in Asia. There were major additions relating to the expansion of existing production sites in Sumter, South Carolina, U.S.A.; Hefei, China; Lousado, Portugal; and Puchov, Slovakia. At the tire plant in Korbach, Germany, investments were made in the construction of a technology center for top-performance tires. Quality assurance and cost-cutting measures were also implemented.

Investments in the ContiTech segment focused on the expansion of production facilities at German locations and in China, Hungary, the U.S.A., Mexico, and Serbia. Production capacity for the Mobile Fluid Systems, Benecke-Kaliko Group, and Conveyor Belt Group business units was expanded in particular. There were major additions relating to the expansion of existing production sites for the Mobile Fluid Systems business unit in Subotica, Serbia, and Szeged, Hungary. Furthermore, investments were made in the construction of a new plant for the Elastomer Coatings business unit in Changshu, China, and in the establishment of an additional production site for the Benecke-Kaliko Group business unit in Changzhou, China. In addition, investments were made in all business units to rationalize existing production processes.

Please see Note 6 for information on impairment and reversal of impairment losses.

Government investment grants of €6.6 million (PY: €13.6 million) were deducted directly from cost, including for the plant in Wuhu, China.

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

Please see Note 22 for information on reclassifications during the period to assets held for sale.

Property, plant and equipment includes buildings, technical equipment and other facilities assigned to the corporation as the beneficial owner on the basis of the lease agreement. These relate primarily to administration and manufacturing buildings. The leases have an average term of 24 years for buildings and five to ten years for technical equipment. The effective interest rate of the main leases is between 4.6% and 8.7% (PY: between 4.6% and 8.5%). Some of the main leases include prolongation or purchase options.

There are restrictions on title and property, plant and equipment pledged as security for liabilities in the amount of €14.7 million (PY: €17.4 million).

€ millions	Land, land rights and buildings[1]	Technical equipment and machinery	Other equipment, factory and office equipment	Advances to suppliers and assets under construction	Total
As at January 1, 2015					
Cost	3,769.1	13,361.9	2,234.7	1,364.6	**20,730.3**
Accumulated depreciation	–1,475.7	–9,133.8	–1,657.5	–16.9	**–12,283.9**
Book value	**2,293.4**	**4,228.1**	**577.2**	**1,347.7**	**8,446.4**
thereof finance leases	28.1	0.8	0.3	—	**29.2**
Net change in 2015					
Book value	2,293.4	4,228.1	577.2	1,347.7	**8,446.4**
Foreign currency translation	0.0	53.5	–1.6	15.4	**67.3**
Additions	76.2	736.3	164.0	1,119.0	**2,095.5**
Additions from first consolidation of subsidiaries	161.8	314.4	11.8	25.0	**513.0**
Amounts disposed of through disposal of subsidiaries	0.0	0.0	0.0	—	**0.0**
Reclassification to/from assets held for sale	0.0	0.0	0.0	—	**0.0**
Transfers	180.0	854.0	114.2	–1,146.4	**1.8**
Disposals	–2.9	–19.8	–3.6	–2.0	**–28.3**
Depreciation	–162.7	–1,163.4	–208.1	—	**–1,534.2**
Impairment[2]	–8.6	–14.0	0.0	0.0	**–22.6**
Book value	**2,537.2**	**4,989.1**	**653.9**	**1,358.7**	**9,538.9**
As at December 31, 2015					
Cost	4,157.3	15,053.0	2,458.6	1,365.8	**23,034.7**
Accumulated depreciation	–1,620.1	–10,063.9	–1,804.7	–7.1	**–13,495.8**
Book value	**2,537.2**	**4,989.1**	**653.9**	**1,358.7**	**9,538.9**
thereof finance leases	24.7	0.8	0.2	—	**25.7**
Net change in 2016					
Book value	2,537.2	4,989.1	653.9	1,358.7	**9,538.9**
Foreign currency translation	48.9	39.0	4.5	0.8	**93.2**
Additions	182.2	752.4	179.5	1,410.1	**2,524.2**
Additions from first consolidation of subsidiaries	18.8	36.7	15.5	0.5	**71.5**
Amounts disposed of through disposal of subsidiaries	—	—	–0.1	—	**–0.1**
Reclassification to/from assets held for sale	–4.2	—	—	—	**–4.2**
Transfers	158.3	823.8	73.6	–1,055.9	**–0.2**
Disposals	–6.1	–22.4	–3.5	–1.4	**–33.4**
Depreciation	–167.0	–1,239.8	–219.5	—	**–1,626.3**
Impairment[2]	–12.4	–11.2	–1.9	—	**–25.5**
Book value	**2,755.7**	**5,367.6**	**702.0**	**1,712.8**	**10,538.1**
As at December 31, 2016					
Cost	4,546.2	16,376.7	2,613.7	1,720.8	**25,257.4**
Accumulated depreciation	–1,790.5	–11,009.1	–1,911.7	–8.0	**–14,719.3**
Book value	**2,755.7**	**5,367.6**	**702.0**	**1,712.8**	**10,538.1**
thereof finance leases	17.3	1.6	0.1	—	**19.0**

1 Investment property is shown separately in Note 13.
2 Impairment also includes necessary reversal of impairment losses.

13. Investment Property

€ millions	**2016**	2015
Cost as at January 1	29.2	30.3
Accumulated depreciation as at January 1	-13.2	-12.8
Net change		
Book value as at January 1	**16.0**	**17.5**
Foreign currency translation	-0.1	0.0
Additions	0.0	–
Disposals	-5.3	–
Reclassifications	0.1	-0.9
Depreciation	-0.4	-0.6
Book value as at December 31	**10.3**	**16.0**
Cost as at December 31	20.2	29.2
Accumulated depreciation as at December 31	-9.9	-13.2

The fair value – determined using the gross rental method – of land and buildings accounted for as investment property as at December 31, 2016, amounted to €16.2 million (PY: €20.4 million). The decrease was attributable mainly to the disposal of a property.

Rental income in 2016 amounted to €2.7 million (PY: €3.3 million), while associated maintenance costs of €1.4 million (PY: €1.4 million) were incurred.

14. Investments in At-Equity Accounted Investees

€ millions	**2016**	2015
As at January 1	**345.8**	**298.5**
Additions	8.5	24.2
Changes in the consolidation method, and transfers	-0.7	-0.9
Share of income	69.7	61.4
Dividends received	-44.6	-47.3
Changes in other comprehensive income of at-equity accounted investees	6.0	8.8
Foreign currency translation	0.1	1.1
As at December 31	**384.8**	**345.8**

Investments in at-equity accounted investees include carrying amounts of joint ventures in the amount of €241.7 million (PY: €221.4 million) and of associates in the amount of €143.1 million (PY: €124.4 million).

A significant joint venture of the Tire segment in the Passenger and Light Truck Tire Original Equipment business unit is MC Projects B.V., Maastricht, Netherlands, plus its subsidiaries. The company that is jointly controlled by Continental Global Holding Netherlands B.V., Maastricht, Netherlands, and Compagnie Financière Michelin SCmA, Granges-Paccot, Switzerland, which each hold 50% of the voting rights, essentially operates in the field of delivering tire-wheel assemblies for the automotive manufacturers. Michelin contributed the rights to the Uniroyal brand for Europe to the joint venture. MC Projects B.V. licenses these rights to Continental.

The following shares were held in significant joint ventures in the Automotive Group:

- Continental AG, Hanover, Germany, holds a 49% of the voting rights in Shanghai Automotive Brake Systems, Co. Ltd., Shanghai, China, which is jointly controlled with Huayu Automotive Systems Co., Ltd., Shanghai, China. The key business purpose of the company is the production of hydraulic braking systems for the Chinese market; it is assigned to the Hydraulic Brake Systems and Vehicle Dynamics business units.

- SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe, Germany, is jointly controlled by Continental Automotive GmbH, Hanover, Germany, and Faurecia Automotive GmbH, Stadthagen, Germany. Both shareholders hold 50% of the voting rights. The object of the company and its subsidiaries is essentially the development, assembly and distribution of cockpits and other modules for the automotive industry. The company therefore belongs to the Instrumentation & Driver HMI business unit.

The figures taken from the last two available sets of IFRS annual financial statements (2015 and 2014) for the main joint ventures above are as follows. Amounts are stated at 100%. Furthermore, the pro rata net assets have been reconciled to the respective carrying amount. All shares are accounted for using the equity method.

	MC Projects B.V.		**Shanghai Automotive Brake Systems Co., Ltd.**		**SAS Autosystemtechnik GmbH & Co. KG**	
€ millions	2015	2014	2015	2014	2015	2014
Dividends received	6.0	10.0	19.2	16.5	15.0	15.0
Current assets	149.9	138.9	252.8	225.4	420.8	437.1
thereof cash and cash equivalents	28.4	35.5	53.8	41.1	113.3	98.6
Non-current assets	72.2	68.5	103.1	87.1	82.5	84.5
Total assets	222.1	207.4	355.9	312.5	503.3	521.6
Current liabilities	97.5	77.6	156.0	139.9	389.3	418.2
thereof other short-term financial liabilities	2.4	2.2	–	–	0.2	–
Non-current liabilities	7.1	6.1	23.0	12.0	5.9	5.2
thereof long-term financial liabilities	1.3	1.3	–	–	–	–
Total liabilities	104.6	83.7	179.0	151.9	395.2	423.4
Sales	139.2	132.3	484.4	418.8	3,419.3	3,199.0
Interest income	0.6	1.4	3.0	0.9	0.6	0.3
Interest expense	0.4	0.4	–	–	0.4	0.6
Depreciation and amortization	11.2	10.3	13.0	9.9	20.6	17.2
Earnings from continued operations	14.7	10.0	45.4	39.5	39.6	35.5
Other comprehensive income	-0.9	-1.8	–	–	0.4	1.8
Income tax expense	7.4	7.1	6.8	6.3	13.5	15.7
Earnings after tax	13.8	8.3	45.4	39.5	40.0	37.2
Contingent liabilities	–	–	–	–	49.7	46.6
Net assets	117.5	123.7	176.9	160.6	108.2	98.2
Share of net assets	58.7	61.8	86.7	78.7	54.1	49.1
Goodwill	–	–	10.6	10.6	20.3	20.3
Foreign currency translation	–	–	-10.7	-10.7	–	–
Change in other comprehensive income prior year	–	–	-4.9	-7.0	-0.2	-0.9
Share of earnings prior year	-3.2	-5.3	0.0	0.0	–	–
Carrying amount	55.5	56.5	81.7	71.7	74.1	68.5

IAV GmbH Ingenieurgesellschaft Auto und Verkehr, Berlin, Germany, is a material associate. Continental Automotive GmbH, Hanover, Germany, holds 20% of the shares and voting rights. The company, together with its subsidiaries, essentially performs development services for the automotive industry and is assigned to the Engine Systems business unit.

The figures taken from the last two available sets of IFRS annual financial statements (2015 and 2014) for IAV GmbH Ingenieurgesellschaft Auto und Verkehr, Berlin, Germany, are as follows. Amounts are stated at 100%. Furthermore, the pro rata net assets have been reconciled to the respective carrying amount, which is accounted for using the equity method.

	IAV GmbH Ingenieurgesellschaft Auto und Verkehr	
€ millions	2015	2014
Dividends received	0.2	0.2
Current assets	265.5	248.3
Non-current assets	208.4	194.1
Total assets	473.9	442.4
Current liabilities	191.8	182.4
Non-current liabilities	90.7	86.5
Total liabilities	282.5	268.9
Sales	696.8	663.7
Earnings from continued operations	17.0	19.7
Other comprehensive income	1.8	2.1
Earnings after tax	18.8	21.7
Contingent liabilities	102.1	83.1
Net assets	191.4	173.4
Share of net assets	38.3	34.7
Goodwill	12.7	12.7
Change in other comprehensive income prior year	–0.4	–0.4
Share of earnings prior year	–0.4	0.4
Carrying amount	50.3	47.5

The figures taken from the last two available sets of annual financial statements (2015 and 2014) for the joint ventures and associates that are not material to the corporation are summarized as follows. Amounts are stated in line with the investment ratio.

	Associated companies		**Joint ventures**	
€ millions	2015	2014	2015	2014
Earnings from continued operations	7.2	4.9	–1.2	0.6
Earnings after tax	**7.2**	**4.9**	**–1.2**	**0.6**

15. Other Investments

€ millions	Dec. 31, 2016	Dec. 31, 2015
Investments in unconsolidated affiliated companies	6.4	7.7
Other participations	36.7	6.4
Other investments	**43.1**	**14.1**

Other investments are carried at cost, unless there are listings for these shares on the capital markets and unless the calculation of fair value is expected to provide a significant improvement for the presentation of financial statements. There is no intention to sell these at the current time.

16. Deferred Taxes

Deferred tax assets and liabilities are composed of the following items:

	Dec. 31, 2016		Dec. 31, 2015	
€ millions	Assets	Liabilities	Assets	Liabilities
Other intangible assets and goodwill	66.9	542.8	80.9	470.9
Property, plant and equipment	133.0	318.0	114.6	312.4
Inventories	310.9	95.6	286.6	86.6
Other assets	207.3	297.1	195.9	239.1
Employee benefits less defined benefit assets	1,137.9	32.1	797.5	34.0
Provisions for other risks and obligations	251.6	24.7	206.7	12.1
Indebtedness and other financial liabilities	229.0	44.7	277.6	17.1
Other differences	229.0	187.7	215.5	144.6
Allowable tax credits	23.5	–	32.9	–
Tax losses carried forward and limitation of interest deduction	418.2	–	417.1	–
Offsetting (IAS 12.74)	-1,171.2	-1,171.2	-955.6	-955.6
Amount recognized in statement of financial position	**1,836.1**	**371.5**	**1,669.7**	**361.2**
Net deferred taxes	**1,464.6**	**–**	**1,308.5**	**–**

Deferred taxes are measured in accordance with IAS 12 at the tax rate applicable for the periods in which they are expected to be realized. Since 2008, there has been a limit on the deductible interest that can be carried forward in Germany; the amount deductible under tax law is limited to 30% of taxable income before depreciation, amortization and interest.

In particular, the development of deferred taxes was influenced by various acquisitions and by the change in actuarial gains and losses from pensions and similar obligations in the year under review. Please see Notes 5 and 24.

Deferred tax assets were up €166.4 million to €1,836.1 million (PY: €1,669.7 million). This was due mainly to an increase in deferred taxes on employee benefits in the amount of €340.4 million, which resulted from the provision for pension liabilities and similar obligations. This was offset by the €215.6 million increase in net deferred taxes.

Deferred tax liabilities increased by €10.3 million as compared to the previous year. This change particularly results from deferred taxes on other intangible assets and goodwill.

As at December 31, 2016, the corporate tax losses carried forward amounted to €2,745.7 million (PY: €2,954.2 million). The majority of the corporation's tax losses carried forward relates to foreign subsidiaries and is mostly limited in the time period they can be carried forward.

Deferred tax assets were not recognized in relation to the following items because it is currently not deemed sufficiently likely that they will be utilized.

€ millions	Dec. 31, 2016	Dec. 31, 2015
Temporary differences	51.8	76.6
Tax losses carried forward and limitation of interest deduction	323.0	409.2
Allowable tax credits	35.1	37.3
Total unrecognized deferred tax assets	**409.9**	**523.1**

As at December 31, 2016, some corporation companies and tax groups that reported a loss recognized total deferred tax assets of €68.9 million (PY: €155.8 million), which arose from current losses, tax losses carried forward, and a surplus of deferred tax assets. Given that future taxable income is expected, it is sufficiently probable that these deferred tax assets can be realized.

The temporary differences from retained earnings of foreign companies amount to a total of €587.0 million (PY: €596.0 million). Deferred tax liabilities were not taken account, since remittance to the parent company is not planned in the short and medium term.

The measurement differences from assets or liabilities held for sale are included in the “Other assets” and “Other differences” items.

17. Other Financial Assets

	Dec. 31, 2016		Dec. 31, 2015	
€ millions	Short-term	Long-term	Short-term	Long-term
Amounts receivable from related parties	93.8	0.3	60.6	0.3
Loans to third parties	–	57.4	–	47.3
Amounts receivable from employees	18.8	–	19.3	–
Amounts receivable for customer tooling	229.4	–	240.8	–
Other amounts receivable	113.5	8.7	114.0	–
Other financial assets	**455.5**	**66.4**	**434.7**	**47.6**

The receivables from related parties are mainly attributable to receivables from operating service business with at-equity accounted investees and shareholders, as well as loans to associates.

Loans to third parties mainly relate to tenants’ loans for individual properties and include loans to customers with various maturities.

Receivables from employees relate mainly to preliminary payments for hourly wages and for other advances.

The receivables from the sale of customer tooling relate to costs that have not yet been invoiced. The decrease of €11.4 million as compared to the previous year resulted essentially from the Automotive Group.

In particular, other financial receivables include investment subsidies for research and development expenses not yet utilized and amounts receivable from suppliers. The carrying amounts of the other financial assets are essentially their fair values.

Impairment amounting to a total of €15.5 million (PY: €14.4 million) was recognized for the probable default risk on other financial assets, resulting in expenses of €1.1 million (PY: €10.8 million) in the period under review.

