Continental
The Future in Motion
Mobility
Is The Future ›
Annual Report 2014

Mobility Is The Future ›

- Continental develops intelligent technologies for transporting people and their goods.
- As a reliable partner, the international automotive supplier, tire manufacturer, and industrial partner provides sustainable, safe, comfortable, individual, and affordable solutions.
- In 2014, the corporation generated sales of approximately €34.5 billion with its five divisions, Chassis & Safety, Interior, Powertrain, Tires, and ContiTech, and with its 190,000 employees in 50 countries.

2015 Continental Mobility Study ›

Insight and outlook from the 2015 Continental Mobility Study ›

› Automobility remains in high demand worldwide – for young and old alike
› Individual mobility – with a green conscience
› Enjoy driving – but economically
› Arrive relaxed – with intelligent assistance
› Safe, comfortable and convenient – yet affordable
› Intelligently connected – and fully focused
› Variety – the answer to diverse requirements

2014 Highlights

- Adjusted EBIT up again at more than 11% of sales
- Net indebtedness down by nearly €1.5 billion, gearing ratio at 25.6%
- Dividend increased by 30% to €3.25

Key Figures for the Continental Corporation

in € millions	**2014**	2013	Δ in %
Sales	34,505.7	33,331.0	3.5
EBITDA	5,133.8	5,095.0	0.8
in % of sales	14.9	15.3	
EBIT	3,344.8	3,263.7	2.5
in % of sales	9.7	9.8	
Net income attributable to the shareholders of the parent	2,375.3	1,923.1	23.5
Earnings per share in €	11.88	9.62	23.5
Adjusted sales[1]	34,177.6	33,259.1	2.8
Adjusted operating result (adjusted EBIT)[2]	3,874.5	3,737.5	3.7
in % of adjusted sales	11.3	11.2	
Free cash flow	2,014.9	1,818.3	10.8
Net indebtedness	2,823.5	4,289.3	-34.2
Gearing ratio in %	25.6	46.0	
Total equity	11,024.6	9,322.2	18.3
Equity ratio in %	36.5	34.8	
Number of employees as at December 31[3]	189,168	177,762	6.4
Dividend per share in €	3.25[4]	2.50	
Share price at year-end[5] in €	175.55	159.40	
Share price[5] (high) in €	183.25	161.90	
Share price[5] (low) in €	136.85	80.66	

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 30, 2015.
5 Price quotations of the Continental share in the XETRA system of Deutsche Börse AG.

Overview of the Corporation

Continental Corporation

Sales: €34.5 billion
Employees: 189,168

Automotive Group

Sales: €20.9 billion
Employees: 108,711

Rubber Group

Sales: €13.6 billion
Employees: 80,113

Key Figures for Continental's Core Business Areas

Automotive Group

in € millions	**2014**	2013	Δ in %
Sales	20,909.2	20,016.1	4.5
EBITDA	2,407.7	2,490.5	-3.3
in % of sales	11.5	12.4	
EBIT	1,189.3	1,158.9	2.6
in % of sales	5.7	5.8	
Adjusted sales[1]	20,796.8	19,944.2	4.3
Adjusted operating result (adjusted EBIT)[2]	1,676.1	1,593.3	5.2
in % of adjusted sales	8.1	8.0	

Rubber Group

in € millions	**2014**	2013	Δ in %
Sales	13,637.6	13,355.5	2.1
EBITDA	2,832.6	2,714.0	4.4
in % of sales	20.8	20.3	
EBIT	2,262.7	2,214.8	2.2
in % of sales	16.6	16.6	
Adjusted sales[1]	13,421.9	13,355.5	0.5
Adjusted operating result (adjusted EBIT)[2]	2,305.6	2,256.6	2.2
in % of adjusted sales	17.2	16.9	

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.

Contents ›

To Our Shareholders ›

C3 Key Figures for the Continental Corporation
C4 Key Figures for Continental's Core Business Areas

6 Chairman's Letter
10 Members of the Executive Board

12 **Continental Shares and Bonds**

19 **Corporate Governance**
19 Report of the Supervisory Board
22 Corporate Governance Report and Declaration Pursuant to Section 289a of the German Commercial Code *(HGB)*
26 Compliance
27 Remuneration Report

Management Report ›

40 **Corporate Profile**
40 Structure of the Corporation
42 Corporate Strategy
48 Divisions and Business Units
48 Chassis & Safety Division
50 Powertrain Division
52 Interior Division
54 Tire Division
56 ContiTech Division
58 Corporate Management
61 Research and Development
64 Sustainability
65 Employees
69 Environment
73 Social Responsibility

74 **Economic Report**
74 General Conditions
74 Macroeconomic Development
76 Development of Key Customer Sectors
79 Development of Raw Material Markets
82 Earnings, Financial and Net Assets Position
84 Earnings Position
90 Financial Position
93 Net Assets Position
95 Automotive Group
96 Development of the Chassis & Safety Division
98 Development of the Powertrain Division
101 Development of the Interior Division
104 Rubber Group
105 Development of the Tire Division
108 Development of the ContiTech Division

110 **Continental AG (Short Version in acc. with *HGB*)**

113 **Other Information**
113 Dependent Company Report
114 Takeover Disclosures and Notes
114 Report Pursuant to Section 289 (4) and Section 315 (4) of *HGB*
116 Remuneration of the Executive Board
116 Corporate Governance Declaration Pursuant to Section 289a of *HGB*

117 **Report on Subsequent Events**

118 **Report on Risks and Opportunities**
118 Risk and Opportunity Management and Internal Control System
121 Material Risks
121 Financial Risks
122 Risks Related to the Markets in which Continental Operates
124 Risks Related to Continental's Business Operations
127 Legal, Environmental and Taxation Risks
130 Material Opportunities
131 Statement on Overall Risk and Opportunities Situation

132 **Report on Expected Developments**
132 Future General Conditions
132 Forecast of Macroeconomic Development
134 Development of Key Customer Sectors
136 Outlook for the Continental Corporation

Consolidated Financial Statements ›

140 Statement of the Executive Board
141 Independent Auditor's Report
142 Consolidated Statement of Income
143 Consolidated Statement of Comprehensive Income
144 Consolidated Statement of Financial Position
146 Consolidated Statement of Cash Flows
147 Consolidated Statement of Changes in Equity

148 **Notes to the Consolidated Financial Statements**
148 Segment Reporting
152 General Information and Accounting Principles
161 New Accounting Pronouncements
166 Companies Consolidated
167 Acquisition and Sale of Companies and Business Operations
171 Notes to the Consolidated Statement of Income
177 Notes to the Consolidated Statement of Financial Position
220 Other Disclosures

Further Information ›

234 Responsibility Statement by the Company's Legal Representatives
235 Other Directorships – The Executive Board
236 Other Directorships – The Supervisory Board
238 Ten-Year Review – Corporation
239 Glossary of Financial Terms
C5 Financial Calendar
C5 Publication Details

The company regularly reports equally to the shareholders, analysts, shareholders' associations, the media and interested members of the public on significant developments in the corporation. We thus provide all market participants with relevant information about Continental at the same time.

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Chairman's Letter

Dear Shareholders,

When weighing your investment options in the past year, you again placed your trust in Continental's ability to create value with technologies for mobility and other sectors. Your Continental recently caught up with the group of the ten most highly valued companies in Germany in terms of market capitalization. On behalf of our global team, we would like to thank you for your trust.

Our approach to creating value and achieving profitable growth has clearly met with approval. It can be summed up in three words: global, sustainable, and innovative. Our global Continental team of around 190,000 employees once again put in an outstanding performance in 2014, and for this, we thank them most sincerely.

We have made some impressive achievements, most notably:

› Our profitable growth. We have boosted our sales by 3.5 percent to €34.5 billion and our EBIT by 2.5 percent to €3.3 billion.

› Our sound net assets position. Our net indebtedness at the end of 2014, and thus before the cash outflow for the Veyance acquisition, was below three billion euros, continuing at the excellent level of earlier years.

› Our capacity for innovation. Excellent examples of this are our 48-volt technology for hybrid drive systems for cars, our expanded development centers in Asia, our High Technology Performance Center for the development and production of top-quality tires in Korbach, Germany, and our new Intelligent Transportation Systems business unit in Silicon Valley, California, U.S.A. The latter will develop brand new business models for the car as part of the Internet.

Your trust in our performance potential paid off again in 2014, with the value of your shares rising 10 percent. In addition, we are delighted to be able to propose to the Annual Shareholders' Meeting in April 2015 that a dividend of €3.25 per share be distributed to you.

All in all, we systematically continued along our successful path last year. And we did so in spite of persistent weak economic growth in Europe and South America, the uncertain situation in Ukraine and Russia, and significant exchange rate fluctuations for some currencies. In addition, uncertainty on the markets was fueled by the sharp decline in the oil price in the final quarter of the reporting year.

Nonetheless, our achievements in the past business year have further strengthened the foundation for profitable growth and boosted our future viability. Three out of four newly registered vehicles worldwide are fitted with Continental's solutions, products or systems, making them safe, environmentally friendly, comfortable and convenient – and all that at an affordable price.

We firmly believe that the best and most effective way to create pioneering solutions is with a pioneering corporate culture, and we have been rigorously developing precisely such a culture for some time now. In doing so, we have been encouraging our employees and managers to network more intensively with each other. We have been promoting overarching cooperation across organizations and cultures. And we have been fostering the self-organization of our individual teams. Together, all these factors make us even faster and more effective.

Dr. Elmar Degenhart
Chairman
of the Executive Board

We are delighted to welcome Dr. Ariane Reinhart, an HR expert with a proven track record, as a new Executive Board member and Director of Labor Relations. Since October 1, 2014, she has been responsible for the HR department, which we now refer to as "Human Relations." We firmly believe that, in the long term, investing in our employees brings us the highest yield. With Ariane Reinhart advancing our overarching strategy, we have a key competitive advantage in the race for the world's best minds.

Another new member of the Executive Board is Hans-Jürgen Duensing, who will join the team on May 1, 2015, as head of our ContiTech division. With his many years of experience in this business, he will be taking over from Heinz-Gerhard Wente, who will be retiring after 40 years at the company when his position on the Board is scheduled to end on April 30, 2015. Our very special thanks go to Mr. Wente for the valuable contribution he has made to Continental during his many years of untiring service. Together with his team, he successfully turned our rubber and plastics specialist ContiTech into an internationally competitive automotive supplier and industrial partner that makes an above-average contribution to the corporation's earnings on a regular basis.

Our strategic corporate goal is to continue increasing the share of our sales generated with industrial clients and the aftermarket, which is currently at around 27 percent, toward the 40 percent mark. ContiTech is making a very valuable contribution here. With the purchase of Veyance Technologies, closed early in 2015, we have acquired a specialist in rubber and plastics technology that is an ideal fit for our business in the ContiTech division, since Veyance generates nine out of ten euros of its sales in industrial business. Hans-Jürgen Duensing will push forward with the integration of Veyance and the pursuit of our strategy.

Steps such as these are essential for our long-term success, since the cyclical fluctuations in the automotive industry are becoming increasingly volatile. Although we cannot make ourselves invulnerable to this trend, we can provide some balance, and the Rubber Group is already making a substantial contribution in this regard.

With more than 700 new premium stations under the umbrella of our Best Drive sales network, we have significantly expanded the access our tire portfolio has to central European markets such as France, Spain and Poland, as well as to core global markets like China and the U.S.A.

Competition in the development and production of battery cells for the automotive industry is becoming increasingly fierce. Demand for electric vehicles is growing much more slowly than governments would like and industry would hope. As a result, at the present time it is hardly worth investing in new factories for producing battery cells. Together with our South Korean partner SK Innovation Co., Ltd., South Korea, we therefore no longer saw any economic basis in the medium term for business operations in our joint venture SK Continental E-motion Pte. Ltd., Singapore. For this reason, we significantly reduced existing activities and investments in the third quarter of 2014, adjusting the value of property, plant and equipment in the Hybrid Electric Vehicle business unit in line with the current utilization of capacity. The joint venture was dissolved toward the end of the year.

Our goal starting from 2020 is: more than 50! We have undertaken to achieve sales of over €50 billion by the start of the new decade. Each of our five divisions is expected to make roughly an equal contribution to achieving this goal – while also keeping the profitability of the company as a whole in the double-digit percentage range. At the same time, we are also keeping our sights set firmly on a return on capital employed (ROCE) of at least 20 percent.

Essentially, we design pioneering solutions for and contribute to three major developments on the world's roads:

› 1. The goal of zero road accidents with the ever increasing number of vehicles worldwide. Zero accidents are no longer a utopia! The time has come to make accidents a thing of the past.

  Our advanced driver assistance systems are already helping millions of drivers, for instance by automatically keeping the vehicle in lane, monitoring the blind spot, braking in emergencies, parking independently, and protecting pedestrians from collisions. With all of these examples and many more, we are making a significant contribution to improving safety on the roads. Our business in advanced driver assistance systems is expected to see annual growth of almost one-third in the future, rising from around €500 million today to around €1.5 billion in 2018.

› 2. The desire for clean air by lowering fuel consumption and reducing CO_2 emissions.

  The 48-Volt Eco Drive system for graduated, cost-effective powertrain hybridization enables more efficient recovery of braking energy. This, together with forward-looking energy management technologies, can cut fuel consumption by around 13 percent.

› 3. The automation, digitalization and interconnection of vehicles on roads all around the world and in industry.

  We are convinced that cars will become part of the Internet in the future. When vehicles are connected, they are even safer, more efficient, more intelligent, more comfortable, and more convenient. For this purpose, we offer new technologies such as the touchpad with active, haptic feedback. It enables drivers to communicate with the machine via touch-sensitive surfaces, without words and without needing to take their eyes off the road.

We spend more than two billion euros a year on research and development for future mobility. This is equivalent to more than six percent of annual sales – an exceptionally high level. With around 11,000 engineers, programmers and experts in the field of software, we are Germany's second largest employer for these professions.

In addition to technological opportunities, we are also taking advantage of potential arising from the roughly three percent annual growth in global vehicle production. For 2020 we anticipate a production volume of 100 to 105 million new passenger cars.

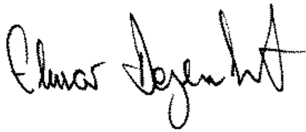
Accordingly, our capital expenditure ratio remains at a steady level of five percent to six percent of sales. We are continuing to invest heavily in future technologies that will help us make mobility safer, more intelligent, more environmentally friendly, and more affordable. For instance, in November 2014 we opened a new technology center in Puchov, Slovakia, to satisfy the rising demand for new technologies to manufacture our range of tires.

We expect sales in 2015 to exceed €36 billion, which does not yet take into account the effects of the consolidation of Veyance.

As you can see, your Continental is working to continue growing profitably and faster than the market.

It is your trust that drives us!

We look forward to continuing along our successful path together with you.



Dr. Elmar Degenhart
Chairman of the Executive Board

Members of the Executive Board ›

Heinz-Gerhard Wente
born in 1951
in Nettelrede, Germany;
ContiTech Division,
Corporate Purchasing;
appointed until
April 2015

Helmut Matschi
born in 1963
in Viechtach, Germany;
Interior Division;
appointed until
August 2017

Nikolai Setzer
born in 1971
in Groß-Gerau, Germany;
Tire Division;
appointed until
August 2017

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

Dr. Ariane Reinhart
born in 1969
in Hamburg, Germany;
Human Relations,
Director of Labor
Relations, Corporate
Social Responsibility;
appointed until
September 2017

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

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

Frank Jourdan
born in 1960
in Groß-Gerau, Germany;
Chassis & Safety Division;
appointed until
September 2016

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

Continental Shares and Bonds ›

Continued good performance by Continental shares and bonds thanks to positive business development and reduced net indebtedness.

Share capital unchanged

As at the end of 2014, the share capital of Continental AG still amounts 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. There is authorized and contingent capital. The current Articles of Incorporation are available online at www.continental-ir.com under "Corporate Governance."

Continental share listings

Continental's shares are officially listed on the German stock exchanges in Frankfurt, Hamburg, Hanover and Stuttgart on the regulated market. In the U.S.A., they are traded as part of a sponsored American depositary receipt (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 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 number	DE0005439004
Reuters ticker symbol	CONG
Bloomberg ticker symbol	CON
Index memberships (selection)	DAX Prime All Share Prime Automobile NISAX
Number of outstanding shares as at December 31, 2014	200,005,983
Free float as at December 31, 2014	54.0%

American depositary receipt (ADR) data

Ratio	1 share : 5 ADRs
SEDOL number	2219677
ISIN number	US2107712000
Reuters ticker symbol	CTTAY.PK
Bloomberg ticker symbol	CTTAY
ADR level	Level 1
Trading	OTC
Sponsor	Deutsche Bank Trust Company Americas

Free float still at 54.0%

Free float as defined by Deutsche Börse AG still amounted to 54.0% as at the end of 2014. The most recent change took place on September 17, 2013, when our major shareholder, the Schaeffler Group, Herzogenaurach, Germany, announced the sale of 7.8 million Continental shares and thus reduced its shareholding in Continental AG from 49.9% to 46.0%.

As at the end of 2014, the market capitalization of Continental AG amounted to €35.1 billion (PY: €31.9 billion). Market capitalization on the basis of free float in accordance with Deutsche Börse AG averaged €18.5 billion over the last 20 trading days of 2014 (PY: €16.7 billion). The trading volume in euro that is also relevant to index selection amounted to €20.6 billion from January to December 2014 (PY: €13.0 billion). As at the end of 2014, Continental shares were ranked 15th (PY: 16th) in terms of free float market capitalization and 17th (PY: 20th) in terms of stock exchange turnover among the 30 DAX shares in Deutsche Börse AG's index ranking.

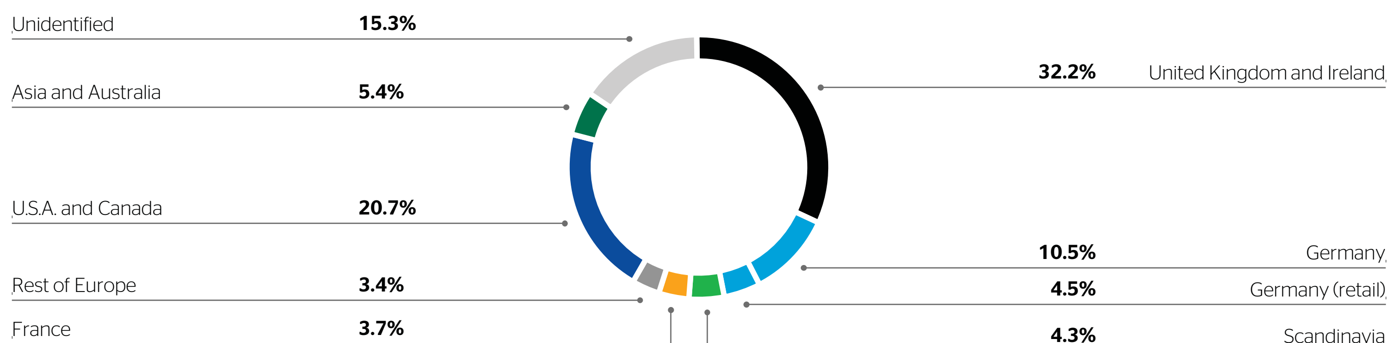
Little change in distribution of free float

We once again conducted a shareholder identification (SID) as at December 31, 2014. We were able to assign 86.6 million of the 108.0 million shares held in free float to over 400 institutional investors in 39 countries. Private shareholders held 4.9 million shares as at the end of the year. In total, we therefore identified 91.5 million, or 84.7%, of the free float shares (PY: 87.2%).

According to the SID, the identified level of Continental shares held in Europe remained roughly the same as in the previous year at 58.6% (PY: 61.3%). Institutional investors from the United Kingdom and Ireland increased their shareholdings from previously 33.4 million shares to 34.8 million. The identified holdings of German institutional investors declined by 1.4 million shares to 11.3 million in the year under review (PY: 12.7 million). Their share of free float therefore declined to 10.5%. There was also a decrease in the shareholdings of private German shareholders of 0.9 million shares to 4.9 million in 2014. In France, Scandinavia and the rest of Europe, identified shareholdings decreased by 2.0 million shares in the period under review to a total of 12.3 million.

In the U.S.A. and Canada, identified holdings climbed by 0.4 million shares to 22.3 million (PY: 21.9 million shares). Identified shareholdings in Asia and Australia were almost unchanged at 5.8 million shares (PY: 6.1 million).

Shareholder structure of free float



Net income per share reaches new high

In the year under review, the net income attributable to the shareholders of the parent rose by 23.5% from €1.92 billion in the previous year to a new high of €2.38 billion. This increase was attributable to the continued strong operating performance of the Continental Corporation and a significant reduction in interest expenses compared to the previous year. The tax rate also was at a comparatively low level due to special effects.

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. They likewise reached a new high, rising accordingly by 23.5% from €9.62 to €11.88.

Dividend proposal of €3.25 per share

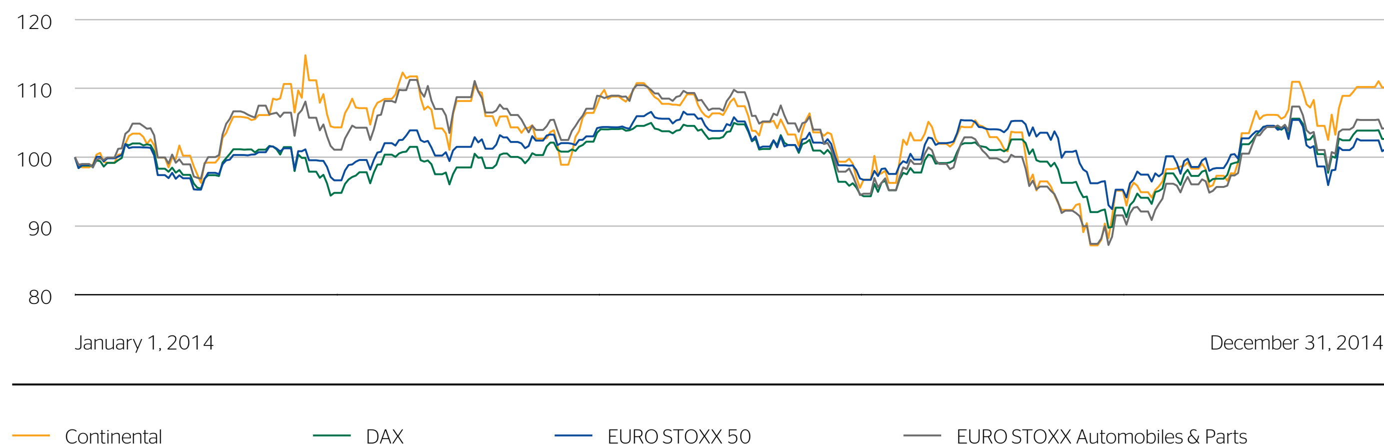
The Executive Board and the Supervisory Board have resolved to propose a 30% increase in the dividend distribution to €3.25 per share for the past fiscal year to the Annual Shareholders' Meeting to be held in Hanover on April 30, 2015. This corresponds to €650.0 million or a dividend payout ratio of 27.4% of net income attributable to the shareholders of the parent. Based on the dividend proposal and the further significant increase in the annual average Continental share price, this results in a dividend yield of 2.0% for 2014.

A dividend of €2.50 per share was paid for fiscal 2013, amounting to a total payout of €500.0 million. The dividend payout ratio was 26.0%, and the dividend yield was 2.2%.

Key figures per share in €[1]	2014	2013
Basic earnings	11.88	9.62
Diluted earnings	11.88	9.62
Free cash flow	10.07	9.09
Dividend	3.25[2]	2.50
Dividend payout ratio (%)	27.4[2]	26.0
Dividend yield (%)	2.0[2]	2.2
Total equity (book value) as at December 31	53.36	45.05
Share price at year-end	175.55	159.40
Average share price	164.47	111.70
Yearly average price-earnings ratio (P/E ratio)[3]	13.84	11.61
Share price (high)	183.25	161.90
Share price (low)	136.85	80.66
Average XETRA trading volume (in units)	499,315	472,368
Number of shares, average (in millions)	200.0	200.0
Number of 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 30, 2015.
3 Net income attributable to the shareholders of the parent per share at the annual average share price.

Share price performance vs. selected stock indexes (indexed to January 1, 2014)



Volatile development of prices on the stock markets

In late January 2014, disappointing economic data from China, fears of a rapid tightening of U.S. monetary policy and the deterioration in economic prospects for some emerging countries led to a fall in prices on stock markets. Positive economic data for Europe and better-than-anticipated company figures for fiscal 2013 brought about a rapid recovery in share prices in February. This was supported by statements from the U.S. Federal Reserve (Fed) that it would continue its highly accommodative policy "for a considerable time." Starting from the first half of March 2014, sentiment on the markets was increasingly negatively impacted by the conflict between Ukraine and Russia over the Crimean peninsula. The DAX closed the first quarter of 2014 virtually unchanged in comparison to its level at the beginning of the year, while the EURO STOXX 50 rose by 1.7%.

The good company results in the first quarter of 2014 and the positive economic data from Germany and the U.S.A. caused prices to increase in April. In mid-May, the European stock markets were negatively impacted by the publication of weak economic data for the eurozone for the first quarter of 2014. Hints from European Central Bank (ECB) representatives as to further easing of its monetary policy also raised investor expectations in late May of interest rate cuts in the eurozone. In addition, the Fed again raised the prospect of continuing its low-interest policy until well into 2015. The benchmark indexes in the U.S.A. and Europe consequently reached new record highs. The presentation of the ECB's package of measures in early June – with a cut in the ECB key interest rate to 0.15% and, for the first time, a negative rate for excess reserve holdings at -0.1% – caused the DAX to rise above the 10,000 points mark for the first time shortly thereafter. Subsequently, intensifying hostilities in northern Iraq and weaker-than-anticipated economic data from Europe and the U.S.A. in particular led to falling prices. The DAX closed the first half of 2014 with an increase of 2.9%, while the EURO STOXX 50 recorded a 3.8% rise.

Sentiment on stock markets increasingly deteriorated in the third quarter of 2014 due to further signs of slower growth in the eurozone and the intensification of the conflicts in Ukraine and Iraq. By the middle of the first half of August, the DAX and the EURO STOXX 50 had each declined by around 10% in comparison to their highs for the year, while the Dow Jones Index fell by around 5%. Following a stabilization in mid-August, the stock markets entered a phase of share price recovery in the second half of August, primarily driven by hopes of a ceasefire in Ukraine, positive U.S. economic data, and further expansive monetary policy measures by the ECB. Weaker-than-anticipated economic data from the eurozone, China and the U.S.A., together with the spreading of hostilities in northern Iraq to parts of Syria, caused sentiment on the stock markets to deteriorate again in September. At the end of September 2014, the DAX was 0.8% lower than its level at the beginning of the year, whereas the EURO STOXX 50 was up 3.8%.

The plunge in prices on the stock markets initially continued at the beginning of the fourth quarter. Various benchmark indexes such as the DAX and the EURO STOXX 50 marked new lows for the year. After somewhat better-than-expected economic data from China and the eurozone, there was another turnaround on the stock markets mid-October. The recovery in share prices continued in November thanks to good company results for the third quarter. This was boosted by the ECB's repeated confirmations that it would significantly expand its monetary policy and its total assets, for example by purchasing bonds. There was also a positive effect from the surprising key interest rate cut by the Chinese central bank, the improvement in sentiment indicators for the German economy, and the strong growth of the U.S. economy in the third quarter. In early December, most benchmark indexes reached their highest levels in recent years or, like the DAX and the Dow Jones Index, even reached new all-time highs. Subsequently, concerns about the general economy, the unclear political situation in Greece, and fears of deflation due to the decline in the oil price that began in October led to price

decreases again. Investors were calmed toward the end of the year by the Fed's promise that it would be "patient" with regard to its first interest rate hike, which is set to be implemented during 2015. The DAX closed 2014 with an increase of 2.7% to 9,805.55 points, while the EURO STOXX 50 had risen by 1.2% to 3,146.43 points.

Continental shares again outperform the European automotive sector

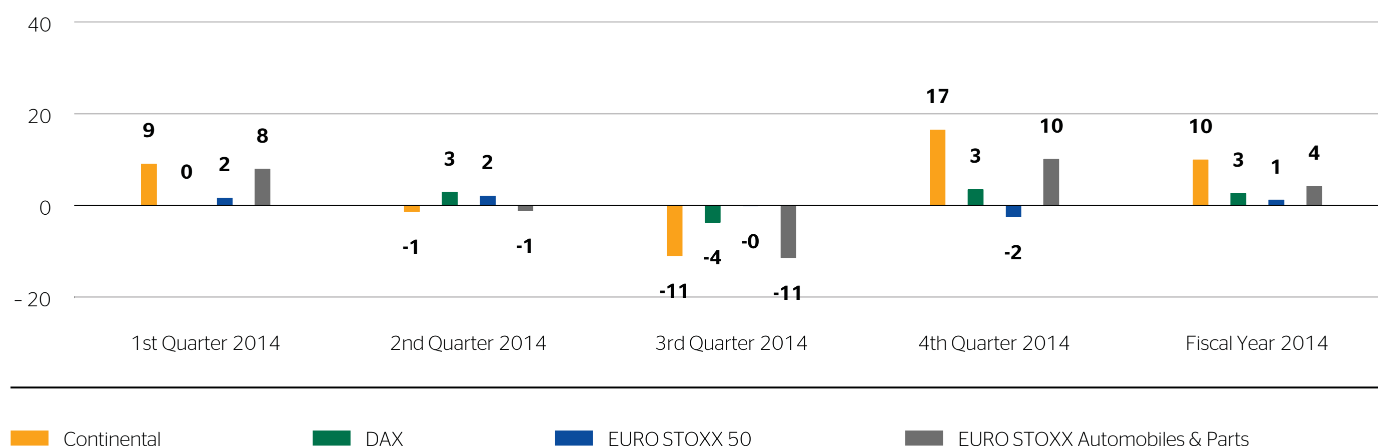
Continental shares, which had still benefited in mid-January 2014 from initial key data for fiscal 2013, were adversely affected by the negative capital market environment in late January and fell to €152.60 by February 5, 2014. The general market recovery, positive light vehicle production data, and tire sales volumes brought about a rapid recovery of share prices in the automotive sector in February, including Continental shares. This development was also supported by the announcement on February 10, 2014, of the agreement to purchase Veyance Technologies, Inc., Fairlawn, Ohio, U.S.A. The publication of the business figures for 2013 and a slight improvement in the outlook for fiscal 2014 caused Continental shares to rise to a new all-time high of €183.25 during the course of March 6, 2014. Continental shares were also negatively impacted by the Crimea crisis in March and closed the first quarter of 2014 with an increase of 9.1%.