18. Other Assets

	Dec. 31, 2016		Dec. 31, 2015	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Tax refund claims (incl. VAT and other taxes)	607.2	–	477.4	–
Prepaid expenses	177.9	–	144.1	–
Others	203.9	26.8	182.4	21.5
Other assets	**989.0**	**26.8**	**803.9**	**21.5**

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

In particular, prepaid expenses include rent and maintenance services paid for in advance and license fees. Among other things, the "Others" item includes other deferred or advanced costs.

Impairment totaling €5.3 million (PY: €5.3 million) was recognized for the probable default risk on other assets. As in the previous year, neither expenses nor income arose in a significant amount in the reporting period.

19. Inventories

€ millions	**Dec. 31, 2016**	Dec. 31, 2015
Raw materials and supplies	1,338.8	1,106.9
Work in progress	502.4	450.6
Finished goods and merchandise	1,912.0	1,802.6
Inventories	**3,753.2**	**3,360.1**

Write-downs recognized on inventories increased by €47.7 million to €403.3 million (PY: €355.6 million).

20. Trade Accounts Receivable

€ millions	**Dec. 31, 2016**	Dec. 31, 2015
Trade accounts receivable	7,505.1	6,831.7
Allowances for doubtful accounts	-112.4	-108.8
Trade accounts receivable	**7,392.7**	**6,722.9**

The carrying amounts of the trade accounts receivable, net of allowances for doubtful accounts, are their fair values.

The risk provision is calculated on the basis of corporation-wide standards. Customer relationships are analyzed at regular intervals. Individual valuation allowances are distinguished from general portfolio allowances for trade accounts receivable measured at amortized cost. Trade accounts receivable for which individual valuation allowances must be recognized are not taken into account in calculating the general portfolio allowance.

The allowance for doubtful accounts essentially includes estimates and assessments of individual receivables based on the creditworthiness of the respective customer, current economic developments and the analysis of historical losses on receivables. The creditworthiness of a customer is assessed on the basis of its payment history and its ability to make payments.

Individual allowances are recognized if the customer displays significant financial difficulties or there is a high probability of insolvency. Corresponding expenses are recognized in the allowances for doubtful accounts. If there is evidence of uncollectibility, the receivables are derecognized. If creditworthiness improves, the allowance is reversed.

Accordingly, the specific valuation allowances and general portfolio allowances for trade accounts receivable developed as follows in the year under review:

€ millions	**2016**	2015
As at January 1	**108.8**	**105.7**
Additions	49.5	51.7
Utilizations	–14.0	–19.4
Reversals	–32.7	–29.6
Foreign currency translation	0.8	0.4
As at December 31	**112.4**	**108.8**

The Continental Corporation uses several programs for the sale of receivables. When the risks and rewards of receivables, in particular credit and default risks, have not been primarily transferred, the receivables are still recognized as assets in the statement of financial position.

Under the existing sale of receivables programs, the contractual rights to the receipt of payment inflows have been assigned to the corresponding contractual parties. The transferred receivables have short remaining terms. As a rule, therefore, the values recognized in the balance sheet as at the reporting date in the amount of €1,937.0 million (PY: €1,963.6 million) are approximately equivalent to their fair value. The respective liabilities with a carrying amount of €487.1 million (PY: €638.1 million) represent the liquidation proceeds from the sale of the receivables. In the year under review, this was approximately equivalent to their fair value; in the previous year the fair value was €638.8 million. The total financing volume under these sale of receivables programs amounts to €1,069.3 million (PY: €1,061.6 million).

The trade accounts receivable for which specific valuation allowances have not been recognized are broken down into the following maturity periods:

			thereof overdue in the following maturity periods					
€ millions	**Book value**	thereof not overdue	less than 15 days	15–29 days	30–59 days	60–89 days	90–119 days	120 days and more
Dec. 31, 2016								
Trade accounts receivable[1]	**6,042.5**	5,513.0	184.3	85.2	71.2	29.6	26.9	132.3
Dec. 31, 2015								
Trade accounts receivable[1]	**5,430.1**	5,015.3	172.8	54.2	79.9	19.6	18.0	70.3

1 The difference between this figure and the first table in this Note of €1,462.6 million (PY: €1,401.6 million) resulted from receivables for which specific valuation allowances have been recognized.

Based on the customers' payment history and analysis of their creditworthiness, the Continental Corporation expects that the overdue receivables not written down and the receivables not overdue will be settled in full and no valuation allowance will be required. The receivables as at December 31, 2016, do not include any amounts from the percentage-of-completion method.

21. Cash and Cash Equivalents

Cash and cash equivalents include all liquid funds and demand deposits. Cash equivalents are short-term, highly liquid financial investments that can be readily converted into known cash amounts and are subject to an insignificant risk of changes in value. As at the reporting date, cash and cash equivalents amounted to €2,107.0 million (PY: €1,621.5 million), €1,673.9 million (PY: €1,381.2 million) of which was unrestricted.

For information on the interest rate risk and the sensitivity analysis for financial assets and liabilities, please see Note 28.

22. Assets Held for Sale

€ millions	Dec. 31, 2016	Dec. 31, 2015
Individual assets held for sale	4.0	2.8
Assets of a disposal group	0.0	9.2
Assets held for sale	**4.0**	**12.0**

The assets held for sale in the amount of €4.0 million (PY: €12.0 million) comprise mainly smaller properties.

The steel cord business of Veyance Technologies in Brazil was sold in the current fiscal year. As part of the acquisition of Veyance Technologies in January 2015, ContiTech agreed with the antitrust authorities to sell these operations.

23. Equity

Number of shares outstanding	2016	2015
As at January 1	**200,005,983**	**200,005,983**
Change in the period	–	–
As at December 31	**200,005,983**	**200,005,983**

The subscribed capital of Continental AG was unchanged year-on-year. At the end of the reporting period it amounted to €512,015,316.48 and was composed of 200,005,983 no-par-value shares with a notional value of €2.56 per share.

The change in conditional capital is shown in the table below:

€ thousands	2016	2015
Conditional capital as at January 1	**–**	**67,463**
Disposals	–	-67,463
Conditional capital as at December 31	**–**	**–**

Under the German Stock Corporation Act *(Aktiengesetz – AktG)*, the dividends distributable to the shareholders are based solely on Continental AG's retained earnings as at December 31, 2016, of €1,103.1 million (PY: €1,014.2 million), as reported in the annual financial statements prepared in accordance with the German Commercial Code. The Supervisory Board and the Executive Board will propose to the Annual Shareholders' Meeting the distribution of a dividend of €4.25 per share. With 200,005,983 no-par-value shares entitled to dividends, the total distribution thus amounted to €850,025,427.75. The remaining amount is to be carried forward to new account.

24. Employee Benefits

The following table outlines the employee benefits:

	Dec. 31, 2016		Dec. 31, 2015	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	–	3,871.9	–	3,261.6
Provisions for other post-employment benefits	–	232.6	–	229.9
Provisions for similar obligations	0.8	45.5	–	41.2
Other employee benefits	–	160.9	–	129.8
Liabilities for workers' compensation	35.1	81.4	36.6	34.0
Liabilities for payroll and personnel related costs	880.2	–	870.3	–
Termination benefits	37.3	–	32.1	–
Liabilities for social security	171.2	–	163.7	–
Liabilities for vacation	189.5	–	166.7	–
Employee benefits	**1,314.1**	**4,392.3**	**1,269.4**	**3,696.5**
Defined benefit assets (difference between pension obligations and related funds)		**24.3**		**18.9**

Long-term employee benefits

Pension plans

In addition to statutory pension insurance, the majority of employees are also entitled to defined benefit or defined contribution plans after the end of their employment.

Our pension strategy is focusing on switching from defined benefit to defined contribution plans in order to offer both employees and the company a sustainable and readily understandable pension system. Many defined benefit plans were closed for new employees or future service and replaced by defined contribution plans.

In countries in which defined contribution plans are not possible for legal or economic reasons, defined benefit plans were optimized or changed to minimize the associated risks of longevity, inflation and salary increases.

Defined benefit plans

Defined benefit plans include pension plans, termination indemnities regardless of the reason for the end of employment and other post-employment benefits. As a result of the significant increase in the number of employees in recent years and the high level of acquisition activity, pension obligations essentially relate to active employees. The defined benefit pension plans cover 158,322 beneficiaries, including 110,737 active employees, 18,400 former employees with vested benefits and 29,185 retirees and surviving dependents. The pension obligations are concentrated in four countries: Germany, the U.S.A., the U.K. and Canada, which account for more than 90% of total pension obligations.

The weighted average term of the defined benefit pension obligations is 17 years. This term is based on the present value of the obligations.

Germany

In Germany, Continental provides pension benefits through the cash balance plan, prior commitments and deferred compensation.

The retirement plan regulation applicable to active members is based primarily on the cash balance plan and thus on benefit modules. When the insured event occurs, the retirement plan assets are paid out as a lump-sum benefit, in installments or as a pension, depending on the amount of the retirement plan assets. There are no material minimum guarantees in relation to a particular amount of retirement benefits.

Pension plans transferred to or assumed by Continental in the context of acquisitions (Siemens VDO, Temic, Teves, Phoenix) were included in the cash balance plans. For the main German companies, the cash balance plan is partly covered by funds in contractual trust arrangements (CTAs). In Germany there are no legal or regulatory minimum allocation obligations.

The CTAs are legally independent from the company and manage the plan assets as trustees in accordance with the respective CTAs.

In the previous year, part of the plan assets of Continental Pension Trust e. V. regained the status of qualifying plan assets as a result of amendments to the articles of incorporation. As a result, assets amounting to €341.3 million were reported net of the associated obligations. The remaining share of Continental Pension Trust e. V. that was not netted amounted to €475.6 million and included shares in ContiTech AG, Hanover, Germany, that were taken into account in the consolidation.

Some prior commitments were granted through two legally independent pension contribution funds. Pensionskasse für Angestellte der Continental Aktiengesellschaft VVaG, and Pensionskasse von 1925 der Phoenix AG VVaG have been closed since March 1, 1984 and July 1, 1983, respectively. The pension contribution funds are smaller associations within the meaning of Section 53 of the German Insurance Supervision Act *(Versicherungsaufsichtsgesetz – VAG)* and are subject to the supervision of the German Federal Financial Supervisory Authority *(Bundesanstalt für Finanzdienstleistungsaufsicht)*. The investment regulations are in accordance with the legal requirements and risk structure of the obligations. The pension contribution funds have tariffs with an interest rate of 3.5%. Under the German Company Pensions Law *(Betriebsrentengesetz – BetrAVG)*, Continental is ultimately liable for the implementation path of the pension contribution fund. In accordance with IAS 19, the pension obligations covered by the pension contribution fund are therefore defined benefit pension plans. The pension contribution funds met their minimum net funding requirement as at December 31, 2016. However, given that only the plan members are entitled to the assets and amounts generated, the benefit obligations are recognized in the same amount as the existing assets at fair value.

The company also supports private contribution through deferred compensation schemes.

Deferred compensation is essentially offered through a fully-funded multi-employer plan (Höchster Pensionskasse VVaG) for contributions up to 4% of the assessment ceiling in social security. The pension contribution fund ensures guaranteed minimum interest for which Continental is ultimately liable under the German Company Pensions Law. The company is not liable for guarantees to employees of other companies. As Höchster Pensionskasse VVaG is a combined defined benefit plan for several companies and Continental has no right to the information required for accounting for this defined benefit plan, this plan is recognized as a defined contribution plan.

Entitled employees can use the cash balance plan for deferred compensation contributions above the 4% assessment ceiling. This share is funded by insurance annuity contracts.

U.S.A.

Owing to its acquisition history, Continental has various defined benefit plans in the U.S.A., which were closed to new entrants and frozen to accretion of further benefits in a period from April 1, 2005, to December 31, 2011. Acquisitions in the previous year also included an open defined benefit plan for unionized employees.

The closed defined benefit plans are commitments on the basis of the average final salary for employees of the Tire and Automotive segments and cash balance commitments for former Siemens VDO employees. The defined benefit plans for unionized and non-unionized employees are based on a pension multiplier per year of service.

Closed defined benefit plans were replaced by defined contribution plans. Defined contribution plans apply to the majority of active employees in the U.S.A.

The plan assets of the defined benefit plans are managed in a master trust. Investment supervision was delegated to the Pension Committee, a body appointed within the corporation. The legal and regulatory framework for the plans is based on the U.S. Employee Retirement Income Security Act (ERISA). The valuation of the financing level is required on the basis of this law. The interest rate used for this calculation is the average rate over a period of 25 years and therefore currently higher than the interest rate used to discount obligations under IAS 19. The statutory valuation therefore gives rise to a lower obligation than that in line with IAS 19. There is a regulatory requirement to ensure minimum funding of 80% in the defined benefit plans to prevent benefit curtailments.

United Kingdom

Continental maintains four defined benefit plans as a result of its history of acquisitions in the United Kingdom. All plans are commitments on the basis of the average or final salary. The four plans were closed to new employees in the period between April 1, 2002 and November 30, 2004. Continental offers defined contribution plans for all employees who have joined the company since that time.

As at April 5, 2016, the Continental Group Pension and Life Assurance Scheme was frozen to accretion of further benefits. It was replaced by a defined contribution plan as at April 6, 2016.

Our pension strategy in the U.K. focuses on reducing risks and includes the option of partially or completely funding by purchasing annuities.

Following this strategy, the Mannesmann U.K. Pension Scheme completely funded another tranche of pension payments by purchasing annuities. The Continental Group Pension and Life Assurance Scheme has concluded a contract with an insurance company for completely funding the pension obligations to current pension beneficiaries by purchasing annuities. This contract will take effect in the first quarter of 2017.

The funding conditions are defined by the U.K. Pensions Regulator and the corresponding laws and regulations. The defined benefit plans are managed by trust companies. The boards of trustees of these companies have an obligation solely to the good of the beneficiaries on the basis of the trust agreement and the law.

The necessary funding is determined every three years through technical valuations in line with local provisions. The obligations are measured using a discounting rate based on government bonds and other conservatively selected actuarial assumptions. Compared to IAS 19, which derives the discounting rate from senior corporate bonds, this usually results in a higher obligation. Three of the four defined benefit plans had a funding deficit on the basis of the most recent technical valuation. The trustees and the company have agreed on a recovery plan that provides for additional temporary annual payments. The valuation process must be completed within 15 months of the valuation date. The technical valuations were completed in 2016 for two plans and in 2017 for the other two plans.

The last technical valuations of the four defined benefit pension plans took place with their valuation dates between December 2012 and April 2015 and led to the following result:

- Continental Teves UK Employee Benefit Scheme (assessment as at December 31, 2014): As part of the assessment, an agreement on a minimum annual endowment of GBP 1.4 million over a period of five years was resolved.
- Continental Group Pension and Life Assurance Scheme (assessment as at April 5, 2015): As part of the assessment and in connection with the pension plan being frozen to accretion of further benefits, a one-time contribution of GBP 15.0 million was made in 2016 and an agreement was concluded to enable the pension plan to fund a full buyout by purchasing annuities in the next five years.
- Mannesmann UK Pension Scheme (assessment as at March 31, 2013): The plan is fully endowed, meaning that there is no need for additional payments.
- Phoenix Dunlop Oil & Marine Pension Scheme (assessment as at December 31, 2012): As part of the assessment, an agreement was resolved on a minimum annual endowment of GBP 1.5 million and an annual adjustment of 3.5% over a period of seven years. Thereafter, there will be an annual payment of GBP 0.7 million and an annual adjustment of 3.5% over a period of another three years.

Canada

As a result of its history of acquisitions, Continental maintains six defined benefit pension plans (one plan for non-unionized employees and five plans for unionized employees). The pension plans are based mainly on a pension multiplier per year of service. Due to the closure of our location in Bowmanville, funding for the Bowmanville pension plan is expected to be completely funded by purchasing annuities in the coming year.

Fluctuations in the amount of the pension obligation resulting from exchange rate effects are subject to the same risks as the overall business development. These fluctuations relate mainly to the currencies of the U.S.A., Canada and the U.K. and have no material impact on Continental. For information on the effects of interest rate risks and longevity risk on the pension obligations, please refer to the sensitivities described later on in this section.

The pension obligations for Germany, the U.S.A., Canada, the U.K. and other countries, as well as the amounts for the Continental Corporation as a whole, are shown in the tables below.

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

	2016						2015					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Defined benefit obligations as at January 1	**3,814.1**	**1,199.0**	**140.4**	**378.6**	**275.3**	**5,807.4**	**3,482.9**	**1,081.1**	**78.7**	**367.5**	**255.4**	**5,265.6**
Foreign currency differences	–	41.6	9.4	-57.1	-3.0	**-9.1**	–	123.2	-9.2	21.7	0.1	135.8
Current service cost	148.5	5.7	1.9	2.8	22.0	**180.9**	151.3	7.0	2.5	4.8	22.5	188.1
Service cost from plan amendments	–	4.2	–	1.5	0.0	**5.7**	–	–	0.1	–	0.0	0.1
Curtailments/settlements	–	–	–	-6.4	-5.7	**-12.1**	–	–	5.6	–	-6.9	-1.3
Interest on defined benefit obligations	86.5	51.5	5.8	12.6	8.7	**165.1**	84.8	49.9	5.2	14.1	8.9	162.9
Actuarial gains/losses from changes in demographic assumptions	–	-17.2	0.6	-3.4	-0.1	**-20.1**	–	-41.2	0.7	0.5	3.2	-36.8
Actuarial gains/losses from changes in financial assumptions	445.0	32.2	5.2	84.5	29.8	**596.7**	-145.2	-79.4	-9.7	-17.0	-1.0	-252.3
Actuarial gains/losses from experience adjustments	22.9	-2.1	-0.3	0.6	-1.4	**19.7**	328.0	13.0	0.0	-2.7	2.7	341.0
Net changes in the scope of consolidation	–	–	–	–	0.7	**0.7**	5.6	112.7	77.0	–	3.8	199.1
Employee contributions	–	–	0.3	0.3	0.0	**0.6**	–	–	0.3	0.8	0.0	1.1
Other changes	0.1	–	–	-0.6	0.0	**-0.5**	–	–	–	-0.8	-0.5	-1.3
Benefit payments	-100.6	-67.9	-12.0	-11.2	-14.6	**-206.3**	-93.3	-67.3	-10.8	-10.3	-12.9	-194.6
Defined benefit obligations as at December 31	**4,416.5**	**1,247.0**	**151.3**	**402.2**	**311.7**	**6,528.7**	**3,814.1**	**1,199.0**	**140.4**	**378.6**	**275.3**	**5,807.4**

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

	2016						2015					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Fair value of plan assets as at January 1	**1,065.8**	**870.5**	**124.5**	**386.7**	**124.4**	**2,571.9**	**736.1**	**772.2**	**67.5**	**344.1**	**115.8**	**2,035.7**
Foreign currency differences	–	30.1	8.3	-57.3	-0.8	**-19.7**	–	88.1	-8.1	19.8	-0.8	99.0
Interest income from pension funds	28.5	37.3	5.2	13.4	4.3	**88.7**	13.1	34.4	4.5	13.3	4.5	69.8
Actuarial gains/losses from plan assets	7.9	18.6	4.5	36.6	-2.2	**65.4**	-2.7	-25.8	-1.3	9.4	-1.2	-21.6
Employer contributions	44.8	17.7	3.4	23.7	17.6	**107.2**	3.1	18.0	6.5	10.5	17.6	55.7
Employee contributions	–	–	0.3	0.3	0.3	**0.9**	–	–	0.3	0.8	0.3	1.4
Net changes in the scope of consolidation	–	–	–	–	–	**–**	0.3	57.3	66.2	–	1.2	125.0
Other changes	–	-1.9	-0.3	-0.7	-4.3	**-7.2**	341.3	-6.5	-0.3	-0.9	-6.1	327.5
Benefit payments	-24.0	-67.9	-12.0	-11.2	-7.7	**-122.8**	-25.4	-67.2	-10.8	-10.3	-6.9	-120.6
Fair value of plan assets as at December 31	**1,123.0**	**904.4**	**133.9**	**391.5**	**131.6**	**2,684.4**	**1,065.8**	**870.5**	**124.5**	**386.7**	**124.4**	**2,571.9**

The carrying amount of pension provisions rose by €604.9 million as compared to the previous year. This was primarily due to actuarial losses as a result of lower discount rates compared to the previous year. Defined benefit assets increased by €5.4 million year-on-year. This was chiefly due to the surplus of plan assets in the U.K.

€6,403.3 million (PY: €5,723.0 million) of the defined benefit obligations as at December 31, 2016, related to plans that are fully or partially funded and €125.4 million (PY: €84.4 million) relates to plans that are unfunded.

The rise in defined benefit obligations of €721.3 million compared to December 31, 2015, resulted in particular from actuarial gains and losses.

Plan assets in Germany include the CTA assets amounting to €744.5 million (PY: €679.3 million), pension contribution fund assets of €275.1 million (PY: €286.5 million) and insurance annuity contracts amounting to €101.0 million (PY: €97.5 million).

In the year under review, plan assets increased by €112.5 million to €2,684.4 million. The main reason for this was the contribution of ContiTech AG's guaranteed dividend to the plan assets of Continental Pension Trust e. V. Actuarial gains also contributed to the increase in plan assets.

Actuarial gains and losses on plan assets in Germany resulted from the actuarial losses of €4.0 million (PY: actuarial gains of €9.9 million) on pension contribution funds and actuarial gains of €7.9 million (PY: actuarial loss of €2.8 million) from the CTA.

In the Continental Corporation there are pension contribution funds for previously defined contributions in Germany that have been closed to new entrants since July 1, 1983, and March 1, 1984, respectively. As at December 31, 2016, the minimum net funding requirement was exceeded; Continental AG has no requirement to make additional contributions. The pension fund assets had a fair value of €275.1 million as at December 31, 2016 (PY: €286.5 million). The pension contribution funds have tariffs with an interest rate of 3.50%, for which Continental AG is ultimately liable under the German Company Pensions Law. Under this law, the pension obligations constitute a defined benefit pension plan, which is why this plan must be reported in line with the development of pension provisions. However, given that only the plan members are entitled to the assets and income generated, the benefit obligations are recognized in the same amount as the existing assets at fair value.

The following table shows the reconciliation of the funded status to the amounts contained in the statement of financial position:

	Dec. 31, 2016						Dec. 31, 2015					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Funded status[1]	**–3,293.5**	**–342.6**	**–17.4**	**–10.7**	**–180.1**	**–3,844.3**	**–2,748.3**	**–328.5**	**–15.9**	**8.1**	**–150.9**	**–3,235.5**
Asset ceiling	—	—	–1.9	—	–1.4	**–3.3**	—	—	–1.3	–5.5	–0.4	–7.2
Carrying amount	**–3,293.5**	**–342.6**	**–19.3**	**–10.7**	**–181.5**	**–3,847.6**	**–2,748.3**	**–328.5**	**–17.2**	**2.6**	**–151.3**	**–3,242.7**

1 Difference between plan assets and defined benefit obligations.

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

	Dec. 31, 2016						Dec. 31, 2015					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Defined benefit assets	—	—	0.7	22.7	0.9	**24.3**	—	—	1.3	15.9	1.7	18.9
Pension provisions	–3,293.5	–342.6	–20.0	–33.4	–182.4	**–3,871.9**	–2,748.3	–328.5	–18.5	–13.3	–153.0	–3,261.6
Carrying amount	**–3,293.5**	**–342.6**	**–19.3**	**–10.7**	**–181.5**	**–3,847.6**	**–2,748.3**	**–328.5**	**–17.2**	**2.6**	**–151.3**	**–3,242.7**

The pension plan of Continental Automotive Trading UK Ltd., Birmingham, U.K., reports a defined benefit obligation as at the end of the fiscal year, whereas in the previous year there were plan assets that exceeded the defined benefit obligations. In the previous year, the recognition of the asset was limited to the present value of the benefits to the corporation (asset ceiling). This present value therefore corresponded to €0.0 million in the previous year.

The assumptions used to measure the pension obligations – in particular the discount factors for determining the interest on expected pension obligations and the expected return on plan assets, as well as the long-term salary growth rates and the long-term pension trend – are specified for each country.

In the principal pension plans, the following weighted-average valuation factors as at December 31 of the year have been used:

	2016					2015				
%	**Germany[1]**	**U.S.A.**	**CAN**	**U.K.**	**Other**	Germany[1]	U.S.A.	CAN	U.K.	Other
Discount rate	1.80	4.25	3.80	2.70	2.47	2.35	4.50	4.10	3.80	3.50
Long-term salary growth rate	3.00	3.50	3.50	4.15	3.31	3.00	3.50	3.50	4.14	3.60

1 Not including the pension contribution funds.

Another parameter for measuring the pension obligation is the long-term pension trend. The following weighted average long-term pension trend was used as at December 31, 2016, for the key countries: Germany 1.75% (PY: 1.75%), Canada 1.6% (PY: 1.6%), U.K. 3.0% (PY: 3.1%). For the U.S.A., the long-term pension trend does not constitute a significant measurement parameter.

Net pension cost can be summarized as follows:

	2016						2015					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Current service cost	148.5	5.7	1.9	2.8	22.0	**180.9**	151.3	7.0	2.5	4.8	22.5	188.1
Service cost from plan amendments	–	4.2	–	1.5	0.0	**5.7**	–	–	0.1	–	–	0.1
Curtailments/settlements	–	–	–	-6.4	-5.7	**-12.1**	–	–	5.6	–	-6.9	-1.3
Interest on defined benefit obligations	86.5	51.5	5.8	12.6	8.7	**165.1**	84.8	49.9	5.2	14.1	8.9	162.9
Expected return on plan assets	-28.5	-37.3	-5.2	-13.4	-4.3	**-88.7**	-13.1	-34.4	-4.5	-13.3	-4.5	-69.8
Effect of change of asset ceiling	–	–	0.1	0.1	0.1	**0.3**	–	–	–	–	0.3	0.3
Other pension income and expenses	–	1.9	0.3	–	-0.1	**2.1**	–	1.9	0.3	–	0.5	2.7
Net pension cost	**206.5**	**26.0**	**2.9**	**-2.8**	**20.7**	**253.3**	**223.0**	**24.4**	**9.2**	**5.6**	**20.8**	**283.0**

Curtailments and settlements in 2016 particularly related to the freezing of the Continental Group Pension and Life Assurance Scheme in the U.K. and the resulting reduction in the defined benefit pension obligation.

The table below shows the reconciliation of changes in actuarial gains and losses at the start and end of the reporting year:

	2016						2015					
€ millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Actuarial gains/losses as at Jan. 1	**–1,529.3**	**–289.3**	**–6.1**	**–44.9**	**–62.2**	**–1,931.8**	**–1,343.8**	**–371.1**	**–12.8**	**–74.4**	**–58.2**	**–1,860.3**
Actuarial gains/losses from defined benefit obligations	–467.9	–12.9	–5.5	–81.7	–28.3	**–596.3**	–182.8	107.6	9.0	19.2	–4.9	–51.9
Actuarial gains/losses from plan assets	7.9	18.6	4.5	36.6	–2.2	**65.4**	–2.7	–25.8	–1.3	9.4	–1.2	–21.6
Actuarial gains/losses from asset ceiling	—	—	–0.5	4.9	–0.7	**3.7**	—	—	–1.0	0.9	2.1	2.0
Actuarial gains/losses as at Dec. 31	**–1,989.3**	**–283.6**	**–7.6**	**–85.1**	**–93.4**	**–2,459.0**	**–1,529.3**	**–289.3**	**–6.1**	**–44.9**	**–62.2**	**–1,931.8**

Actuarial gains and losses arise from increases or decreases in the present value of the defined benefit obligation due to changes in the actuarial assumptions made. The decrease in the discount rate in the 2016 reporting period as compared to 2015 resulted in actuarial losses in all key countries. By contrast, the actuarial gains incurred in the 2015 reporting period from changes in financial assumptions were due to an increase in the discount rate compared to 2014, although these gains were more than offset by actuarial losses due to differing events in Germany.

If the other assumptions remained constant, the changes in individual key actuarial assumptions that could reasonably have been possible at the reporting date would have impacted the defined benefit obligation by the following amounts. Although the analysis does not take account of the complete allocation of the cash flows expected under the plan, it provides an approximation of the sensitivity of the assumptions shown.

If the other assumptions are maintained, a one-half percentage point increase or decrease in the discount rate used to discount pension obligations would have had the following impact on the pension obligations as at the end of the reporting period:

	Dec. 31, 2016					Dec. 31, 2015				
€ millions	**Germany[1]**	**U.S.A.**	**CAN**	**U.K.**	**Other**	Germany[1]	U.S.A.	CAN	U.K.	Other
0.5% increase										
Effects on service and interest cost	–17.6	–2.0	–0.3	0.6	–0.4	–9.8	–1.6	–0.2	0.0	0.6
Effects on benefit obligations	–404.3	–66.0	–10.3	–35.7	–18.3	–330.4	–64.3	–9.7	–31.4	–27.0
0.5% decrease										
Effects on service and interest cost	20.2	1.7	0.3	–0.8	0.4	10.9	1.2	0.1	–0.2	–0.1
Effects on benefit obligations	472.4	72.6	11.5	40.5	20.4	384.0	70.9	10.7	35.7	33.6

1 Not including the pension contribution funds.

A one-half percentage point increase or decrease in the long-term salary growth rate would have had the following impact on the pension obligations as at the end of the reporting period:

	Dec. 31, 2016				Dec. 31, 2015			
€ millions	**Germany**	**U.S.A.[1]**	**CAN**	**U.K.**	Germany	U.S.A.[1]	CAN	U.K.
0.5% increase								
Effects on benefit obligations	1.8	–	0.8	2.7	1.8	–	0.9	5.1
0.5% decrease								
Effects on benefit obligations	-1.7	–	-0.8	-2.5	-1.5	–	-0.9	-4.8

1 Any change in the long-term salary growth rate would have no effect on the value of the benefit obligations.

A one-half percentage point increase or decrease in the long-term pension trend would have had the following impact on the pension obligations as at the end of the reporting period:

	Dec. 31, 2016				Dec. 31, 2015			
€ millions	**Germany**	**U.S.A.[1]**	**CAN**	**U.K.**	Germany	U.S.A.[1]	CAN	U.K.
0.5% increase								
Effects on benefit obligations	173.9	–	4.3	23.9	148.6	–	3.6	22.7
0.5% decrease								
Effects on benefit obligations	-157.5	–	-3.9	-23.4	-135.0	–	-3.3	-21.3

1 Any change in the long-term pension trend would have no effect on the value of the benefit obligations.

Changes in the discount rate and the salary and pension trends do not have a linear effect on the defined benefit obligations (DBO) owing to the financial models used (particularly due to the compounding of interest rates). For this reason, the net periodic pension cost derived from the pension obligations does not change by the same amount as a result of an increase or decrease in the actuarial assumptions.

In addition to the aforementioned sensitivities, the impact of a one-year-longer life expectancy on the value of benefit obligations was computed for the key countries. A one-year increase in life expectancy would lead to a €216.3 million (PY: €177.2 million) increase in the value of the benefit obligations, and that figure would be broken down as follows: Germany €166.9 million (PY: €134.3 million), U.S.A. €31.7 million (PY: €28.5 million), U.K. €13.8 million (PY: €11.1 million), and Canada €3.9 million (PY: €3.3 million). In Germany, increased payments in the form of pensions rather than capital were assumed in the actuarial valuation, which has the effect of increasing the benefit obligations. For the calculation of pension obligations for domestic plans, life expectancy is based on Prof. Klaus Heubeck's Richttafeln 2005 G. For foreign pension plans, comparable criteria are used for the respective country. For foreign pension plans, comparable criteria are used for the respective country.

Pension funds

The structure of the corporation's plan assets is reviewed by the investment committees on an ongoing basis taking into account the forecast pension obligations. In doing so, the investment committees regularly review the investment decisions taken, the underlying expected returns of the individual asset classes reflecting empirical values and the selection of the external fund managers.

The portfolio structures of the pension plan assets at the measurement date for the fiscal years 2016 and 2015 are as follows:

%	2016					2015				
Asset class	**Germany[1]**	**U.S.A.**	**CAN**	**U.K.**	**Other**	Germany[1]	U.S.A.	CAN	U.K.	Other
Equity instruments	1	52	46	22	10	1	52	55	23	11
Debt securities	60	43	53	41	51	62	39	44	44	56
Real estate	7	4	–	1	0	6	–	–	1	1
Absolute return[2]	16	–	–	23	25	11	–	–	25	24
Cash, cash equivalents and other	16	1	1	13	14	20	9	1	7	8
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

1 The portfolio structure of the fund assets in Germany excludes the pension contribution funds, whose assets are invested mainly in fixed-income securities and shares.
2 This refers to investment products that aim to achieve a positive return regardless of market fluctuations.

The following table shows the cash contributions made by the company to the pension funds for 2016 and 2015 as well as the expected contributions for 2017:

€ millions	2017 (expected)	**2016**	2015
Germany	41.4	44.8	3.1
U.S.A.	17.5	17.7	18.0
CAN	5.6	3.4	6.5
U.K.	17.9	23.7	10.5
Other	7.2	17.6	17.6
Total	**89.6**	**107.2**	**55.7**

The following overview contains the pension benefit payments made in the reporting year and the previous year, as well as the undiscounted, expected pension benefit payments for the next ten years:

€ millions	Germany	U.S.A.	CAN	U.K.	Other	**Total**
Benefits paid						
2015	93.3	67.3	10.8	10.3	12.9	**194.6**
2016	100.6	67.9	12.0	11.2	14.6	**206.3**
Benefit payments as expected						
2017	113.3	76.0	8.6	8.3	11.1	**217.3**
2018	108.2	76.8	44.9	9.4	13.3	**252.6**
2019	113.5	78.2	5.3	10.6	14.4	**222.0**
2020	104.2	78.2	5.5	11.1	14.6	**213.6**
2021	112.2	79.1	5.7	12.1	16.2	**225.3**
Total of years 2022 to 2026	658.8	396.0	32.4	72.1	110.1	**1,269.4**

The pension payments from 2015 onwards relate to lump-sum amounts in connection with fixed service cost benefit plans, as well as annual pension benefits. Furthermore, the earliest eligible date for retirement has been assumed when determining future pension payments. The actual retirement date could occur later. Therefore the actual payments in future years for present plan members could be lower than the amounts assumed.