At the beginning of the second quarter of 2014, Continental shares were also impacted by the negative market trend. However, an improvement in sentiment on the capital markets and positive analyst assessments resulted in a rapid recovery in the share price. The publication of initial key data for the first quarter of 2014 on April 25, 2014, the day of the Annual Shareholders' Meeting, was used by investors for profit-taking. In mid-May, doubts about the eurozone's economic recovery increasingly led to shifts from shares in the cyclical automotive sector to shares in more defensive sectors. As a result, the prices of automotive shares, including Continental shares, recorded much sharper declines than the market as a whole. Starting from May 19, 2014, there was a significant recovery in the automotive sector. Continental shares also benefited once again from positive analyst comments, climbing back above €175 by mid-June before profit-taking led to price decreases. At the end of the second quarter of 2014, they were quoting at €169.15, which is 2.7% below their closing price for the first quarter but 6.1% above their price at the beginning of the year. They were thus in line with the index for the European automotive sector.

In the third quarter of 2014, the Continental share price performance was still largely in step with the European automotive sector, which was particularly hard hit by the deterioration in sentiment on the stock markets. Early in August, Continental shares were temporarily quoting at around €150, before climbing back to €168 as a result of the general market recovery. Declining estimates by companies and analysts with regard to the further development of light vehicle and heavy vehicle production and demand for replacement tires in Europe and South America once again resulted in price losses for automotive shares, including Continental shares, from mid-September. Continental shares closed the first nine months of 2014 at €150.65, down 5.5% compared to their 2013 closing price.

As a result of the plunge in prices on the stock markets at the beginning of the fourth quarter of 2014, Continental's share price decreased further, hitting its low for the year of €136.85 on October 13, 2014. Against the backdrop of the general market recovery, the Continental share price also increased again from mid-October onward. This development was supported by the business figures for the third quarter of 2014 and the confirmation of the forecast for 2014 as a whole. In early December, Continental shares were quoting at prices of over €170 again. They ended 2014 at a price of €175.55 (PY: €159.40).

Quarterly share price performance (in %)



Performance over several years

Investment period for €10,000	Continental[1]	DAX	EURO STOXX 50[1]	EURO STOXX Automobiles & Parts[1]
1 year (Jan. 1, 2014 – Dec. 31, 2014)	€11,178	€10,265	€10,471	€10,694
Yield in % p.a.	11.8	2.7	4.7	6.9
3 years (Jan. 1, 2012 – Dec. 31, 2014)	€38,681	€16,624	€15,306	€21,147
Yield in % p.a.	57.0	18.5	15.2	28.4
5 years (Jan. 1, 2010 – Dec. 31, 2014)	€51,026	€16,459	€13,009	€23,481
Yield in % p.a.	38.5	10.5	5.4	18.6
10 years (Jan. 1, 2005 – Dec. 31, 2014)	€44,128	€23,039	€15,779	€32,819
Yield in % p.a.	16.0	8.7	4.7	12.6

1 Including reinvested dividends.

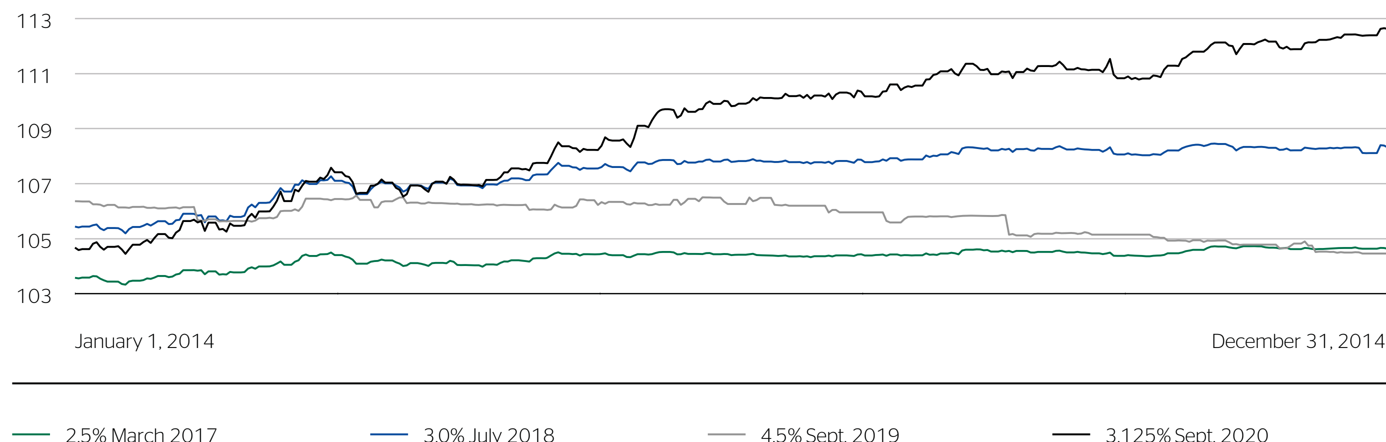
With a price gain of €16.15, there was a further increase in the share price of 10.1% in 2014, after 82.0% in 2013 and 82.1% in 2012. Continental shares thus outstripped the DAX performance index (+2.7%) and the price indexes EURO STOXX 50 (+1.2%) and EURO STOXX Automobiles & Parts (+4.2%) for the third time in a row. In the annual ranking of the 30 DAX shares, Continental was seventh in terms of its share price performance.

Share yield also high when compared over several years

Assuming the dividend distribution of €2.50 had been immediately reinvested in line with the DAX performance index, this would have resulted in a total yield of 11.8% for the year under review. Continental shares also outperformed the DAX, EURO STOXX 50 and EURO STOXX Automobiles & Parts (including reinvested dividends in each case) in this respect in the year under review. Comparing Continental's operating performance over longer periods (assuming immediate reinvestment of distributed dividends) clearly illustrates its strength in the past years:

- Investing €10,000 in Continental shares at the beginning of 2012 would have generated a yield of 57.0% per year or an increase in value of 287% to €38,681 over the past three years. Over the past five years, the same investment would have generated an increase in value of 410% to €51,026 (38.5% p.a.). In both cases, considerably higher yields would have been generated than with an investment in the reference indexes.
- The high yields over the past three and five years also reflect the slump in prices on the stock markets in 2008 and the gradual recovery in 2009. However, a comparison of the performance over the past ten years also shows a substantial increase in value of 341% to €44,128 for a €10,000 investment in Continental shares. With an annual yield of 16.0%, the reference indexes were significantly outperformed over this ten-year period as well.

Price performance of the Continental bonds



Outstanding bonds as at December 31, 2014

WKN/ISIN	Coupon	Maturity	Volume in millions	Issue price	Price as at Dec. 31, 2014	Price as at Dec. 31, 2013
A1VC6B / XS0972719412	2.5%	March 20, 2017	€750	99.595%	**104.636%**	103.578%
A1X24V / XS0953199634	3.0%	July 16, 2018	€750	98.950%	**108.316%**	105.445%
A1G9JJ / DE000A1G9JJ0	4.5%	September 15, 2019[1]	U.S. $950	100.000%	**104.458%**	106.364%
A1X3B7 / XS0969344083	3.125%	September 9, 2020	€750	99.228%	**112.628%**	104.678%

1 Can be terminated early from September 15, 2015.

Substantial price increases in euro bonds

The three Continental euro bonds issued in the second half of 2013 recorded substantial price increases over the course of 2014. They benefited in particular from the announcement of the business figures for 2013 and the quarters of 2014. The strong performance also led to a further significant reduction of net indebtedness. Starting from the second quarter of 2014, the ECB's expansive monetary policy measures also resulted in falling market interest rates, primarily in the medium- and long-term range. This particularly benefited the 3.125% euro bond maturing in 2020, which was quoting at 112.628% at the end of December 2014, up 795.0 basis points on its 2013 closing price. At 108.316% (+287.1 basis points) and 104.636% (+105.8 basis points) respectively, the 3.0% and 2.5% euro bonds were also considerably higher than their closing prices for the previous year.

Price decline in the U.S. dollar bond

At the end of January 2014, the 4.5% Continental U.S. dollar bond was impacted slightly by the aforementioned market turbulence. Following the announcement of the business figures for 2013, including information about the substantial reduction in net indebtedness, the price increased again in March 2014, and in the second quarter it was quoting at the same level as at the beginning of the year. In the second half of the year, the rise in risk premiums for 3- to 5-year U.S. corporate bonds also impacted the Continental U.S. dollar bond. At the end of December 2014 it was quoting at 104.458%, down 190.6 basis points on its 2013 closing price.

Continental CDS premium at seven-year low

In late January 2014, turbulence on the financial markets also led to rising premiums for insuring against credit risks (credit default swap, CDS) for Continental AG. The five-year CDS for Continental increased by around 20 basis points to over 90 basis points by the start of February and then decreased to below 80 basis points. The announcement of the Veyance acquisition only resulted in a temporary widening of the spread in relation to the Markit iTraxx Europe reference index. Following the announcement of further ECB measures, the Continental CDS premium fell to 60 basis points in June 2014 and fluctuated between 60 and 80 basis points over the remainder of the year, for the most part moving in step with the reference index. In early December, it fell to a new seven-year low of 55.948 basis points. At the end of fiscal 2014, the Continental CDS premium was considerably lower at 56.348 basis points than its 2013 year-end value of 79.508 basis points. It was 6.514 basis points below the index, thus falling short of its reference index for the first time in a long while.

Continental credit rating unchanged despite acquisition

Continental's credit rating did not change during the year under review. Following the announcement of the agreement to purchase Veyance Technologies, Inc., Fairlawn, Ohio, U.S.A., the three major rating agencies Fitch, Moody's and Standard & Poor's confirmed their ratings for Continental AG.

Furthermore, the rating agency Fitch raised its outlook from stable to positive on September 5, 2014, on the basis of "Continental's solid business performance in the first half of the year" and "expected further strengthening of the credit profile in the near future."

Dec. 31, 2014	Rating	Outlook
Fitch[1]	BBB	positive
Moody's[2]	Baa3	stable
Standard & Poor's[3]	BBB	stable

Dec. 31, 2013	Rating	Outlook
Fitch[1]	BBB	stable
Moody's[2]	Baa3	stable
Standard & Poor's[3]	BBB	stable

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

Broad coverage of Continental shares and bonds

A total of 30 equity analysts and 11 credit analysts currently publish regular assessments and recommendations on Continental AG securities.

Research coverage thus remains at a high level. Relevant company news is accordingly covered, analyzed and commented on promptly on the capital market.

Regular and open dialog

The key tasks of the Investor Relations (IR) department at Continental AG include systematic, ongoing dialog with all capital market participants. Communication focuses on the past and present business development, and especially the anticipated business development. Our activities are geared toward providing all market participants with relevant information at the same time.

In addition to regular mandatory publications, we also communicate directly with interested investors, analysts and other market players. For example, quarterly and annual figures are presented and discussed in telephone conferences and webcasts. We conduct extensive road show activities around the world in line with the analysis of our free float shareholder structure. Furthermore, we also organize an Analysts' and Bankers' Day, usually on an annual basis. In the year under review, all analysts who report on Continental had the opportunity to find out more about our Powertrain division at the location in Regensburg, Germany. Other IR activities include video conferences with investors, presentations at virtual web conferences and participation in private shareholder events.

A capital-market-oriented basic presentation of Continental AG is provided in the form of our Fact Book, which is updated annually and is available on our website. To meet the specific information requirements of socially responsible investors (SRI), we have prepared another presentation with key figures and content on the topic of sustainability since 2011.

All of the materials we provide and further IR information can be found at www.continental-ir.com. The IR team can be contacted at ir@conti.de.

In addition, our investor relations app, launched in 2014, provides access to a wide range of information relating to investor relations. For more information, please visit our website: www.continental-ir.com.

Investor relations activities still at a high level

As a result of the positive business performance on the one hand and the volatile developments on the capital markets on the other hand, the need for dialog with market participants regarding the Continental Corporation's development remained high in the year under review. Accordingly, we continued our IR activities, covering the major financial centers in Europe, North America, and Asia, in the year under review. We made our second visit to Australia in 2014 and also took the roadshow to Poland for the first time.

With shows held on 53 days (PY: 58), roadshow activity was once again at a high level. 30 of these days were in Europe, 13 in North America, and ten in Asia together with Australia.

Continental also presented itself again at 29 (PY: 28) equity and credit conferences. Once again, the regional focus was Europe with 22 conferences. We also participated in five conferences in North America and two in Asia.

In the year under review, we held four events with institutional investors at our locations in Frankfurt and Hanover. In addition, we took part in two events for private investors and another two virtual conferences for ADR investors.

In our IR work in 2014, we spoke to a total of around 2,400 investors as in the previous year. The Executive Board of Continental AG again appeared in person at a third of these activities, once again reaching over 50% of the investors who were spoken to.

Investor relations work wins awards again

In the year under review, the Executive Board and the Investor Relations team once again received various awards from renowned market observers. One particular highlight was that Continental was once again voted among the top ten in IR Magazine's Global Top 50 IR Awards, in which it improved from 9th to 4th place. In IR Magazine's Europe 2014 Awards, Continental was the winner in categories including "Best corporate governance" and "Best investor meetings."

Corporate Governance ›

Report of the Supervisory Board

Dear Shareholders,

2014 was another successful year for Continental AG and the Continental Corporation. In the year under review, the Supervisory Board and its committees closely supervised, carefully monitored, and advised the Executive Board in the management of the company and comprehensively fulfilled all the tasks incumbent upon them under applicable law, the Articles of Incorporation and the By-Laws. The Supervisory Board has satisfied itself of the legality and expediency of management. As explained in further detail below, the Supervisory Board was directly involved in a timely manner on 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, namely planning, business strategy, significant business transactions in the company and the corporation and the related risks and opportunities, as well as compliance issues. The Supervisory Board was continuously informed 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 gave a detailed explanation with reasons to the Supervisory Board and the measures introduced were discussed 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. The chairman of the Supervisory Board in particular 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 2014 as well as one extraordinary meeting and the strategy meeting. Dr. Voss was unfortunately unable to attend the meetings in March, April and September in person due to illness, but in each case he participated in passing resolutions by way of written votes. With the exception of one Supervisory Board member who was unable to attend the extraordinary meeting but also sent a written vote, all other members of the Supervisory Board attended all meetings. The Chairman's Committee held four meetings in the year under review. The Audit Committee also met four times in 2014. In one telephone conference at the beginning of 2014, the Nomination Committee prepared nominations for the election of the shareholder representatives on the Supervisory Board by the 2014 Annual Shareholders' Meeting. The Mediation Committee in accordance with Section 27 (3) of the German Co-determination Act *(Mitbestimmungsgesetz)* did not need to meet. There are no other committees. All committees report to the plenary session on a regular basis. Their duties are described in more detail and their members listed in the Corporate Governance Report starting on page 22.

Key topics dealt with by the Supervisory Board, Chairman's Committee and Audit Committee
The Supervisory Board repeatedly dealt extensively with the company's strategic development and orientation. At the strategy meeting in particular, the Executive Board and the Supervisory Board discussed the strategic objectives and strategic planning of the corporation and the divisions at length. In the Executive Board's regular reporting on the current business development, frequent topics of the discussions also included the situation on the sales markets, the prices of natural and synthetic rubber and other raw materials, and the share price performance.

One very important event in fiscal 2014, the acquisition of Veyance Technologies, Inc., Fairlawn, Ohio, U.S.A., for the ContiTech division, had already been discussed at length by the Supervisory Board at its 2013 winter meeting. The Supervisory Board delegated the approval of the final conditions to the Chairman's Committee, which granted this approval in February 2014. Subsequently, the Executive Board kept the Supervisory Board continuously informed about the progress of the complex merger-control procedures for this transaction. The transaction represents an important step toward the strategic goal of increasing sales outside the automotive industry.

At its meeting following the Annual Shareholders' Meeting on April 25, 2014, the Supervisory Board was reconstituted after the employee representatives had been elected in March and the shareholder representatives had been elected at the Annual Shareholders' Meeting. Details on the personnel changes can be found on page 21.

In addition, further management measures by the Executive Board were discussed 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, the acquisition of the business activities of Emitec Gesellschaft für Emissionstechnik mbH, Germany, for the Powertrain division and of Massa Pneu Group, France, and of A-Z Form- und Maschinenbau GmbH, Germany, for the Tire division was approved, as was the construction of a plant for ContiTech's Benecke-Kaliko business unit in China. The Chairman's Committee also approved the issue of bonds under the Debt Issuance Program (DIP) and the refinancing of the syndicated loan. In its meeting on December 10, 2014, the

Prof. Dr.-Ing. Wolfgang Reitzle
Chairman of the Supervisory Board

Supervisory Board discussed the annual planning for 2015 and long-term planning and also approved the planning and the investment plans for fiscal 2015.

The Audit Committee was also informed by the Executive Board in detail and on an ongoing basis of the sales, results and employment development in the corporation and individual divisions as well as the financial situation of the company. Before the publication of the half-year and quarterly financial reports, the Audit Committee discussed and reviewed them, 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, 2014, 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 2014 annual and consolidated financial statements to KPMG, pursuant to the resolution adopted by the Annual Shareholders' Meeting, and stipulated the focus of the audit.

The Audit Committee is closely involved in compliance and risk management as well. The Executive Board regularly reported to it on the work of the Compliance department and the Internal Auditing department, and on significant events. The head of the Compliance department and the head of Internal Auditing were also available to provide information directly to the Audit Committee and its chairman in coordination with the Executive Board. Furthermore, the Audit Committee received reports on the audit of the effectiveness of the compliance management system in accordance with Audit Standard 980 of the Institut der Wirtschaftsprüfer e. V. (IDW) that was begun by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (EY) in 2014. In addition, the other material risks covered by the risk management system were presented in the Audit Committee with the corresponding measures resolved by the Executive Board. 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

The Supervisory Board performed another efficiency review in 2013 with the support of an external consultant. One result of this was the organization of a special orientation program for new Supervisory Board members that gave them a close insight into the company's technology and also informed them about finance, controlling and corporate governance at Continental. In December 2014, the Supervisory Board and Executive 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.

In the year under review, one member of the Supervisory Board chose not to participate in the discussion or resolution on a matter submitted to the Chairman's Committee, so as to avoid any semblance of a possible conflict of interests. Besides this, no conflicts of interest arose among the members of the Executive Board or the Supervisory Board. 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 details on corporate governance are included in the Corporate Governance Report starting on page 22.

Annual and consolidated financial statements

KPMG audited the annual financial statements as at December 31, 2014 prepared by the Executive Board in accordance with the provisions of the German Commercial Code *(Handelsgesetzbuch – HGB)*, the 2014 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. KPMG also reviewed the Executive Board's Dependent Company Report in accordance with Section 312 *AktG*. The 2014 consolidated financial statements of Continental AG were prepared in accordance with the International Financial Reporting Standards (IFRS). The auditor issued unqualified audit 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 audit 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 documents relating to the annual financial statements, including the Dependent Company Report, and the audit reports were discussed with the Executive Board and the auditor in the Audit Committee meeting on February 27, 2015. They were also discussed at length at the Supervisory Board's meeting to approve the annual financial statements on March 18, 2015. 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 summarized 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 €3.25 per share for the past fiscal year at the Annual Shareholders' Meeting on April 30, 2015.

Personnel changes in the Supervisory Board and Executive Board

The term of office of the previous Supervisory Board members ended at the end of the Annual Shareholders' Meeting on April 25, 2014. The re-elections resulted in a number of personnel changes. Prof. Dr. Hans-Olaf Henkel left the Supervisory Board after 25 years as a shareholder representative. The Supervisory Board would like to thank Prof. Henkel for his many years of service and his advice during several important stages in the company's recent development. Joining the Supervisory Board as newly elected members were Sabine Neuß, member of the management board and chief operating officer of Linde Material Handling GmbH, and from October 1, 2014, Prof. Dr. Rolf Nonnenmacher, an independent auditor. Because Prof. Nonnenmacher was not available until this date, Dr. Bernd W. Voss had agreed to stand for election again for the interim period until September 30, 2014. The Supervisory Board's thanks also go to Dr. Voss for his tireless commitment on behalf of the company, particularly as chairman of the Audit Committee since it was first formed in 2002. Prof. Nonnenmacher was elected as his successor in this position from October 1, 2014. Among the employee representatives, Michael Deister, who had contributed a similarly long period of committed service, including as a member of the Chairman's Committee, and Jörg Köhlinger left the Supervisory Board at the end of the Annual Shareholders' Meeting. The Supervisory Board would also like to thank them for their contribution to the interests of Continental. Kirsten Vörkel, chairperson of the Works Council for the Dortmund plant, and Elke Volkmann, second authorized representative of the IG Metall administrative office for North Hesse, were elected as new members. Further information on the members of the Supervisory Board and its committees who were in office in the year under review can be found on pages 236 and 237.

There were also changes in the Executive Board: At its meeting on April 25, 2014, the Supervisory Board extended the mandates of José A. Avila and Wolfgang Schäfer by another five years until the end of December 2019. At the same meeting, the mandate of Elke Strathmann, Human Resources and Director of Labor Relations, was terminated by mutual agreement with immediate effect. Dr. Ariane Reinhart was appointed as her successor from October 1, 2014. Until she assumed this position, Wolfgang Schäfer temporarily took on responsibility for HR and was Director of Labor Relations alongside his duties as Chief Financial Officer.

The Supervisory Board would like to thank the Executive Board, all the employees and the employee representatives for their excellent performance, which made the company's continued great success in the past year possible.

Hanover, March 18, 2015

For the Supervisory Board
Sincerely,

Prof. Dr.-Ing. Wolfgang Reitzle
Chairman

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

Good and responsible corporate governance geared toward sustainable, long-term value creation is what governs our actions.

Good, responsible corporate governance geared toward sustainable, long-term value creation 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 interests of all its stakeholders. 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. Regardless of the principle of joint responsibility, whereby all members of the Executive Board equally share responsibility for the management of the company, each Executive Board member is responsible for the areas entrusted to him or her accordingly. 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.

The Executive Board has By-Laws which 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, as well as 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 measures carried out by management.

The Supervisory Board and its practices

The Supervisory Board appoints the Executive Board and supervises and advises it in the management of 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 its interests 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

In accordance with the German Co-determination Act *(Mitbestimmungsgesetz – MitbestG)* and the company's Articles of Incorporation, the Supervisory Board comprises 20 members. 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. The term of office of all previous Supervisory Board members ended at the end of the Annual Shareholders' Meeting on April 25, 2014. The members of the Supervisory Board that was subsequently constituted have now been elected 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 the following targets for its composition:

› The share of women on the Supervisory Board should increase to 20% in the medium term, rising to at least 15% in the scheduled elections to the Supervisory Board in 2014. In the newly constituted Supervisory Board, the share of women is in fact already 20%.

› The share 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 mem-

bers. 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 share of members of the Supervisory Board members 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 evaluating a candidate's qualification for election as a member of the Supervisory Board.

The Supervisory Board took account of the specified targets in its nominations for election to the Supervisory Board by the Annual Shareholders' Meeting on April 25, 2014. It will continue to report on the status of their implementation.

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 is a representative of the shareholders. He has the casting vote in the event of a tie.

The Supervisory Board has drawn up its own By-Laws which 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.

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 line with Section 27 (3) of the *MitbestG* (Mediation Committee).

The Chairman's Committee is comprised of the Supervisory Board's chairman, Prof. Dr.-Ing. Wolfgang Reitzle; his vice chairman, Hartmut Meine; and the two additional members of the Mediation Committee. These are Georg F. W. Schaeffler and Jörg Schönfelder, the successor to Michael Deister, who left the Supervisory Board on April 25, 2014. One of the key responsibilities of the Chairman's Committee is 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 audit 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. Up until September 30, 2014, the chairman of the Audit Committee was Dr. Bernd W. Voss. He is independent and, as former CFO of Dresdner Bank, has special knowledge and experience in the application of accounting principles and internal control procedures. The same applies to his successor, Prof. Dr. Rolf Nonnenmacher, as an auditor. The other members are Peter Hausmann, Klaus Rosenfeld and Georg F. W. Schaeffler and, since April 25, 2014, Dirk Nordmann and Erwin Wörle. Prior to this date, Hans Fischl and Michael Iglhaut were members of the Audit Committee. 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 Prof. Dr.-Ing. Wolfgang Reitzle, Maria-Elisabeth Schaeffler-Thumann, Georg F. W. Schaeffler, and Dr. Bernd W. Voss until September 30, 2014, and Prof. Dr. Rolf Nonnenmacher since October 1, 2014.

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 Schaeffler 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 13, 2015, 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 13, 2015.

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 2014, the Executive Board and the Supervisory Board issued the following annual declaration 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 June 24, 2014; and published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette (*Bundesanzeiger*) on September 30, 2014), subject to the qualifications set forth below. Reference is made to the declaration of the Executive Board and the Supervisory Board of December 2013, 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 appropriate for evaluating the qualifications of an individual candidate for membership on the Supervisory Board.

Hanover, December 2014

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 modern communication media such as the Internet. In line with widespread practice, Continental AG only broadcasts 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.

› The new version of 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. As before, 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 starting on page 26).

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

Accounting
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)*.

Internal control system and risk management

Careful corporate management and good corporate governance also require that the company deal with risks in a responsible manner. 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 endanger 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 immediate access to all information in German and English, which is also available to financial analysts and similar parties. In particular, the website of Continental AG is utilized to guarantee 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 and events (annual reports, interim reports, Annual Shareholders' Meetings and press and analyst conferences) are announced in a timely manner in the company's financial calendar. The dates already set for 2015 and 2016 can be found at www.continental-ir.com.

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 all its internal regulations by management and employees has therefore long been a goal of the company and a fixed 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, inter alia, 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 interviews 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.

In terms of operations, the Compliance organization is managed by the head of the Compliance department. 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 existing functions that have performed these duties competently for some time now 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 in particular employee training, in addition to the risk analysis. Here, we attach great importance to in-person events at which employees can be addressed personally and directly and their questions can be discussed. 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 which must be recognized as a basic requirement for doing business. 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 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. EY began the audit of the effectiveness of the CMS in accordance with IDW Audit Standard 980 in 2014.

Compliance-related matters and risks are described in more detail in the Report on Risks and Opportunities starting on page 118, and in the Notes to the Consolidated Financial Statements (Note 34).

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. At the end of 2012, the Supervisory Board had tasked an independent consultant with reviewing the Executive Board remuneration and its structure. Following an in-depth review of its own and intensive discussion of the findings of the consultant's review and its recommendations, in September 2013 the Supervisory Board resolved significant changes to the Executive Board remuneration system, which took effect from January 1, 2014 for all Executive Board members whose term of office was to continue beyond December 31, 2014. These changes have already been effective for Frank Jourdan since his appointment on September 25, 2013. In this process, 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. The Annual Shareholders' Meeting on April 25, 2014, approved this system of remuneration for the Executive Board members in accordance with Section 120 (4) of the *AktG*.

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. After having been increased to usual market levels in 2013, the fixed remuneration will not be adjusted again until 2017 at the earliest.

The Executive Board members also receive variable remuneration in the form of a performance bonus and a share-based long term incentive (LTI). 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 2014, the Supervisory Board had set the target of attaining a specific free cash flow for the corporation. If certain 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%. Starting from 2014, the immediate payment amounts 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 which 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, the guarantee that at least 50% of the initial value of the deferral will be paid out after the holding period has ceased to apply, as has the possibility for the Supervisory Board to change the amount paid out retroactively. Furthermore, the possible increase in the value of the deferral is now 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.

The variable remuneration is supplemented by granting an LTI that increases the share of long-term components to 60% or more of variable remuneration again on the basis of the target values and thus further strengthens its focus on sustainable development of the company. 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 anticipation of the plan to be implemented from 2014, the Supervisory Board already granted an LTI to the Executive Board members, with the exception of Frank Jourdan, in 2013. Its conditions correspond to those that apply to the 2013 LTI plan of 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 other financial liabilities (Note 30). Frank Jourdan remains entitled to LTI that were granted to him as a senior executive between 2010 and 2013.

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. 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 pension commitment applicable until December 31, 2013, has been replaced by 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)*.

The retirement benefits for Heinz-Gerhard Wente have not been changed over to the new system owing to the short remaining term of his employment contract. However, the increase in remuneration as at January 1, 2014, will not be taken into account in calculating his post-employment benefit. Under the agreements applicable until December 31, 2013, the maximum post-employment benefit amounted to 50% of the most recent fixed remuneration payment and 12% of the average variable remuneration achieved in the last five fiscal years. There was a basic rate for the post-employment benefits that was determined individually. For each year of service, a member of the Executive Board received a benefit entitlement amounting to 10% of the difference between the basic rate and his or her maximum post-employment benefit, until the full entitlement had been achieved after ten years. Any other income is counted toward post-employment benefit.

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 to be agreed, including the additional benefits, shall not exceed the value of two annual salaries nor 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. Elke Strathmann, whose appointment as member of the Executive Board and employment contract were prematurely terminated by mutual agreement effective April 25, 2014, received a payment of €1.6 million to settle her contractual entitlements and a post-contractual non-competition agreement.