For the current and four preceding reporting periods, the amounts of the defined benefit obligations, plan assets, funded status, as well as the experience adjustments to plan liabilities and to plan assets are as follows:

€ millions	2016	2015	2014	2013	2012
Defined benefit obligations	6,528.7	5,807.4	5,265.6	4,052.2	4,126.7
Plan assets	2,684.4	2,571.9	2,035.7	1,882.2	1,814.4
Funded status	–3,844.3	–3,235.5	–3,229.9	–2,170.0	–2,312.3
Experience adjustments to plan liabilities	596.3	51.9	981.6	–117.5	768.7
Experience adjustments to plan assets	65.4	–21.6	55.5	112.7	76.0

Other post-employment benefits

Certain subsidiaries – primarily in the U.S.A. and Canada – grant eligible employees healthcare and life insurance on retirement if they have fulfilled certain conditions relating to age and years of service. The amount and entitlement can be altered. Certain retirement benefits, in particular for pensions and healthcare costs, are provided in the U.S.A. for hourly paid workers at unionized tire plants under the terms of collective pay agreements. No separate plan assets have been set up for these obligations.

The weighted average term of the defined benefit pension obligation is 12 years. This term is based on the present value of the obligation.

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

€ millions	2016	2015
Defined benefit obligations as at January 1	**229.9**	**212.0**
Foreign currency differences	9.3	16.5
Current service cost	1.5	2.3
Curtailments/settlements	–0.1	–2.8
Interest on healthcare and life insurance benefit obligations	9.7	9.7
Actuarial gains/losses from changes in demographic assumptions	–2.1	–3.5
Actuarial gains/losses from changes in financial assumptions	–0.4	–11.9
Actuarial gains/losses from experience adjustments	0.4	–6.8
Net changes in the scope of consolidation	–	27.6
Benefit payments	–15.6	–13.2
Defined benefit obligations/net amount recognized as at December 31	**232.6**	**229.9**

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

%	2016	2015
Discount rate	4.24	4.46
Rate of increase in healthcare and life insurance benefits in the following year	5.58	5.85
Long-term rate of increase in healthcare and life insurance benefits	4.64	5.07

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

€ millions	2016	2015
Current service cost	1.5	2.3
Curtailments/settlements	-0.1	-2.8
Interest on healthcare and life insurance benefit obligations	9.7	9.7
Net loss/income	**11.1**	**9.2**

If the other assumptions remained constant, the changes in individual key actuarial assumptions that could reasonably have been possible at the reporting date would have impacted the defined benefit obligation by the following amounts. Although the analysis does not take account of the complete allocation of the cash flows expected under the plan, it provides an approximation of the sensitivity of the assumptions shown.

The following table shows the effects of a 0.5% increase or decrease in the cost trend for healthcare and life insurance obligations:

€ millions	2016	2015
0.5% increase		
Effects on service and interest cost	0.4	0.5
Effects on benefit obligations	4.6	4.5
0.5% decrease		
Effects on service and interest cost	0.1	0.1
Effects on benefit obligations	-0.2	-1.1

A one-half percentage point increase or decrease in the discount rate specified above for calculating the net cost of healthcare and life insurance benefit obligations would have had the following effect on net cost:

€ millions	2016	2015
0.5% increase		
Effects on service and interest cost	0.7	0.6
Effects on benefit obligations	-8.9	-9.4
0.5% decrease		
Effects on service and interest cost	-0.2	-0.3
Effects on benefit obligations	14.2	13.8

The following table shows the payments made for other post-employment benefits in the reporting year and the previous year, as well as the undiscounted, expected benefit payments for the next ten years:

€ millions	
Benefits paid	
2015	13.2
2016	15.6
Benefit payments as expected	
2017	16.7
2018	16.7
2019	16.7
2020	16.7
2021	16.7
Total of years 2022 to 2026	83.0

The amounts for the defined benefit obligations, funded status and experience adjustments to plan liabilities for the current and four preceding reporting periods are as follows:

€ millions	**2016**	2015	2014	2013	2012
Defined benefit obligations	232.6	229.9	212.0	173.8	213.6
Funded status	-232.6	-229.9	-212.0	-173.8	-213.6
Experience adjustments to plan liabilities	-2.1	-22.2	21.2	-22.9	20.7

Provisions for obligations similar to pensions

Some companies of the corporation have made commitments to employees for a fixed percentage of the employees' compensation. These entitlements are paid out when the employment relationship is terminated. During the fiscal year, provisions were reversed in the context of restructuring, resulting in income of €0.2 million (PY: expenses of €8.8 million).

Defined contribution pension plans

The Continental Corporation offers its employees pension plans in the form of defined contribution plans, particularly in the U.S.A., the U.K., Japan and China. Not including social security contributions, the expenses for the defined contribution pension plans amounted to €81.1 million (PY: €73.6 million) in the fiscal year. The year-on-year increase resulted mainly from the newly concluded compensation plans, changes in the scope of consolidation, and the switch from defined benefit to defined contribution plans.

Other employee benefits

Other employee benefits include provisions for partial early retirement programs and anniversary and other long-service benefits. The provisions for partial early retirement are calculated using a discount rate of 0.35% (PY: 1.35%). Provisions for anniversary and other long-service benefits were calculated using a discount rate of 1.8% (PY: 2.35%). In accordance with the option under IAS 19, the interest component is reported in the net interest result.

Long-term incentive plans (LTI plans)

Liabilities for payroll and personnel related costs also include long-term incentive (LTI) plans as well as the amounts of variable remuneration converted into virtual shares of Continental AG for members of the Executive Board (performance bonus, deferral).

All LTI plans up to 2013 are classified and assessed as "other long-term employee benefits" under IAS 19. The LTI plans for the years starting from 2014 and the deferral are classified as cash-settled share-based remuneration; hence they are recognized at fair value in accordance with IFRS 2.

The costs of LTI plans, amounting to €32.0 million (PY: €52.6 million), were recognized in the respective function costs.

- **2012 LTI plan:** In 2012, senior executives of the Continental Corporation were granted an LTI bonus, which depends on their job grade and the degree to which they achieve their targets. This bonus is intended to allow for participation in the long-term, sustainable increase in the corporation's value and profitability.

  The LTI is issued in annual tranches (LTI tranches). Tranche 2012/16, with a term of four years, was issued in 2012. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2012/16 tranche was resolved on July 6, 2012.

For each beneficiary of an LTI tranche, the Executive Board of Continental AG specifies the amount of a target bonus in euros to be paid out upon 100% target achievement. The actual LTI bonus paid out on expiry of the LTI tranche depends on the degree of target achievement, which can lie between 0% (no payment) and 300% (maximum payment). The degree of achievement of two target criteria is decisive for the payment and amount of the LTI bonus. The first target criterion consists of the weighted average of the Continental Value Contribution (CVC) of the Continental Corporation over a period of four fiscal years, starting from the fiscal year in which the LTI tranche is issued. The weighted average in terms of the LTI is calculated by adding together 10% of the CVC of the first fiscal year of the LTI tranche, 20% of the CVC of the second fiscal year of the LTI tranche, 30% of the CVC of the third fiscal year of the LTI tranche and 40% of the CVC of the fourth fiscal year of the LTI tranche. The second target criterion comprises the ratio of free cash flow in the Continental Corporation to consolidated sales. The key variable for measuring this target criterion is based on the last full fiscal year prior to expiry of the respective LTI tranche. The degree of target achievement for both target criteria can lie between 0% and 300%. The key variables for determining the degree of target achievement are defined for each target criterion upon issue of an LTI tranche. The ultimate degree of target achievement used to calculate the LTI bonus to be paid out is determined through the addition of the two equally weighted target criteria. The basis for calculating the LTI bonus comprises the individual bonus amount in the event of 100% target achievement promised upon issue of an LTI tranche. The LTI bonus is paid as a gross one-off payment normally at the end of the second full calendar month following expiry of the LTI tranche at the latest but not before the end of July.

After the expiration of the 2012/16 LTI tranche in July 2016, the bonus was paid out in September 2016.

› **2013 LTI plan:** In 2013, the 2013/17 tranche, with a term of four years, was issued to the senior executives of the Continental Corporation and the members of the Executive Board. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2013/17 tranche was resolved on June 24, 2013, by the Executive Board for senior executives and on September 25, 2013, by the Supervisory Board for the members of the Executive Board. Its basic features are the same as the 2012 LTI plan.

› **2014, 2015, and 2016 LTI plan:** Since 2014, senior executives of the Continental Corporation and members of the Executive Board have been granted a new bonus, the basic structure of which has been altered. This bonus is intended to allow for participation in the long-term, sustainable increase in the corporation's value and profitability. The LTI bonus still depends on job grade and degree of target achievement and is issued in annual tranches.

The term of the 2014/17 tranche, which was resolved on March 12, 2014, by the Supervisory Board for the members of the Executive Board and on June 23, 2014, by the Executive Board for senior executives, begins retroactively as at January 1, 2014 and is four years.

The term of the 2015/18 tranche, which was resolved on March 18, 2015, by the Supervisory Board for the members of the Executive Board and on June 4, 2015, by the Executive Board for senior executives, begins retroactively as at January 1, 2015 and is four years.

The term of the 2016/19 tranche, which was resolved on March 18, 2016, by the Supervisory Board for the members of the Executive Board and on April 21, 2016, by the Executive Board for senior executives, begins retroactively as at January 1, 2016 and is four years.

For each beneficiary of an LTI tranche, the Supervisory Board (for the members of the Executive Board) or the Executive Board (for senior executives) of Continental AG specifies the amount of a target bonus in euros to be paid out upon 100% target achievement. The actual LTI bonus paid out on expiry of the LTI tranche depends on the degree of target achievement. The LTI bonus can range between 0% (no payment) and 200% (maximum payment).

The degree of achievement of two target criteria is decisive for the payment and amount of the LTI bonus. The first target criterion is the equally weighted average of the Continental Value Contribution (CVC) of the Continental Corporation over a period of four fiscal years, starting from the fiscal year in which the LTI tranche is issued. The equally weighted average is calculated by adding together 25% of the CVC of the four fiscal years of the term of the LTI tranche. The second target criterion is the total shareholder return (TSR) on Continental shares as at the end of the term in relation to the beginning of the LTI tranche. The share price used in calculating the TSR is the arithmetic mean of closing prices in XETRA trading on the Frankfurt Stock Exchange (or a successor system) on the trading days in the three months from October to December before the issue and expiry of the LTI tranche. In addition, all dividends paid during the term of the LTI tranche are taken into account for the TSR.

The scale for determining the degree of target achievement is defined by the Supervisory Board or the Executive Board when the respective LTI tranche is issued. These key data are identical for the members of the Executive Board and senior executives. The degree of target achievement for the first target criterion can lie between 0% and 200%. Between 0% and the maximum value target achievement is calculated on a straight-line basis. There is no cap for the second target criterion. The ultimate degree of target achievement used to calculate the LTI bonus to be paid out is determined by multiplying the two target criteria. The LTI bonus to be paid out is determined by multiplying the degree of target achievement by the target bonus. The total maximum achievable LTI bonus is 200% of the target bonus.

A Monte Carlo simulation is used in the measurement of the TSR target criterion. This means that log-normal distributed processes are simulated for the price of Continental shares. The Monte Carlo simulation takes into account the average value accumulation of share prices in the respective reference period, TSR dividends and the restriction for the distribution amount.

The following parameters were used as at the measurement date of December 31, 2016:

- Constant zero rates as of the measurement date of December 31, 2016:
  2014 LTI plan: -0.84% as at the due date and -0.81% as at the expected payment date;
  2015 LTI plan: -0.81% as at the due date and -0.79% as at the expected payment date;
  2016 LTI plan: -0.76% as at the due date and -0.70% as at the expected payment date.

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

- Dividend payments as the arithmetic mean based on publicly available estimates for the years 2017 to 2019; the dividend of Continental AG amounted to €3.75 per share in 2016.

- Historic volatilities on the basis of daily XETRA closing rates for Continental shares based on the respective remaining term for virtual shares. The volatility for the 2014 LTI plan is 28.64%, for the 2015 LTI plan 29.58%, and for the 2016 LTI plan 28.37%.

- The fair values of the tranches developed as follows:
  2014 LTI plan: €28.1 million (PY: €34.0 million), the vesting level is 75%;
  2015 LTI plan: €28.9 million (PY: €34.9 million), the vesting level is 50%;
  2016 LTI plan: €23.8 million, the vesting level is 25%.

As at the end of the reporting period, the fair values amounted to €28.1 million for the 2014 LTI plan (PY: €34.0 million), €28.9 million for the 2015 LTI plan (PY: €34.9 million) and €23.8 million for the 2016 LTI plan. The vesting level of the 2014 LTI plan is 75% and that of the 2015 LTI plan 50%. The 2016 LTI plan is vested at a level of 25%. The liabilities for payroll and personnel-related costs for LTI resulted in expenses of €5.6 million for the 2014 LTI plan (PY: €10.4 million) €7.0 million for the 2015 LTI plan (PY: €8.7 million) and €6.7 million for the 2016 LTI plan in the period under review.

- **Performance bonus (deferral):** A Monte Carlo simulation is used in the measurement of stock options. This means that log-normal distributed processes are simulated for the price of Continental shares. The measurement model also takes into account the average value accumulation of share prices in the respective reference period and the floor and cap for the distribution amount.

  The following parameters were used as at the measurement date of December 31, 2016:

  - Constant zero rates as at the measurement date of December 31, 2016:
    Tranche in 2013: -0.97% as at the due date and as at the expected payment date;
    Tranche in 2014: -0.82% as at the due date and as at the expected payment date;
    Tranche in 2015: -0.80% as at the due date and as at the expected payment date.

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

  - Dividend payments as the arithmetic mean based on publicly available estimates for 2017 and 2018; the dividend of Continental AG amounted to €3.75 per share in 2016, and Continental AG distributed a dividend of €3.25 per share in 2015.

  - Historic volatilities on the basis of daily XETRA closing rates for Continental shares based on the respective remaining term for virtual shares. The volatility for the 2013 tranche is 20.81%, for the 2014 tranche 28.73%, and for the 2015 tranche 29.49%.

  As at December 31, 2016, commitments with a fair value of €14.9 million (PY: €20.4 million) are attributable to Executive Board members active at the end of the reporting period; this is equivalent to 77,925 virtual shares (PY: 88,438 virtual shares).

Short-term employee benefits

Liabilities for payroll and personnel related costs

The Continental value sharing bonus is a program that allows Continental employees to share in net income. The amount of profits shared is calculated on the basis of key internal figures. A provision of €174.9 million (PY: €150.7 million) was recognized in liabilities for staff costs for the period under review.

25. Provisions for Other Risks and Obligations

	Dec. 31, 2016		Dec. 31, 2015	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Restructuring provisions	62.1	14.2	68.4	15.9
Litigation and environmental risks	131.7	145.5	94.5	111.3
Warranties	752.4	–	451.5	2.0
Other provisions	200.2	44.5	231.1	42.6
Provisions for other risks and obligations	**1,146.4**	**204.2**	**845.5**	**171.8**

The provisions for other risks developed as follows:

€ millions	**Restructuring provisions**	**Litigation and environmental risks**	**Warranties**	**Other provisions**
As at Jan. 1, 2016	**84.3**	**205.8**	**453.5**	**273.7**
Additions	24.8	140.3	714.8	201.9
Utilizations	-32.4	-62.6	-304.0	-150.2
Net changes in the scope of consolidation	–	1.1	1.3	10.0
Reversals	-1.2	-13.5	-124.8	-90.9
Interest	0.0	0.2	–	0.2
Foreign currency translation	0.8	5.9	11.6	0.0
As at Dec. 31, 2016	**76.3**	**277.2**	**752.4**	**244.7**

The utilization of restructuring provisions primarily relates to the implementation of the restructuring measures resolved in previous years at the German locations in Salzgitter, Dortmund, and Limbach, as well as the implementation of the restructuring measure resolved this year at the Greek location in Volos.

The addition to restructuring provisions was caused by the restructuring in Melbourne, Australia, and in Volos, Greece.

As in the previous year, the provisions for litigation and environmental risks relate in particular to product liability risks from the tire activities in the U.S.A. Further additions were made in connection with pending antitrust proceedings. Please see Note 33.

Utilization mainly includes the additional payments from ContiTech AG, Hanover, Germany, to former shareholders of Phoenix AG and the product liability risks from tire activities mentioned above.

The changes in provisions for warranties include utilization of €304.0 million (PY: €239.1 million) and reversals of €124.8 million (PY: €127.4 million). The additions of €714.8 million (PY: €444.2 million) also relate – for example in the case of the Chassis & Safety and Interior segments – to warranties for products, the majority of which were supplied between 2004 and 2010.

The other provisions also include provisions for risks from operations, such as those in connection with compensation from customer and supplier claims that are not warranties. They also include provisions for tire recycling obligations.

26. Income Tax Liabilities

Income tax liabilities developed as follows:

€ millions	2016	2015
As at January 1	**719.8**	**577.3**
Additions	628.1	714.8
Utilizations and advance payments for the current fiscal year	-539.1	-592.5
Reversals	-24.7	-27.7
Additions from the first consolidation of subsidiaries	0.8	46.2
Foreign currency translation	-1.3	1.7
As at December 31	**783.6**	**719.8**

When reconciling the income tax liabilities with the income taxes paid in the statement of cash flows, the cash changes in income tax receivables must be included in addition to the utilizations and current advance payments shown here.

27. Indebtedness

	Dec. 31, 2016			Dec. 31, 2015		
€ millions	**Total**	**Short-term**	**Long-term**	Total	Short-term	Long-term
Bonds	**3,383.5**	751.0	2,632.5	**2,784.5**	2.9	2,781.6
Bank loans and overdrafts[1]	**931.9**	807.0	124.9	**1,725.7**	1,569.1	156.6
Derivative instruments	**62.9**	51.1	11.8	**12.9**	11.4	1.5
Finance lease liabilities	**28.9**	8.5	20.4	**40.7**	10.7	30.0
Liabilities from sale of receivables programs	**487.1**	487.1	–	**638.1**	438.1	200.0
Other indebtedness[2]	**58.0**	43.9	14.1	**42.9**	37.6	5.3
Indebtedness	**4,952.3**	**2,148.6**	**2,803.7**	**5,244.8**	**2,069.8**	**3,175.0**

1 Thereof €3.8 million (PY: €2.7 million) secured by land charges, mortgages and similar securities.
2 Other indebtedness in 2016 included a carrying amount of €20.5 million (PY: €16.6 million) from the utilization of a commercial paper program.

Continental's key bond issues

€ millions Issuer/type	**Amount of issue Dec. 31, 2016**	**Carrying amount Dec. 31, 2016**	**Stock market value Dec. 31, 2016**	Amount of issue Dec. 31, 2015	Carrying amount Dec. 31, 2015	Stock market value Dec. 31, 2015	Coupon p.a.	Issue/maturity and fixed interest until	Issue price
CGF euro bond	750.0	749.5	754.3	750.0	747.2	770.1	2.500%	2013/03.2017	99.595%
CAG euro bond	750.0	745.8	785.3	750.0	743.2	800.1	3.000%	2013/07.2018	98.950%
CRoA euro bond	500.0	498.0	505.4	500.0	497.0	501.4	0.500%	2015/02.2019	99.739%
CAG euro bond	600.0	594.6	598.5	–	–	–	0.000%	2016/02.2020	99.410%
CAG euro bond	750.0	744.1	832.7	750.0	742.7	831.0	3.125%	2013/09.2020	99.228%
Total	**3,350.0**	**3,332.0**	**3,476.2**	**2,750.0**	**2,730.1**	**2,902.6**			

Abbreviations

- CAG, Continental Aktiengesellschaft, Hanover, Germany
- CGF, Conti-Gummi Finance B.V., Maastricht, Netherlands
- CRoA, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.

The carrying amount of the bonds increased by €599.0 million from €2,784.5 million in the previous year to €3,383.5 million as at the end of fiscal 2016. This increase is due to Continental AG's successful placement of a euro bond with a nominal volume of €600.0 million with investors in Germany and abroad on November 28, 2016, under Continental's Debt Issuance Programme (DIP). The issue price was 99.41%. This bond has a term of three years and two months and an interest rate of 0.0% p.a. It was issued particularly in view of the €750.0 million euro bond from Conti-Gummi Finance B.V., Maastricht, Netherlands, that is due for redemption in March 2017.

Cross-currency interest rate swaps were concluded for the euro bond with a nominal volume of €500.0 million issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in November 2015. These swaps are used to hedge against the currency risks arising from the bond's denomination in euros, on the one hand, and involve exchanging the euro-based fixed interest rate of 0.5% p.a. for a U.S.-dollar-based fixed interest rate averaging 2.365% p.a., on the other (please see Note 28 for further information on the accounting for the cross-currency interest rate swaps).

The carrying amount of the bonds also primarily includes a private placement issued by Continental AG at 100.0% at the end of August 2013 with a volume of €50.0 million, an interest rate of 3.9% p.a., and a term of 12 years.

Credit lines and available financing from banks
Bank loans and overdrafts amounted to €931.9 million (PY: €1,725.7 million) as at December 31, 2016, and were therefore down €793.8 million on the previous year's level. On December 31, 2016, there were credit lines and available financing from banks in the amount of €4,831.0 million (PY: €5,355.1 million). A nominal amount of €3,888.4 million of this had not been utilized as at the end of the reporting period (PY: €3,611.5 million). €3,000.0 million (PY: €2,702.1 million) of this relates to the revolving tranche of the syndicated loan, which had not been utilized as at the end of 2016 (PY: €297.9 million). In the year under review, the Continental Corporation utilized its commercial paper programs, its sale of receivables programs and its various bank lines to meet short-term credit requirements.

At the time a new syndicated loan was concluded in April 2014 with a committed volume of €4.5 billion, it consisted of a term loan for an amount of €1.5 billion that matured in April 2016 and a revolving credit line of €3.0 billion that has been granted until April 2019. There were two contractual amendments to the term of the revolving tranche. In April 2015 and in April 2016, all the banks involved approved a one-year extension in each case. This financing commitment is therefore available to Continental until April 2021. Early repayments on the term loan totaling €1,150.0 million were already made in the fourth quarter of 2015. At the end of March 2016, the €350.0 million still remaining from this loan as at the end of 2015 was repaid early. As a result, the committed volume of the syndicated loan, which consists of the revolving tranche only, has likewise declined to €3.0 billion since the end of March 2016. The revolving tranche can be utilized both in euros and in other currencies on the basis of variable interest rates. Depending on the currency, interest is accrued at either the Euribor rate or the corresponding Libor rate plus a margin in each case.

Besides the syndicated loan, the major portion of the credit lines and available financing from banks related, as in the previous year, to predominantly floating-rate short-term borrowings.

As in the previous year, the agreed financial covenants were also complied with as at the end of the respective quarter in 2016. Please see Note 28 for the maturity structure of indebtedness.

Finance lease liabilities

The future payment obligations resulting from finance leases are shown in the table below:

Dec. 31, 2016/€ millions	2017	2018	2019	2020	2021	from 2022	**Total**
Minimum lease payments	9.6	5.8	3.7	3.5	3.5	6.3	**32.4**
Interest component	1.1	0.9	0.6	0.4	0.2	0.3	**3.5**
Finance lease liabilities	**8.5**	**4.9**	**3.1**	**3.1**	**3.3**	**6.0**	**28.9**

Dec. 31, 2015/€ millions	2016	2017	2018	2019	2020	from 2021	**Total**
Minimum lease payments	12.5	10.4	6.2	3.8	3.7	11.3	**47.9**
Interest component	1.8	1.4	1.1	0.8	0.7	1.4	**7.2**
Finance lease liabilities	**10.7**	**9.0**	**5.1**	**3.0**	**3.0**	**9.9**	**40.7**

The fair value of the lease liabilities is €30.3 million (PY: €44.8 million). The effective interest rate of the main leases is between 4.6% and 8.7% (PY: between 4.6% and 8.5%).

28. Financial Instruments

The carrying amounts and fair values of financial assets and liabilities in the various measurement categories, classified by statement of financial position category, as well as the summarized non-current and current items, are as follows:

€ millions	Measurement category in acc. with IAS 39	**Carrying amount as at Dec. 31, 2016**	**Fair value as at Dec. 31, 2016**	Carrying amount as at Dec. 31, 2015	Fair value as at Dec. 31, 2015
Other investments	AfS	43.1	43.1	14.1	14.1
Derivative instruments and interest-bearing investments					
Derivative instruments accounted for as effective hedging instruments	n. a.	–	–	4.2	4.2
Derivative instruments not accounted for as effective hedging instruments	HfT	12.3	12.3	43.4	43.4
Available-for-sale financial assets	AfS	16.8	16.8	16.7	16.7
Other receivables with a financing character	LaR	18.4	18.4	17.1	17.1
Trade accounts receivable	LaR	7,392.7	7,392.7	6,722.9	6,722.9
Other financial assets	LaR	521.9	521.9	482.3	482.3
Cash and cash equivalents					
Cash and cash equivalents	LaR	2,044.4	2,044.4	1,600.5	1,600.5
Available-for-sale financial assets	AfS	62.6	62.6	21.0	21.0
Financial assets		**10,112.2**	**10,112.2**	**8,922.2**	**8,922.2**
Indebtedness					
Derivative instruments accounted for as effective hedging instruments	n. a.	13.6	13.6	0.9	0.9
Derivative instruments not accounted for as effective hedging instruments	HfT	49.3	49.3	12.0	12.0
Finance lease liabilities	n. a.	28.9	30.3	40.7	44.8
Other indebtedness	OL	4,860.5	5,015.4	5,191.2	5,381.0
Trade accounts payable	OL	6,248.0	6,248.0	5,493.8	5,493.8
Other financial liabilities	OL	1,284.4	1,283.9	1,161.3	1,160.5
Financial liabilities		**12,484.7**	**12,640.5**	**11,899.9**	**12,093.0**
Aggregated according to categories as defined in IAS 39:					
Financial assets held for trading (HfT)		12.3		43.4	
Loans and receivables (LaR)		9,977.4		8,822.8	
Available-for-sale financial assets (AfS)		122.5		51.8	
Financial liabilities held for trading (HfT)		49.3		12.0	
Financial liabilities measured at amortized cost (OL)		12,392.9		11,846.3	

Abbreviations

- AfS: available for sale
- HfT: held for trading
- LaR: loans and receivables
- n. a.: not applicable, not assigned to any measurement category
- OL: other liability, financial liabilities measured at amortized cost

Derivative instruments that meet the requirements of hedge accounting are not allocated to any IAS 39 measurement category, since they are explicitly excluded from the individual measurement categories.

Derivative instruments for which effective hedge accounting is not applied are classified as financial assets or liabilities held for trading.

Finance lease liabilities are not assigned to an IAS 39 measurement category as they are accounted for under IAS 17.

The measurement methods applied are described in the notes to the consolidated financial statements under General Information and Accounting Principles (Note 2).

Cash and cash equivalents, trade accounts receivable, and payable, as well as other receivables with a financing character and other financial assets and liabilities generally have short remaining maturities. As a result, the carrying amounts as at the end of the reporting period are, as a rule, approximately their fair values.

As in the previous year, other investments are carried at cost.

The fair values of other indebtedness and of finance lease liabilities were determined by discounting all future cash flows at the applicable interest rates for the corresponding residual maturities, taking into account a company-specific credit spread.

The total of the positive carrying amounts is equivalent to the maximum default risk of the Continental Corporation from financial assets.

The following table shows the fair values of financial assets and liabilities and the respective levels of the fair value hierarchy in accordance with IFRS 13 relevant for calculating fair value.

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

In addition to the financial instruments measured at fair value as set out in IAS 39, the table also includes financial instruments measured at amortized cost, which have a different fair value. Financial instruments measured at amortized cost whose carrying amounts are approximately equivalent to their fair value are not shown in the table.

€ millions		**Dec. 31, 2016**	Level 1	Level 2	Cost
Available-for-sale financial assets	AfS	79.4	69.9	9.5	0.0
Derivative instruments not accounted for as effective hedging instruments	HfT	12.3	–	12.3	–
Financial assets measured at fair value		**91.7**	**69.9**	**21.8**	**0.0**
Derivative instruments accounted for as effective hedging instruments	n. a.	13.6	–	13.6	–
Derivative instruments not accounted for as effective hedging instruments	HfT	49.3	–	49.3	–
Financial liabilities measured at fair value		**62.9**	**–**	**62.9**	**–**
Finance lease liabilities	n. a.	30.3	–	30.3	–
Other indebtedness	OL	5,015.4	3,477.7	513.6	1,024.1
Other financial liabilities	OL	1,283.9	–	23.1	1,260.8
Financial liabilities not measured at fair value		**6,329.6**	**3,477.7**	**567.0**	**2,284.9**

€ millions		Dec. 31, 2015	Level 1	Level 2	Cost
Available-for-sale financial assets	AfS	37.7	28.8	8.9	0.0
Derivative instruments accounted for as effective hedging instruments	n. a.	4.2	–	4.2	–
Derivative instruments not accounted for as effective hedging instruments	HfT	43.4	–	43.4	–
Financial assets measured at fair value		**85.3**	**28.8**	**56.5**	**0.0**
Derivative instruments accounted for as effective hedging instruments	n. a.	0.9	–	0.9	–
Derivative instruments not accounted for as effective hedging instruments	HfT	12.0	–	12.0	–
Financial liabilities measured at fair value		**12.9**	**–**	**12.9**	**–**
Finance lease liabilities	n. a.	44.8	–	44.8	–
Other indebtedness	OL	5,381.0	2,907.0	1,329.2	1,144.8
Other financial liabilities	OL	1,160.5	–	34.7	1,125.8
Financial liabilities not measured at fair value		**6,586.3**	**2,907.0**	**1,408.7**	**2,270.6**

There are currently no financial assets or liabilities in the Continental Corporation which are measured according to level 3 of the fair value hierarchy.

The corporation recognizes possible reclassifications between the different levels of the fair value hierarchy as at the end of the reporting period in which a change occurred. In 2016, as in the previous year, there were no transfers between the different levels of the fair value hierarchy.

The net gains and losses by measurement category were as follows:

		From remeasurement			Net gains and losses	
€ millions	From interest	At fair value	Currency translation	Impairment	**2016**	2015
Loans and receivables	25.4	–	-35.3	-16.6	-26.5	40.7
Available-for-sale financial assets	0.1	0.3	–	–	0.4	18.4
Financial assets and financial liabilities held for trading	–	-67.1	–	–	-67.1	-34.4
Financial liabilities at amortized cost	-138.2	–	19.2	–	-119.0	-204.0
Net gains and losses	**-112.7**	**-66.8**	**-16.1**	**-16.6**	**-212.2**	**-179.3**

Interest income and expense from financial instruments is reported in the net interest result (see Note 9). No interest income was generated from impaired financial assets.

The valuation allowance for loans and receivables essentially resulted from trade accounts receivable. Gains and losses on financial assets or liabilities held for trading that were determined during subsequent measurement include both interest rate and exchange rate effects.

The changes in value of the available-for-sale financial assets that were recognized directly in equity amounted to €1.5 million (PY: -€1.4 million) in the reporting year. In addition, €0.3 million (PY: €12.9 million) was recognized in profit or loss.

Collateral

As at December 31, 2016, a total of €2,190.6 million (PY: €2,096.7 million) of financial assets had been pledged as collateral. As in the previous year, also in the year under review, collateral mainly consists of trade accounts receivable; the remainder relates to pledged cash or other financial assets.

Hedging policy and derivative instruments

The international nature of its business activities and the resulting financing requirements mean that the Continental Corporation is exposed to exchange rate and interest rate fluctuations. Where foreign currency risks are not fully compensated by offsetting delivery and payment flows, exchange rate forecasts are constantly updated to ensure that risks can be hedged as necessary in individual cases using appropriate financial instruments. In addition, long and short-term interest rate movements are monitored continuously and controlled as required using derivative instruments. Thus, interest rate and currency derivative instruments allow debt to be accessed with any required interest and currency structure, regardless of the location at which the financing is required.

The use of hedging instruments is covered by corporate-wide policies, adherence to which is regularly reviewed by internal auditors. Internal settlement risks are minimized through the clear segregation of functional areas.

1. Currency management

The international nature of the corporation's business activities results in deliveries and payments in various currencies. Currency exchange fluctuations involve the risk of losses because assets denominated in currencies with a falling exchange rate lose value, while liabilities denominated in currencies with a rising exchange rate become more expensive. At Continental the net exposure, calculated primarily by offsetting receipts and payments from the corporation's external and internal transactions in the individual currencies (operational foreign-exchange exposure), is regularly recorded and measured. For several years now, the corporation has been following a natural hedge approach to reduce currency risks so that the difference between receipts and payments in any one currency is kept as low as possible. Exchange rate developments are also monitored, analyzed, and forecast. Residual exchange rate risks are hedged using appropriate financial instruments in individual cases. There are tight limits with regard to currency management for open positions, which considerably reduce the risks from hedging activities. For hedging, it is allowed to use only derivative instruments that have been defined in corporate-wide policies and can be reported and measured in the risk management system. It is generally not permitted to use financial instruments that do not meet these criteria. In addition, Continental is exposed to foreign exchange risks from external and internal net indebtedness. These foreign exchange risks are in general hedged against by using derivative instruments that have been defined in corporate-wide policies. The corporation's net foreign investments are, as a rule, not hedged against exchange rate fluctuations.

Operational foreign currency risk

Continental compiles its subsidiaries' actual and expected foreign currency payments at a global level for operational currency management purposes. These future cash flows represent the corporation's transaction exposure and are measured as the net cash flow per currency on a trailing 12-month basis. The foreign exchange and interest rate committee convenes on a weekly basis to agree upon hedging measures to be implemented in individual cases. These must not exceed 30% of the 12-month exposure per currency without Executive Board permission.