Individual remuneration

In the tables below, the benefits, inflows and service costs granted to each individual 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	
in € thousands	2013	**2014**	2014 (min.)	2014 (max.)	2013	**2014**
Dr. E. Degenhart (Board chairman; Board member since August 12, 2009)						
Fixed remuneration	1,200	1,350	1,350	1,350	1,200	1,350
Additional benefits	16	19	19	19	16	19
Total	**1,216**	**1,369**	**1,369**	**1,369**	**1,216**	**1,369**
Performance bonus (immediate payment)	520	1,110	0	1,665	690	1,468
Multiannual variable remuneration	1,880	1,940	0	4,250	782	2,546
Performance bonus (deferral) [3 years]	780[1]	740	0	1,850	782	2,546
Long term incentive [4 years]	1,100	1,200	0	2,400	–	–
Total	**3,616**	**4,419**	**1,369**	**7,284**	**2,688**	**5,383**
Service costs	110	834	834	834	110	834
Total remuneration	**3,726**	**5,253**	**2,203**	**8,118**	**2,798**	**6,217**
J. A. Avila (Board member for Powertrain; Board member since January 1, 2010)						
Fixed remuneration	600	800	800	800	600	800
Additional benefits	19	26	26	26	19	26
Total	**619**	**826**	**826**	**826**	**619**	**826**
Performance bonus (immediate payment)	360	660	0	990	540	198
Multiannual variable remuneration	1,040	990	0	2,200	–	1,573
Performance bonus (deferral) [3 years]	540[1]	440	0	1,100	–	1,573
Long term incentive [4 years]	500	550	0	1,100	–	–
Total	**2,019**	**2,476**	**826**	**4,016**	**1,159**	**2,597**
Service costs	816	-235[2]	-235	-235	816	-235
Total remuneration	**2,835**	**2,241**	**591**	**3,781**	**1,975**	**2,362**
Dr. R. Cramer (Board member for China; Board member since August 12, 2009)						
Fixed remuneration	600	800	800	800	600	800
Additional benefits	144	368	368	368	144	368
Total	**744**	**1,168**	**1,168**	**1,168**	**744**	**1,168**
Performance bonus (immediate payment)	360	660	0	990	327	873
Multiannual variable remuneration	1,040	990	0	2,200	541	2,059
Performance bonus (deferral) [3 years]	540[1]	440	0	1,100	541	2,059
Long term incentive [4 years]	500	550	0	1,100	–	–
Total	**2,144**	**2,818**	**1,168**	**4,358**	**1,612**	**4,100**
Service costs	432	470	470	470	432	470
Total remuneration	**2,576**	**3,288**	**1,638**	**4,828**	**2,044**	**4,570**

1 The comparative figures for 2013 have been restated in accordance with the 2014 structure.
2 For J. A. Avila, the calculation of the service costs takes into account for the first time the retirement benefit system modified in the prior year including the resulting past service costs. The conversion of the retirement benefit system was subject to the condition precedent of the extension of the employment contract. The reported service costs result from the 2014 service costs in an amount of €795 thousand and the one-time past service costs of -€1,030 thousand.

	Remuneration granted				Inflows	
in € thousands	2013	**2014**	2014 (min.)	2014 (max.)	2013	**2014**
F. Jourdan (Board member for Chassis & Safety; Board member since September 25, 2013)						
Fixed remuneration	213	800	800	800	213	800
Additional benefits	6	23	23	23	6	23
Total	**219**	**823**	**823**	**823**	**219**	**823**
Performance bonus (immediate payment)	177	660	0	990	108	942
Multiannual variable remuneration	507	990	0	2,200	–	195
Performance bonus (deferral) [3 years]	118[1]	440	0	1,100	–	–
Long term incentive [4 years]	389	550	0	1,100	–	195
Total	**903**	**2,473**	**823**	**4,013**	**327**	**1,960**
Service costs	264	970	970	970	264	970
Total remuneration	**1,167**	**3,443**	**1,793**	**4,983**	**591**	**2,930**
H. Matschi (Board member for Interior; Board member since August 12, 2009)						
Fixed remuneration	600	800	800	800	600	800
Additional benefits	17	25	25	25	17	25
Total	**617**	**825**	**825**	**825**	**617**	**825**
Performance bonus (immediate payment)	360	660	0	990	540	908
Multiannual variable remuneration	1,040	990	0	2,200	541	1,157
Performance bonus (deferral) [3 years]	540[1]	440	0	1,100	541	1,157
Long term incentive [4 years]	500	550	0	1,100	–	–
Total	**2,017**	**2,475**	**825**	**4,015**	**1,698**	**2,890**
Service costs	540	895	895	895	540	895
Total remuneration	**2,557**	**3,370**	**1,720**	**4,910**	**2,238**	**3,785**
Dr. A. Reinhart (Board member for Human Relations; Board member since October 1, 2014)						
Fixed remuneration	–	200	200	200	–	200
Additional benefits	–	38	38	38	–	38
Total	**–**	**238**	**238**	**238**	**–**	**238**
Performance bonus (immediate payment)	–	166	–	250	–	220
Multiannual variable remuneration	–	111	–	277	–	–
Performance bonus (deferral) [3 years]	–	111	–	277	–	–
Long term incentive [4 years]	–	–	–	–	–	–
Total	**–**	**515**	**238**	**765**	**–**	**458**
Service costs	–	185	185	185	–	185
Total remuneration	**–**	**700**	**423**	**950**	**–**	**643**

1 The comparative figures for 2013 have been restated in accordance with the 2014 structure.

in € thousands	Remuneration granted				Inflows	
	2013	**2014**	2014 (min.)	2014 (max.)	2013	**2014**
W. Schäfer (Board member for Finance; Board member since January 1, 2010)						
Fixed remuneration	1,000	1,100	1,100	1,100	1,000	1,100
Additional benefits	11	21	21	21	11	21
Total	**1,011**	**1,121**	**1,121**	**1,121**	**1,011**	**1,121**
Performance bonus (immediate payment)	400	660	0	990	531	873
Multiannual variable remuneration	1,200	1,090	0	2,400	–	1,958
Performance bonus (deferral) [3 years]	600[1]	440	0	1,100	–	1,958
Long term incentive [4 years]	600	650	0	1,300	–	–
Total	**2,611**	**2,871**	**1,121**	**4,511**	**1,542**	**3,952**
Service costs	1,151	-1,538[2]	-1,538	-1,538	1,151	-1,538
Total remuneration	**3,762**	**1,333**	**-417**	**2,973**	**2,693**	**2,414**
N. Setzer (Board member for Tires; Board member since August 12, 2009)						
Fixed remuneration	600	800	800	800	600	800
Additional benefits	25	32	32	32	25	32
Total	**625**	**832**	**832**	**832**	**625**	**832**
Performance bonus (immediate payment)	360	660	0	990	474	859
Multiannual variable remuneration	1,040	990	0	2,200	541	2,314
Performance bonus (deferral) [3 years]	540[1]	440	0	1,100	541	2,314
Long term incentive [4 years]	500	550	0	1,100	–	–
Total	**2,025**	**2,482**	**832**	**4,022**	**1,640**	**4,005**
Service costs	844	578	578	578	844	578
Total remuneration	**2,869**	**3,060**	**1,410**	**4,600**	**2,484**	**4,583**
E. Strathmann (Board member for Human Resources; Board member since January 1, 2012, and until April 25, 2014)						
Fixed remuneration	600	193	193	193	600	193
Additional benefits	40	12	12	12	40	12
Total	**640**	**205**	**205**	**205**	**640**	**205**
Performance bonus (immediate payment)	360	–	–	–	477	–
Multiannual variable remuneration	1,040	–	–	–	–	–
Performance bonus (deferral) [3 years]	540[1]	–	–	–	–	–
Long term incentive [4 years]	500	–	–	–	–	–
Total	**2,040**	**205**	**205**	**205**	**1,117**	**205**
Service costs	646	256[3]	256	256	646	256
Total remuneration	**2,686**	**461**	**461**	**461**	**1,763**	**461**

1 The comparative figures for 2013 have been restated in accordance with the 2014 structure.
2 For W. Schäfer, the calculation of the service costs takes into account for the first time the retirement benefit system modified in the prior year including the resulting past service costs. The conversion of the retirement benefit system was subject to the condition precedent of the extension of the employment contract. The reported service costs result from the 2014 service costs in an amount of €1,055 thousand and the one-time past service costs of -€2,592 thousand.
3 In the case of E. Strathmann, the retirement benefit system was not converted due to the condition precedent of her reappointment.

	Remuneration granted				Inflows	
in € thousands	2013	**2014**	2014 (min.)	2014 (max.)	2013	**2014**
H.-G. Wente (Board member for ContiTech; Board member since May 3, 2007)						
Fixed remuneration	600	800	800	800	600	800
Additional benefits	23	30	30	30	23	30
Total	**623**	**830**	**830**	**830**	**623**	**830**
Performance bonus (immediate payment)	360	660	0	990	448	651
Multiannual variable remuneration	1,040	990	0	2,200	–	2,176
Performance bonus (deferral) [3 years]	540[1]	440	0	1,100	–	2,176
Long term incentive [4 years]	500	550	0	1,100	–	–
Total	**2,023**	**2,480**	**830**	**4,020**	**1,071**	**3,657**
Service costs	162	0	0	0	162	0
Total remuneration	**2,185**	**2,480**	**830**	**4,020**	**1,233**	**3,657**

1 The comparative figures for 2013 have been restated in accordance with the 2014 structure.

The disclosures on benefits granted and inflows are broken down into fixed and variable remuneration components and supplemented by disclosures on the service costs. These service costs also include the past service costs resulting from the change in the plan. 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 long term incentive (LTI).

The immediate payment, the deferral (taking into account the changes in 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). In the prior year, the deferral was still reported at the amount of the deferral to be converted into virtual shares in the following year that had been determined at the time the remuneration report was prepared. 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 2014, 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 2014

	Remuneration components				
in € thousands	Fixed[1]	Variable, short-term	Variable, long-term[2]	**Total**	Share-based payment[3]
Dr. E. Degenhart	1,369	1,468	2,179	**5,016**	3,152
J. A. Avila	826	198	682	**1,706**	1,249
Dr. R. Cramer	1,168	873	1,132	**3,173**	1,707
F. Jourdan	823	942	1,178	**2,943**	1,216
H. Matschi	825	908	1,155	**2,888**	1,565
Dr. A. Reinhart (from October 1, 2014)	238	220	147	**605**	147
W. Schäfer	1,121	873	1,232	**3,226**	1,962
N. Setzer	832	859	1,123	**2,814**	1,817
E. Strathmann (until April 25, 2014)	205	–	–	**205**	244
H.-G. Wente	830	651	984	**2,465**	1,653
Total	**8,237**	**6,992**	**9,812**	**25,041**	**14,712**

1 In addition to cash components, the fixed remuneration includes non-cash elements, such as benefits relating to international assignments, company cars, insurance, and moving costs.
2 Long-term component of the variable remuneration which is converted into virtual shares of Continental AG to ensure a focus on sustainable development of the company and benefits granted under the 2014 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 2014 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 Long Term Incentive Plan.

Remuneration of the Executive Board in 2013

	Remuneration components				
in € thousands	Fixed[1]	Variable, short-term	Variable, long-term[2]	**Total**	Share-based payment[3]
Dr. E. Degenhart	1,216	690	2,135	**4,041**	3,953
J. A. Avila	619	540	1,310	**2,469**	2,529
Dr. R. Cramer	744	327	991	**2,062**	2,429
F. Jourdan (from September 25, 2013)	219	108	461	**788**	72
H. Matschi	617	540	1,310	**2,467**	2,006
W. Schäfer	1,011	531	1,396	**2,938**	2,999
N. Setzer	625	474	1,211	**2,310**	2,943
E. Strathmann	640	477	1,216	**2,333**	1,184
H.-G. Wente	623	448	1,173	**2,244**	2,802
Total	**6,314**	**4,135**	**11,203**	**21,652**	**20,917**

1 In addition to cash components, the fixed remuneration includes non-cash elements, such as benefits relating to international assignments, company cars, insurance, and moving costs.
2 Long-term component of the variable remuneration which is converted into virtual shares of Continental AG to ensure a focus on sustainable development of the company and benefits granted under the 2013 Long Term Incentive Plan.
3 Long-term component of the variable remuneration which is converted into virtual shares of Continental AG to ensure a focus on sustainable development of the company, including special and recognition bonuses, and changes in the value of the virtual shares granted in previous years.

Share-based payment – performance bonus (deferral)

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

in units	Number of shares as at Dec. 31, 2012	Payment	Commitments	Number of shares as at Dec. 31, 2013	Payment	Commitments	Number of shares as at Dec. 31, 2014
Dr. E. Degenhart	38,370	-8,178	11,169	41,361	-14,531	6,123	32,953
J. A. Avila	19,735	–	4,801	24,536	-8,978	4,794	20,352
Dr. R. Cramer	28,330	-5,663	4,226	26,893	-11,750	2,904	18,047
F. Jourdan	–	–	–	–	–	427	427
H. Matschi	18,095	-5,663	4,231	16,663	-6,604	4,794	14,853
Dr. A. Reinhart	–	–	–	–	–	–	–
W. Schäfer	23,224	–	8,592	31,816	-11,177	4,710	25,349
N. Setzer	29,244	-5,663	7,937	31,518	-13,205	4,208	22,521
H.-G. Wente	23,594	–	6,875	30,469	-12,419	3,981	22,031
Total	**180,592**	**-25,167**	**47,831**	**203,256**	**-78,664**	**31,941**	**156,533**

In the year under review, commitments of €0.8 million (equivalent to 4,239 units) were granted and €1.4 million (equivalent to 7,819 units) was paid out to Executive Board members who had left the company. As at December 31, 2014, there were commitments with a fair value of €3.4 million (equivalent to 18,808 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, 2014:

- Constant zero rates as of the measurement date of December 31, 2014, of 0.11% for the 2011 tranche, 0.09% for the 2012 tranche, and 0.10% for the 2013 tranche.
- Interest rate based on the yield curve for government bonds.
- Dividend payments as the arithmetic mean based on publicly available estimates for 2015 and 2016; the dividend amounted to €2.50 per share in 2014, and Continental AG distributed a dividend of €2.25 per share in 2013.
- 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 2011 tranche is 28.58%, for the 2012 tranche 25.21%, and for the 2013 tranche 25.33%.

in € thousands	Fair value as at Dec. 31, 2012	Fair value of distribution	Change in fair value	Fair value of commitments	Fair value as at Dec. 31, 2013	Fair value of distribution	Change in fair value	Fair value of commitments	Fair value as at Dec. 31, 2014
Dr. E. Degenhart	3,368	-782	2,241	1,703	6,530	-2,546	842	1,092	5,918
J. A. Avila	1,726	–	1,428	732	3,886	-1,573	488	855	3,656
Dr. R. Cramer	2,487	-541	1,681	644	4,271	-2,059	514	518	3,244
F. Jourdan	–	–	–	–	–	–	–	76	76
H. Matschi	1,591	-541	939	646	2,635	-1,157	331	855	2,664
Dr. A. Reinhart	–	–	–	–	–	–	–	–	–
W. Schäfer	2,030	–	1,682	1,310	5,022	-1,958	646	840	4,550
N. Setzer	2,567	-541	1,751	1,210	4,987	-2,314	621	750	4,044
H.-G. Wente	2,064	–	1,714	1,047	4,825	-2,176	598	710	3,957
Total	**15,833**	**-2,405**	**11,436**	**7,292**	**32,156**	**-13,783**	**4,040**	**5,696**	**28,109**

Share-based payment – 2014 long term incentive (2014 LTI plan)

The 2014 LTI plan developed as follows:

in € thousands	Commitments	Change in fair value	Fair value as at Dec. 31, 2014
Dr. E. Degenhart	1,200	74	1,274
J. A. Avila	550	34	584
Dr. R. Cramer	550	34	584
F. Jourdan	550	34	584
H. Matschi	550	34	584
Dr. A. Reinhart	–	–	–
W. Schäfer	650	40	690
N. Setzer	550	34	584
H.-G. Wente	550	34	584
Total	**5,150**	**318**	**5,468**[1]

1 As at the end of the reporting period, the degree of accrual of the 2014 tranche was 25%, with €1.4 million being recognized as other financial liabilities.

The following parameters were used as at the measurement date of December 31, 2014:

- Constant zero rates as of the measurement date of December 31, 2014, of -0.09% as at the due date and -0.08% 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 2015 and 2016; the dividend amounted to €2.50 per share in 2014.
- 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 tranche is 28.09%.

Expenses for retirement benefits

The defined benefit obligations (DBO) for all pension commitments for the active members of the Executive Board are presented below:

	Defined benefit obligations	
in € thousands	**Dec. 31, 2014**	Dec. 31, 2013
Dr. E. Degenhart	7,581	4,972
J. A. Avila	5,123	3,216
Dr. R. Cramer	2,191	1,038
F. Jourdan (from September 25, 2013)	730	134
H. Matschi	3,411	1,425
Dr. A. Reinhart (from October 1, 2014)	761	–
W. Schäfer	6,693	4,228
N. Setzer	2,365	1,007
E. Strathmann (until April 25, 2014)	3,748	1,626
H.-G. Wente	7,355	6,481
Total	**39,958**	**24,127**

We refer to Note 39 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 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 2014 as provided for under these arrangements is shown in the following table.

Remuneration of the Supervisory Board

	Remuneration components			
	2014		2013	
in € thousands	**Fixed[1]**	**Variable**	Fixed[1]	Variable
Prof. Dr.-Ing. Wolfgang Reitzle	231	224	231	173
Hartmut Meine[2]	118	112	121	87
Werner Bischoff (until May 15, 2013)[2]	–	–	45	31
Michael Deister (until April 25, 2014)[2]	38	35	119	87
Dr. Gunter Dunkel	80	75	80	58
Hans Fischl[2]	93	87	119	87
Dr. Jürgen Geißinger (until December 1, 2013)	–	–	73	52
Prof. Dr. Peter Gutzmer (from December 4, 2013)	80	75	7	4
Peter Hausmann (from July 1, 2013)[2]	120	112	58	35
Prof. Dr.-Ing. E.h. Hans-Olaf Henkel (until April 25, 2014)	26	24	80	58
Michael Iglhaut[2]	93	87	121	87
Jörg Köhlinger (until April 25, 2014)[2]	25	24	79	58
Prof. Dr. Klaus Mangold	80	75	79	58
Sabine Neuß (from April 25, 2014)	55	52	–	–
Prof. Dr. Rolf Nonnenmacher (from October 1, 2014)	49	47	–	–
Dirk Nordmann[2]	108	100	80	58
Artur Otto[2]	80	75	80	58
Klaus Rosenfeld	121	112	121	87
Georg F. W. Schaeffler	122	112	123	87
Maria-Elisabeth Schaeffler-Thumann	118	112	80	58
Jörg Schönfelder[2]	106	100	80	58
Elke Volkmann (from April 25, 2014)[2]	56	51	–	–
Kirsten Vörkel (from April 25, 2014)[2]	56	51	–	–
Dr. Bernd W. Voss (until September 30, 2014)	140	140	195	144
Prof. KR Ing. Siegfried Wolf	80	75	79	58
Erwin Wörle[2]	109	100	80	58
Total	**2,184**	**2,057**	**2,130**	**1,541**

1 Including meeting-attendance fees.
2 These employee representatives have declared that their board remuneration is transferred to the Hans Böckler Foundation in accordance with the guidelines issued by the German Federation of Trade Unions.

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.

Management Report ›

40 **Corporate Profile**
40 Structure of the Corporation
42 Corporate Strategy
48 Divisions and Business Units
48 Chassis & Safety Division
50 Powertrain Division
52 Interior Division
54 Tire Division
56 ContiTech Division
58 Corporate Management
61 Research and Development
64 Sustainability
65 Employees
69 Environment
73 Social Responsibility

74 **Economic Report**
74 General Conditions
74 Macroeconomic Development
76 Development of Key Customer Sectors
79 Development of Raw Material Markets
82 Earnings, Financial and Net Assets Position
84 Earnings Position
90 Financial Position
93 Net Assets Position
95 Automotive Group
96 Development of the Chassis & Safety Division
98 Development of the Powertrain Division
101 Development of the Interior Division
104 Rubber Group
105 Development of the Tire Division
108 Development of the ContiTech Division

110 **Continental AG (Short Version in acc. with *HGB*)**

113 **Other Information**
113 Dependent Company Report
114 Takeover Disclosures and Notes
114 Report Pursuant to Section 289 (4) and Section 315 (4) of *HGB*
116 Remuneration of the Executive Board
116 Corporate Governance Declaration Pursuant to Section 289a of *HGB*

117 **Report on Subsequent Events**

118 **Report on Risks and Opportunities**
118 Risk and Opportunity Management and Internal Control System
121 Material Risks
121 Financial Risks
122 Risks Related to the Markets in which Continental Operates
124 Risks Related to Continental's Business Operations
127 Legal, Environmental and Taxation Risks
130 Material Opportunities
131 Statement on Overall Risk and Opportunities Situation

132 **Report on Expected Developments**
132 Future General Conditions
132 Forecast of Macroeconomic Development
134 Development of Key Customer Sectors
136 Outlook for the Continental Corporation

Corporate Profile ›

Structure of the Corporation

The structure of our corporation is the foundation of our business model, which is geared toward sustainable value creation, and also constitutes an organizational prerequisite for the success of the company.

Market- and customer-oriented business model
Continental offers high-quality, innovative, and established products, systems, and solutions for its customers in the automotive industry, various key industrial sectors, and the end-customer market all around the world. Focusing on the market and customers is a key success factor. Our global business model is based on a balance between decentralized organizational structures and central functions. Our corporate culture and our values establish and promote a common understanding of our cooperation, which spans organizational and geographical boundaries. Our divisions and business units, which bear responsibility for their business and results, are classified according to products, product groups, or region.

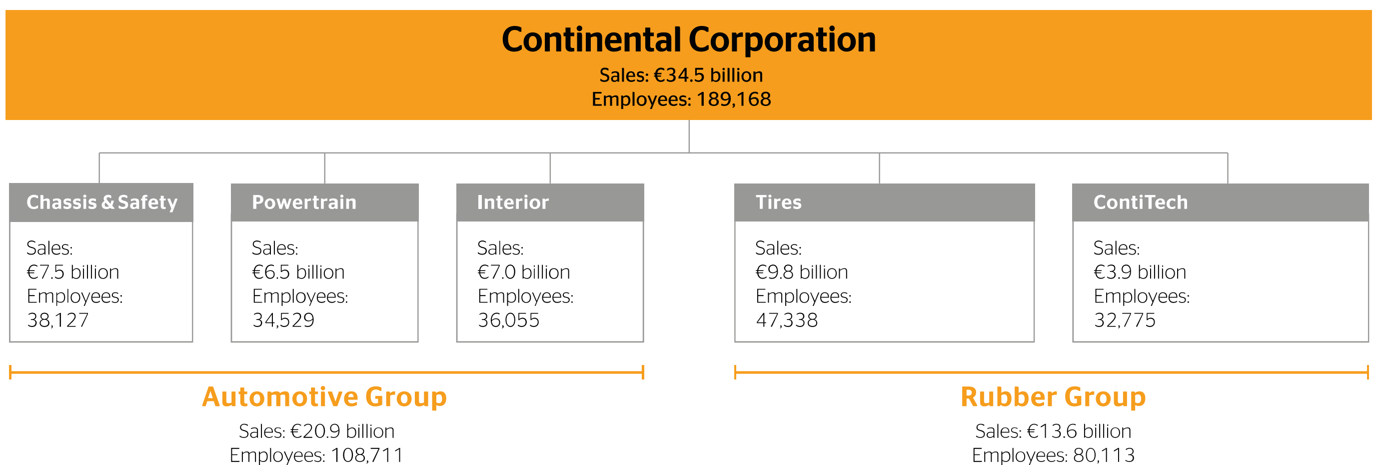
Comprising a total of 28 business units, the five operating divisions address market segments and customer groups that differ to some extent. These differences relate primarily to technological requirements, innovation and product cycles, the raw material base, and production technology, as well as to the underlying economic cycles, competitive structure, and resulting growth opportunities.

In this context, we will summarize the activities organized in the divisions in line with the market and business logic altogether for both the Automotive Group and the Rubber Group. The Automotive Group is made up of the Chassis & Safety, Powertrain, and Interior divisions. With total sales of approximately €20.9 billion, we generate around 60.5% of our consolidated sales through our activities in the Automotive Group. The Rubber Group comprises the Tire and ContiTech divisions, which look after our rubber- and plastics-based activities. The Rubber Group as a whole accounts for sales of around €13.6 billion and therefore 39.5% of sales within the Continental Corporation.

Automotive Group:

- The Chassis & Safety division develops, produces, and markets intelligent systems to improve safety and vehicle dynamics.
- The Powertrain division designs and engineers innovative solutions for gasoline, diesel, hybrid, and electric drive systems.
- The Interior division specializes in information management in vehicles.

Continental Corporation



Rubber Group:

- The Tire division offers the complete spectrum of tires, ranging from tires for cars, trucks, and buses to specialist products for construction and industrial vehicles to tires for bicycles and motorcycles.

- The ContiTech division combines our rubber and plastics activities for numerous key industries.

Globally interconnected value chain

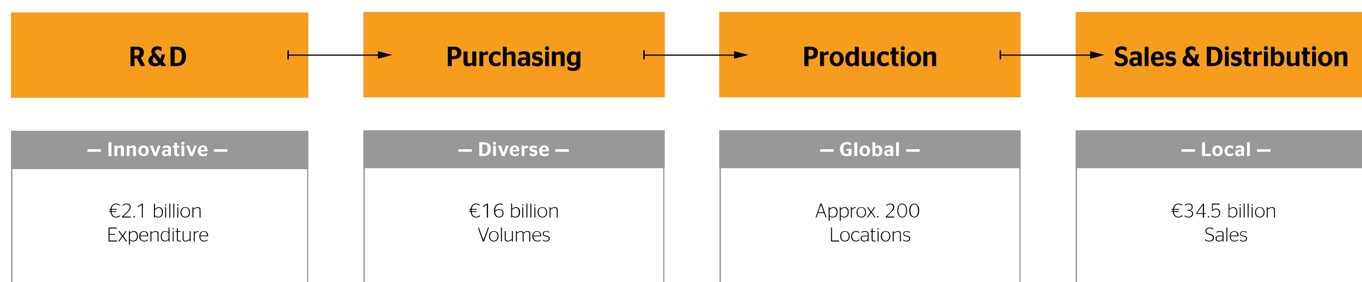
Our research and development (R&D) takes place at 127 locations in 27 countries, predominantly in close proximity to our local customers to ensure that we have the flexibility to adapt to individual requirements and regional market characteristics. This applies particularly to the R&D projects of the Automotive Group and ContiTech division, which have a more decentralized organizational structure. The global product requirements governing tire business are largely similar but are defined differently depending on the market requirements. In this respect, R&D has a largely centralized structure in the Tire division. Within the Continental Corporation, around €2.1 billion is invested in R&D. The focal points are the Automotive Group's pioneering projects, which account for a large amount of our total R&D expenses. In addition, the share that these expenses hold in sales in the Automotive Group is much greater than in the Rubber Group (for detailed explanations, see the Research and Development section).

Continental uses a wide range of raw materials and semifinished products. The purchasing volume comes to about €16 billion. 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 electronic components, which together make up around 41% of the corporation's total purchasing volume. Furthermore, mechanical components account for just over 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 just under a fifth of the total volume for production material (for detailed explanations, see the Development of Raw Material Markets section in the Economic Report). In line with our purchasing strategy, suitable suppliers are selected and certified for each group of materials. Our goal here is to ensure competitiveness as well as constant availability.

In accordance with our philosophy and strategy, production and sales in our Automotive divisions and in the ContiTech division are customer-focused and organized across regions (for detailed explanations, see the Corporate Strategy section). 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 stock. As such, low production costs coupled with large volumes or high rates of regional growth constitute key success factors. We have systematically brought our infrastructure for tire production into line with this.

With a share of just under 73% of our consolidated sales, the automotive industry (original equipment manufacturers) 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. These include machine and equipment engineering, and applications in mining and oil production.

Continental's value chain



Corporate Strategy

A balanced product portfolio, technological and market leadership in the market segments relevant to us, as well as agility and customer focus constitute the core elements of our strategy.

Continental is a leading global automotive supplier, tire manufacturer, and industrial partner to other key industries. The market environment is highly competitive, which means there is intense pressure to innovate and keep costs down. The needs and demands of our customers in the individual regions and market segments are changing at an increasing pace. A high level of flexibility and customer focus are therefore key to our success.

Over the long term, market development is being influenced by social trends in the major regions of the world. These trends include the rapid growth of the world's population, resulting in increasing urbanization; demographic change, and – in particular – globalization. In this context, people are striving to achieve a higher standard of living and the need for mobility is on the rise. Four megatrends can be derived from these global developments. They form the foundation of our strategy and our business activities:

› Safety – For safe mobility

› Information – For intelligent driving

› Environment – For clean power

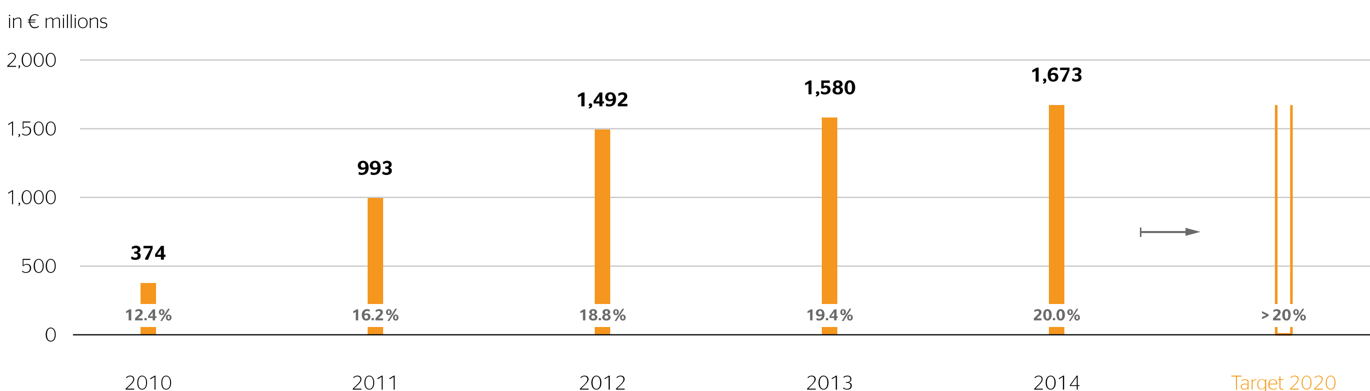
› Affordable Cars – For global mobility

Seven strategic dimensions
Based on the four megatrends, our strategy comprises seven dimensions that complement one another and are systematically geared toward sustainably creating value and ensuring the future viability of the company.

1. Value creation – enhancing the value of the corporation on a long-term basis
We want to achieve a lasting increase in the value of the company. This aspiration encompasses much more than just the earnings margin in relation to sales. Instead, value results from sustainable, lasting success while taking into consideration the costs of capital. We therefore manage Continental in accordance with the principles of value-oriented management (for detailed explanations, see the Corporate Management section). According to these principles, the company achieves an increase in value in a fiscal year when the return on capital employed (ROCE) exceeds the average costs of capital – the minimum required rate of return. To ensure our future viability, we are striving to achieve much more than this. In the medium term, we want to increase our ROCE to exceed 20%.