As at December 31, 2016, the net exposure from financial instruments that are denominated in a currency other than the functional currency of the respective subsidiary and are not allocated to net indebtedness existed in the major currencies of the euro in the amount of -€104.7 million (PY: -€174.4 million) and the U.S. dollar in the amount of -€482.3 million (PY: -€499.5 million).

Financial foreign currency risks

In addition, currency risks also result from the corporation's external and internal net indebtedness that is denominated in a currency other than the functional currency of the respective subsidiary. As at December 31, 2016, the net exposure in the major currencies amounted to -€770.6 million (PY: -€652.0 million) for the euro and €983.3 million (PY: €890.9 million) for the U.S. dollar. These currency risks are generally hedged against through the use of derivative instruments, particularly currency forwards, currency swaps and cross-currency interest rate swaps.

Sensitivity analysis

IFRS 7 requires a presentation of the effects of hypothetical changes of currency prices on income and equity using a sensitivity analysis. The changes to the currency prices are related to all financial instruments outstanding as at the end of the reporting period. Forecast transactions are not included in the sensitivity analysis. To determine the transaction-related net foreign currency risk, financial instruments with transaction currencies that differ from the functional currencies are identified and a 10% appreciation or depreciation of the respective functional currency of the subsidiaries in relation to the identified different transaction currencies is assumed. The following table shows, before income tax expense, the overall effect as measured using this approach, as well as the individual effects resulting from the euro and the U.S. dollar, as major transaction currencies, on the difference from currency translation and from financial instruments in equity and on net income.

€ millions	2016 Total equity	2016 Net income	2015 Total equity	2015 Net income
Local currency +10%				
Total	**95.0**	**-23.9**	**93.7**	**-26.9**
thereof EUR	50.3	-14.3	50.5	-10.0
thereof USD	44.7	-1.6	43.2	-0.5
Local currency -10%				
Total	**-95.0**	**23.9**	**-93.7**	**26.9**
thereof EUR	-50.3	14.3	-50.5	10.0
thereof USD	-44.7	1.6	-43.2	0.5

Effects of translation-related currency risk

A large number of the subsidiaries are located outside the euro currency zone. As Continental AG's reporting currency in the consolidated financial statements is the euro, the financial statements of these companies are translated into euros. With regard to managing the risks of translation-related currency effects, it is assumed that investments in foreign companies are entered into for the long term and that earnings are reinvested. Translation-related effects that arise when the value of net asset items translated into euros changes as a result of currency fluctuations are recognized directly in equity in the consolidated financial statements.

2. Interest rate management

Variable interest agreements result in a risk of rising interest rates for interest-bearing financial liabilities and falling interest rates for interest-bearing financial investments. These interest rate risks are valuated and assessed as part of our interest rate management activities and managed by means of derivative interest rate hedging instruments as needed. The corporation's interest-bearing net indebtedness is the subject of these activities. All interest rate hedges serve exclusively to manage identified interest rate risks. Once a year, a range is determined for the targeted share of fixed-interest indebtedness in relation to total gross indebtedness.

The corporation is not exposed to a risk of fluctuation in the fair value of long-term financial liabilities due to market changes in fixed interest rates as the lenders do not have the right to demand early repayment in the event of changing rates, and these liabilities are recognized at amortized cost.

Interest rate risk

The profile of interest-bearing financial instruments allocated to net indebtedness, taking into account the effect of the Continental Corporation's derivative instruments, is as follows:

€ millions	2016	2015
Fixed-interest instruments		
Financial assets	0.5	0.6
Financial liabilities	-3,542.1	-2,922.6
Floating-rate instruments		
Financial assets	2,141.7	1,654.7
Financial liabilities	-1,347.3	-2,309.3

In accordance with IFRS 7, effects of financial instruments on income and equity resulting from interest rate changes must be presented using a sensitivity analysis.

Fair value sensitivity analysis

The main effects resulted from the changes in the U.S. dollar and euro interest rates. There were no changes in the net interest result in 2016 or in the previous year. The effects on equity are presented below; tax effects were not taken into account in the analysis:

- An increase in U.S. dollar interest rates of 100 basis points in 2016 would have increased equity by €10.6 million (PY: €15.0 million).
- A decline in U.S. dollar interest rates of 100 basis points would have reduced equity by €10.9 million (PY: -€15.6 million).
- An increase in euro interest rates of 100 basis points in 2016 would have reduced equity by €10.7 million (PY: -€15.6 million).
- A decline in euro interest rates of 100 basis points would have increased equity by €11.0 million (PY: €16.2 million).

Cash flow sensitivity analysis

The following table shows the effects an increase or a decrease in interest rates of 100 basis points would have had on the net interest result. The effects essentially resulted from floating-rate financial instruments. In the scenario in which there is a decrease in the pertinent interest rates, the effects were calculated for individual groups of financial instruments taking account of their contractual arrangement (particularly the interest rate floors agreed) and based on assumptions with regard to changes in the applicable interest rates for these financial instruments depending on changes in market interest rates. With regard to these assumptions, in the previous year we assumed that the Continental Corporation would not receive any interest payments for variable interest-bearing liabilities, and that it can still largely avoid negative interest rates for variable interest-bearing investments. In the year under review, we considered it realistic that only contractually agreed interest rate floors would limit a decrease in the relevant interest rates. As in the previous year, this analysis is based on the assumption that all other variables, and in particular exchange rates, remain unchanged.

€ millions	**2016**	2015
Interest rate increase +100 basis points		
Total	**7.9**	**–6.5**
thereof EUR	0.4	–11.0
thereof CNY	4.3	3.0
thereof INR	1.0	0.4
thereof KRW	0.8	0.7
thereof MXN	0.5	1.7
thereof USD	0.1	–2.8
Interest rate decline –100 basis points		
Total	**–10.2**	**–5.2**
thereof EUR	–2.7	0.0
thereof CNY	–4.3	–3.0
thereof INR	–1.0	–0.4
thereof KRW	–0.8	–0.7
thereof MXN	–0.5	–1.7
thereof USD	–0.1	1.2

3. Counterparty risk

Derivative instruments are subject to default risk to the extent that counterparties may not meet their payment obligations either in part or in full. To limit this risk, contracts are entered into with selected banks only. The development of contractual partners' creditworthiness is continuously monitored, particularly by monitoring the rating classifications and the market assessment of default risk using the respective credit default swap rates.

4. Liquidity risks

A liquidity forecast is prepared by central cash management on a regular basis.

Cost-effective, adequate financing is necessary for the subsidiaries' operating business. Various marketable financial instruments are used for this purpose. They comprise overnight money, term borrowing, the commercial paper issue, sale of receivables programs, the syndicated loan with a committed nominal amount of €3.0 billion (PY: €3.35 billion) and other bilateral loans. Furthermore, approximately 68% of gross indebtedness is financed on the capital market in the form of long-term bonds. Capital expenditure by subsidiaries is primarily financed through equity and loans from banks or subsidiaries. There are also cash-pooling arrangements with subsidiaries to the extent they are possible and justifiable in the relevant legal and tax situation. If events lead to unexpected financing requirements, the Continental Corporation can draw upon existing liquidity and fixed credit lines from banks. For detailed information on the existing used and unused committed credit lines, please refer to Note 27.

The financial liabilities of €12,484.7 million (PY: €11,899.9 million) result in the following undiscounted cash outflows in the next five years and thereafter.

Dec. 31, 2016/€ millions	2017	2018	2019	2020	2021	thereafter	Total
Other indebtedness incl. interest payments	–2,134.7	–840.9	–602.5	–1,391.7	–6.4	–67.2	**–5,043.4**
Derivative instruments[1]	–69.3	–12.8	–14.6	–	–	–	**–96.7**
Finance lease liabilities	–9.6	–5.8	–3.7	–3.5	–3.5	–6.3	**–32.4**
Trade accounts payable	–6,248.0	–	–	–	–	–	**–6,248.0**
Other financial liabilities	–1,187.7	–73.4	–1.8	–24.8	–	–	**–1,287.7**

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

Dec. 31, 2015/€ millions	2016	2017	2018	2019	2020	thereafter	Total
Other indebtedness incl. interest payments[1]	–2,095.1	–1,072.7	–838.2	–601.7	–789.1	–63.3	**–5,460.1**
Derivative instruments[2]	–19.1	–8.6	–10.8	–	–	–	**–38.5**
Finance lease liabilities	–12.5	–10.4	–6.2	–3.8	–3.7	–11.3	**–47.9**
Trade accounts payable	–5,493.8	–	–	–	–	–	**–5,493.8**
Other financial liabilities	–1,066.7	–34.2	–27.7	–10.7	–24.8	–	**–1,164.1**

1 The prior-year comparative figures have been restated in accordance with the 2016 structure.
2 Not including embedded derivatives as they do not give rise to cash outflows.

In the analysis, foreign currency amounts were translated using the spot exchange rate current as at the end of the reporting period into euros. For floating-rate non-derivative financial instruments, the future interest payment flows were forecast using the most recently contractually fixed interest rates. Forward interest rates were used to determine floating rate payments for derivative instruments. The analysis only includes cash outflows from financial liabilities. The net payments are reported for derivative instruments that are liabilities as at the end of the reporting period. Cash inflows from financial assets were not included.

The cash outflows in the maturity analysis are not expected to occur at significantly different reference dates or in significantly different amounts.

Global netting agreements and similar agreements
Continental AG concludes business in the form of derivative instruments on the basis of the German Master Agreement on Financial Derivatives Transactions *(Deutscher Rahmenvertrag für Finanztermingeschäfte)*. Fundamentally there is the option to combine the amounts owed by each counterparty under such agreements on the same day in respect of all outstanding transactions in the same currency into a single net amount to be paid by one party to another.

The German Master Agreement on Financial Derivatives Transactions does not meet the criteria for offsetting in the statement of financial position. This is due to the fact that Continental AG has no legal right to the netting of the amounts recognized at the current time. According to the regulations of the German Master Agreement, the right to netting can be enforced only when future events occur, such as the insolvency of or default by a contractual party. In such cases, all outstanding transactions under the agreement are ended, the fair value is calculated as at this time, and just a single net amount is paid to settle all transactions.

At some Brazilian and South Korean subsidiaries, there are local framework agreements on the basis of which these companies have concluded derivative instruments. These agreements also do not meet the criteria for offsetting in the statement of financial position.

The following table shows the carrying amounts of the reported stand-alone derivative instruments, their offsetting in the statement of financial position, and any potential arising from the specified agreements subject to the occurrence of certain future events:

€ millions	Carrying amounts gross	Carrying amounts net	Respective financial instruments not netted	Net amount
Dec. 31, 2016				
Financial assets				
Derivative instruments	12.2	12.2	–8.9	3.3
Financial liabilities				
Derivative instruments	–62.8	–62.8	8.9	–53.9
Dec. 31, 2015				
Financial assets				
Derivative instruments	47.4	47.4	–7.5	39.9
Financial liabilities				
Derivative instruments	–12.6	–12.6	7.5	–5.1

There were no amounts to be offset in accordance with IAS 32.42 as at the reporting date and as the same date in the previous year.

5. Default risk

Credit risk from trade accounts receivable and other financial receivables includes the risk that receivables will be collected late or not at all. These risks are analyzed and monitored by central and local credit managers. The responsibilities of the central credit management function also include pooled receivables risk management. Contractual partners' creditworthiness and payment history are analyzed on a regular basis. However, default risk cannot be excluded with absolute certainty, and any remaining risk is addressed by establishing portfolio valuation allowances on the basis of experience or charging impairment for specific individual risks. Default risk for non-derivative financial amounts receivable is also limited by ensuring that agreements are entered into with partners with proven creditworthiness only or that collateral is provided or trade credit insurance is agreed. As at December 31, 2016, the corporation held collateral of €2.3 million (PY: —) in the form of non-financial assets. For information on determining creditworthiness, please see Note 20. Financial assets that are neither past due nor impaired accordingly have a prime credit rating. Further information about risks and risk management can be found in the Report on Risks and Opportunities section of the Corporate Management Report.

Measurement of derivative instruments

Derivative instruments are measured at fair value, which is generally determined by discounting the expected cash flows on the basis of yield curves. Accordingly, the fair value of currency forwards is calculated as the difference from the nominal amounts discounted with the risk-free interest rates of the respective currencies and translated at the current spot exchange rate. This takes into account the credit spread in general. To calculate the fair value of interest rate swaps and cross-currency interest rate swaps, the future cash flows are discounted with the interest rates for the respective maturities, with deposit rates used as short-term interest rates whilst long-term interest rates are based on the swap rates in the respective currency.

As at December 31, 2016, positive fair values of embedded derivatives amounted to €0.2 million (PY: €0.3 million) while negative fair values of embedded derivatives amounted to €0.1 million (PY: €0.3 million).

The following overview shows the fair values and nominal values of the stand-alone derivative instruments as at the end of the reporting period:

	Dec. 31, 2016			Dec. 31, 2015		
	Fair values		Nominal values	Fair values		Nominal values
€ millions	Assets	Liabilities		Assets	Liabilities	
Cash flow hedges (effective)						
Cross-currency interest rate swaps	–	9.4	500.0	–	0.9	500.0
Hedge of a net investment						
Currency swaps	–	4.2	217.8	4.2	–	219.0
Other derivative instruments						
Currency swap/currency forwards	12.2	49.2	2,084.0	43.2	11.7	1,794.6
Total	**12.2**	**62.8**	**2,801.8**	**47.4**	**12.6**	**2,513.6**
Long-term	2.3	11.7		–	1.2	
Short-term	9.9	51.1		47.4	11.4	

In the case of highly effective and longer term hedges, Continental usually applies hedge accounting as set out in IAS 39.

As in the previous year, the Continental Corporation designated currency swaps as hedging instruments in hedges of net investments in foreign operations in the year under review. The currency swaps serve to hedge the currency risks of long-term, intragroup foreign currency loans that are classified as net investments in a foreign operation in accordance with IAS 21. The changes in the values of these loans due to exchange rates are offset by the recognition of changes in the value of the currency swaps in consolidated equity. A sensitivity analysis was performed to prospectively measure effectiveness. Effectiveness was demonstrated retrospectively using the dollar offset method by comparing the changes in the value of the hedging instruments with the changes in the value of the hedged transactions. If the results of retrospective effectiveness testing fell within a range of 80% to 125%, the hedges used by the corporation were considered highly effective. In the year under review, these hedges resulted in expenses from ineffectiveness to be recognized in the amount of €9.0 million (PY: –), which are reported in the net interest result.

In the case of a cash flow hedge, changes in the fair value of the derivative instruments are recognized directly in equity as changes in other comprehensive income until the relevant hedged transaction has taken effect in profit or loss.

The Continental Corporation has designated cross-currency interest rate swaps as hedging instruments for cash flow hedge accounting. The cash flow hedges are used to secure the bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., on November 19, 2015. In doing so, first the currency risks of Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., are hedged against by the denomination in euros and, second, the euro-based fixed interest rate is exchanged for a U.S.-dollar-based fixed interest rate. In this context, the market valuation of these hedges resulting in income of €9.1 million before tax, or €5.9 million after tax, being recognized directly in equity in the year under review (PY: expense of €5.9 million before tax or €3.8 million after tax). The interest and principal payments from the hedged transactions that are secured under this cash flow hedge accounting will impact profit and loss in the years up until 2019. The critical term match method was performed to prospectively measure effectiveness. Effectiveness was demonstrated retrospectively using a regression analysis based on the dollar offset method. The results of retrospective effectiveness testing fell within a range of 80% to 125%, meaning that the hedges used by the corporation could be considered highly effective. As in the previous year, these hedges did not result in an ineffectiveness to be recognized in profit or loss in the year under review.

29. Other Financial Liabilities

	Dec. 31, 2016		Dec. 31, 2015	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Liabilities to related parties	235.1	0.5	196.5	0.6
Interest payable	39.3	–	37.6	–
Liabilities for selling expenses	892.4	–	811.0	–
Purchase prices payable on company acquisitions	10.8	33.3	10.2	38.4
Miscellaneous financial liabilities	9.7	63.3	11.1	55.9
Other financial liabilities	**1,187.3**	**97.1**	**1,066.4**	**94.9**

The liabilities to related parties relate in particular to liabilities to associates for services provided. The clear rise resulted from a corporate company formed in 2010 that sources significant portions of its merchandise from an at-equity accounted investee.

Interest payable at the end of 2016 is due mainly to deferred interest for the bonds issued. The increase in comparison to the end of 2015 particularly resulted from the euro bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in November 2015 with a volume of €500.0 million and an interest rate of 0.5% p.a., as the first payment of the interest accrued since the bond was issued will not be made until February 2017.

Liabilities for selling expenses relate in particular to obligations from bonus agreements with customers and deferred price reductions granted.

The purchase price obligations from company acquisitions mainly comprise the acquisitions implemented in the previous year in Germany, Czechia, and the U.S.A., as well as the acquisition of Hoosier Racing Tire Corp., Lakeville, Indiana, U.S.A., implemented this year. Please see Note 5.

The miscellaneous financial liabilities include the put option for the acquisition of the remaining shares in Zonar Systems, Inc., Seattle, Washington, U.S.A. They also include an amount of €9.7 million (PY: €13.1 million) representing an obligation to Chase Community Equity, LLC, Wilmington, Delaware, U.S.A., a subsidiary of JPMorgan Chase Bank, N.A., New York, New York, U.S.A., in connection with greenfield project and plant expansion investments.

30. Trade Accounts Payable

Trade accounts payable amounted to €6,248.0 million (PY: €5,493.8 million) as at the end of the fiscal year. The liabilities are measured at amortized cost. The full amount is due within one year. The liabilities do not include any amounts from the percentage-of-completion method. For information on liquidity risk, currency risk and the sensitivity analysis for trade accounts payable, please see Note 28.

31. Other Liabilities

	Dec. 31, 2016		Dec. 31, 2015	
€ millions	**Short-term**	**Long-term**	Short-term	Long-term
Liabilities for VAT and other taxes	321.2	–	287.2	–
Deferred income	145.3	12.5	111.5	16.6
Others	259.7	4.6	235.4	5.0
Other liabilities	**726.2**	**17.1**	**634.1**	**21.6**

Deferred income includes advance payments by customers for deliveries of goods and for services to be performed. Government grants are also reported here.

32. Liabilities Held for Sale

€ millions	**Dec. 31, 2016**	Dec. 31, 2015
Individual liabilities held for sale	–	–
Liabilities of a disposal group	–	2.0
Liabilities held for sale	**–**	**2.0**

The liabilities held for sale in the prior period in the amount of €2.0 million were disposed of in the reporting period.

Other Disclosures

33. Litigation and Damage Claims

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, as well as to claims from alleged breaches of contract, or resulting from product recalls or government proceedings. These include lawsuits in the U.S.A. for property damage, personal injury, and death caused by alleged defects in our products. Claims for material and immaterial 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 ContiTech 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. 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*) revoked the rulings on July 17, 2013, and remanded the matter to the Regional Court for a new hearing and ruling.

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 million (around €3.5 million) on CBIA, which was then reduced to BRL 10.8 million (around €3.1 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 anticompetitive 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, Bugan-myeon, 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 KFTC has appealed this decision. On November 13, 2014, the competent South Korean criminal court also imposed a fine of KRW 200 million (around €158,000). Following CAE's appeal, this fine was reduced to KRW 100 million (around €79,000). The Supreme Court of South Korea rejected CAE's further appeal on March 24, 2016. On November 24, 2014, CAE and Continental Automotive Korea Ltd., Seongnam-si, South Korea, entered into an agreement in which the two companies admit to charges of violating U.S. antitrust law and agree to pay a fine of U.S. $4.0 million (around €3.8 million). The competent U.S. court confirmed the agreement on April 1, 2015. Claims for damages by alleged victims remain unaffected by the fines imposed.

In September 2014, the European Commission conducted a search at a subsidiary of Continental. The Commission alleged that there were indications of violations against EU antitrust law and initiated proceedings against Continental and two of its subsidiaries. However, it is not clear in what amount the Commission will impose fines on Continental and/or its subsidiaries. If the European Commission finds that Continental and/or its subsidiaries can be charged with antitrust violations, it could impose a fine that, taking into account the sales of Continental or the subsidiary in question and the severity and duration of violations, cannot exceed 10% of Continental's consolidated sales in the previous year. Even if the European Commission only ascertains antitrust violations of a subsidiary, it cannot be ruled out that it will nonetheless hold the parent company jointly liable for a fine. In addition to the risk of fines, there is also the possibility of claims for damages by third parties in the event of a violation of EU antitrust law. In another case, a subsidiary of Continental received a request for information from the European Commission. This matter was resolved after the authority's questions had been answered. As a precaution, Continental has recognized provisions for expenses from antitrust proceedings. Because the risks from such proceedings can be estimated only to a very limited extent, it cannot be ruled out that the expenses actually incurred may exceed the provisions recognized for this purpose. In accordance with IAS 37.92, no further disclosures are made with regard to the proceedings and the related measures so as not to adversely affect the company's interests in the proceedings.

Industrial tribunal proceedings

In connection with the cessation of passenger tire production at the plant in Clairoix, France, a large number of employees at Continental France SNC, Sarreguemines, France, filed claims with the industrial tribunals in Compiègne and Soissons, France, against this subsidiary company and, in some cases, against Continental AG as well. On August 30, 2013, the industrial tribunal in Compiègne ordered Continental France SNC, Sarreguemines, France, and Continental AG to pay damages for the allegedly unlawful dismissal of employees. Continental's appeal against this ruling was rejected by the Court of Appeal, Amiens, France, on September 30, 2014. On July 6, 2016, the French Court of Cassation annulled the lower-instance rulings by the industrial tribunals on Continental's appeal to the extent that Continental AG was judged to be jointly liable for compensation and reimbursement of costs as a “co-employer.” It rejected the appeal by Continental France SNC, Sarreguemines, France, with final legal effect.

34. Contingent Liabilities and Other Financial Obligations

€ millions	Dec. 31, 2016	Dec. 31, 2015
Liabilities on guarantees	24.4	23.4
Liabilities on warranties	21.2	1.9
Risks from taxation and customs	6.4	–
Other financial obligations	19.1	32.0
Other contingent liabilities	14.6	12.6
Contingent liabilities and other financial obligations	**85.7**	**69.9**

Thanks to the implementation of a new risk-management system, it is now possible to quantify non-recognizable risks in more detail.

As in the previous years, the contingent liabilities related to guarantees for the liabilities of affiliated companies and third parties not included in consolidation and to contractual warranties. In particular, they include a guarantee for a major project by a business segment disposed of in the previous years in the amount of €21.6 million (PY: €21.0 million). To the best of our knowledge, the underlying obligations will be fulfilled in all cases. Utilization is not anticipated.

The other financial obligations relate in part to the acquisition of companies now owned by the corporation.

The Continental Corporation could be subject to obligations relating to environmental issues under governmental laws and regulations, or as a result of various claims and proceedings that are pending or that might be made or initiated against it. Estimates of future expenses in this area are naturally subject to many uncertainties, such as the enactment of new laws and regulations, the development and application of new technologies and the identification of contaminated land or buildings for which the Continental Corporation is legally liable.

Open purchase commitments for property, plant and equipment amounted to €615.3 million (PY: €473.8 million).

In 2016, expenses for operating leases and rental agreements amounted to €291.0 million (PY: €248.5 million).

Future liabilities relating to operating leases and rental agreements with an original or remaining term of more than one year as at December 31, 2016, are shown in the table below for 2017 and cumulatively for the years 2018 through 2021, and likewise cumulatively from 2022:

Dec. 31, 2016/€ millions	2017	2018–2021	from 2022
Operating leases and rental agreements	255.9	638.7	407.5

Dec. 31, 2015/€ millions	2016	2017–2020	from 2021
Operating leases and rental agreements	291.0	510.1	361.7

35. Earnings per Share

Basic earnings per share rose to €14.01 in 2016 (PY: €13.64), the same amount as diluted earnings per share. In both the period under review and the previous year, there were no dilutive effects such as interest savings on convertible bonds or warrant-linked bonds (after taxes). There were also no dilutive effects from stock option plans or the assumed exercise of convertible bonds.

€ millions/millions of shares	2016	2015
Net income attributable to the shareholders of the parent	2,802.5	2,727.4
Weighted average number of shares issued	200.0	200.0
Earnings per share in €	**14.01**	**13.64**

36. Events after the End of the Reporting Period

There were no significant events after December 31, 2016.

37. Auditor's Fees

For fiscal 2016, a global fee of €10.5 million (PY: €10.4 million) was agreed for the audit of the consolidated financial statements and the separate financial statements of the subsidiaries.

The following fees were recognized as an expense specifically for the auditor of Continental AG elected by the Annual Shareholders' Meeting.

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

€ millions	2016	2015
Audit of financial statements	3.4	3.3
Other assurance services	1.2	1.1
Tax advisory services	0.2	0.2
Other services provided to the parent company or its subsidiaries	0.1	0.1
Total	**4.9**	**4.7**

KPMG AG Wirtschaftsprüfungsgesellschaft and its registered branches are deemed the auditor.

38. Transactions with Related Parties

Remuneration of the Executive Board and the Supervisory Board
The remuneration of the corporation's key management personnel that must be disclosed in accordance with IAS 24 comprises the remuneration of the active members of the Executive Board and the Supervisory Board.

The remuneration of the active members of the Executive Board in the respective years was as follows:

€ thousands	2016	2015
Short-term benefits	15,540	17,688
Service cost relating to post-employment benefits	4,708	4,890
Termination benefits	686	1,335
Share-based payment	3,732	20,356
Total	**24,666**	**44,269**

The basic elements of the Executive Board remuneration system and the amounts granted to the Executive Board and the Supervisory Board in the year under review are explained in the Remuneration Report, which supplements the Corporate Governance Report and is part of the joint Management Report with the Continental Corporation.

The total remuneration granted to the Executive Board of Continental AG in 2016 amounted to €25.6 million (PY: €29.3 million). That total remuneration also includes, in addition to short-term benefits of €15.5 million (PY: €17.7 million), a newly granted long-term incentive plan totaling €5.7 million (PY: €5.7 million) and the long-term component of variable remuneration totaling €4.4 million (PY: €5.8 million), which is converted into virtual shares of the company. In 2016, this resulted in the long-term component for 2015 being converted into 30,671 virtual shares.

Moreover, former members of the Executive Board and their surviving dependents received payments totaling €6.8 million (PY: €7.3 million). Provisions for pension obligations for former members of the Executive Board and their surviving dependents amounted to €128.9 million (PY: €111.6 million).

Remuneration paid to the members of Continental AG's Supervisory Board, including meeting fees, totaled €4.9 million in the past fiscal year (PY: €4.5 million).

As in 2015, no advances or loans were granted to members of Continental AG's Executive Board or Supervisory Board in 2016.

Transactions with related parties other than subsidiaries:

	Services rendered		Services received		Accounts receivable		Accounts payable	
€ millions	2016	2015	2016	2015	2016	2015	2016	2015
Non-consolidated companies	23.5	18.3	14.8	7.2	11.7	14.2	11.4	12.3
At-equity accounted investees	200.4	196.2	239.5	19.1	64.8	33.8	209.3	177.8
Associated companies	2.7	3.3	0.0	0.1	0.9	1.2	–	0.0
Schaeffler Group	85.2	66.3	115.5	98.6	16.7	11.7	14.9	7.0
Other related parties	–	–	0.0	–	–	–	0.0	–
Total	**311.8**	**284.1**	**369.8**	**125.0**	**94.1**	**60.9**	**235.6**	**197.1**

Transactions with related parties other than subsidiaries are attributable solely to the ordinary business activities of the respective company and were conducted on an arm's length basis.

Notices in Accordance with the German Securities Trading Act *(Wertpapierhandelsgesetz – WpHG)*

From the start of the fiscal year to the time of the preparation of the financial statements, we received the following notifications in accordance with Section 21 (1) *WpHG* on holdings in Continental AG. In the event of the threshold stated in this provision being reached, exceeded or falling below on multiple occasions by the same party, only the most recent notification has been shown here. Notifications from earlier fiscal years about the existence of voting rights shares of at least 3% as at the end of the reporting period can be found online at www.continental-ir.com.

BlackRock, Inc., Wilmington, Delaware, United States, notified us that its share of voting rights in Continental AG on November 30, 2016, amounted to 3.22%.

› 3.08% of these voting rights (6,166,331 voting rights) are attributed to the company in accordance with Section 22 *WpHG*.

› 0.05% of these voting rights (105,065 voting rights) are attributed to the company as instruments in accordance with Section 25 (1) No. 1 *WpHG* (Lent Securities).

› 0.08% of these voting rights (163,606 voting rights) are attributed to the company as instruments in accordance with Section 25 (1) No. 2 *WpHG* (Contract for Difference).

By way of letter dated January 4, 2016, we received notification that:

› the share of voting rights in Continental AG held by Schaeffler Familienholding Eins GmbH, Herzogenaurach, Germany, fell below the threshold of 3% of voting rights on December 31, 2015, due to restructuring within the corporation and amounted to 0.00% at this time.

› the share of voting rights in Continental AG held by Schaeffler Familienholding Zwei GmbH, Herzogenaurach, Germany, fell below the threshold of 3% of voting rights on December 31, 2015, due to restructuring within the corporation and amounted to 0.00% at this time.

› the share of voting rights in Continental AG held by IHO Verwaltungs GmbH (still operating as Schaeffler Verwaltung Zwei GmbH as at December 31, 2015), Herzogenaurach, Germany, on December 31, 2015, amounted to 35.99%.

› the share of voting rights in Continental AG held by IHO Beteiligungs GmbH (still operating as Schaeffler Verwaltungs GmbH as at December 31, 2015), Herzogenaurach, Germany, on December 31, 2015, amounted to 10.01%. Another 35.99% of the voting rights in Continental AG are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

› 46.00% of the voting rights in Continental AG are attributed to IHO Holding GmbH & Co. KG (still operating as Schaeffler Holding GmbH & Co. KG as at December 31, 2015), Herzogenaurach, Germany, on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

› 46.00% of the voting rights in Continental AG are attributed to IHO Management GmbH (still operating as Schaeffler Management GmbH as at December 31, 2015), Herzogenaurach, Germany, on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

› 46.00% of the voting rights in Continental AG are attributed to INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

› 46.00% of the voting rights in Continental AG are attributed to Schaeffler Holding LP, Dallas, Texas, U.S.A., on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

› 46.00% of the voting rights in Continental AG are attributed to Mrs. Maria-Elisabeth Schaeffler-Thumann on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

› 46.00% of the voting rights in Continental AG are attributed to Mr. Georg F. W. Schaeffler on December 31, 2015, in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

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

In 2016 and until February 6, 2017, inclusively, the members of the Executive Board held shares representing a total interest of less than 1% of the share capital of the company. Shares representing 46.0% of the share capital of the company were attributable to the members of the Supervisory Board Mrs. Maria-Elisabeth Schaeffler-Thumann and Mr. Georg F. W. Schaeffler. In 2016 and until February 6, 2017, inclusively, the other members of the Supervisory Board held shares representing a total interest of less than 1% of the share capital of the company.

39. List of Shareholdings of the Corporation

Further information on equity investments can be found in the list of the corporation's shareholdings in accordance with Section 313 of the German Commercial Code (*Handelsgesetzbuch – HGB*), which is published as part of the consolidated financial statements in the electronic German Federal Gazette (*elektronischer Bundesanzeiger*). The consolidated financial statements with the list of the corporation's shareholdings are also made available for inspection by the shareholders in the business premises at the company's headquarters from the date on which the Annual Shareholders' Meeting is convened, and from that point in time are available together with the additional documents and information in accordance with Section 124a of the German Stock Corporation Act (*Aktiengesetz – AktG*) online at www.continental-ir.com.

Statutory exemption provisions applying to German companies

The following German companies and partnerships utilized the exemption provisions of Section 264 (3) *HGB* and Section 264b *HGB*:

Company	Registered office
ADC Automotive Distance Control Systems GmbH	Lindau
Alfred Teves Beteiligungsgesellschaft mbH	Frankfurt am Main
Babel Grundstücksverwaltungsgesellschaft mbH	Schwalbach am Taunus
balance GmbH, Handel und Beratungsservice im Gesundheitswesen	Hanover
Benecke-Kaliko AG	Hanover
Beneform GmbH	Hanover
CAS München GmbH	Hanover
CAS-One Holdinggesellschaft mbH	Hanover
Conseo GmbH	Hamburg
Conti Temic microelectronic GmbH	Nuremberg
Conti Versicherungsdienst Versicherungsvermittlungsges. mbH	Hanover
Continental Aftermarket GmbH	Eschborn
Continental Automotive GmbH	Hanover
Continental Automotive Grundstücksges. mbH	Frankfurt am Main
Continental Automotive Grundstücksvermietungsges. mbH & Co. KG	Frankfurt am Main
Continental Caoutchouc-Export-GmbH	Hanover
Continental Emitec GmbH	Lohmar
Continental Engineering Services & Products GmbH	Ingolstadt
Continental Engineering Services GmbH	Frankfurt am Main
Continental Finance GmbH	Hanover
Continental Mechanical Components Germany GmbH	Roding
Continental Reifen Deutschland GmbH	Hanover
Continental Safety Engineering International GmbH	Alzenau
Continental Teves AG & Co. oHG	Frankfurt am Main
Continental Trading GmbH	Schwalbach am Taunus
ContiTech AG	Hanover
ContiTech Antriebssysteme GmbH	Hanover
ContiTech Elastomer-Beschichtungen GmbH	Hanover
ContiTech Kühner Beteiligungsgesellschaft mbH	Hanover
ContiTech Kühner GmbH & Cie. KG	Oppenweiler
ContiTech Luftfedersysteme GmbH	Hanover
ContiTech MGW GmbH	Hannoversch Münden
ContiTech Schlauch GmbH	Hanover
ContiTech Techno-Chemie GmbH	Karben
ContiTech Transportbandsysteme GmbH	Hanover
ContiTech Verwaltungs-GmbH	Hanover
ContiTech Vibration Control GmbH	Hanover

Company	Registered office
ContiTech-Universe Verwaltungs-GmbH	Hanover
Eddelbüttel + Schneider GmbH	Hamburg
Elektrobit Automotive GmbH	Erlangen
eStop GmbH	Schwalbach am Taunus
Formpolster GmbH	Hanover
Gerap Grundbesitz- und Verwaltungsgesellschaft mit beschränkter Haftung	Frankfurt am Main
Göppinger Kaliko GmbH	Eislingen
inotec Innovative Technologie GmbH	Kohren-Sahlis
Max Kammerer GmbH	Frankfurt am Main
OTA Grundstücks- und Beteiligungsverwaltung GmbH	Frankfurt am Main
Phoenix Beteiligungsgesellschaft mbH	Hamburg
Phoenix Compounding Technology GmbH	Hamburg
Phoenix Conveyor Belt Systems GmbH	Hamburg
Phoenix Fluid Handling Industry GmbH	Hamburg
Phoenix Sechste Verwaltungsgesellschaft mbH	Hamburg
Phoenix Service GmbH & Co. KG	Hamburg
Phoenix Vermögensverwaltungsgesellschaft mbH	Hamburg
Präzisionstechnik Geithain GmbH	Geithain
REG Reifen-Entsorgungsgesellschaft mbH	Hanover
STEINEBRONN BETEILIGUNGS-GMBH	Oppenweiler
TEMIC Automotive Electric Motors GmbH	Berlin
TON Tyres Over Night Trading GmbH	Schondra-Schildeck
UMG Beteiligungsgesellschaft mbH	Hanover
Union-Mittelland-Gummi-GmbH & Co. Grundbesitz KG	Hanover
Vergölst GmbH	Bad Nauheim

40. German Corporate Governance Code/Declaration in Accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz)*

The declaration required in accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz)* was issued by the Executive Board and the Supervisory Board in December 2016, and is available to our shareholders online at www.continental-corporation.com in the Investor Relations section under Corporate Governance.