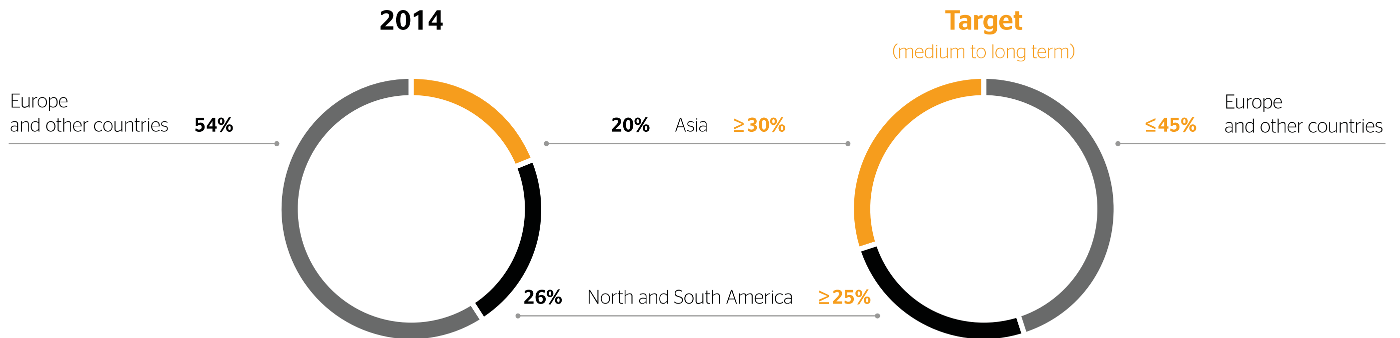
Three areas of activity are key to us: innovations, improvement of efficiency and productivity; and strong, profitable growth on the emerging markets. In the year under review, we achieved a ROCE of 20.0% following 19.4% the previous year. With this, 2014 saw another positive contribution toward the company's value.

Increase in value contribution[1]



1 IAS 19 (revised 2011), Employee Benefits, has been applied since 2012.

Regional sales balance



2. Regional sales balance – globally balanced sales distribution

To reduce our dependence on individual regional sales markets, we want to achieve a globally balanced distribution of regional sales. To this end, we are taking advantage of the above-average growth opportunities available to us on the dynamically growing markets in Asia, and North America. At the same time, we are strengthening our firm market position in Europe. With this, we want to achieve a more effective regional balance for our business model in the medium to long term. As a result, we will also be less prone to economic fluctuations in individual regions of the world.

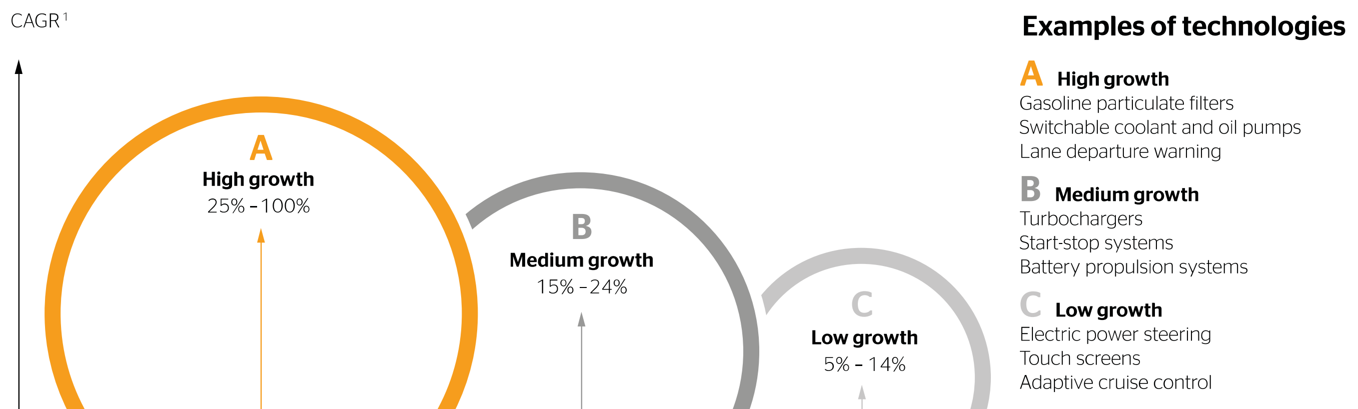
Our goal is to gradually increase the share of our consolidated sales in the Asian markets to 30%. We have already made major progress here over the past few years. In the year under review, the share of these markets was 20%. The share of our sales in the North and South American markets should be maintained at 25% or more. The share of sales held by Europe (including Germany) and the remaining countries in total was 54% in the year under review.

With the acquisition of Veyance Technologies, we are strengthening our business in key overseas markets. The company complements the ContiTech division's existing activities. This improves our market position, particularly in the U.S.A. and South America. Locations in Canada, China, Australia, and South Africa offer additional opportunities.

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

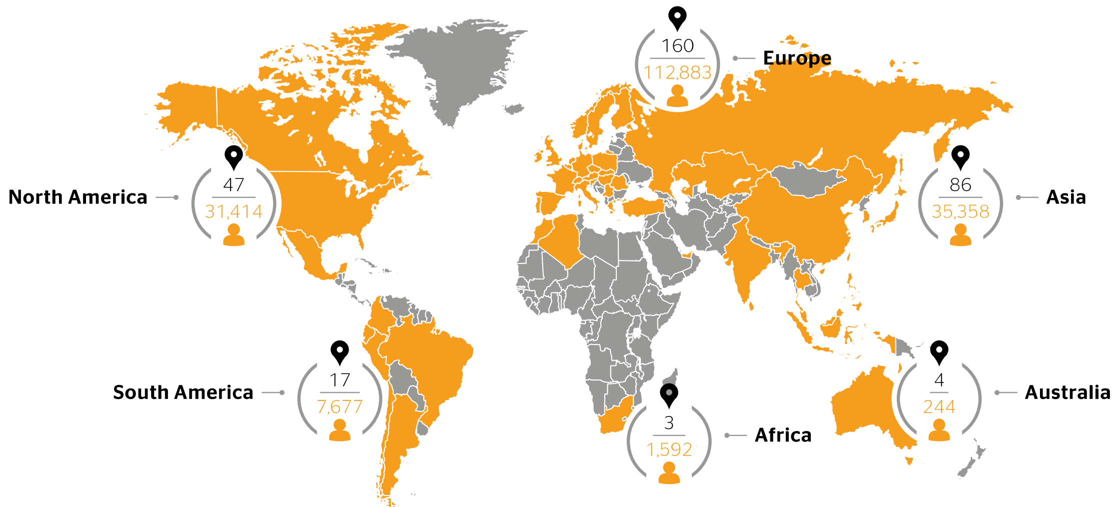
Our aim is to shape our future in all product areas and markets from a leading position. This means we want to be one of the world's three leading providers in terms of customer focus, quality, and market position on a lasting basis.

Continental excellently positioned for the 20 fastest growing automotive technologies



Source: Frost & Sullivan, November 2013 based on 2012 data — forecast of growth rates up to 2020.
1 Compound annual growth rate (CAGR).

Global presence: 317 locations in 50 countries



Locations Employees

With our products, we help to increase both road safety and ride comfort, reduce energy and fuel consumption, and make mobility affordable for everyone. We also provide other key industries with pioneering solutions made from rubber and plastic. We are able to offer our customers in established and emerging markets the right components, modules, and complete systems to suit their individual needs from our broadly diversified and scalable range of services. Quality is essential for customer satisfaction – all around the world. And we are ensuring this by standardizing central quality processes throughout the corporation with our Quality First program.

In terms of sales in the relevant markets, the Automotive Group divisions and ContiTech are among the leading providers for most of their products. In addition, our strong presence in the innovative, promising fields of technology in the automotive industry constitutes a key success factor and driver of future development. Around half of our portfolio is dedicated to the world's 20 fastest growing product segments of the automotive industry.

We are the world's fourth largest tire manufacturer and are therefore one of the major providers in this sector. We are strengthening our global position by expanding tire production capacity in the U.S.A., Brazil, China, India, and Russia.

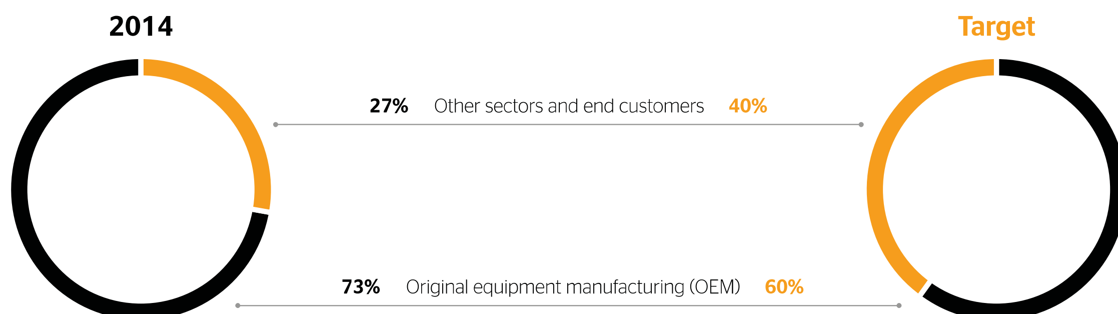
4. In the market for the market – high degree of localization

We want to ensure a high degree of localization, which is a principle that characterizes our global business model. This means that we are developing numerous applications locally in a close relationship with our customers, taking into account their specific local requirements. Furthermore, we are purchasing locally – insofar as this makes sense and is possible from the perspective of global sourcing – as well as producing and marketing locally. The aim is for more than eight out of ten application developments to be achieved locally, and for the percentage of local production to be just as high.

In the year under review, we opened our second electronics plant in Wuhu, China. The plant comprises production facilities, an R&D center, a laboratory, and warehouses. To further strengthen localization in China, the Changshu location will be expanded by the ContiTech division's business units in 2015. We now employ roughly 1,400 engineers in China.

Local activities are closely integrated into the corporation's global infrastructure and are therefore managed economically and flexibly. As a result, development and production on the economically leading markets and the high-growth future markets are interlinked at Continental. This enables us to offer worldwide solutions and products for high-quality cars and affordable vehicles, as well as customized industrial applications. Our guiding principle is "Decentralized wherever possible. Centralized wherever necessary."

Balanced customer portfolio



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

We want to reduce dependence on the automotive industry by achieving a balanced distribution of sales across the different customer segments. 2014 saw the share of sales fall as a result of weak development in the industrial sector. The acquisition of Veyance Technologies closed at the start of 2015 will enable us to increase the share of sales with industrial customers and end users to about 30%. We want to continue to grow with automotive original equipment and to systematically develop business extending beyond this on a larger scale as well as further increase its importance to the company. By 2020, we want to increase the share of sales with end users and industrial customers from other sectors toward a figure of 40%. We are pursuing three strategic approaches to achieve this goal:

- In the tire sector, we are investing specifically in additional production capacity geared primarily and predominantly toward generating tire replacement business – that is, end customer business.

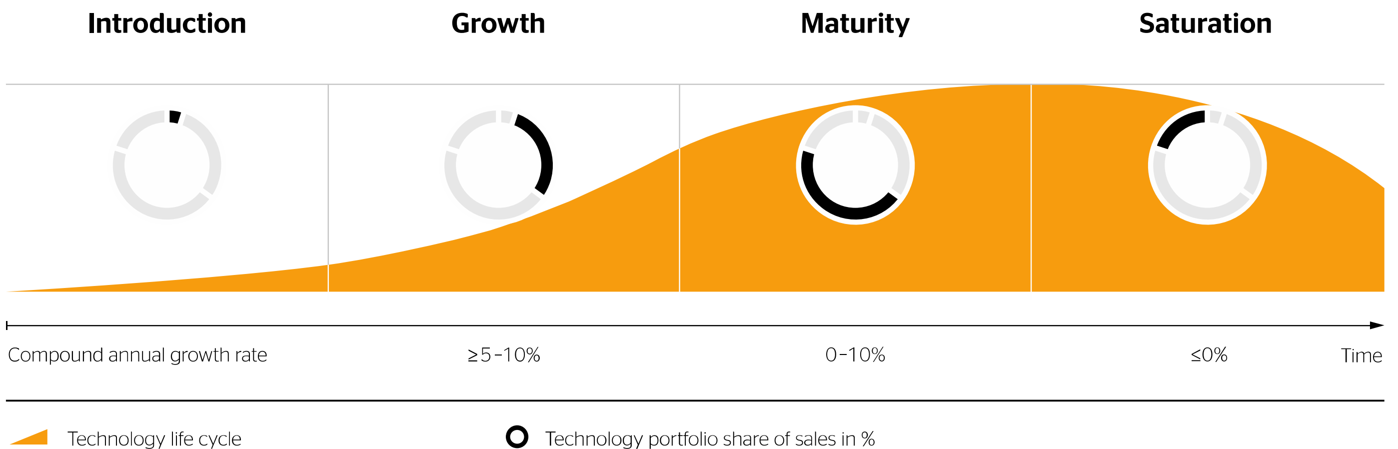
- We are increasing our sales with industrial customers from sectors outside the automotive industry both organically and through targeted acquisitions. The ContiTech division plays a particularly important part in this.

- We are strengthening the automotive replacement business (aftermarket) and are also continuing to expand our activities involving customer-specific solutions and products.

In the year under review, we opened our new tire plant in the U.S.A. In India, the sales launch of two premium summer tires tailored to the growing requirements of Indian consumers was also announced in the course of the official start of production of car tires. The division intends to increase its global production capacity by some 26 million units by the year 2018 compared with 2011.

To strengthen our industrial business, we took a major step toward achieving our strategic objective with the purchase of Veyance Technologies, closed early in 2015. The global specialist in the rubber and plastics industry generated sales of about €1.5 billion in 2013 – about 90% of which in industrial business. On a pro forma basis – that is, taking Veyance into account for the full year – the ContiTech division increased its share of industrial business, which was previously less than 45%, to around 55%.

Optimum technological balance for profitable growth



6. Technological balance – combination of established and pioneering technologies

We are striving to achieve a carefully balanced combination of technologies. This means that our aim is for our portfolio to consist of a healthy, profitable, and viable mix of established and pioneering technologies. We will use innovations to strengthen our expertise, even for established business activities. What is more, innovations pave the way for new sources of sales. We invest selectively in the development of new products, systems and technologies.

We set and follow new trends and standards in high-growth markets and market segments. On the established core markets we ensure that our position as one of the leading product and system suppliers keeps on developing. We actively control and structure our portfolio of products and technologies so that Continental is represented and competitive in all phases of the respective product life cycles. In line with this, we systematically invest in our own product innovations (for detailed explanations, see the Research and Development section) and specifically purchase pioneering technological expertise when an attractive opportunity presents itself.

In Silicon Valley, California, U.S.A., we have started putting together an international team comprising members from the IT and automotive industries as the new Intelligent Transportation Systems (ITS) business unit of the Interior division. This process kicked off in August 2014. The team works intensively on the future-oriented field of intelligent transportation systems – that is, the interconnection of means of transportation and traffic facilities. ITS and the connected car are considered key systems and technologies for future transportation.

In mid-2014, we fully acquired Emitec Group, thereby strengthening our position when it comes to pioneering exhaust technologies. Its portfolio of products and technologies includes dosing modules for selective catalytic reduction (SCR). SCR technology involves injecting a urea-water solution to reduce the amount of nitrogen oxide in exhaust gases. In the future, nearly all newly produced diesel vehicles will require an SCR system in order to meet the ever more stringent emissions limits.

7. Great people culture

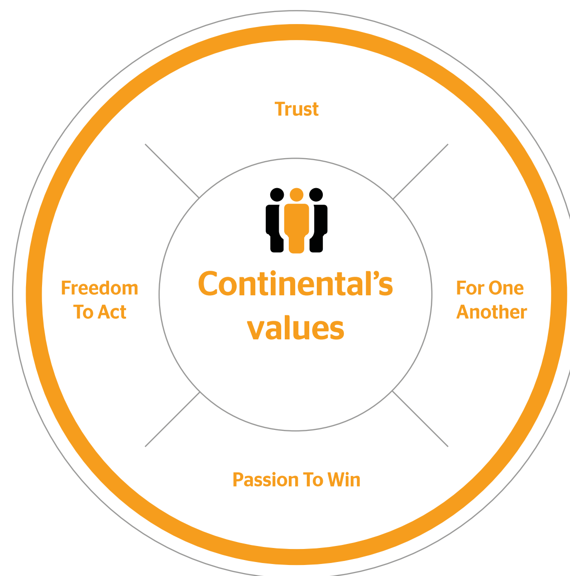
We want to motivate people to continue developing with us within our company. The aim is for Continental to be among the top employers in the relevant markets.

Committed employees are a key factor for the long-term success and future viability of the company. Our global, decentralized organizational structure enables us to reap the benefits of broad diversity, which offers us major opportunities. We attach maximum importance to the professional and social expertise of our employees as well as to our common global values culture. At Continental, all employees share four fundamental values: Trust, Passion To Win, Freedom To Act, and For One Another. These are the foundation of our corporate culture and shape the way in which we interact with each other and work together on a daily basis in all areas of the company.

In order to develop our corporate culture, we implement numerous initiatives to promote and shape a working atmosphere that is characterized by "Trust" and mutual respect. "Freedom To Act" and a positive attitude are the driving forces behind new ideas and initiatives. A sense of "For One Another" and mutual "Trust" are prerequisites for an extensive exchange of knowledge and value-adding collaboration. Our success reflects our "Passion To Win," which we need to achieve our further goals. By working in networks without organizational or hierarchical boundaries, we want to come up with better solutions more efficiently, and to pick up on trends and market changes more quickly.

With the tagline "Values Create Value," we held a Values Day for instance at our corporate headquarters in Hanover, Germany, in the year under review. The focus of this day was on considering how our values are embodied within the company, sharing experiences, and learning about the values through games and sporting activities. Ideas on how to strengthen our culture within the company were discussed with a panel that included chairman of the Executive Board Dr. Elmar Degenhart. The event served as a blueprint for further Values Days at other locations.

Continental: the same values worldwide for a shared corporate culture



Divisions and Business Units

Innovations as well as increases in efficiency and productivity – this is what we are working toward in our five divisions with 28 business units.

Chassis & Safety Division

› All around the globe, the Chassis & Safety division works on the vision of accident-free driving with the slogan "Safe and Dynamic Driving towards Vision Zero."
› The Chassis & Safety division's sales rose by 3.4% in 2014 to €7.5 billion.

In the Chassis & Safety division, we develop technologies that increase safety and improve vehicle dynamics. Active safety systems, such as electronic brake and advanced driver assistance systems, warn of imminent dangers and intervene to assist with steering as well as with braking and vehicle dynamics. They help to compensate for driving errors, which are responsible for the majority of accidents. Passive safety systems, such as airbag electronics and pedestrian protection systems, provide the best possible protection in the event of an accident.

With our expertise in areas ranging from individual sensors and actuators to complex systems, we have what it will take to one day make the vision of accident-free driving a reality.

Chassis & Safety has 93 locations in 20 countries. Its roughly 38,000 employees generated sales of €7.5 billion in 2014.

The division comprises four business units:

› **Vehicle Dynamics:** The Vehicle Dynamics business unit combines products and systems for lateral, longitudinal and vertical dynamics. These include scalable electronic brake systems and software solutions that help ensure vehicle stability and increase the ride comfort of cars and motorcycles, as well as chassis electronics and air suspension systems.

› **Hydraulic Brake Systems:** The expertise in the Hydraulic Brake Systems business unit lies in the development and production of new solutions for traditional braking technology. Products range from conventional disc, parking and drum brakes and electric parking and drum brakes, to brake boosters, and brake hoses.

› **Passive Safety & Sensorics:** This business unit combines expertise from the fields of passive safety and sensor technology. The integral interconnection of passive safety components with vehicle-dynamics and vehicle-surroundings sensors to create one "integrated safety" system leads to the development of innovative protection systems for passengers, pedestrians, and cyclists. Car-to-X systems (car-to-car and car-to-infrastructure communication) help to further reduce the risk of accidents. The product portfolio also includes sensors for a variety of applications such as chassis control, brake systems, and battery monitoring; as well as rotational speed sensors for wheels, engines, and transmissions.

› **Advanced Driver Assistance Systems:** This business unit develops innovative advanced driver assistance systems that operate using vehicle-surroundings sensors – based on camera, infrared, or radar technology – to fulfill various safety and convenience features. These systems help drivers to stay on top of things, for example with the 360° camera system Surround View, so that they arrive at their destination safely and relaxed. Our products therefore play a key role in preventing or mitigating the effects of 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.

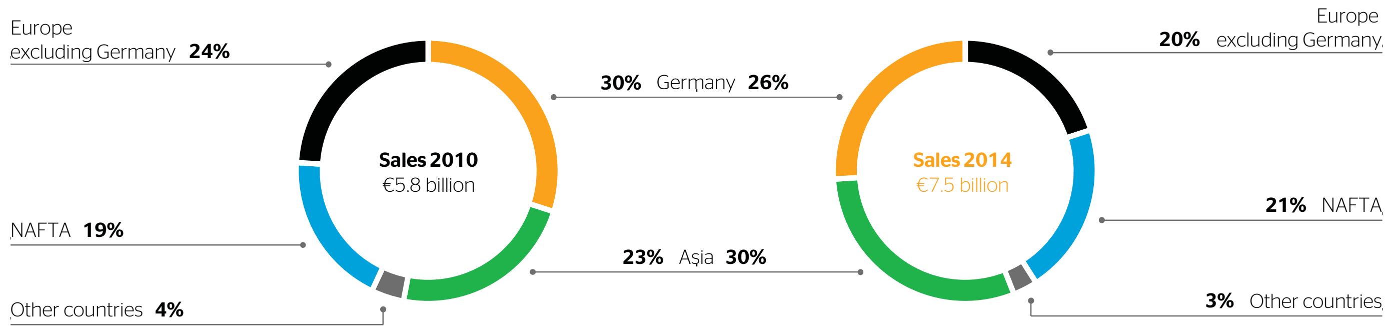
› Global market penetration of the electric parking brake, including in small vehicle segments.

› Our growth in NAFTA and the Asian markets as well as our expanding local presence.

› More stringent legislation worldwide and the new assessment system of the European New Car Assessment Programme (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

Chassis & Safety division: sales by market



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.

Forward-looking driver assistance systems are increasingly being included in the test and assessment reports that are central to receiving five stars in the Euro NCAP rating.

In all markets and regions, we see good opportunities for profitable development with the functions of our ContiGuard® safety system. Under the heading "Safety for Everyone," we are taking advantage of the opportunities to provide our scalable technologies for all vehicle classes, on all platforms, and in all markets.

We are actively addressing issues such as environmental protection and increasing electrification, for example by reducing the weight of components and developing solutions for energy recovery when braking. In the future, both aspects will be combined in the compact electro-hydraulic brake system MK C1.

Powertrain Division

› As part of its "Clean Power" vision, the Powertrain division strives to make present and future vehicles more efficient, more environmentally friendly, and more powerful.
› The Powertrain division's sales rose by 3.7% in 2014 to €6.5 billion.

There are two decisive factors influencing the development of drive technologies. First, active climate protection, particularly the reduction of CO_2 and exhaust emissions. And second, the increasing need for individual mobility, which results in various requirements being placed on vehicles and drive systems. In the Powertrain division, we integrate innovative and efficient system solutions for the powertrains of today and tomorrow in vehicles of all classes.

We offer our customers a comprehensive selection 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, and components and systems for hybrid and electric drives.

The Powertrain division operates at 88 locations in 22 countries. In the year under review, its roughly 34,500 employees generated sales of €6.5 billion.

The division is divided into five business units:

› **Engine Systems:** The Engine Systems business unit deals with the development and production of innovative system solutions for environmentally friendly and sustainable combustion engines. It is dedicated to making engines more powerful yet more economical.

› **Transmission:** The Transmission business unit develops 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.

› **Sensors & Actuators:** Using intelligent sensor technology and actuators that interact with engine management systems, this business unit develops solutions designed to meet current and anticipated emission standards and reduce CO_2 emissions in all classes of vehicle.

› **Hybrid Electric Vehicle:** This business unit has an extensive portfolio of powertrain electrification products. This makes it possible to implement hybrid and electric vehicles to reduce fuel consumption and thus also pollutants in various performance classes.

› **Fuel & Exhaust Management:** All relevant technologies for fuel management and exhaust gas aftertreatment are developed and produced in this business unit. The modular design of the components means that they can be flexibly adapted to our customers' individual requirements and also allows for fast and cost-efficient development of tailor-made solutions with excellent functionality. The integration of exhaust specialist Emitec into the business unit opens up the possibility of offering complete systems, too.

Our growth prospects
We anticipate further growth as a result of the following:

› The increasing global demand for vehicles with lower fuel consumption and emissions.

› A wide range of requirements placed on vehicles and drive systems as a result of the growing need for individual mobility.

› End-customer-oriented and cost-optimized drive solutions for the future of electromobility.

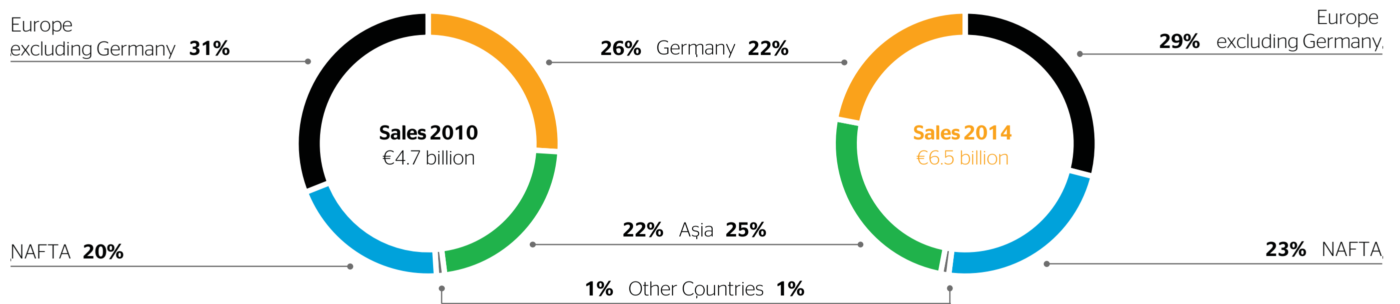
› Growing markets (such as China).

The importance of the vehicle drive system is increasing dramatically due to global legislation regarding the reduction of CO_2 and emissions, and the desire for individual mobility among drivers. 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. Energy and thermal management systems in vehicles will also play a key role here.

Growth market of electrified drive systems: In the long 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 existing vehicles in grades from 12 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 can be easily integrated into the architecture of conventional-drive vehicles, yet at the same time it provides features that up to now have only been found in high-voltage hybrid systems – such as switching off of the combustion engine while driving (sailing or coasting), extremely quick and convenient premium engine start-up, and efficient braking energy recovery (recuperation).

Growth market of direct injection and turbocharging: Smaller, supercharged engines use less fuel and thus reduce CO_2 emissions. With our pioneering, innovative turbocharger and injector

Powertrain division: sales by market



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. With the world's first water-cooled turbocharger with aluminum housing, we are continuing this success story.

Electronics growth market: As a result of the diverse options presented by tailor-made electrification and of alternative fuels, the potential scope of functions in the engine control unit and networking beyond domain borders are increasing dramatically. Rather than a single energy flow, the aim in the future will be to regulate the balance and direction of various energy flows. 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. As with engine management systems, the latest technologies – particularly in the field of hybrid vehicles – will also stand to benefit from the development work on transmission control units.

Exhaust gas aftertreatment (selective catalytic reduction, SCR) growth market: The SCR market is another growth market we cater to with a broad product portfolio. The introduction of the Euro 6 legislation cuts nitrogen limits by more than half in comparison to Euro 5. Downstream SCR exhaust aftertreatment allows combustion to be further optimized in terms of reducing CO_2 emissions and fuel consumption. The integration of exhaust specialist Emitec now enables us to also offer complete systems for exhaust aftertreatment.

We continue to see growth opportunities for example in the two-wheeler market and the truck segment.

Interior Division

› Our "Always On" vision focuses on managing the information of products and services in as well as around the vehicle in the fields of human-machine interface, interconnectivity as well as integration.
› In the year under review, sales of the Interior division increased by 6.0% to €7.0 billion.

The Interior division develops and supplies products and solutions that take information, generate added value, and pass it on to either actuators or the vehicle's passengers.

We work on three key areas. The first involves the interface between human and vehicle – the human-machine interface. This is because the new technical capabilities must be communicated in a way that is suited to the driver and the particular situation. The second involves interconnection: how the vehicle is connected with itself, how the vehicle is connected with the outside world, and how vehicles are connected with each other. The third is the reduction of costs through systems integration.

Interior has 99 locations in 25 countries. With roughly 36,000 employees, the division achieved sales of €7.0 billion in fiscal 2014. It comprises five business units:

› **Instrumentation & Driver HMI:** In this business unit, we develop systems to optimally prepare and communicate information. One focus is on prioritizing information and presenting it on various displays and display surfaces. We also develop innovative electronics to ensure intuitive control. In addition, we offer individual components as well as integrated systems and electronics for cockpit modules.

› **Infotainment & Connectivity:** In this business unit, we develop and produce infotainment systems for all classes of vehicles. We provide ways to conveniently hook up mobile devices and establish networks to the outside world, and we offer solutions that promote safe and thrifty motoring.

› **Intelligent Transportation Systems:** This new business unit focuses on services and new features that make the mobility of people and the transportation of goods safer, more efficient, more comfortable, and more convenient. Examples include applications that use data from other vehicles, the infrastructure, or a backend (cloud) to inform the driver about dangers or obstacles along the route; as well as innovative travel, fleet, and traffic management features.

› **Body & Security:** This business unit deals with the development and production of electronic systems that enable access to the vehicle, make key-interlock systems reliable, and guarantee the availability of vehicle safety and convenience features. These include central body control units, convenient locking systems, seat comfort systems, keyless access control and start systems, and solutions for tire information systems and exterior light control units.

› **Commercial Vehicles & Aftermarket:** This business unit comprises commercial vehicle and trade activities to accommodate the specific requirements of these market segments. A global network of sales and service companies ensures proximity to local customers. With the product brands VDO, ATE, GALFER, Continental and Barum, the business unit offers electronic products, systems and services for commercial and special vehicles, a broad selection of products for specialized workshops, as well as spare parts for the independent parts market, brand-independent workshops, and supply services after the end of production at the vehicle manufacturer.

Our growth prospects
We are focusing our work on the following topics to expand our business:

› New communication technologies that connect the vehicle to the outside world (for instance via the cloud) and integrate mobile devices such as smartphones into the vehicle architecture.

› Affordable and flexible solutions for various markets in the field of networks, displays and interaction with the driver.

› System solutions to meet the growing need for integrated functions and controls that satisfy the specific requirements in the vehicle.

› Assistance on the way to automated driving with a bidirectional human-machine interface (an interior camera informs the car about the driver, and a suitable display unit informs the driver about the status of the vehicle system).

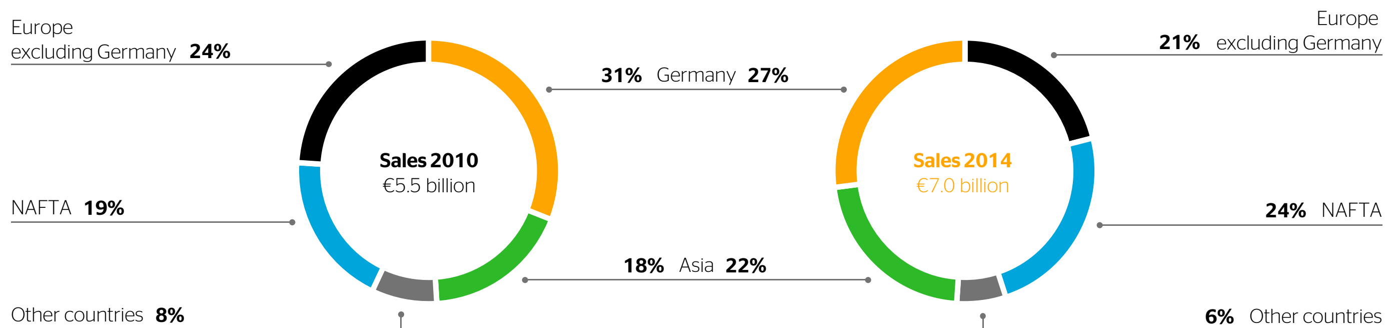
› New laws and recommendations require the expansion of services such as tire pressure monitoring systems or eCall.

› Services that support intelligent mobility and transport systems of the future.

Our broad range of products and expertise enable us to rapidly adapt our solutions to new segments across all platforms. This way we can successfully place our products in the markets around the world, and ever more successfully with Japanese automotive manufacturers.

This growth is fostered by our extremely high standards with regards to customer satisfaction, innovation and systems expertise.

Interior division: sales by market



It must be possible for the driver to intuitively understand and control the ever-increasing variety of information. Displays and controls are therefore becoming increasingly important in the automotive industry – and not least as a means for differentiation in the market. Our development staff in the Instrumentation & Driver HMI business unit work continuously on solutions that reduce the burden on the driver and contribute to greater convenience when driving. These include, for example, freely programmable instrument clusters, holistic adaptive controls, head-up displays, and 3D display systems. In addition, a holistic approach is becoming increasingly important for the human-machine interface. A system solution for this comprises, for example, high-resolution displays, new designs, and high-quality control components with haptic feedback for the user such as touchpads.

We see strong growth in vehicle connectivity in the Infotainment & Connectivity business unit. Cars are becoming part of the Internet. We are making this possible thanks to rapid data connections via LTE (Long-Term Evolution, the fourth generation of mobile networks), for example. New applications have to be integrated in addition to the secure connection of communication and telematics systems. For these tasks, we work together with partners outside the automotive industry, such as leading IT companies. Smartphones are being used everywhere. Secure interaction with vehicle components brings new, up-to-date information to the vehicle, thereby expanding the infotainment experience. Our platforms offer interfaces and standards support for this. In addition to growth trends from the world of consumer electronics, there are efforts in Europe, the U.S.A. and Brazil to make driving safer by means of regulations. Our portfolio already includes emergency call systems, known as eCall systems. We carefully monitor planned changes in legislation and discuss appropriate solutions with our customers in advance. This allows for rapid placement on the market.

With our new business unit Intelligent Transportation Systems, we have laid the foundations for new products and business models for connected vehicles. Three growth areas play a role here. Firstly, the vehicle itself is becoming more efficient, safer, more convenient, and more comfortable (e.g. CO_2 reduction, support from advanced driver assistance systems, and automated driving). The second area is the vehicle's surroundings, since considerable demand to be able to use information and functions anytime and anywhere is leading to new solutions (e.g. infotainment, navigation, and communication). The third area is beyond the vehicle in the field of traffic management (e.g. travel planning, parking space management, and fleet solutions).

In the Body & Security business unit, vehicle connectivity is taking place in the body controller and antenna modules segment as well. We offer integrated systems that enable highly technological, cost-optimized solutions. Technologies such as NFC (near field communication, which is a wireless standard for transmitting data) allow for the development of new smartphone features, such as digital keys. Our tire pressure sensors support new legal specifications and services in the field of maintenance, safety, and convenience – be it tire information for connected fleet systems, tread depth, or convenient tire-pressure monitoring using smartphones. In addition, 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.

In Commercial Vehicles & Aftermarket, we are systematically expanding our range of services in the growth market of intelligent transportation systems. We are enhancing our portfolio with innovative solutions for commercial vehicles, such as ProViuMirror, aerodynamic solutions to save fuel, or Cab.let™ – an integrated control center for all tractor functions. In addition to (remote) diagnostic solutions, our eHorizon offers significant added value to make vehicles safer and more efficient. The latter in particular is extremely important in the truck segment. Our success with the digital tachograph in Europe constitutes the basis for growth in Russia and NAFTA.

Tire Division

› The Tire division offers the right tires for nearly every application – from cars, trucks, buses, and construction vehicles to special vehicles, motorcycles and bicycles.
› The Tire division's sales increased by 2.1% in 2014 to €9.8 billion.

Tires are the vehicle's only direct link with the road and transmit all forces. For example, they influence the vehicle's braking distance, cornering speed, acceleration, force distribution, gross vehicle weight rating, and economy.

The greatest challenge in the development of tires is to guarantee maximum safety through short braking distances and excellent grip, while at the same time reducing fuel consumption with minimum rolling resistance. This is what we are working on in the Tire division every day.

The division has 71 locations in 44 countries. In 2014 its approximately 47,500 employees generated sales of €9.8 billion.

The division is divided into six business units:

› **Passenger and Light Truck Tire Original Equipment:** This business unit represents global business with automobile manufacturers. About one in three passenger cars in Europe leaves the factory on Continental tires; in the U.S.A. the figure is roughly one in six. Products of the premium brand Continental are marketed worldwide in addition to products of the quality brand General Tire in the NAFTA region. We also supply vehicle manufacturers with our various run-flat systems that, in the event of a puncture, make it possible to continue driving to the next workshop.

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, and the regional budget brands Mabor and Matador. Bundled under the umbrella of ContiTrade, our European retail tire companies with more than 2,000 specialty tire outlets and franchises, are also assigned to Replacement Business EMEA.

› **Commercial Vehicle Tires:** With its range of truck, bus, and special-purpose tires, this business unit focuses on entrepreneurial customers. We are constantly re-inventing the tire and the accompanying services for these customers with the aim of creating comprehensive solutions for professional tire management. For our end customers, this means lower overall costs for the whole fleet and thus optimal cost effectiveness.

› **Two-Wheel Tires:** The product portfolio of this business unit ranges from bicycle tires (city, trekking, mountain-bike and high-performance racing tires) to motorcycle tires (scooter, enduro and high-performance road tires). They are sold as original equipment and as replacement tires.

Distribution of sales
29% of sales in the Tire division relates to business with vehicle manufacturers, and 71% relates to the replacement business.

Our growth prospects
Above all, we in the Passenger and Light Truck Tires business unit will meet the rising and changing demand through the following:

› The development of new product lines to suit specific regional requirements.

› Further improvements in performance characteristics, including for high-performance tires and winter tires.

› The continual reduction of rolling resistance without compromising safety characteristics.

› The expansion of production and sales capacity with a focus on the growth regions.

› The development of innovative materials such as natural rubber from dandelion roots.

In particular, the Commercial Vehicle Tires business unit aims to achieve the following:

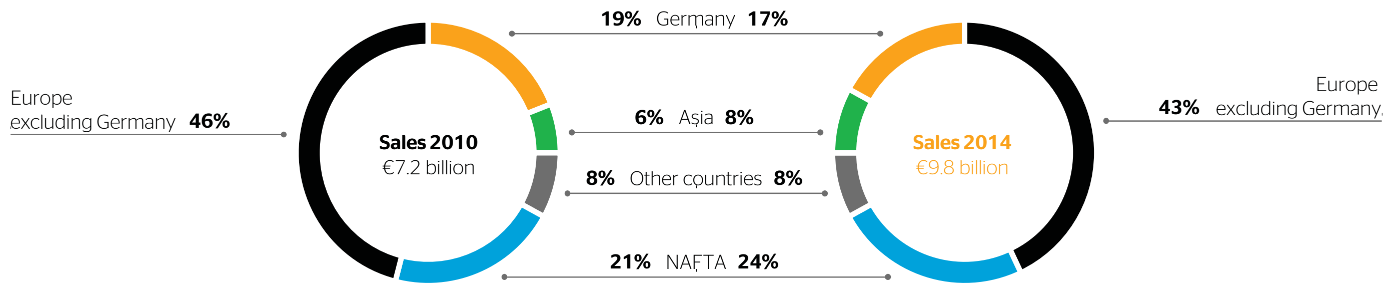
› A high level of customer focus thanks to segment-specific products.

› Help fleet customers keep their total costs as low as possible and therefore perform successfully on the market.

› A consistent, high-performance tire range extending from new tires to retreading with ContiLifeCycle.

The Tire division has systematically pushed ahead with the implementation of its long-term growth strategy, Vision 2025. The division intends to increase its global production capacity by some 26 million units by 2018 compared with 2011. The new passenger car tire plant in Sumter, South Carolina, U.S.A., celebrated its official start of production in January 2014.

Tire division: sales by market



In our plant in Modipuram, India, we started producing radial tires for trucks and busses as well as for cars in 2014. In addition, we made investments in several high-technology projects. In September, the ground-breaking ceremony for the new High Performance Technology Center took place in Korbach, Germany. From 2016, this center will manufacture exceptionally sophisticated tires for high-performance sports cars, and will drive forward central process optimization for all tire plants worldwide. With regard to the expansion of the sales network, ContiTrade was able to make considerable progress in terms of market presence and expanding its range of services by acquiring specialist retailers in several markets. A prime example here is France, where the Continental network was expanded by 138 to a total of now more than 400 branches and additional retreading capacity was generated for truck tires, both as a result of an acquisition.

A well-balanced global position in terms of production and sales will remain a firm goal over the coming years as well. To achieve this, the Tire division has invested more than €2 billion in expanding production capacity since the beginning of 2011 and will gradually continue to expand on this depending on how the markets develop. Parallel to this, top priority has been given to the expansion of existing sales structures and establishment in new sales markets such as in the Middle East and North Africa.

To further increase international awareness of the Continental premium tire brand, we will focus on soccer sponsorship as a strategic communication platform in the future as well. After the 2014 FIFA World Cup™ in Brazil, which brought us great success in this regard too, and the AFC Asian Cup 2015 in Australia, the next highlights are already just around the corner: the UEFA EURO 2016™ in France, for which the first round of qualifying games has already been completed with a good brand presence, and Major League Soccer in the U.S.A. and Canada, for which Continental is an official sponsor and exclusive tire partner.

The specialist magazine Tire Technology International has named the Tire division tire manufacturer of 2014. In particular, the international jury highlighted the fact that the global strategy has been combined with outstanding products and a vision of a more sustainable future. The consistently excellent ratings for car and truck products from independent test editorial teams and fleets were also mentioned.

Another unique feature is the bus tire portfolio, with which we began the launch of our Generation 3 commercial vehicle tires in 2013. The new product family for commercial passenger transport covers all applications, from scheduled services in cities and regional transport to the growing long-distance coach segment. In 2014, we continued launching new products with the Conti EcoPlus tire line, a tire design optimized for maximum fuel efficiency for use in goods transport. The year also saw the Conti Hybrid launch, the tire line designed to meet the diverse challenges in regional freight transport. With the introduction and further development of the ContiPressureCheck™ tire-pressure monitoring system, we are systematically pursuing our strategy to develop from being a simple tire manufacturer to a solution provider in the area of commercial vehicle tires.

In 2014, we received the international “Tire Manufacturing Innovation 2014” award for our ContiLifeCycle plant in Hanover-Stöcken, Germany, which opened at the end of 2013 and combines retreading with rubber recycling.

Our special-purpose tires represent another important growth segment. In 2014, we further expanded our portfolio of products for vehicles in the port logistics segment. One important element is a unique technology developed by Continental: V.ply combines the advantages of radial tire technology with those of crossply tires.

ContiTech Division

› We are always looking for the best solutions for our customers and, in doing so, focus on our guiding principle: Engineering Next Level.
› In the year under review, sales of the ContiTech division increased by 1.4% to €3.9 billion.

In its capacity as a specialist in high-tech products made from rubber and plastic, the ContiTech division deploys its innovations in a range of industries. The products and systems help reduce fuel consumption in cars, increase ride comfort in rail vehicles, and reduce noise and vibrations in machine and equipment engineering. ContiTech conveyor belts and hoses enable raw materials to be transported in a way that is both environmentally friendly and energy-efficient.

"Engineering Next Level" represents our special commitment to and technological expertise in the development of our products and services. We recognize future trends early on and develop solutions so that we are always ready when our customers need us.

The division has 109 locations in 31 countries. In 2014 its approximately 32,500 employees generated sales of €3.9 billion.

ContiTech is divided into eight business units:

› **Air Spring Systems:** This business unit develops and produces 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:** The Benecke-Kaliko Group business unit manufactures technical and decorative surface materials and works in a close development partnership with the automotive industry and other industries.

› **Compounding Technology:** The Compounding Technology business unit develops and supplies rubber compounds – the material for a wide range of rubber products – for internal and external customers.

› **Conveyor Belt Group:** The Conveyor Belt Group business unit is a development partner, manufacturer and systems supplier of steel-cord and textile conveyor belts, service material and special products. It also offers a global belt installation and maintenance service.

› **Elastomer Coatings:** This business unit develops and produces innovative printing blankets, diaphragm materials and diaphragms, materials for life rafts and protective clothing, flexible tanks and gas holder diaphragms.

› **Fluid Technology:** The Fluid Technology business unit develops and produces a broad range of hoses, hose lines and line systems for the automotive and other industries.

› **Power Transmission Group:** As a development partner and manufacturer of drive belts and matched components through to complete belt drive systems, the Power Transmission Group business unit offers products and systems used in the automotive industry and in machine and plant construction.

› **Vibration Control:** The Vibration Control business unit is a specialist in noise and vibration control and in sealing technology. It develops and produces a wide variety of elastomer and rubber-metal products such as vibration absorbers, mounting systems, precision molded parts, blow-molded parts, and plastic components for a broad range of applications.

Distribution of sales
58% of sales in the ContiTech division relates to business with vehicle manufacturers, and 42% relates to business with other industries and in the replacement market.

Our growth prospects
We see opportunities for growth in the following areas:

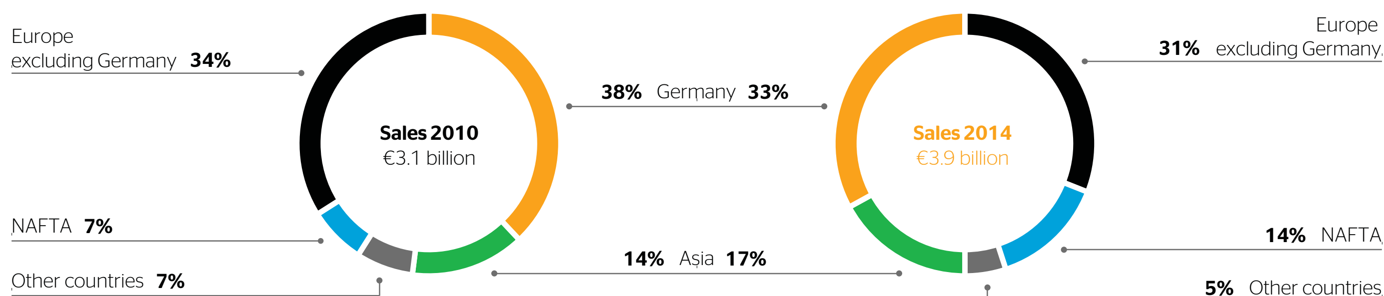
› In markets such as China and NAFTA.

› In areas other than automotive original equipment manufacturing.

› In the growing market of green mobility, including even bicycle drive systems.

We have expanded our worldwide industrial business with the completion of the acquisition of rubber and plastics specialist Veyance Technologies at the start of 2015. The U.S. company generates about 90% of its sales outside the automotive industry. Veyance will expand ContiTech in markets where the division is currently still underrepresented, primarily in the U.S.A. and South America. Locations in Canada, China, Australia, and South Africa offer additional opportunities. Geographically, the two companies complement each other extremely well. ContiTech's Conveyor Belt Group and Fluid Technology business units will especially benefit from better global orientation, but the merger will also be good for the Power Transmission Group. Veyance generates roughly half of its sales in the U.S.A., with other important markets being Latin America, Africa, China, and other Asian countries.

ContiTech division: sales by market



The Air Spring Systems business unit remains on course for growth and has expanded its presence in the Korean market. Additional capacity has been created for business at ContiTech DaeWon Air Springs Ltd., Cheonan, which in the future will be able to manufacture up to 180,000 air springs per year. Increased production capacity in Mexico and China will enable further growth in these countries. The sales team has been expanded in Brazil.

In 2014, the Benecke-Kaliko Group laid the foundations for the largest single investment in the company's history in Changzhou, China, where particularly environmentally compatible surface materials are set to be produced for the automotive industry from the end of 2015. In Europe, the company wants to expand business with French and Spanish automotive manufacturers and has therefore acquired two companies of the Belgian Mecaseat Group in Poland and Spain. This enables the business unit to offer its customers an additional price segment, which is required primarily for models in the growing small-car segment. In addition, this acquisition expands business with cover materials for the furniture industry.

The Compounding Technology business unit is continuing along its course of internationalization. The compounding facility in Hungary has continued to develop in a positive fashion, with its output being increased substantially since 2013. In China, a new compounding facility is being set up that is intended to support the growth of other ContiTech companies in the country. Compounding Technology is benefiting from the growing demand for special compounds.

The Conveyor Belt Group sees further growth opportunities for conveyor belts in South America and has assembled a new sales team in Lima, the capital city of Peru. Peru's mining sector is the fastest growing mining sector in South America. A strategic supply agreement that envisages the construction of a production facility in Morocco was concluded with OCP, the state-owned Moroccan phosphate producer. The business unit also invested in special-purpose conveyor belts for the agricultural sector as well as in the increased automation of bulk material transport.

The Elastomer Coatings business unit is planning to build a production plant in China. In Germany, the business unit is using its printing blankets to help the Fraunhofer Institute for Solar Energy Systems (ISE) develop a new technology for producing the metallic front of solar cells using the flexo printing process, which would cut production costs substantially.

The Fluid Technology business unit has expanded its presence in China. In Hangzhou, it will produce underfloor air-conditioning lines for Ford starting in March 2015. The plant in Hangzhou is the fourth Fluid Technology production location in China. With the acquisition of a German company for blow-molding technology, the business unit is improving its chances in the rapidly growing market for charge-air and clean-air hoses for the automotive industry. Investments were made in plastics expertise at the research and development location in Hamburg with a view to implementing new product ideas.

The Power Transmission Group is expanding production of drive belts in China. With a new location south of Shanghai, the business unit can provide its customers in Asia with a broader range of drive belts while reducing delivery times. ContiTech is catering to the trend for environmentally friendly mobility with a new drive system for e-bikes and pedelecs that is being developed as a complete drive system under ContiTech's leadership. This system will be available from various manufacturers starting in 2015.

The Vibration Control business unit has laid the foundation for further growth with automotive manufacturers in Eastern Europe and expanded production capacity at its Dolné Vestenice location in Slovakia.

Corporate Management

Our operational and financial objectives center on the sustainable enhancement of enterprise value and on balanced financing.

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 operational and financial objectives center around 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 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 taxes (EBIT), capital employed and the weighted average cost of capital (WACC), which is calculated in proportion to equity and debt capital and weighted accordingly.

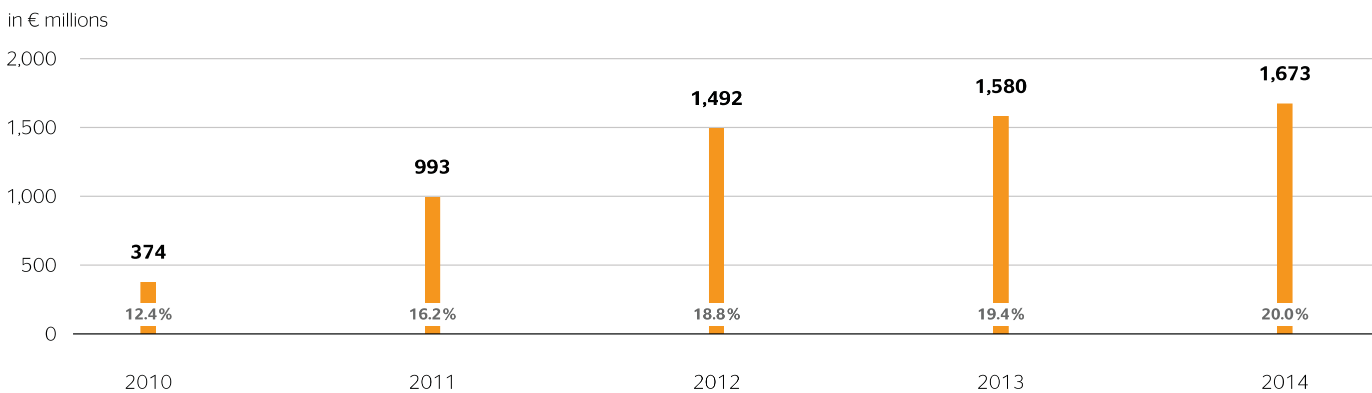
› Operating earnings before interest and income taxes (EBIT) are calculated from the ongoing sales process. The figure is the net total of sales and costs plus income from at-equity accounted investees and from investments but before interest and income taxes. Consolidated EBIT amounted to €3.3 billion in 2014.

› 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 2014, average operating assets amounted to €16.7 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 2014, thus rising for the fifth year in a row.

› 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

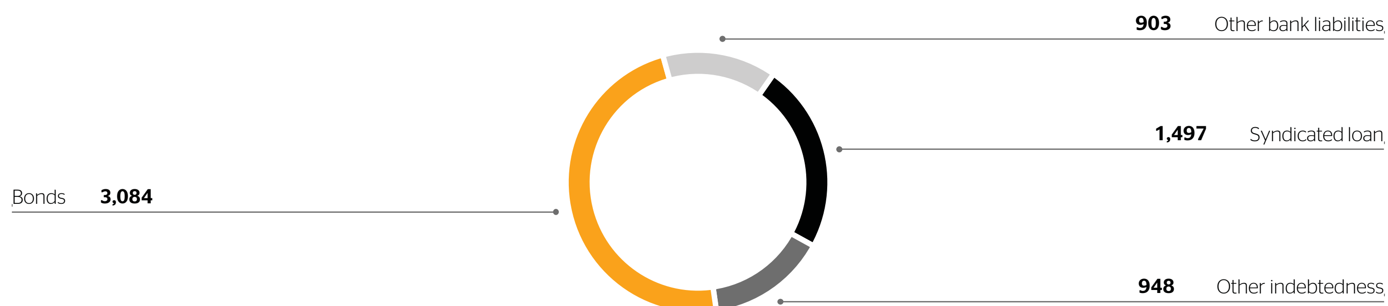
Increase in value contribution[1]



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

1 IAS 19 (revised 2011), Employee Benefits, has been applied since 2012.

Composition of gross indebtedness (€6,432 million)



investment plus a market risk premium, taking into account Continental's specific risk. Borrowing costs are calculated based on Continental's weighted-debt capital cost rate. Based on 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). By increasing ROCE by 0.6 percentage points, the CVC was also increased in 2014 compared to the prior year.
- In the long term, enterprise value by our definition will increase only if the CVC shows positive growth from year to year. The CVC rose for the fifth year in a row in 2014.

ROCE by division (in %)	2014	2013
Chassis & Safety	17.2	14.9
Powertrain	-3.5	6.1
Interior	15.9	9.5
Tires	37.1	37.7
ContiTech	30.8	36.5
Continental Corporation	**20.0**	**19.4**

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.

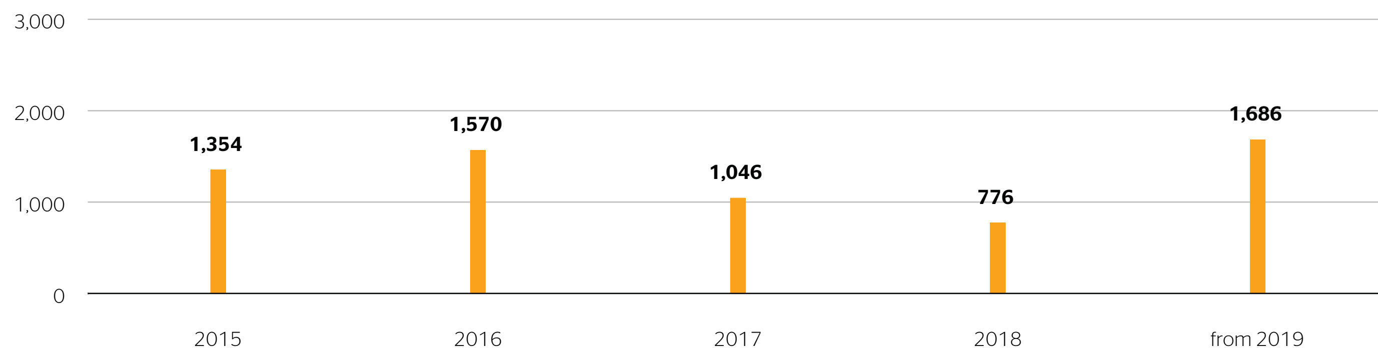
The central function Finance & Treasury provides the necessary financial framework to finance corporate growth and secure the long-term existence of the company. The long-term average for the company's annual investment needs is between 5% and 6% of sales. In 2015 the capital expenditure ratio before acquisitions will again amount to around 6% of sales.

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 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%. As at year-end, the equity ratio was 36.5% and the gearing ratio 25.6%.

Our 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 2014, this mix consisted of bonds (48%), syndicated loan (23%), other bank liabilities (14%) and other indebtedness (15%) based on the gross indebtedness of €6,431.6 million. We do not see any reason to make significant changes in this mix at this time.

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

Maturities of gross indebtedness (€6,432 million)



addition, the amount of liquidity required is also influenced by corporate growth. Cash and cash equivalents amounted to €3,243.8 million as at December 31, 2014. This high amount at the end of the year covers the purchase price payment for the acquisition of Veyance Technologies closed at the start of 2015. There were also committed and unutilized lines of credit of €4,032.4 million.

Gross indebtedness amounted to €6,431.6 million as at December 31, 2014. The largest financing instrument is a syndicated loan with a volume of €4.5 billion, which consists of a term loan for a nominal amount of €1.5 billion and a revolving line of credit for €3.0 billion. The term loan matures in April 2016 and the revolving line of credit in April 2019. The revolving line of credit was not utilized as at the end of the quarterly reporting periods and as at December 31, 2014.

Around 47% 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 2.5% and 4.5%. Repayment amounts on maturity are €750 million each in 2017, 2018 and 2020 and U.S. $950 million in 2019. The U.S. dollar bond grants the issuer the right to early redemption under certain conditions. This right can be exercised for the first time as at September 15, 2015. In addition to the forms of financing already mentioned, there were also bilateral lines of credit with various banks in the amount of €1,940.1 million as at December 31, 2014. In addition to finance leases, Continental's other corporate financing instruments currently include sale of receivables programs and a commercial paper program.

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), only the extension of the term loan is on the agenda for 2015 and 2016. Due to the company's solid financing situation, we assume that the extension can be concluded at conditions that are favorable for Continental.

Rating confirmed

Continental was rated by the three rating agencies Moody's, Standard & Poor's, and Fitch in the reporting period. Even after the planned purchase of Veyance Technologies was announced, all three agencies confirmed the credit rating of Continental AG in the investment grade category. The reason for this is the company's very good operating performance. The rating agency Fitch upgraded its outlook for Continental from stable to positive on September 5, 2014, due to the solid business performance.

Continental's rating

	2014	2013
Fitch[1]		
Long term	BBB	BBB
Short term	F2	F3
Outlook	positive	stable
Moody's[2]		
Long term	Baa3	Baa3
Short term	no rating	no rating
Outlook	stable	stable
Standard & Poor's[3]		
Long term	BBB	BBB
Short term	A-2	A-2
Outlook	stable	stable

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

Research and Development

The goal of our research and development activities is to make mobility safer, more efficient, more intelligent, and affordable for everyone.

In line with the megatrends of the automotive industry, the goal of our research and development activities is to make mobility safer, more efficient, more intelligent, and affordable for everyone. We are also focusing intensively on future automotive issues such as the connected car and automated driving. We already generate more than half a billion euros in sales from these areas. We are also working on new fields of business resulting from the fact that in the future an increasing number of things will be connected to the Internet, including the car. We have therefore recently founded our own business unit that will develop new business ideas based on our knowledge of the car and of the vehicle's and driver's link to the Internet. This is part of the reason why in the Automotive divisions we invest substantially more in research and development (R&D) in one year than we do in systems and intangible assets. Of the more than €1.8 billion in accrued R&D expenses, only a small amount of under €60 million could be capitalized on our statement of financial position.

In addition, our strategy in the Automotive divisions and ContiTech is to develop and produce a large share of applications and solutions in the relevant markets – that is, locally. The approach of developing centrally and producing locally has proven its worth for the Tire division.

We currently have 127 research and development sites in 27 countries.

Research and development expenses higher than investments
Expenditure for R&D for the corporation rose by 13.8% in the year under review to €2,137.7 million. This corresponds to a research and development ratio of 6.2%. In relation to automotive business, in which we generated sales of more than €20.9 billion in the year under review, the ratio is 8.8%. In comparison with this, the corporation's capital expenditure ratio is 5.9%.

Expansion of R&D capacity in Singapore
In November 2014, we put the extension for our R&D center in Singapore into operation. The opening of this new, large-scale development location illustrates our commitment to local development and production in Asia. The expansion of capacity is accommodating the rising technical requirements in light of Continental's global business expansion and the growth in the automotive industry in Asia. Continental is among the world's best-positioned automotive suppliers and industry partners.

New electronics plant opened in Wuhu
We have opened our second electronics plant in Wuhu, China. The new manufacturing site will play an important role in meeting the growing demand on both local and global markets. It will accelerate our development in China and provide support in expanding our portfolio of products in the country. This way, we will be able to optimize our production processes and respond faster to market requirements. The plant comprises the production facilities, an R&D center, a laboratory, and warehouses.