41. Report on Subsequent Events

As at February 6, 2017, there were no events or developments that could have materially affected the measurement and presentation of individual asset and liability items as at December 31, 2016.

Further Information

Responsibility Statement by the Company's Legal Representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the corporation, and the management report of the corporation includes a fair review of the development and performance of the business and the position of the corporation, together with a description of the principal opportunities and risks associated with the expected development of the corporation.

Hanover, February 6, 2017

Continental AG
The Executive Board

Members of the Executive Board and their Directorships

List of the positions held by the Executive Board members on statutory supervisory boards and on comparable controlling bodies of companies in Germany and abroad in accordance with Section 285 No. 10 of the German Commercial Code *(Handelsgesetzbuch – HGB)*:

Dr. Elmar Degenhart
Chairman
Corporate Communications
Corporate Quality and Environment
Continental Business System
Automotive Central Functions
› ContiTech AG, Hanover* (Chairman)

José A. Avila
Powertrain Division
› Continental Emitec GmbH, Lohmar*

Dr. Ralf Cramer
Continental China
› Continental Automotive Changchun Co., Ltd., Changchun, China* (Chairman)
› Continental Automotive Holding (Shanghai) Co., Ltd., Shanghai, China* (Chairman)
› Continental Automotive Interior Wuhu Co., Ltd., Wuhu, China* (Chairman)
› Continental Automotive Jinan Co., Ltd., Jinan, China* (Chairman, until April 27, 2016)
› Continental Automotive Systems Changshu Co., Ltd., Changshu, China* (Chairman)
› Continental Automotive Systems (Shanghai) Co., Ltd., Shanghai, China* (Chairman)
› Continental Automotive Systems (Tianjin) Co., Ltd., Tianjin, China* (Chairman)
› Continental Brake Systems (Shanghai) Co., Ltd., Shanghai, China* (Chairman)
› Continental Tires (China) Co., Ltd., Hefei, China* (Chairman)
› Elektrobit Automotive Software (Shanghai) Co., Ltd., Shanghai, China* (Chairman)

Hans-Jürgen Duensing
ContiTech Division
› Benecke-Kaliko AG, Hanover* (Chairman)
› ContiTech Antriebssysteme GmbH, Hanover* (Chairman)
› ContiTech Elastomer Beschichtungen GmbH, Hanover* (Vice Chairman)
› ContiTech Luftfedersysteme GmbH, Hanover* (Vice Chairman)
› ContiTech MGW GmbH, Hann. Münden* (Vice Chairman)
› ContiTech Schlauch GmbH, Hanover* (Chairman)
› ContiTech Techno-Chemie GmbH, Karben* (Vice Chairman)
› ContiTech Transportbandsysteme GmbH, Hanover* (Vice Chairman)
› ContiTech Vibration Control GmbH, Hanover* (Vice Chairman)
› Phoenix Compounding Technology GmbH, Hamburg* (Vice Chairman)
› ContiTech North America, Inc., Wilmington, Delaware, U.S.A.*
› EPD Holdings, Inc., Wilmington, Delaware, U.S.A.*
› Veyance Technologies, Inc., Fairlawn, Ohio, U.S.A.*

Frank Jourdan
Chassis & Safety Division
› Continental Automotive Corporation, Yokohama, Japan*
› Continental Automotive Mexicana, S.A. de C.V., Morelos, Mexico*

Helmut Matschi
Interior Division
› Continental Automotive GmbH, Hanover* (Chairman)

Dr. Ariane Reinhart
Human Relations
Director of Labor Relations
Sustainability
› Vonovia SE, Düsseldorf (since May 13, 2016)

Wolfgang Schäfer
Finance, Controlling, Compliance, Law and IT
› Continental Reifen Deutschland GmbH, Hanover*
› Continental Automotive, Inc., Wilmington, Delaware, U.S.A.*
› Continental Automotive Systems, Inc., Wilmington, Delaware, U.S.A.*
› Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.*

Nikolai Setzer
Tire Division
Corporate Purchasing
› Continental Reifen Deutschland GmbH, Hanover* (Chairman)
› Continental Tire Holding US LLC, Wilmington, Delaware, U.S.A.*
› Continental Tire the Americas, LLC, Columbus, Ohio, U.S.A.*

* *Companies pursuant to Section 100 (2) of the German Stock Corporation Act (Aktiengesetz – AktG).*

Members of the Supervisory Board and their Directorships

Memberships of other statutory supervisory boards and of comparable controlling bodies of companies in Germany and abroad in accordance with Section 285 No. 10 of the German Commercial Code *(Handelsgesetzbuch – HGB)*:

Prof. Dr.-Ing. Wolfgang Reitzle, Chairman
Chairman of the Supervisory Board of Linde AG (since May 21, 2016)
- Ivoclar Vivadent AG, Schaan, Liechtenstein
- Axel Springer SE, Berlin
- Hawesko Holding AG, Hamburg
- Medical Park AG, Amerang (Chairman)
- LafargeHolcim Ltd., Jona, Switzerland (Chairman, until May 12, 2016)

Hartmut Meine*, Vice Chairman
District manager of IG Metall (Metalworkers' Union) for Lower Saxony and Saxony-Anhalt
- KME Germany GmbH, Osnabrück

Dr. Gunter Dunkel
Chairman of the Board of Management of Norddeutsche Landesbank Girozentrale
- Bremer Landesbank Kreditanstalt Oldenburg Girozentrale, Bremen**
- Deutsche Hypothekenbank AG, Hanover** (Chairman)
- Norddeutsche Landesbank Luxembourg S.A. Covered Bond Bank, Luxembourg, Luxembourg** (Chairman)
- NORD/LB Vermögensmanagement Luxembourg S.A., Luxembourg, Luxembourg** (Chairman)

Hans Fischl*
Works Council for the Regensburg Location
Vice Chairman of the Corporate Works Council of Continental AG and Member of the Central Works Council of Continental Automotive GmbH

Prof. Dr.-Ing. Peter Gutzmer
Deputy CEO and Member of the Executive Board, CTO of Schaeffler AG, Herzogenaurach

Peter Hausmann*
Member of the Central Board of Executive Directors, IG Bergbau, Chemie, Energie (Mining, Chemical and Energy Industries Union)
- Henkel AG & Co. KGaA, Düsseldorf
- 50Hertz Transmission GmbH, Berlin (Vice Chairman)
- Vivawest GmbH, Gelsenkirchen (Vice Chairman)
- Covestro AG, Leverkusen

Michael Iglhaut*
Works Council for the Frankfurt Location

Prof. Dr. Klaus Mangold
Chairman of the Supervisory Board of Rothschild GmbH
- Alstom Deutschland AG, Mannheim (Chairman, until February 4, 2016)
- TUI AG, Hanover (Chairman)
- Alstom S.A., Paris, France
- Baiterek JSC, Astana, Kazakhstan
- Swarco AG, Wattens, Austria (until June 13, 2016)

Sabine Neuß
Member of the Management Board of Linde Material Handling GmbH, Aschaffenburg
- Juli Motorenwerk, s.r.o., Moravany, Czechia
- Linde Xiamen Forklift Truck Corp., Xiamen, China**
- Atlas Copco AB, Nacka, Sweden (since April 26, 2016)

Prof. Dr. Rolf Nonnenmacher
Certified Accountant, self employed, Berg
- ProSiebenSat.1 Media SE, Unterföhring
- Covestro AG, Leverkusen
- Covestro Deutschland AG, Leverkusen

Dirk Nordmann*
Chairman of the Works Council for the Vahrenwald Plant, ContiTech Antriebssysteme GmbH, Hanover
- ContiTech Luftfedersysteme GmbH, Hanover

Klaus Rosenfeld
Chief Executive Officer of Schaeffler AG, Herzogenaurach
- FAG Bearings India Ltd., Vadodara, India**

Georg F. W. Schaeffler
Co-owner of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach
- Schaeffler AG, Herzogenaurach** (Chairman)

Maria-Elisabeth Schaeffler-Thumann
Co-owner of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach
- Schaeffler AG, Herzogenaurach** (Vice Chairperson)

Jörg Schönfelder*
Chairman of the Works Council for the Korbach Plant and Chairman of the European Works Council
- Continental Reifen Deutschland GmbH, Hanover

Stefan Scholz*
Head of Finance & Treasury
- Phoenix Pensionskasse von 1925, Hamburg
- Pensionskasse für Angestellte der Continental Aktiengesellschaft VVaG, Hanover (since February 1, 2016)

Kirsten Vörkel*
Chairperson of the Works Council of Continental Automotive GmbH, Dortmund
Member of the Central Works Council of Continental Automotive GmbH, Hanover
Member of the Corporate Works Council of Continental AG, Hanover

Elke Volkmann*
Second Authorized Representative of the IG Metall, Administrative Office for North Hesse, Kassel
- Krauss-Maffei Wegmann Verwaltungs GmbH, Munich

Erwin Wörle*
Member of the Works Council of Conti Temic microelectronic GmbH, Ingolstadt
- Conti Temic microelectronic GmbH, Nuremberg (Vice Chairman)

Prof. KR Ing. Siegfried Wolf
Chairman of the Board of Directors of Russian Machines LLC, Moscow, Russia
- Banque Eric Sturdza SA, Geneva, Switzerland
- GAZ Group, Nizhny Novgorod, Russia (Chairman)
- SBERBANK Europe AG, Vienna, Austria (Chairman)
- UC RUSAL Plc, Moscow, Russia
- Schaeffler AG, Herzogenaurach
- MIBA AG Mitterbauer Beteiligungs AG, Laakirchen, Austria

Employee representative.
***Companies pursuant to Section 100 (2) of the German Stock Corporation Act (Aktiengesetz – AktG).*

Members of the Supervisory Board Committees:

1. Chairman's Committee and Mediation Committee required under Section 27 (3) of the German Co-determination Act *(Mitbestimmungsgesetz)*
- Prof. Dr.-Ing. Wolfgang Reitzle
- Hartmut Meine
- Georg F. W. Schaeffler
- Jörg Schönfelder

2. Audit Committee
- Prof. Dr. Rolf Nonnenmacher
- Peter Hausmann
- Michael Iglhaut (since September 23, 2016)
- Dirk Nordmann
- Klaus Rosenfeld
- Georg F. W. Schaeffler
- Erwin Wörle (until September 23, 2016)

3. Nomination Committee
- Prof. Dr. Rolf Nonnenmacher
- Prof. Dr.-Ing. Wolfgang Reitzle
- Georg F. W. Schaeffler
- Maria-Elisabeth Schaeffler-Thumann

Ten-Year Review – Corporation

		2016	2015	2014	2013	2012[6]	2011	2010	2009	2008	2007
Balance sheet											
Non-current assets	€ millions	21,321.0	19,666.6	16,923.3	15,569.5	15,685.7	15,075.5	14,887.9	14,724.6	16,348.4	17,383.9
Current assets	€ millions	14,853.9	13,169.1	13,317.8	11,251.3	11,764.4	10,962.9	9,502.6	8,324.6	8,339.5	10,353.7
Total assets	€ millions	36,174.9	32,835.7	30,241.1	26,820.8	27,450.1	26,038.4	24,390.5	23,049.2	24,687.9	27,737.6
Shareholders' equity (excl. non-controlling interests)	€ millions	14,270.0	12,786.3	10,672.1	9,011.2	7,779.0	7,146.1	5,859.6	3,772.6	5,265.4	6,583.2
Non-controlling interests	€ millions	464.8	427.6	352.5	311.0	377.4	397.2	343.3	289.1	264.5	272.9
Total equity (incl. non-controlling interests)	€ millions	14,734.8	13,213.9	11,024.6	9,322.2	8,156.4	7,543.3	6,202.9	4,061.7	5,529.9	6,856.1
Equity ratio[1]	%	40.7	40.2	36.5	34.8	29.7	29.0	25.4	17.6	22.4	24.7
Capital expenditure[2]	€ millions	2,593.0	2,178.8	2,045.4	1,981.1	2,019.4	1,711.3	1,296.4	860.1	1,595.2	896.9
Net indebtedness	€ millions	2,797.8	3,541.9	2,823.5	4,289.3	5,319.9	6,772.1	7,317.0	8,895.5	10,483.5	10,856.4
Gearing ratio	%	19.0	26.8	25.6	46.0	65.2	89.8	118.0	219.0	189.6	158.3
Income statement											
Sales	€ millions	40,549.5	39,232.0	34,505.7	33,331.0	32,736.2	30,504.9	26,046.9	20,095.7	24,238.7	16,619.4
Share of foreign sales	%	79.3	78.6	76.6	76.2	75.4	73.7	72.8	71.0	68.5	69.2
Cost of sales[3]	%	73.4	74.1	74.9	76.6	78.3	79.0	77.8	80.0	80.4	75.8
Research and development expenses[3]	%	6.9	6.2	6.2	5.6	5.3	5.3	5.6	6.7	6.2	5.0
Selling expenses[3]	%	5.6	5.6	5.3	5.0	4.8	4.7	5.0	5.6	4.9	5.5
Administrative expenses[3]	%	2.5	2.4	2.2	2.1	2.0	2.1	2.5	3.0	3.2	2.7
EBITDA	€ millions	6,057.4	6,001.4	5,133.8	5,095.0	4,967.4	4,228.0	3,587.6	1,591.2	2,771.4	2,490.6
EBITDA[3]	%	14.9	15.3	14.9	15.3	15.2	13.9	13.8	7.9	11.4	15.0
Personnel expenses	€ millions	9,695.7	9,164.6	7,757.2	7,124.5	6,813.7	6,354.3	5,891.7	5,199.8	5,746.3	3,652.7
Depreciation and amortization[4]	€ millions	1,961.6	1,885.8	1,789.0	1,831.3	1,781.2	1,631.1	1,652.4	2,631.6	3,067.6	814.8
Net income attributable to the shareholders of the parent	€ millions	2,802.5	2,727.4	2,375.3	1,923.1	1,905.2	1,242.2	576.0	-1,649.2	-1,123.5	1,020.6
Dividend and earnings per share											
Dividend for the fiscal year	€ millions	850.0[5]	750.0	650.0	500.0	450.0	300.0	–	–	–	323.4
Number of shares as at December 31	millions	200.0	200.0	200.0	200.0	200.0	200.0	200.0	169.0	169.0	161.7
Net income (per share) attributable to the shareholders of the parent	€	14.01	13.64	11.88	9.62	9.53	6.21	2.88	-9.76	-6.84	6.79
Employees											
Annual average	thousands	216.0	204.7	186.0	175.4	169.0	159.7	142.7	133.4	148.4	93.9

1 Including non-controlling interests.
2 Capital expenditure on property, plant and equipment, and software.
3 As a percentage of sales.
4 Excluding impairment on financial investments.
5 Subject to the approval of the Annual Shareholders' Meeting on April 28, 2017.
6 IAS 19 (revised 2011), Employee Benefits, has been applied since 2012.

Financial Calendar

2017	
Preliminary figures for fiscal 2016	January 9
Annual Financial Press Conference	March 2
Analyst and Investor Conference Call	March 2
Annual Shareholders' Meeting (including key figures for the first quarter of 2017)	April 28
Financial Report as at March 31, 2017	May 9
Half-Year Financial Report as at June 30, 2017	August 3
Financial Report as at September 30, 2017	November 9

2018	
Preliminary figures for fiscal 2017	January
Annual Financial Press Conference	March
Analyst and Investor Conference Call	March
Annual Shareholders' Meeting (including key figures for the first quarter of 2018)	April 27
Financial Report as at March 31, 2018	May
Half-Year Financial Report as at June 30, 2018	August
Financial Report as at September 30, 2018	November

Publication Details

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