	2014		2013	
Research and development expenses	in € millions	in % of sales	in € millions	in % of sales
Chassis & Safety	629.5	8.4	535.3	7.4
Powertrain	635.1	9.8	561.8	9.0
Interior	570.9	8.2	492.0	7.4
Tires	216.9	2.2	204.7	2.1
ContiTech	85.3	2.2	84.6	2.2
Continental Corporation	**2,137.7**	**6.2**	**1,878.4**	**5.6**
Capitalization of research and development expenses	**57.9**		**40.2**	
in % of research and development expenses	2.6		2.1	
Depreciation on research and development expenses	**58.5**		**63.1**	

Ground-breaking ceremony for High Performance Technology Center
In the year under review, we began construction of a High Performance Technology Center at the Korbach plant in Germany. A hall for a new production system is currently under construction on an area of approximately 12,000 m^2. With a planned start date of July 2016, the new system will not only manufacture high-performance tires for particularly sporty and technically sophisticated high-powered cars, but also drive forward the development and optimization of production processes from Korbach, Germany, which will subsequently be introduced in other Continental tire plants. This sees us not only launching a new production line but also integrating our research and development department directly into the factory.

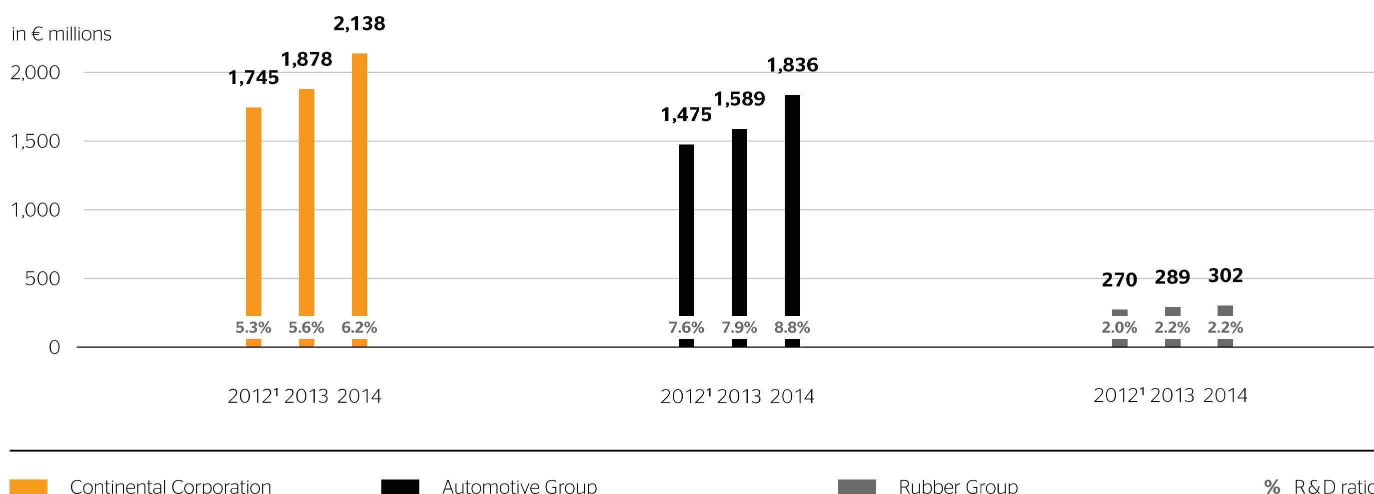
Opening of the Tire Technology Center in Puchov
In November 2014, the new Tire Technology Center in Puchov, Slovakia, was opened. The further expansion of the R&D center forms part of the investment program announced by the Tire division in 2011. As part of this, the number of employees at the Tire Technology Center is set to be increased by around 15% by 2016 in order to satisfy the growing demand for new technologies to manufacture the range of tires.

High-tech laboratory for efficient fuel consumption
Modern combustion engines are becoming increasingly environmentally friendly as their efficiency continues to grow. In addition to downsizing engines and turbocharging, the ever more efficient utilization of fuel is playing a significant role. This is ensured primarily by high-precision injection systems, which are controlled electronically and work with the finest nozzles and extremely high-speed multiple injection. Optimal adjustment to suit the particular fuel is a central requirement to ensure the efficiency of these systems. In order to study how the properties of a wide range of fuels affect engine components and functions, we put a new fuel laboratory into operation at the location in Regensburg in the year under review.

Intelligent transportation systems: a field for the future
In the year under review, we established a new business unit: Intelligent Transportation Systems (ITS). Systems for the intelligent interconnection of means of transportation and traffic facilities as well as the connected car are considered key technologies for future mobility. This constitutes the key step in making vehicles part of the Internet. This way, vehicles are connected to the Internet to enable them to independently communicate via the Internet and exchange online information in real time as well as trigger actions and provide mutual guidance.

Continental is already one of the main suppliers on the market for core components for intelligent transportation systems. In our ITS business unit, we create solutions to global transportation problems such as excessively long traffic jams, traffic-induced pollution, and accidents caused by human error. Connected cars, which can communicate with each other and the infrastructure, open up a whole range of possibilities for new functions. Intelligent applications make driving safer, more convenient, more comfortable, and more environmentally friendly. Examples include applications that can use data from other vehicles, the infrastructure, or a backend (cloud) to inform the driver about dangers or obstacles along the route, as well as applications forming part of comprehensive travel, fleet, and traffic management. Data protection has utmost priority here. To develop high-performance systems, we have already signed partnership contracts with the leading technology suppliers in big data (IBM) and maps (Nokia HERE) back in 2013.

R&D expenditure



1 Taking into account the first-time adoption of IAS 19 (revised 2011), Employee Benefits.

Automated driving for commercial vehicles too
Advanced driver assistance systems in commercial vehicles are also making the transportation of goods and people safer, more efficient, more convenient, and more comfortable. In the commercial vehicle segment, these systems assume another important role. Since they are connected to the cloud and other road users, they increasingly serve as the key to increased transport efficiency by minimizing fuel consumption and downtimes. High-precision maps and access to comprehensive, connected mobility data constitute an essential element for intelligent transport systems. Continental is working in close cooperation with partners from various industries to develop advanced vehicle services. The announced development schedule for introducing automated driving in cars applies to the commercial vehicle segment as well to Continental. We want to implement partially automated driving before the end of the decade, and fully automated driving is set to be possible on some sections of a journey by 2025.

World premiere: water-cooled turbocharger
Continental celebrated a world premiere when it unveiled the water-cooled turbocharger with an aluminum housing to the public. The turbocharger is characterized by its optimized response behavior. Furthermore, its lightweight design supports the automotive industry in its efforts to meet highly ambitious consumption and emission targets. A total of 1.2 kg is saved per aluminum turbocharger. This constitutes a weight reduction of 30% compared with conventional turbochargers. In addition, the water cooling of the aluminum housing reduces the effort required to protect adjacent components from the heat, and the cooling of the exhaust flow reduces the thermal load on the catalytic converter, meaning it hardly ages at all. It is not just the aluminum that makes the turbocharger special – it has evolved from being a typical add-on component to an integral part of the engine.

48-Volt Eco Drive significantly reduces fuel consumption
Alongside optimizing combustion engines, the electrification of the powertrain – from fuel-saving start-stop functionality to the all-electric drive – is one of the keys to reducing fuel consumption and emissions. Within this spectrum of electrification possibilities, there has been a gap up to now between the reasonably priced 12-volt start-stop systems and the much more expensive hybrid solutions with voltages from 110 volts. We have now closed this gap with our 48-Volt Eco Drive system.

The new hybrid technology combines the best of two worlds. It can be easily integrated into the architecture of conventional-drive vehicles, yet at the same time it provides features that up to now have only been found in high-voltage hybrid systems – such as switching off of the combustion engine while driving (sailing or coasting), extremely quick and convenient premium engine start-up, and efficient braking energy recovery (recuperation). The new Continental technology will go into production with European car manufacturers for the first time in 2016.

eHorizon becomes the basis for a wide range of vehicle functions
At the Consumer Electronics Show in Las Vegas at the beginning of January 2015, we demonstrated a new stage in the evolution of eHorizon, together with our partners IBM and Nokia HERE. Known as the “dynamic eHorizon,” it is connected to the Nokia HERE location cloud with real time digital maps and the IBM connected car cloud. Using IBM Big Data and Analytics it takes into account dynamic events such as weather, accidents, or traffic jams. The dynamic eHorizon turns the digital map into a high-precision and constantly up-to-date information carrier that can be used for so much more than just navigation. With this, we are increasing safety, efficiency, comfort and convenience in trucks and passenger cars.

Sustainability

Our corporate activities are focused on sustainability. This characterizes our values system in the same way as our responsibility for employees, the environment, and society does.

We use our technologies, systems, and services to make mobility and transportation more efficient, safer, more affordable, and therefore more sustainable. Continental's solutions for people and society are geared toward protecting life and health, improving the quality of life, accelerating progress, enhancing environmental protection, and providing more opportunities to shape one's own future.

Our long-term success is based on our understanding of these needs people have as well as on mutual trust. Trust is placed in our employees, our business partners, and other stakeholders. The focus on sustainability and responsible conduct that is firmly embedded in the corporation leaves us open to change and sees us strengthening the future viability of our company.

It is therefore an element of our corporate strategy to combine financial and non-financial performance indicators and to take a holistic approach resulting in a contribution that impacts positively on our employees, the environment, and society. Please see page 72 for information about the non-financial performance indicators related primarily to the sustainable use of resources.

Commitment to the principles of the United Nations Global Compact

As a signatory of the United Nations Global Compact, we support its ten principles in the areas of human rights, labor, environment, and anti-corruption. Sustainable management and a sense of responsibility for the environment, employees, and society constitute our fundamental values. It strengthens the culture of working with and for one another, it creates trust, and it forms the basis of forward-looking and values-based corporate management at Continental.

Sustainability reporting in accordance with GRI standards

Our online Corporate Social Responsibility Report is aimed at our stakeholders – that is, the financial market as well as our employees, suppliers, customers, politicians, and authorities – and at all other groups of people linked to our company. It contains a Global Reporting Initiative (GRI) Report that creates transparency regarding our corporate values and principles, and describes the company's development in terms of the selected key sustainability indicators.

Further information and the latest GRI Report can be accessed at www.continental-sustainability.com.

Economic responsibility

Our understanding of sustainability places equal emphasis on all stakeholders. This way, we aim to make positive contributions in the interests of the environment, our employees, and society. However, we use sustainability objectives and the measures aimed at achieving them to generate value for the corporation as well. This is essential since only by integrating economic success can we gain internal and external acceptance of and credibility for our corporate activities focused on sustainability. We will explain and document our economic responsibility in this Annual Report.

Responsibility for our employees

Our employees and HR policy, which focuses on optimum development and training, are key to the long-term success of the company. The expertise and motivation of our employees make a major contribution toward ensuring that Continental achieves its defined objectives. Our HR management also focuses on initiatives that preserve and strengthen the health and performance of our workforce as well as on the targeted recruitment and training of skilled young professionals. Responsibility for our employees is a central component of Continental's commitment as an employer.

Responsibility for the environment

Environmental protection is of fundamental importance at Continental. Business growth and rising global activity tend to be reflected in an increased use of natural resources, greater energy demand, and rising emissions. With a view to counteracting this trend and mitigating the negative effects, as well as being able to try new approaches, we established our responsibility for protecting the environment in our corporate guidelines (BASICS) and firmly set this out as a specific objective back at the beginning of the 1990s. This responsibility is implemented throughout the corporation by means of the clearly defined ESH (Environment, Security, Safety, and Health) policy.

Social responsibility

We actively demonstrate our voluntary commitment to social responsibility in a variety of ways. We manage initiatives and projects primarily at the local level and not centrally, which is in line with our global presence characterized by a business model featuring highly decentralized responsibilities. These activities are based on the industry- and company-specific challenges facing us and therefore promote pioneering developments in the three focal areas of social welfare and road safety, education and science, and sports.

Employees

With their skills and achievements, our employees are Continental's most valuable asset and are the foundation of our company's success.

HR management involves selecting the best person for the job, managing talent effectively, and providing all groups of employees with further training to develop their skills and abilities. After all, selecting the right employees and helping them to develop further are the most important investments our company can make for a successful future. This is the only way to ensure that we are able to find the right person for the right position at the right time and can guarantee successful and values-based cooperation in the long term.

Close integration of corporate strategy and HR strategy
The Continental Corporation's strategy of increasing the company's value in the long term requires us to incorporate the following three factors in HR work:

› Fostering innovations

› Supporting our global growth strategy

› Improving productivity

Innovations are the essential foundations for increasing the value of our company. To achieve this goal, we must provide our employees with optimal and quick solutions in our HR work. We are reliable partners and experts in the selection, support, and ongoing development of our employees and in the establishment of successful organizational structures, whereby we help ensure that change processes run as smoothly as possible.

Global growth can be achieved if Continental is perceived as an attractive and progressive employer on the labor market. This is essential if the company is to gain skilled and motivated employees and by doing so ensure its future viability.

We make advances in productivity by continually adapting our operating processes to the changing requirements while also ensuring the greatest possible efficiency and effectiveness. This is at the heart of our excellence initiative.

A healthy work atmosphere based on shared values is essential for the long-term success and continued existence of our company. This gives rise to an environment in which our employees can develop into strong personalities, make well-founded decisions, and identify any deviations at an early stage so that they can be corrected in business operations. At the same time, it provides space for new ideas to help shape the future.

"Human Relations" not "Human Resources"
We see our employees not just as resources but as individuals whose skills and abilities are recognized as our organization's most valuable asset. For this reason we now see our HR work as "human relations," not "human resources." This emphasizes a holistic approach to HR work with the focus firmly on people.

With this change in attitude, the HR department will strengthen its role as a strategic advisor and pioneer that actively creates value for our employees and for the company. The new name is intended to make it clear that our work is about relationships with one another and the values that we put into practice and exemplify. The change affects not only the HR department but the entire company. It is about the way in which executives and managers interact with their employees. It is about our work atmosphere and the way we work together in the company.

Continental remains an attractive employer
In many core markets, Continental is still among the most attractive employers for engineers and other specialists. Continental's appeal as an employer is also increasing among IT specialists. This is demonstrated by its good ratings in various employer rankings, for example in the results of the Trendence study for Germany. Last year Continental rose from 63rd to 43rd place in the assessment of professionals. In addition, at the country level, Romania came in 2nd and China 62nd.

Structure of the workforce	Dec. 31, 2014	Dec. 31, 2013
Total number of employees	189,168	177,762
thereof permanent staff	177,703	166,302
outside Germany	128,060	118,873
in Germany	49,643	47,429
Trainees[1]	2,026	2,025
Female employees in %	27.3	27.6
Average years of service to the company[1]	14.8	14.7
Average age of employees[1] in years	43.2	43.0

1 In Germany.

Malaysia was presented with the "Employer of Choice" Silver Award for 2014. Continental's global appeal is also reflected in the various awards it has won. The Icheon location in South Korea, for example, was presented with the "Great Place to Work" award for the 13th time in a row. This award was also won by the location in Guadalajara, Mexico, and the U.S. locations in Sumter, South Carolina, and Charlotte, North Carolina.

New employer brand: "Let your ideas shape the future"
As a technology leader and a company with a unique culture associated with our four values, we are constantly working to further enhance our appeal. With the new employer brand "Let your ideas shape the future," we are positioning Continental even more clearly as an attractive and progressive employer and ensuring that we present ourselves globally to both external and internal target groups in a uniform manner. The brand is closely linked to the corporate brand and supports the Continental strategy.

The new brand concept is characterized by strong brand recognition and places the focus on our employees. It can be used in a wide variety of different contexts within the shared framework, ranging from social media to traditional career fairs and from image and job advertisements to testimonial videos.

Global harmonization of HR processes and systems
Continental has grown substantially in recent years, thanks in part to acquisitions. Harmonization of HR processes and systems therefore plays an important role. Our goal here is to make the effective and sophisticated HR processes and systems that have been developed in some regions of the Corporation, and which are already used there successfully, available for use in other countries, too. The measures will thus gradually result in global harmonization of HR work and consequently an increase in efficiency and quality. At the same time, the processes and systems must be sufficiently flexible to allow them to be adapted to country-specific requirements. This will create transparency within the Continental Corporation, contributing to equal opportunities and ensuring that the same development opportunities are offered all around the world.

Harmonization of HR work currently focuses primarily on the fields of recruitment, talent management, and manager development.

New employees are to be hired using a homogeneous global recruitment process. This process was standardized internationally in the year under review using a single electronic recruitment system that we had implemented in 18 countries by the end of 2014. All job offers for these countries within the corporation are recorded in a database. This enables both internal and external candidates everywhere in the world to obtain extensive information and apply for positions accordingly. The e-recruitment system has extensive reporting options that increase effectiveness and efficiency.

We have developed a new talent management tool to standardize systems and processes. The current pilot phase involves around 1,000 employees at four locations and in three countries. The rollout of the system is scheduled for autumn 2015 and will initially cover approximately 100,000 employees. The new system offers outstanding opportunities, particularly in terms of talent development for technical specialists.

The goal of harmonization and transparency is also aided by the newly designed, corporation-wide manager development architecture. Successful existing development programs have been supplemented with additional programs so that job offers for new and experienced managers can be provided at all levels.

Actively developing employees at all levels
Employee development at Continental accompanies our staff at every stage of their career – starting from career training and extending to further training for our pay-scale employees and through to (further) development of top management. Our aim is to contribute to the successful professional and personal development of the employees, enabling them to enhance their individual skills and abilities.

We are currently training 2,026 young people in Germany in around 20 different technical and commercial professions. We also offer high-school graduates at 21 locations the opportunity to combine theory and practice in work-study programs for bachelor's degrees in business administration, IT and engineering. Since 2013, all trainees and work-study students throughout Germany are taken on as permanent employees once they have successfully completed their training and study programs.

In the production areas, there are individual career entry and development opportunities for employees and career changers with different qualification levels. In addition, opportunities for overarching improvement and an extension of the focal areas of employee development for pay-scale employees are also to be implemented as part of the "specialist staff initiative." An important contribution to meeting the need for qualified professionals in the medium and long term can thus be made by taking advantage of potential talent within the company. In this way, employees are given the opportunity for further professional and personal development and thus have strong ties to the company as experts in their fields.

Performance-based remuneration and company pension plans
In addition to basic remuneration, Continental's remuneration system reflects the particular responsibility and performance with which each employee contributes to the company's success. Variable remuneration components have become increasingly important:

- Employees who do not form part of the top management participate in an annual global value sharing bonus.

- As part of group work, industrial employees receive additional remuneration if they achieve particular targets.

- Each year the middle and top management throughout the corporation share in the company's profits, which influence the amount of the variable remuneration in line with the scope of the respective manager's responsibilities. The basis for this is the business unit's key financial figures – the Continental Value Contribution (CVC) and the return on capital employed (ROCE).

Continental supports its employees' social protection beyond their active working life with special pension plans. This allows for long-term transparency and planning reliability for employees and companies. In addition, the company encourages employees to make private contributions to their pension plans by offering them corporate subsidies and deferred compensation programs.

Diversity – focusing on two core areas

Equal opportunity is a fundamental component of the HR strategy. The Continental team is made up of people with different backgrounds, cultures, religions, genders and ages. This results in a variety of different ways of thinking, points of view, skills and experience, which contributes to the long-term competitiveness of our company. We therefore see diversity as a strategic success factor and systematically promote it: We develop diversity within the company (build diversity), aim to actively exploit the potential of diverse employees and teams (manage diversity) and create suitable conditions for sustainably implementing diversity management (enable diversity). We are currently focusing on the core areas of internationality within the company and a balanced mix of women and men at management levels.

In the year under review, the percentage of women in middle and upper management was increased from 8.8% to 9.7%. We aim to increase this to a level of 16% by 2020. To achieve this goal, we have developed various measures, including the diversity leadership training program for senior executives and executives launched in 2014. In this program, we call on our executives in particular to address and challenge existing prejudices, stereotypes and the consequences for the way they perform their management duties. By 2015 all managers will have completed this training.

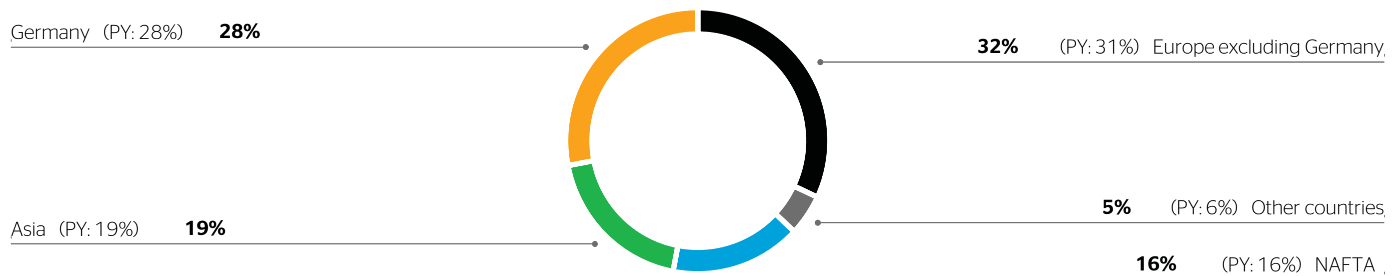
Internationality is exceptionally important, especially in growth markets. At present, around two thirds of Continental's management are employees from Germany, while roughly 70% of our workforce now works outside Germany. It is therefore important to develop local management expertise and ensure that talented local employees are given career opportunities.

In addition, ensuring equal opportunities is a key focus in our personnel selection procedures and talent development. This also applies to the incorporation of diversity management in manager training courses and development programs.

Work-life balance

A good balance between career, family and leisure time is a prerequisite for our employees' satisfaction and thus for the economic success of our company. Continental therefore offers a wide range of location-based and customized support. This includes company kindergartens, emergency and short-term

Employees by region



childcare, and leisure programs such as summer camps for families. Where needed, employees are also offered individual contractual solutions ranging from flexible working hours to specific regulations.

Healthy and safe work is an important aspect of our corporate culture
Another issue that is closely linked to work-life balance is maintaining the physical and mental fitness of our employees. Promoting their health and safety is therefore an important part of our corporate culture.

We interpret healthy work as meaning that employees' physical and mental capacities are challenged but not overburdened. One way in which we apply this at Continental is with safe, ergonomic workplaces. However, learning and development opportunities, freedom of action, interesting tasks and an environment characterized by mutual support, respect and trust are also beneficial to health. Our executives in particular, but also all individual employees, are called upon to help shape this environment. Last but not least, success is also an important factor for health at work, since success rewards and motivates. We work healthily at Continental when our four corporate values – Trust, For One Another, Freedom To Act, and Passion To Win – are consistently put into practice.

In 2014 we took the opportunity to launch successful programs in other countries, including the "Healthy Leadership" program for spreading health awareness in management and "Stress Control" for strengthening employees' ability to deal with stress. We also offer our employees support in the event of professional or private problems with the "Employee Assistance Program." This program, which is run by an external service provider and already proved successful in the previous year, was offered in additional countries in 2014.

In addition, we actively work on ergonomic optimization of our jobs in production areas to make them non-age-dependent. This means that they are adapted to the capabilities of aging employees. At present, 42% of jobs in production areas in Germany already fulfill this criterion. By 2020, half of all jobs at German production locations are to be age-neutral. Under our internal assessment system (exposure documentation system), all new jobs are set up such that they are not only non-age-dependent but also non-gender-dependent. The system was introduced at the international level in 2014.

Ideas create value
Since the introduction of an "improvement suggestion system" at Continental in 1930, this tool has evolved to become today's Continental Idea Management (CIM). In 2014 the number of participating locations worldwide increased to 156. Over 40% of employees have participated in CIM, submitting almost 450,000 ideas. The suggestions implemented led to savings of more than €126 million in the year under review.

Idea management is one example of how the management and values culture is put into practice at Continental and shows that values really do create value. Human Relations therefore sees idea management as being at the heart of the learning organization. To further increase the success of idea management, we are working on a new efficient system that is expected to be introduced in 2016.

Looking to the future – the annual student survey
In 2014 we commissioned the opinion research institution infas to conduct the Continental student survey for the 11th time. The survey comprised around 1,000 students and for the first time also around 1,000 young professionals at Continental with an average age of 25 and 28 respectively. The results of the annual surveys provide us with a good basis so that we can provide tailor-made offers for our target groups in our HR work.

The survey participants expressed their opinions on four topic areas:

› Trust and professional respect

› Work-life balance

› Internationality of the workplace

› Career prospects

OUR BASICS live – continuing the involvement of all employees
"OUR BASICS live" is the name of the global survey of all Continental employees. In addition to questions about their general satisfaction and the quality of management at the company, there was also a partial survey on the topics of value awareness, collaboration, work-life balance, and commitment in 2014. The survey was conducted in about 30 languages.

The survey of all employees that will be conducted in 2015 with the motto "Your feedback is our future" is an important tool for us for improving the corporate culture and collaboration within the corporation.

Environment

Environmental protection has been firmly rooted in the company for many years. Continental established an environmental management system throughout the corporation more than 20 years ago. From the very beginning, the aims have been to minimize the use of resources and to continue reducing environmental pollution. Initially, the environmental management system focused on the production locations and on manufacturing.

Today, management – under consideration of environmental aspects – is focused on the identified global megatrends, which are also the foundation of the corporation's overall strategy. In addition, the environmental management system at Continental is now much more comprehensively defined and established. All value chain levels and the complete life cycles of Continental products are taken into consideration among environmental aspects and in view of clearly defined objectives. Our environmental responsibility thus extends across research and development, purchasing and the used raw materials, logistics and production, and the use and recycling of our products.

Our service processes are geared toward continually optimizing the use of resources in relation to business volume. They begin with the used raw materials and components in purchasing, continue with logistics and production, and end with sales. More efficient use of resources along the entire process chain makes a major contribution toward environmental protection. Research and development plays a key role here in that these processes are improved on an ongoing basis and the manufactured products are constantly further developed as a result of market-driven and environmentally friendly innovations. This way, we manufacture products that make an active contribution toward protecting the environment and conserving resources throughout their entire duration of use as well as when they are recycled in a final step. For example, 90% of the total impact a typical vehicle tire has on the environment and resources is when the tire is in use. This is why our development of materials and products is key to the development of sustainable products.

Increasing value through environmental protection projects

The environmental strategy aims to mitigate negative influences such as climate change and the shortage of resources as well as identify opportunities for the company at an early stage and generate competitive advantages.

Today, Continental generates around a third of its consolidated sales – that is, approximately €11 billion – with products that are particularly energy-efficient or demonstrably help to reduce CO_2 emissions. Implementation of the environmental strategy with its clear objectives for 2020 will have a positive impact in economic terms, too. Firstly, considerable resource savings and the optimization of processes tend to reduce costs. Secondly, product innovations focused on protecting the environment and conserving resources satisfy the ever-more demanding needs and requirements of customers, and in doing so make Continental more competitive.

Continental's environmental strategy

Efficient processes, organization, and environmental management

The Executive Board of Continental AG is directly responsible for environmental strategy and its implementation. The "Corporate Quality and Environment" department, which reports directly to the chairman of the Executive Board, is responsible for all operating activities in environmental protection. This department, in coordination with the Executive Board, develops the corporation's strategic specifications for environmental protection and issues these to the divisions under consideration of the particularities in terms of raw materials, technology, and use. In some regions, the local environmental managers also have authority over environmental protection matters on a regional basis for coordination purposes. This ensures that regional environmental matters are taken into account and, at the same time, accelerates the process of implementing of central specifications.

This lean organization enables Continental to communicate its strategic specifications directly and monitor and implement them efficiently. At the same time, the divisional structure of the environmental protection function ensures the necessary freedom to meet specific ecological requirements within the corporation's various fields of activity.

Transparent environmental reporting

Environmental reporting is based on the guidelines of the Global Reporting Initiative (GRI). Data is collected based on internal guidelines for environmental reporting. Different versions of these guidelines are available for the Automotive Group and the Rubber Group and are tailored to the specific situations of these units.

In addition, the indicators "direct CO_2 emissions," "indirect CO_2 emissions," and "specific CO_2 emissions" (all specified in metric tons/adjusted sales) are reported based on the "Greenhouse Gas (GHG) Protocol – Corporate Accounting and Reporting Standard" of the Greenhouse Gas Initiative and the Carbon Disclosure Project (CDP).

The auditing firm KPMG AG Wirtschaftsprüfungsgesellschaft conducted an independent limited assurance engagement for the indicators for the 2013 fiscal year based on ISAE 3000 and ISAE 3410, which are the applicable standards for such audits. KPMG has been issued the mandate for the auditing of fiscal 2014.

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

Consideration of biodiversity

Many of our products and components – piezo injection valves for conventional gasoline and diesel engines, for example – can be easily powered by biofuels. There is a wide range of components that are suitable for conventional fuels as well as for bioethanol. These components conserve resources and make an important contribution toward climate protection. However, if the raw materials originate from monocultures, this can prevent the desired effects on the preservation of biodiversity. Continental is aware of this problem and therefore also promotes the use of new renewable raw materials, such as natural rubber from dandelion plants.

Together with the Fraunhofer Institute for Molecular Biology and Applied Ecology (IME) at the University of Münster in Germany, Continental is working on developing new approaches in the "RUBIN – Industrial Emergence of Natural Rubber from Dandelion" project. On May 8, 2014, this project won the GreenTec Award 2014. The 60-member panel of experts from industry, academia, associations, and the media recognized the project as an outstanding example of commitment to the environment and of pioneering environmental technology in the "Automobility" category. In the long term, there is expected to be a considerable rise in demand for natural rubber. The use of rubber from dandelion roots offers many benefits. Unlike the traditional rubber plant, the Russian dandelion plant – which is particularly rich in rubber – does not depend on a tropical climate and can be grown in many temperate climatic regions. This allows transport routes to be shortened and precious areas of rainforest to be conserved. With the dandelion rubber project, Continental is driving forward a highly promising technology with the aim of making tire production even more efficient and sustainable.

Focus of environmental activity in 2014

With the guiding principle "Creating Sustainable Solutions," we developed and adopted a new corporation-wide environmental strategy as part of Continental's overall strategy in fall 2013. The vision is clearly defined: "Continental is perceived as a sustainable company." With this, the corporation's previous environmental policy was expanded to take into account the different market and technology parameters for the Automotive Group and the Rubber Group as well as their future requirements. In addition, even greater attention was paid to changing and ever-more demanding environmental challenges, such as climate change, the shortage of resources, and biodiversity.

In the year under review, we pressed ahead with the implementation of the environmental strategy. The global ESH Conference 2014 in Berlin, Germany, was part of this process. At this conference, the environmental strategy was discussed with the managers responsible for environmental protection and occupational safety and health (ESH managers) with the aim of supporting the implementation of the strategy at the locations. Furthermore, a communication plan for the internal rollout was developed and defined, as was an additional internal reporting system for environmental performance indicators, a plan to increase environmental purchasing, and new environmental requirements for suppliers.

In addition, key measures were initiated that focus on protecting the environment and conserving resources as well as on production and product development.

In the year under review, the Automotive Group made important contributions toward reducing the impact on the environment both in its own processes and with innovative products for customers. For example, with regard to the processes,

a second block-type thermal power plant was put into operation at the Rheinböllen location in Germany. This power plant efficiently meets the overall heat requirements of the surface processing systems and building heating system. The energy generated is used to reduce the cost of manufacturing hydraulic brake systems.

One of the new products that is particularly worth mentioning is exhaust-gas aftertreatment in commercial vehicles. This is increasingly becoming a key technology. The complete integration of exhaust technology specialist Emitec into the Continental Corporation brings decisive advantages here. We also presented a range of new products at the International Motor Show 2014 (IAA 2014) in Hanover, Germany: a fuel injection pump for light commercial vehicles, innovative sensors, SCR injectors, and dosing systems. These offer commercial vehicle manufacturers emission solutions with attractive operating costs. In the car segment, environmental aspects are also taken into consideration in the development of the new-generation Audi seven-speed S tronic, an automatic transmission for front-wheel-drive vehicles. The new, integrated transmission control unit significantly improves fuel efficiency, for example. The new, highly efficient Continental turbocharger with a water-cooled, aluminum turbine housing has gone into production for the three-cylinder gasoline engine of the MINI.

Projects to improve energy efficiency have been systematically implemented in the Rubber Group, too. One measure is the corporation-wide energy campaign BEE (Be Energy Efficient) from Engineering Tires, which aims to make all employees more aware of the ways they can save energy. The close involvement of all employees in the activities as well as the improved sharing of experiences between employees and energy managers enable energy-saving measures to be implemented faster. These measures cover topics such as lighting, insulating presses, and optimizing the use of pumps.

Another dimension is investments to increase energy efficiency in production. For example, a new combined heat and power (CHP) plant at the Aachen site in Germany was put into operation in the year under review. This plant entails considerable advantages in terms of energy efficiency, carbon footprint, and energy costs. Further CHP projects, such as a block-type thermal power plant in Hanover-Stöcken, are either in the planning phase or are being assessed in terms of feasibility.

In our tire plant in Hefei, China, we inaugurated a solar power system in November 2014. As part of the energy-saving project initiated by Continental in collaboration with the Chinese company HeFei SuMeiDa Sungrow Power Co., Ltd, the roofs of the plant are being used to generate solar power. In the future, the solar power system will provide some of the electricity required for tire production at the Hefei plant. To this end, solar panels covering an area of approximately 70,000 m^2 (roughly the size of ten soccer fields) have been installed on the roof of the plant. With an installed capacity of 6.1 megawatt, the new solar power system can lower the plant's CO_2 emissions by 2,480 metric tons per year, thereby making a significant contribution toward reducing greenhouse gas emissions.

To increase energy efficiency, ContiTech is investing in new gas turbines that provide supplementary firing for the existing boiler systems at the Northeim and Hanover-Vahrenwald plants in Germany. This established an additional source of energy for steam and electricity. The use of CHP is increasing energy efficiency and significantly improving our carbon footprint. In addition, the promotion of CHP, exemption from natural gas taxes and the levy of the German Renewable Energy Act (*Erneuerbare Energien Gesetz – EEG*), as well as reduced network access costs result in direct economic benefits.

With numerous environmentally friendly product innovations, including structural parts and engine mounts made from fiberglass-reinforced polyamide, ContiTech is providing essential impetus to improve vehicle life-cycle assessments. Compared with conventional engine blocks made from aluminum, these ultra-high-strength components are 50% lighter and require a great deal less energy to manufacture. Acella® Eco interior material for vehicle seats and door trims, 50% of which is made from renewable raw materials, and TEPEO® interior foils, which weigh only around half as much as standard PVC foils, are other examples of product innovations with significantly better carbon footprints than standard products.

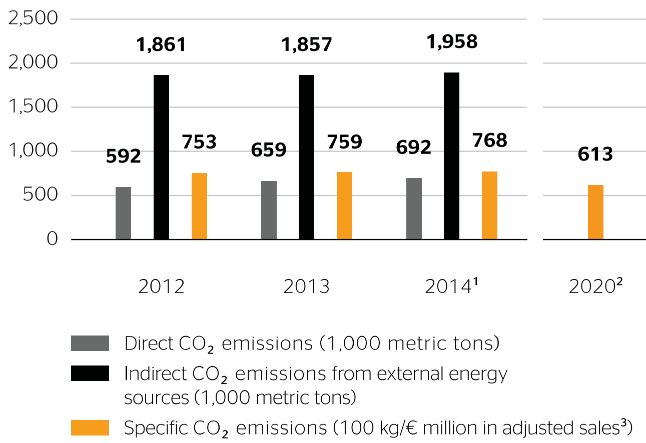
Performance indicators for environmental protection and targets for 2020

In its new environmental strategy, Continental has defined ambitious targets for 2020. The main aim is to reduce CO_2 emissions, energy and water consumption, and waste by 20% in relation to business volume in all Continental plants by 2020. The starting point is the basis year of 2013. In addition, we aim to improve waste figures in terms of the recycling rate as well. Another key aspect of the strategy is the specification that, in the future, not only in-house production but also strategic suppliers will have to meet the criteria for certification to environmental standard ISO 14001.

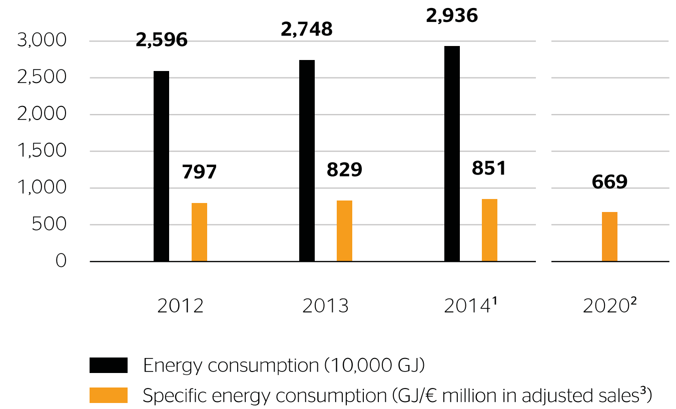
An extensive catalog comprising a large number of individual measures has been drawn up to implement the environmental strategy. These measures comprise numerous ongoing improvement projects, such as the BEE concept. Other key elements include changes in production and a series of investments to make the supply of energy more efficient, such as the installation projects for in-house CHP plants at individual locations. Additional measures involve optimizing heat control in systems and improving insulation in vulcanization. Altogether, these measures will ensure considerable progress in terms of environmental performance indicators and environmental impact over the coming years.

Environmental key performance indicators

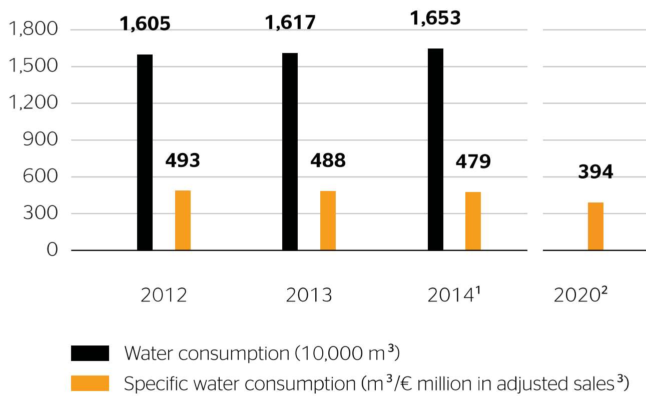
CO_2 emissions



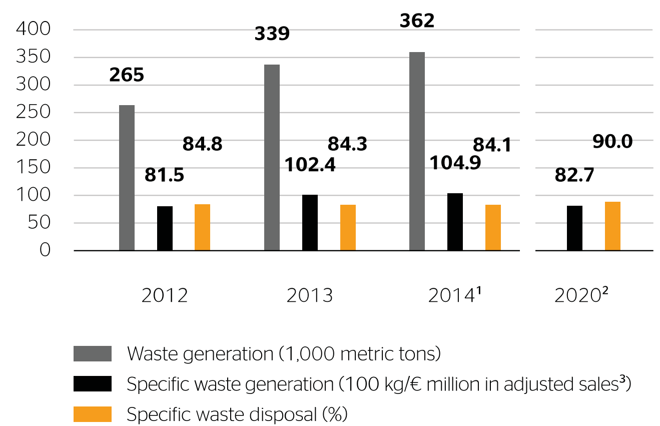
Energy consumption



Water consumption



Waste generation and disposal



1 Preliminary values.
2 Continental's environmental targets.
3 Before changes in the scope of consolidation.

Social Responsibility

Continental operates worldwide, but it nevertheless fulfills its social responsibility decentrally with a strong sense of commitment to the local communities. This applies not only to the business units, but also to the corporation and its branches, as well as to private initiatives founded and supported by dedicated company employees. Charitable projects, donations, and other activities in line with corporate policies are therefore primarily initiated and supervised at the discretion of the decentralized units.

In particular situations, Continental supports national projects and challenges, or offers assistance in dealing with international catastrophes. In doing so, the corporation as a whole fulfills its social responsibility.

The aim of all activities undertaken within the scope of our social responsibility is to provide people with direct, ongoing support.

The following are a few examples of projects that show our social commitment in the year under review. Our social commitment once again focused on social welfare and road safety, education and science, and sports.

Commitment to social welfare and traffic safety
At many locations worldwide, Continental supports various activities and charitable initiatives of committed employees. This way, we help improve local living conditions. For Continental, social responsibility also means creating an automotive future in which life and limb are even better protected. Continental's core competencies are the creation of technical innovations in the field of driving safety and the development of affordable solutions for all markets around the world. In addition, our employees are involved in projects that help make road traffic safer for all road users.

The fourth "Safety First for Young Drivers" workshop for secondary school pupils took place in Rayong Province, Thailand. In cooperation with the Rayong highway patrol, Continental employees held a training event for 150 school pupils to raise awareness of road safety. They explained to the pupils in detail what they should look out for in road traffic, how they can protect themselves and others from potential dangers, what distinguishes a safe vehicle from an unsafe one, and how important it is to wear a helmet when riding a moped or motorcycle. In Thailand, many young people are already able to drive motorized vehicles, which means they are exposed to the dangers of road traffic. At the end of the event, Continental gave out motorcycle helmets to the young participants.

In Germany, Continental – as a member of the German Road Safety Council – is committed to promoting safety among all road users. At the annual "Road Safety Day" in June, teams of Continental employees throughout Germany inspected the tread depths of hundreds of cars and provided drivers with advice about tires as a safety factor, about the measurement routine, and about checking for wear.

Commitment to education and science
Demographic change presents major challenges for society and companies in equal measure. With our contributions toward promoting education in Germany, we are fulfilling our duty to society as a whole by helping to make future generations fit for the future.

28 classes took part in "ContiFlugMission" in 2014. The participants conducted experiments involving various materials to design functioning model aircraft with rubber engines. With this educational project, Continental is specifically targeting young high-school students (*Hauptschule* and *Realschule*) in Germany to encourage them to pursue technical and scientific subjects and gain training in this area. Success factors include the project's focus on experiments and practical work as well as the promotion of teamwork within the class. For this initiative, the Human Resources Manager magazine presented us with a "Human Resources Excellence Award."

As a founding partner of the German scholarship program in Lower Saxony, activities here focus on the promotion of talent and the path toward achieving the German secondary school leaving certificate. Up to 20 pupils, from the first year of elementary school up to the age of 16, receive individual, systematic support as part of their education. Volunteer mentors accompany them on their journey as someone they can trust and act as an intermediary between school, parents, and the Roland Berger Foundation, which has been awarding the German National Scholarship since 2009 to young people who have had a tough start in life.

Commitment to sports
Competitive and recreational sports help to overcome language, social, and national barriers. This is why we have been involved in a wide range of sporting activities for more than 15 years.

As a corporation who counts "Passion To Win" among the four fundamental values of its corporate culture, Continental deliberately promotes competitive sports. Through our "Pro Sport Hannover" initiative, we provide up-and-coming local talent with one-off sponsorship of up to €10,000. Each calendar year, we support four projects in individual and team sports as well as for athletes with disabilities.

Sports play an important role within the corporation, too. Continental employees held the third "ContiTeamCup" international soccer tournament. A total of 127 locations from 35 countries played for the title of world champions within the corporation. In addition to the sporting aspect, the tournament – which takes place every four years – focused on bringing together people from different cultures and locations. The teams that win the "ContiTeamCup" also receive €15,000 in prize money, which they can use for a good cause in their region.

Economic Report ›

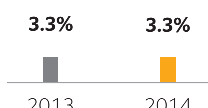
General Conditions

Macroeconomic Development

Year-on-year economic growth (GDP) in 2014

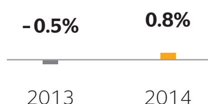
Key aspects of the economic development

WORLD



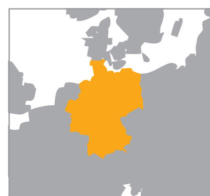
- **No growth surge for global economy:** Despite expansive monetary policy and low interest rates in industrialized nations, the global economy lost momentum over the course of the year. This was partly attributable to uncertainties arising from geopolitical crises. The upturn at the end of the year remained modest despite the decline in the oil price in the fourth quarter of 2014.
- **Upturn in advanced economies from 1.3% to 1.8%, but mixed development:** While growth in the U.S.A. and the U.K. proved robust, the development in the eurozone and Japan in particular was disappointing.
- **Growth of emerging and developing economies slows from 4.7% to 4.4%:** The development here was curbed by China's slower pace of expansion, the lack of growth in Brazil and the weaker development of Russia due to sanctions, as well as by structural problems in some cases. By contrast, the pace of growth in India and Eastern Asia increased over the course of the year.

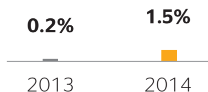
EUROZONE



- **Continued weak underlying momentum:** Following a slight economic upturn in the first quarter, growth then stagnated in the second and third quarters. Investing activities remained at a low level in view of the geopolitical crises. Growing doubts as to the reform and consolidation course in France and Italy and the decreasing credit supply in crisis-hit countries curbed the recovery. The foreign trade surplus made only a small contribution to growth in 2014.
- **Very different situations in different countries:** Spain and Portugal posted strong growth due to catch-up effects. By contrast, France largely stagnated while Italy's economy contracted again.
- **Unemployment down only slightly:** Unemployment decreased only marginally over the course of the year to a level of 11.4% in December, with considerable regional differences. In France, Italy and Spain in particular, unemployment remained at a high level.
- **Even more expansive monetary policy:** Due to fears of deflation and the lack of an economic upturn, the European Central Bank lowered its key interest rate to 0.05% in two steps over the course of the year and indicated that it was willing to take further measures to ease its monetary policy. The external value of the euro decreased in the second half of the year, particularly in relation to the U.S. dollar and the renminbi.

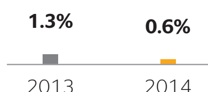
GERMANY





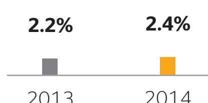
- **Domestic economy fosters growth:** Private consumer spending, boosted by the robust labor market, remained the key growth engine. Gross fixed capital formation also made a solid contribution to growth, although companies' investing activities remained cautious owing to the geopolitical risks.
- **Slight impetus from foreign trade despite difficult global economic environment:** Although exports picked up momentum compared to the previous year, imports also increased as a result of good domestic demand.
- **Lowest inflation rate since 2009:** The inflation rate remained very low, chiefly due to decreases in energy prices, with the average rate for the year falling to 0.9% (2013: 1.5%).
- **Labor market still in good condition:** Employment reached a new high during 2014 and the number of unemployed persons continued to decrease. In December 2014, the unemployment rate was 6.4%.

RUSSIA



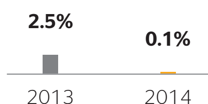
- **Significant drop in growth:** The Ukraine conflict, the sharp decline in the oil price in the fourth quarter, sanctions imposed by Western states, limited access to external capital markets and little stimulus from private consumer spending resulted in a significant slowdown in GDP growth. Only an extremely good harvest season in 2014 provided a boost to the economy.
- **Decline in ruble:** The ruble recorded substantial depreciation. In response to this, the Russian central bank significantly increased its key interest rate to 17% over the course of the year (January 2014: 5.5%).
- **Low unemployment despite weak investment:** The unemployment rate remained low at 5.3% in December 2014, despite a weak economic development and weak investing activities.
- **Sharp rise in inflation:** As a result of the substantial depreciation of the ruble, the inflation rate increased over the course of the year from 6.1% in January to 11.4% in December 2014.

U.S.A.



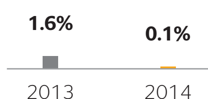
- **U.S. economy on path to recovery:** After a weak first quarter due to the severe winter, the development over the remainder of the year showed the strong underlying momentum of the U.S. economy. Growth was supported by private consumer spending, private investment, and public-sector demand.
- **Labor market developing positively:** Employment rose steadily over the course of the year, causing the unemployment rate to decrease considerably to a level of 5.6% in December (January 2014: 6.6%).
- **Rise in prices remains low despite very expansive monetary policy:** Although pricing pressure accelerated somewhat in the first half of the year, over the year as a whole it averaged only 1.6% due to the recent decline in the oil price and the appreciation of the U.S. dollar. By contrast, asset prices rose significantly.
- **Monetary policy of the U.S. Federal Reserve (Fed) still expansive:** The Fed kept its key interest rate corridor between 0% and 0.25% throughout the year, but ended its asset purchasing program in October 2014. At the same time, the Fed announced that it would still keep interest rates at a low level for a considerable period.

BRAZIL



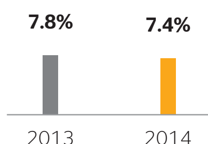
- **Growth close to zero:** Despite hosting the World Cup, the Brazilian economy hardly grew in 2014. In the second and third quarters, it even contracted slightly. Capital expenditure in particular declined.
- **Inflation still at high level:** The inflation rate was 6.3% in 2014 (2013: 6.2%).
- **Further increase in interest rate level:** The key interest rate was gradually increased to 11.75% by December 2014 (January 2014: 10.00%).
- **Steady unemployment:** The average unemployment rate for the year rose slightly to 5.5% (2013: 5.4%).

JAPAN



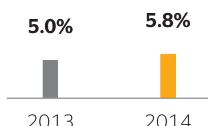
- **Minimal growth:** Despite the government's extensive economic stimulus program, the economy saw hardly any growth in 2014. Japan even slid into recession in the second and third quarters of 2014 as a result of the hike in consumption taxes in April 2014.
- **Inflation target achieved:** The hike in consumption taxes led to an increase in the average inflation rate to 2.7% (2013: 0.4%), thus exceeding the medium-term target rate of 2%.
- **Further decrease in unemployment:** The unemployment rate fell to 3.7%.
- **Significant depreciation of yen:** Owing to the very expansive monetary policy, the yen depreciated considerably in 2014.

CHINA



- **Growth down slightly:** The slowdown in economic growth continued in 2014, particularly in the second half of the year. Nonetheless, the Chinese government's GDP target of 7.5% was almost achieved with a rate of 7.4%.
- **Pace of foreign trade decreases:** Imports and exports grew by around 7% in 2014, after around 10% in the previous year.
- **Consistently low inflation:** The inflation rate fell from 2.6% to 2.3%.
- **Interest rate cut:** The central bank lowered the key interest rate to 5.6% in November (January 2014: 6.0%).

INDIA



- **Increase in economic growth:** The Indian economy picked up pace in 2014 after the change in government thanks to new infrastructure projects and reached a growth rate of 5.8%.
- **Growth in imports and exports:** After having decreased in the previous year, imports climbed by 8.5% in 2014. Exports also grew significantly again by 7.9%.
- **Decline in inflation rate:** The inflation rate fell from 8.8% in January 2014 to 5.0% in December as a result of the lower pricing pressure for food products.

Sources: IMF – World Economic Outlook 10/2014 and Update 1/2015, central banks 12/2014, European Commission – Eurostat, Regional Economic Outlook UPDATE Asia and Pacific Department 10/2014, Regional Economic Outlook UPDATE Western Hemisphere Department 10/2014, Germany Trade & Invest - PR China - mid-year 2014, Statistical offices of the respective countries, Destatis.

Development of Key Customer Sectors

For Continental, global business with the manufacturers of passenger and commercial vehicles is the most important market segment, accounting for 73% of sales in fiscal 2014 (PY: 72%). The second-biggest market for Continental is global replacement tire business for passenger and commercial vehicles.

Continental's most important sales region is still Europe, which accounted for 53% of sales in the year under review (PY: 54%), followed by NAFTA with 22% (PY: 22%) and Asia with 20% (PY: 19%).

Vehicle markets

A key factor for our original equipment sales with automotive manufacturers is global production of passenger cars, station wagons and light commercial vehicles with a total weight of less than 6 tons.

Development of new passenger car registrations

Growth in global demand for vehicles continued in 2014. Based on preliminary data from the German Association of the Automotive Industry (Verband der Automobilindustrie – VDA), China once again posted the greatest increase in demand of 2.1 million units to 18.4 million units, thereby consolidating its position as the world's largest passenger car market. However, the pace of growth in comparison to the previous year's volume slowed from 23% in 2013 to 13% in the year under review.

Vehicle sales in den U.S.A., the world's second-largest passenger car market, continued to increase as a result of economic growth. Compared to the previous year, they were up 6% at 16.4 million units in 2014 (PY: +8%). This meant that, measured in terms of vehicle sales volumes, they were back at their level from before the economic crisis in 2008 and 2009 for the first time.

In Japan, where the increase in excise duties as at April 1, 2014, had resulted in a 21% surge in new passenger car registrations in the first quarter of 2014, demand was down year-on-year on a quarterly basis over the remainder of the year. In total, roughly 3% more passenger cars were sold in Japan in 2014 (PY: 0%).

Within Europe, the situation in the major sales markets in 2014 varied considerably: Germany (+2%), France (+0%) and Italy (+4%) posted only slight increases and, after the previous year's declining registration figures, were still below the respective levels reached in 2012. By contrast, demand for passenger cars rose significantly by 9% in the U.K. and by 18% in Spain, boosted by a government incentive program. In total, new car registrations in Europe (EU28 + EFTA) increased by 5% year-on-year to 13.0 million units in 2014 (PY: -2%).

In contrast to most of Europe, vehicle sales in Russia declined in 2014 owing to the difficult economic situation. Compared to the previous year, they were down by another 10% (PY: -5%).

Brazil also posted a decrease in new registrations in the year under review as a result of the economic slowdown. Demand for passenger cars did not stabilize until the fourth quarter of 2014, when it almost matched the previous year's level again after posting declines of 12% in both the second and third quarters. On an annual basis, new registrations were down 7% in 2014 (PY: -1%).

In contrast to the BRIC countries Brazil and Russia, India succeeded in stabilizing its economy over the course of 2014. Following a decline of 7% in the first quarter of 2014, new registrations were up again year-on-year in the following quarters. On an annual basis, the previous year's level was just exceeded (PY: -8%).

Worldwide, preliminary figures indicate that 85.4 million new passenger cars were registered in 2014. However, the pace of growth continued to slow, amounting to 3.5% after 4.0% in 2013 and 5.9% in 2012.

New registrations/sales of passenger cars

in millions of units	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	2014 Total	Δ Prior Year
Europe (EU28 + EFTA)	3.4	3.5	3.1	3.1	**13.0**	5%
U.S.A.	3.7	4.4	4.2	4.1	**16.4**	6%
Japan	1.6	1.0	1.1	1.0	**4.7**	3%
Brazil	0.8	0.8	0.8	0.9	**3.3**	-7%
Russia	0.6	0.6	0.6	0.7	**2.5**	-10%
India	0.7	0.6	0.6	0.6	**2.6**	1%
China	4.5	4.4	4.2	5.3	**18.4**	13%
Worldwide	**21.3**	**21.6**	**20.7**	**21.8**	**85.4**	**4%**

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

Production of light vehicles[1]

in millions of units	2014	2013	2012	2011	2010
Europe[2]	19.8	19.2	19.0	20.0	18.8
NAFTA	17.0	16.2	15.4	13.1	11.9
South America	3.8	4.5	4.3	4.3	4.2
Asia[3]	45.9	44.0	42.0	38.9	38.9
Other markets	0.9	0.8	0.7	0.6	0.6
Worldwide	**87.4**	**84.7**	**81.5**	**76.9**	**74.4**

Source: IHS, preliminary figures and own estimates.
1 Passenger cars, station wagons, and light commercial vehicles (<6t).
2 Western, Central and Eastern Europe, including Russia and Turkey.
3 Asia including Kazakhstan, Uzbekistan, Middle East and Oceania with Australia.

Development of light vehicle production

The global rise in demand for passenger cars, station wagons and light commercial vehicles also brought about an increase in global vehicle production of around 3% to 87.4 million units in 2014 on the basis of preliminary figures and estimates. A breakdown by country and region shows a similar development as for new registrations.

Once again, Asia posted the highest growth in production. The increase of 1.9 million units (+4% year-on-year) was again mainly attributable to China, where the production volume increased by nearly 1.7 million units (+8% year-on-year). In addition, production growth in Japan, Indonesia and Iran more than offset declining volumes in Thailand and India.

NAFTA, particularly the U.S.A., posted the second-highest growth again in 2014 with a rise in production of another 5% to 17.0 million units. A production volume at this level had not been achieved since 2000 with 17.2 million units.

Light vehicle production also increased in most countries in Europe in 2014. The sharp decline in Russian production of around 340,000 units was more than compensated by increases in Spain and Germany in particular. Overall, light vehicle production in Europe grew by 3% to 19.8 million units, but was still lower than it had been in 2011 (20.0 million units) and far from the record year 2007 (21.8 million units).

In South America, preliminary data indicates that the decreasing demand for new vehicles brought about a decline in light vehicle production of 16% in the reporting period, with Brazil and Argentina recording the highest losses.

Development of heavy vehicle production

In the year under review, global production of heavy vehicles stagnated at around 3.1 million units on the basis of preliminary figures. The highest growth was posted by NAFTA, where the production volume rose by 17% to around 542,000 units as a result of strong economic growth in the U.S.A.

In Asia, production declined by 2% year-on-year in 2014 on the basis of preliminary data and estimates. Declining truck production in China was only partly offset by higher volumes in India and Japan.

European heavy vehicle production was down 6% year-on-year in 2014. The introduction of the EU emission standard Euro 6 as at January 1, 2014, had resulted in truck purchases being made early here in the final quarter of 2013. Furthermore, demand for trucks failed to pick up in the year under review due to the sluggish economic recovery in Europe.

Production of heavy vehicles[1]

in thousands of units	2014	2013	2012	2011	2010
Europe[2]	543	576	580	632	487
NAFTA	542	464	485	450	311
South America	187	246	184	279	247
Asia[3]	1,858	1,897	1,783	1,949	2,136
Other markets	0	0	0	0	0
Worldwide	**3,130**	**3,183**	**3,032**	**3,311**	**3,181**

Source: IHS, preliminary figures and own estimates.
1 Commercial vehicles (>6t).
2 Western, Central and Eastern Europe, including Russia and Turkey.
3 Asia including Kazakhstan, Uzbekistan, Middle East and Oceania with Australia.

Replacement sales of passenger car and light truck tires

in millions of units	2014	2013	2012	2011	2010
Europe	320	314	312	343	323
NAFTA	280	264	254	258	262
South America	66	63	59	58	55
Asia	387	367	347	334	311
Other markets	40	38	36	33	32
Worldwide	**1,093**	**1,047**	**1,009**	**1,026**	**982**

Source: LMC World Tyre Forecast Service, preliminary figures and own estimates.

In South America, preliminary figures indicate that truck production declined by 24% to around 187,000 units in the year under review as a result of the recession in Brazil and other countries.

Tire replacement markets

Global replacement business with passenger car and truck tires is crucial to our sales in the Tire division. Due to the higher volumes, the passenger car and light truck tire replacement markets are particularly important to the economic success of our Tire division.

Development of passenger car and light truck tire replacement markets

Global demand for replacement passenger car and light truck tires grew by 4% year-on-year in 2014 on the basis of preliminary data and estimates, with all regions posting increases in demand. A total of 1.09 billion replacement passenger car and light truck tires were sold worldwide, again setting a new sales record.

Nearly half of this growth was once again attributable to Asia, the world's largest replacement passenger car and light truck tire market. As in the previous year, the rapid establishment of the vehicle pool in this region as a result of high demand for passenger cars over the past years is reflected in rising demand for replacement tires. This could be seen particularly in China, where sales volumes rose by around 10% or over 12 million passenger car tires, accounting for more than half of the increase in demand in Asia. However, Japan, India and Indonesia also recorded substantial increases.

In Europe, Continental's most important replacement tire market, demand for replacement passenger car and light truck tires normalized in the first three quarters of 2014 after the comparatively weak sales figures for 2012 and 2013. However, the very mild weather in the fourth quarter of 2014 resulted in a significant year-on-year decline in winter tire business. On the basis of preliminary figures, the sales volume for the year as a whole increased by just under 2% compared to the previous year.

Demand for replacement passenger car and light truck tires in NAFTA grew further in 2014 due to the increasing number of miles driven. Imports of passenger car tires from Asia for the budget tire segment therefore also rose. According to preliminary figures, there was a year-on-year increase of 6% for 2014, corresponding to around a third of the global increase in demand.

South America and the other markets also recorded an increase in demand for replacement passenger car and light truck tires.

Development of commercial vehicle tire replacement markets

The upturn in replacement commercial vehicle tire business continued in 2014. According to preliminary figures, global demand increased by 6.1 million commercial vehicle tires (+4%). Asia, the largest market, once again saw the highest increase in volume of around 4.1 million commercial vehicle tires (+5%) due to rising demand from the growing Chinese economy. In Europe however, demand grew year-on-year by only 1% in the year under review due to economic stagnation. Growth in demand in NAFTA was very strong at 8%. Volume sales in South America remained nearly on par with the previous year, while in the other markets they also increased.

Replacement sales of commercial vehicle tires

in millions of units	2014	2013	2012	2011	2010
Europe	22.3	22.0	20.6	23.4	21.5
NAFTA	21.5	20.0	20.0	20.7	19.6
South America	13.6	13.7	12.5	13.0	12.7
Asia	87.0	82.9	79.2	77.2	74.4
Other markets	6.7	6.3	5.9	5.5	5.5
Worldwide	**151.1**	**145.0**	**138.2**	**139.6**	**133.7**

Source: LMC World Tyre Forecast Service, preliminary figures and own estimates.

Development of Raw Material Markets

A wide range of different electronic, electromechanical and mechanical components are used to manufacture our products for the automotive industry. Key input materials for these components include various raw materials such as steel, aluminum and copper as well as plastics. Developments in the prices of these materials generally influence our costs indirectly via changes in costs at our suppliers. Depending on the contractual arrangement, these are either passed on after a time lag or redefined in upcoming contract negotiations.

Carbon steel and stainless steel are the input materials for many of the mechanical components such as stamped, turned and drawn parts and die casting parts used by Continental. In the case of carbon steel, falling costs for coking coal and iron ore together with continued modest demand for steel in the year under review led to price decreases in the mid single-digit percentage range on average. By contrast, prices for stainless steel rose by around 2% on average in the year under review owing to the increased price for the alloying element nickel.

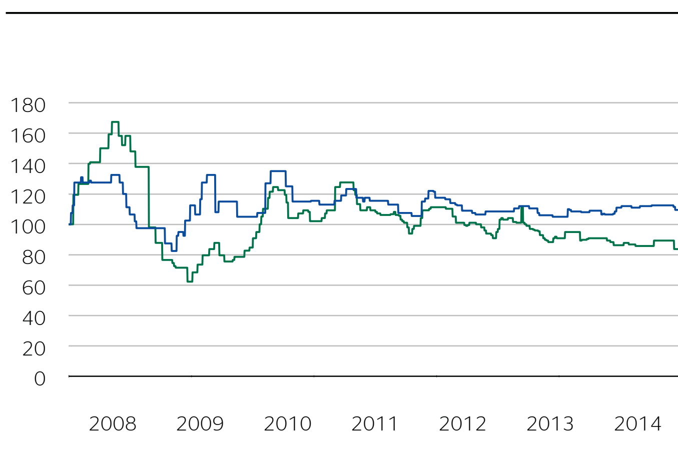
Aluminum is used by Continental primarily for die casting parts and stamped and bent components, while copper is used in particular for electric motors and mechatronic components. The development of prices for copper in 2014 was again similar to that of carbon steel. Its average price for the year declined by around 7% on a U.S. dollar basis compared to the average price for the previous year. The price of aluminum increased by over 20% on a U.S. dollar basis by the end of August 2014 compared to the beginning of the year, before also rapidly falling back to its initial level toward the end of the year under review. The average price for the year was almost the same as in the previous year.

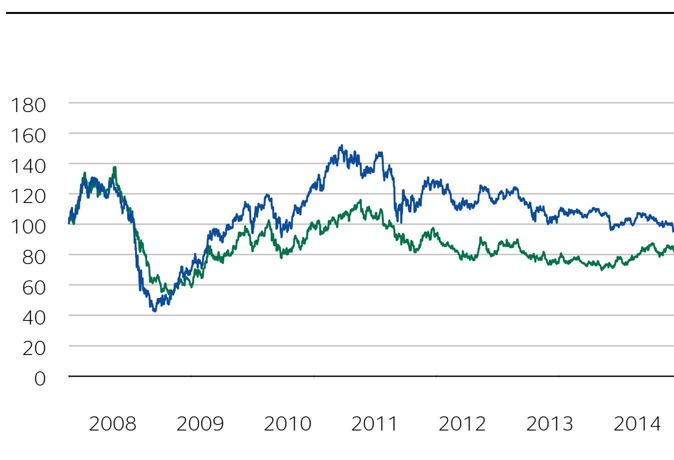
To coat a wide range of components, we and our suppliers use precious metals such as gold, silver, platinum and palladium. Comparing the average prices per troy ounce in U.S. dollars in 2014 and 2013, the quoted price of platinum decreased by 7%, that of gold by 10%, and that of silver by 20%. By contrast, the price of palladium rose by 11% in the year under review.

Various plastic granulates, known as resins, are required by our suppliers and by us, primarily for manufacturing housing components. During the year under review, prices for plastic granulates initially increased slightly before then declining until the end of the year due to the falling oil price. In terms of average prices for the year, there was a decrease of around 4%.

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.

Price developments of selected raw materials – Automotive Group (indexed to January 1, 2008)





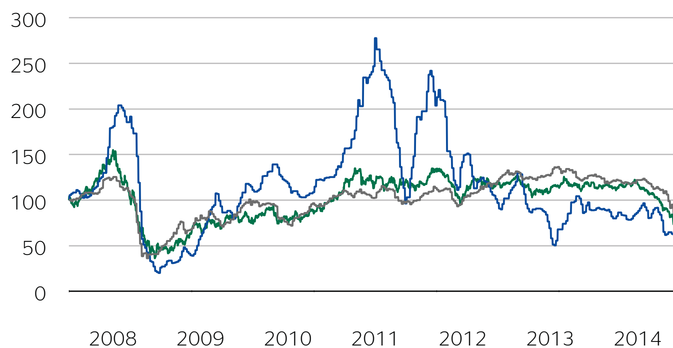
Carbon steel — Stainless steel

Aluminum — Copper

Sources:
Hot rolled coil Europe from SteelOrbis (€ per metric ton).
Stainless steel strip 2mm 304 CR Europe from Metal Bulletin (€ per metric ton).

Source:
Rolling three-month contracts from the London Metal Exchange (U.S.$ per metric ton).

Price developments of selected raw materials – Rubber Group (indexed to January 1, 2008)



TSR 20 RSS 3

Brent oil Butadiene Styrene

Source:
Rolling one-month contracts from the Singapore Exchange (U.S. $ cents per kg).

Sources:
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).

Due to high supply levels, prices in U.S. dollars for natural rubber TSR 20 and ribbed smoked sheets (RSS) decreased by 30% on average in 2014 compared to the average prices from the previous year.

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 – mainly moved sideways until the end of June 2014, before falling at an increasing pace during the final quarter. At the end of the year, it was down 50% on a U.S. dollar basis compared to the price at the beginning of the year. However, in terms of the average price for year it decreased by only 9% year-on-year.

Owing to the significant decline in the oil price in the fourth quarter, the price of butadiene, the main input material for synthetic rubber, also fell by 34% on a U.S. dollar basis by the end of 2014 compared to its level at the beginning of the year. The average price for the year was down 11% year-on-year.

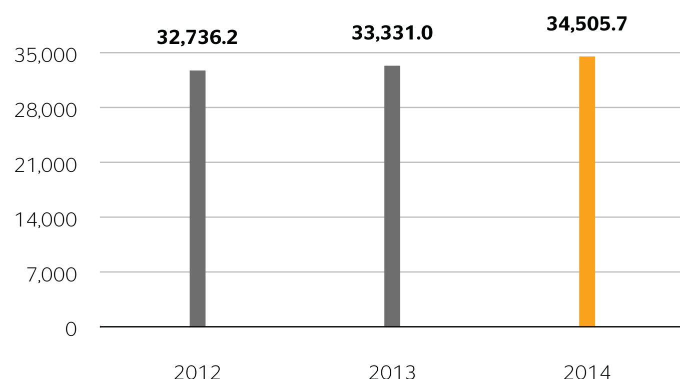
The price of styrene – another input material for synthetic rubber – also dropped considerably at the end of the year and was down 45% on a U.S. dollar basis as at December 31, 2014, compared to its level at the beginning of the year. The average price for the year declined by 11% in 2014 compared to 2013.

Earnings, Financial and Net Assets Position

What we have achieved:

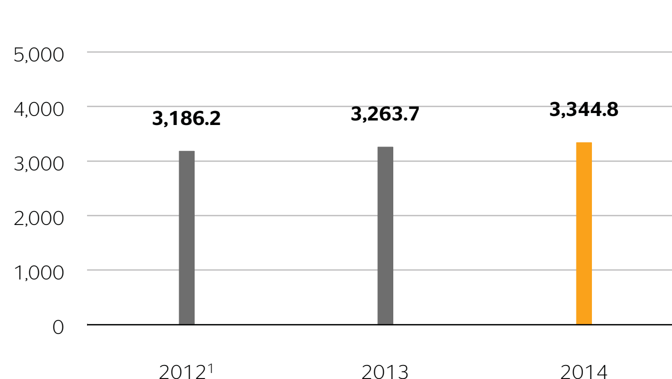
Sales Up 3.5%

Sales (in € millions)



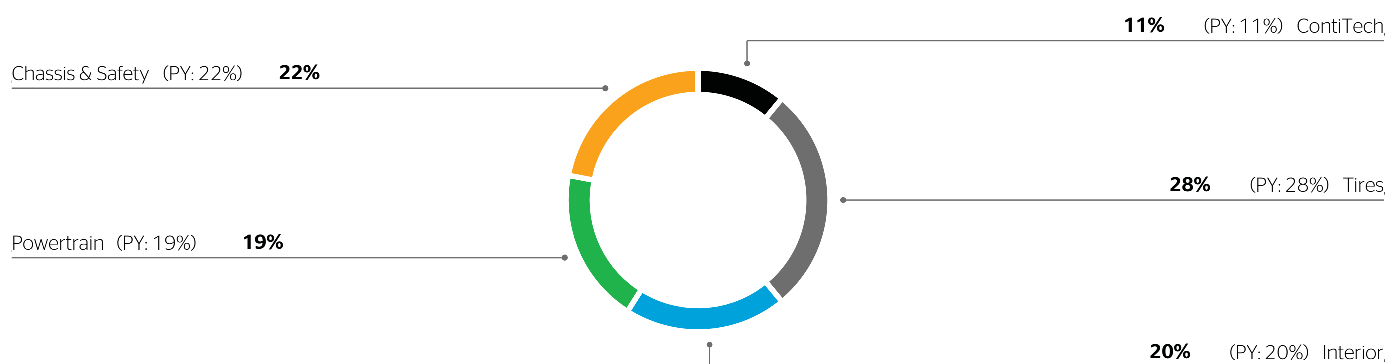
Renewed Rise in EBIT

EBIT (in € millions)



Sales Breakdown

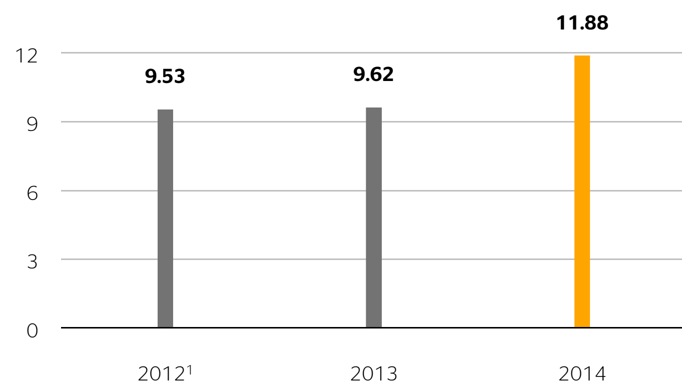
Sales by division



1 Taking into account the first-time adoption of IAS 19 (revised 2011), Employee Benefits.

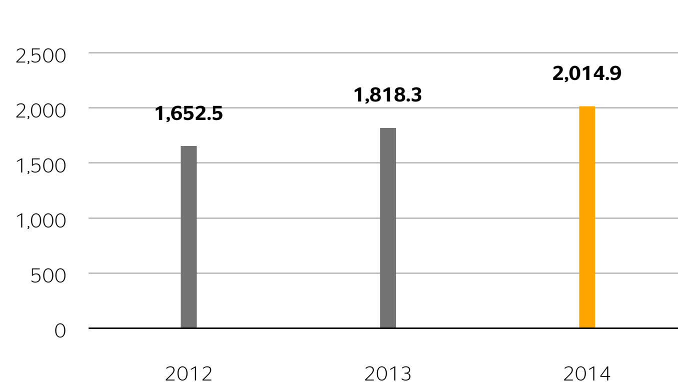
Earnings Per Share Up by 23.5%

Earnings per share (in €)



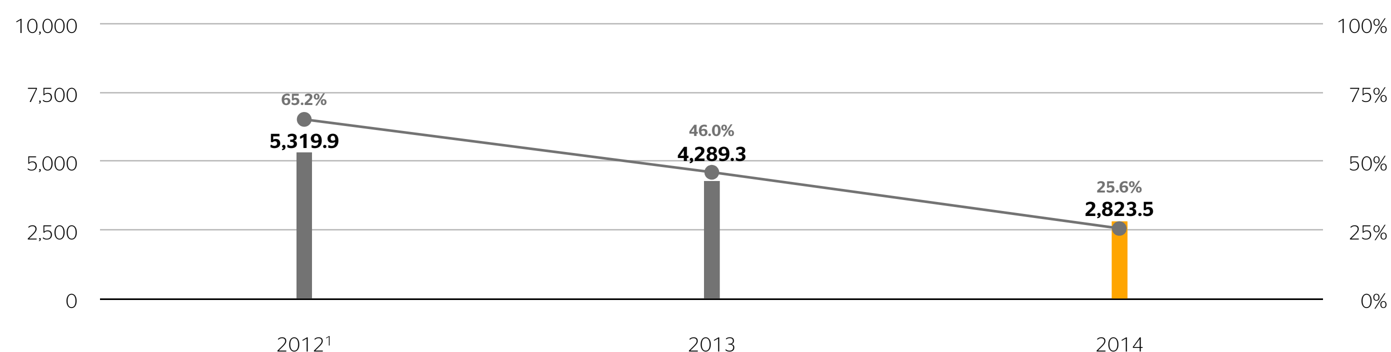
Free Cash Flow Up to €2,014.9 Million

Free cash flow (in € millions)



Net Indebtedness Down by €1,465.8 Million; Gearing Ratio of 25.6%

Net indebtedness (in € millions) **Gearing ratio** (in %)



Earnings Position

- Sales up 3.5%
- Sales up 4.2% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 3.7%

Continental Corporation in € millions	**2014**	2013	Δ in %
Sales	34,505.7	33,331.0	3.5
EBITDA	5,133.8	5,095.0	0.8
in % of sales	14.9	15.3	
EBIT	3,344.8	3,263.7	2.5
in % of sales	9.7	9.8	
Net income attributable to the shareholders of the parent	2,375.3	1,923.1	23.5
Earnings per share (in €)	11.88	9.62	23.5
Research and development expenses	2,137.7	1,878.4	13.8
in % of sales	6.2	5.6	
Depreciation and amortization[1]	1,789.0	1,831.3	-2.3
– thereof impairment[2]	178.9	126.7	41.2
Operating assets as at December 31	16,596.1	15,832.3	4.8
Operating assets (average)	16,726.5	16,804.0	-0.5
ROCE	20.0	19.4	
Capital expenditure[3]	2,045.4	1,981.1	3.2
in % of sales	5.9	5.9	
Number of employees as at December 31[4]	189,168	177,762	6.4
Adjusted sales[5]	34,177.6	33,259.1	2.8
Adjusted operating result (adjusted EBIT)[6]	3,874.5	3,737.5	3.7
in % of adjusted sales	11.3	11.2	

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.

Sales up 3.5%
Sales up 4.2% before changes in the scope of consolidation and exchange rate effects
Consolidated sales rose by €1,174.7 million or 3.5% year-on-year in 2014 to €34,505.7 million (PY: €33,331.0 million). Before changes in the scope of consolidation and exchange rate effects, sales climbed by 4.2%. The further rise in sales results from 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 NAFTA and in Asia, particularly in China. Changes in the scope of consolidation made a contribution to sales growth, although this growth was more than offset by negative exchange rate effects.

Adjusted EBIT up 3.7%
The corporation's adjusted EBIT rose by €137.0 million or 3.7% year-on-year in 2014 to €3,874.5 million (PY: €3,737.5 million), equivalent to 11.3% (PY: 11.2%) of adjusted sales.

In the fourth quarter of 2014, the corporation's adjusted EBIT increased by €14.9 million or 1.6% compared with the same quarter of the previous year to €954.2 million (PY: €939.3 million), equivalent to 10.8% (PY: 11.2%) of adjusted sales.

The regional distribution of sales changed as follows in 2014 as compared to the previous year:

Sales by region in %	2014	2013
Germany	23	24
Europe excluding Germany	30	30
NAFTA	22	22
Asia	20	19
Other countries	5	5

EBIT up 2.5%
EBIT was up by €81.1 million year-on-year in 2014 to €3,344.8 million (PY: €3,263.7 million), an increase of 2.5%. The return on sales decreased to 9.7% (PY: 9.8%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €194.0 million (PY: €370.7 million) in the year under review.

ROCE amounted to 20.0% (PY: 19.4%).

Special effects in 2014
In the Powertrain division, the acquisition of the remaining shares in Emitec Gesellschaft für Emissionstechnologie mbH, Lohmar, Germany, made it necessary to recognize an impairment loss on the at-equity accounted investee, leading to expense of €33.8 million, and a negative special effect from the reclassification to profit and loss of the effects previously reported under reserves recognized directly in equity in the amount of €1.9 million.

In view of the increasing competition in the development and production of battery cells for the automobile industry, we and our Korean partner SK Innovation Co., Ltd., Seoul, South Korea, concluded and implemented an agreement to dissolve the joint venture SK Continental E-motion Pte. Ltd., Singapore, Singapore. This led to an impairment loss on the at-equity accounted investee in the amount of €74.3 million in the Powertrain division.

Furthermore, we took this new development as a triggering event to adjust the value of property, plant and equipment in the Hybrid Electric Vehicle business unit to the current utilization of capacity. This led to additional impairment losses on property, plant and equipment in the amount of €69.8 million in the Powertrain division.

After an in-depth quality review, we did not launch a diesel injector that was based on technologies from the time before the Siemens VDO acquisition. Impairment losses of €61.6 million on intangible assets and property, plant and equipment were incurred in the Powertrain division in this context, as well as restructuring expenses of €22.3 million, of which €6.2 million was attributable to impairment losses on property, plant and equipment.

This situation also prompted us to check pumps based on technologies from the time before the Siemens VDO acquisition, primarily in the diesel sector. This resulted in the necessity to recognize impairment losses on property, plant and equipment as part of valuation at the lower of cost or market value. This led to an additional expense of €27.3 million in the Powertrain division.

Further impairment losses on intangible assets and property, plant and equipment resulted in a total negative effect of €9.8 million (Chassis & Safety €4.7 million; Powertrain €3.5 million; Interior €1.6 million).

In the Interior division, the divestment of certain activities of the Infotainment & Connectivity business unit at the location in Rambouillet, France, resulted in a loss of €7.3 million. Impairment losses of €4.2 million on property, plant and equipment were also incurred in this context.

Effective September 30, 2014, certain activities of the Body & Security business unit were sold to a newly established joint venture. This transaction resulted in a positive special effect totaling €1.7 million in the Interior division.

The reversal of restructuring provisions no longer required resulted in a total positive special effect of €10.6 million (Powertrain €9.4 million; Interior €1.2 million).

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 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. Continental has filed another appeal (cassation). However, we cannot rule out the possibility that the obligation to pay damages may be upheld in full or in part after the final resolution of the proceedings. For this reason, an additional provision of €26.1 million was recognized in the Tire division in the year under review.

There were also positive special effects totaling €0.5 million in the Tire division.

In the ContiTech division, income totaling €2.3 million resulted from bargain purchases from purchase price allocations. €0.7 million of this was attributable to the Fluid Technology business unit and €0.6 million to the Benecke-Kaliko Group business unit. There was also €1.0 million from the final purchase price allocation of a transaction in 2013 in the Conveyor Belt Group business unit.

Total consolidated expense from special effects in 2014 amounted to €323.3 million.

Special effects in 2013

The annual impairment test on goodwill resulted in an impairment loss of €27.6 million in the Powertrain division and an impairment loss of €40.0 million in the Interior division.

Impairment losses of €40.5 million were recognized in the Chassis & Safety division as a result of the change in strategic direction in one segment. €40.3 million of this was attributable to property, plant and equipment, and €0.2 million to intangible assets.

Further impairment losses and reversal of impairment losses on intangible assets and property, plant and equipment resulted in a total negative effect of €11.1 million (Chassis & Safety -€0.9 million; Powertrain -€11.3 million; Tires €1.3 million; ContiTech -€0.2 million).

On January 1, 2013, the closing took place for SK Continental E-motion Pte. Ltd., Singapore, Singapore, a company jointly managed by SK Innovation Co., Ltd., Seoul, South Korea, and Continental, after the agreement to form the company was signed in July 2012. The transaction resulted at that time in income of €23.6 million in the Powertrain division.

As at January 29, 2013, Continental sold its shares in S-Y Systems Technologies Europe GmbH, Regensburg, Germany, to Yazaki Europe Ltd., Hemel Hempstead, U.K. The transaction resulted in income of €54.6 million in the Interior division.

On July 10, 2013, the European Commission imposed fines on a number of automotive suppliers for anti-competitive conduct in the field of supplying wire harnesses for automotive applications. These companies included S-Y Systems Technologies Europe GmbH, Regensburg, Germany, and its French subsidiary, which had to pay a fine of €11.1 million due to cartel agreements with regard to one automotive manufacturer. Since Continental held a 50% share of S-Y Systems Technologies Europe GmbH, Regensburg, Germany, until January 29, 2013, a provision of €9.0 million was recognized in the Interior division based upon contingent liabilities.

Activities were concluded and restructured in one product segment within the Infotainment & Connectivity business unit in the Interior division. Expenses totaling €39.4 million were incurred in this context, of which €7.4 million was attributable to impairment of property, plant and equipment, and €0.1 million to impairment of intangible assets. This affected the locations in Manaus, Brazil (€13.2 million); Bizerte, Tunisia (€10.0 million); Wetzlar, Germany (€7.0 million); Rambouillet, France (€2.0 million); Nogales, Mexico (€1.9 million); Tianjin, China (€1.6 million); Melbourne, Australia (€1.4 million); Guarulhos, Brazil (€1.4 million); and Deer Park, Illinois, U.S.A. (€0.9 million).

As part of an asset deal effective July 1, 2013, Continental Automotive Trading France SAS, Rambouillet, France, sold its cockpit activities in the Instrumentation & Driver HMI business unit at the location in Hambach, France, to SAS Automotive France, Voisins le Bretonneux, France. This transaction resulted in a positive special effect in the amount of €0.2 million in the Interior division.

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 and Continental AG to pay damages for the allegedly unlawful dismissal of employees. Continental considered the plaintiffs' claims to be unfounded and appealed the tribunal's ruling. A provision totaling €40.5 million was recognized for this in the Tire division.

As part of the step acquisition of the SACI Group (Société Alsacienne de Commerce et d'Investissement SAS, Colmar, France), the market value adjustment of the shares previously held resulted in income of €7.9 million in the Tire division.

The reversal of restructuring provisions no longer required resulted in a total positive special effect of €15.0 million (Chassis & Safety €0.3 million; Powertrain €0.9 million; Interior €13.8 million).

In addition, smaller special effects resulted in expense totaling €0.1 million in the ContiTech division.

Owing to the anticipated higher cash outflow for the syndicated loan resulting from rising interest margins, the carrying amount was adjusted as an expense in 2009 and 2010. However, in 2011 the carrying amount was adjusted as income due to signs of decreasing margins and the associated anticipated lower cash outflow for the syndicated loan. These deferrals were amortized over the term of the loan, reducing or increasing expenses accordingly. The amortization of the carrying amount adjustments led to a positive effect totaling €2.4 million in 2013.

Total consolidated expense from special effects in 2013 amounted to €104.5 million.

Reconciliation of EBIT to adjusted EBIT 2014

in € millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
EBIT	**680.2**	**-96.8**	**605.9**	**1,829.4**	**433.3**	**-107.2**	**3,344.8**
Amortization of intangible assets from purchase price allocation (PPA)	25.5	64.5	92.3	5.5	6.2	–	194.0
Changes in the scope of consolidation	-1.9	6.4	–	6.6	1.3	–	12.4
Special effects							
Impairment[1]	4.7	162.2	5.8	–	–	–	172.7
Restructuring[2]	0.0	12.9	-1.2	26.1	–	–	37.8
Gains and losses from disposals	–	–	5.6	-0.5	–	–	5.1
Other	–	110.0	–	–	-2.3	–	107.7
Adjusted operating result (adjusted EBIT)	**708.5**	**259.2**	**708.4**	**1,867.1**	**438.5**	**-107.2**	**3,874.5**

1 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.
2 This includes impairment losses in the Powertrain division of €6.2 million.

Reconciliation of EBIT to adjusted EBIT 2013

in € millions	Chassis & Safety	Powertrain	Interior	Tires	ContiTech	Other/ consolidation	Continental Corporation
EBIT	**598.9**	**179.5**	**380.6**	**1,752.7**	**462.1**	**-110.1**	**3,263.7**
Amortization of intangible assets from purchase price allocation (PPA)	50.9	126.9	182.7	4.3	5.9	–	370.7
Changes in the scope of consolidation	1.1	-1.1	-1.4	–	–	–	-1.4
Special effects							
Impairment[1]	41.4	38.9	40.0	-1.3	0.2	–	119.2
Restructuring[2]	-0.3	-0.9	25.6	40.5	0.5	–	65.4
Gains and losses from disposals	–	-23.6	-54.8	–	–	–	-78.4
Other	–	–	9.0	-7.9	-0.4	-2.4	-1.7
Adjusted operating result (adjusted EBIT)	**692.0**	**319.7**	**581.7**	**1,788.3**	**468.3**	**-112.5**	**3,737.5**

1 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.
2 This includes impairment losses in the Interior division of €7.5 million.

Procurement

Despite consolidated sales rising year-on-year in 2014, lower material prices also caused the purchasing volume to decrease slightly to €23 billion, of which approximately €16 billion was attributable to production materials.

Research and development

Expenses for research and development (R&D) rose by €259.3 million or 13.8% year-on-year to €2,137.7 million (PY: €1,878.4 million), or 6.2% (PY: 5.6%) 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 by the original equipment manufacturer and have successfully achieved a specific pre-release stage. Capitalization ends with the approval for unlimited series production. The costs of customer-specific applications, pre-production prototypes and testing for products already being sold still 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. 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. €57.9 million (PY: €40.2 million) of the development costs incurred in the three divisions in 2014 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 2.6% (PY: 2.1%) for the corporation.

Depreciation and amortization
Depreciation and amortization decreased by €42.3 million to €1,789.0 million (PY: €1,831.3 million), equivalent to 5.2% (PY: 5.5%) of sales. This included impairment losses totaling €178.9 million (PY: €126.7 million).

Net interest expense
Net interest expense declined by €539.0 million year-on-year to €265.3 million (PY: €804.3 million) in 2014. This decrease was due in particular to the utilization in the previous year of the option for the early redemption of the four bonds issued in 2010 and their partial refinancing with considerably lower-interest bonds issued in the second half of 2013.

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 €380.3 million in 2014, which was €241.9 million lower than the figure for the previous year of €622.2 million. At €228.2 million, interest expense resulting from bank borrowings, capital market transactions and other financing instruments was €254.4 million lower than the prior year figure of €482.6 million. The major portion related to the expenses 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 from the utilization of the syndicated loan.

At €60.8 million (PY: €76.9 million), the interest expense for the syndicated loan in 2014 remained €16.1 million below the previous year's level, even including a negative special effect attributable to the early redemption of the existing syndicated loan at the end of April 2014 due to its successful refinancing. The decrease in expenses for the syndicated loan was due firstly to lower utilization and secondly to the lower level of margins on average. The lower utilization of the syndicated loan in 2014 was essentially due to the considerably lower average net indebtedness in 2014. In addition to the margin decreases achieved over the course of 2013, a further reduction in the margin level was achieved with the new syndicated loan agreement concluded in April 2014.

The expenses for the aforementioned bonds decreased significantly by €233.6 million year-on-year from €335.4 million to €101.8 million. This decrease resulted in particular from the successful refinancing of the four bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, in 2010 with a total volume of €3.0 billion with new, considerably lower-interest bonds with a total volume of €2.25 billion and from the utilization of cash and cash equivalents in the second half of 2013. The average nominal interest rate of the new bonds is 2.875% p.a., while for the bonds redeemed early in the previous year it was 7.464% p.a. A further reason for the higher expenses in the prior-year period was the higher redemption prices to be paid in the event of early redemption in accordance with the terms and conditions of issue, which resulted in interest expense totaling €112.0 million for the bonds redeemed in the second half of 2013. The interest cost on expected pension obligations as well as on long-term employee benefits resulted in interest expense totaling €152.1 million (PY: €139.6 million) in 2014.

Interest income in 2014 increased by €12.7 million year-on-year to €94.5 million (PY: €81.8 million). Of this, expected income from long-term employee benefits and from pension funds amounted to €66.2 million (PY: €52.7 million).

In contrast to the previous year, valuation effects from changes in the fair value of derivative instruments and from the development of exchange rates made a positive overall contribution to earnings of €17.5 million (PY: valuation loss of €268.1 million) in 2014. This included a valuation gain of €4.7 million for the reporting of the early redemption option for the bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A. In the prior-year period, there had been a valuation loss of €227.5 million relating to the reporting of early redemption options for all of the bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, in 2010 that were redeemed early in 2013, as well as for the bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A. Available-for-sale financial assets gave rise to a positive effect of €3.0 million (PY: €4.2 million).

Tax expense
Income tax expense for fiscal 2014 amounted to €622.0 million (PY: €449.6 million). The tax rate was 20.2% after 18.3% in the previous year.

In the year under review, the reported tax expense was influenced in particular by the recognition of deferred tax assets of €161.2 million in the U.S.A. and the recognition of deferred tax assets on interest carryforwards in Germany of €98.0 million, both of which are considered likely to be utilized in the future. This had a positive effect on the tax rate. In the previous year, deferred tax assets of €256.2 million were already recognized due to the consistently positive business performance in the U.S.A. Foreign tax rate differences, incentives and tax holidays continued to have positive effects.

The tax rate was negatively impacted by non-cash allowances on deferred tax assets recognized by foreign corporation companies totaling €52.6 million (PY: €79.7 million), of which €9.1 million (PY: €33.9 million) was for previous years. As in the previous year, the tax rate was still negatively affected by non-deductible operating expenses and, in Germany, by non-imputable foreign withholding tax due to insufficient volume.

Reconciliation of EBIT to net income in € millions	2014	2013	Δ in %
Chassis & Safety	680.2	598.9	13.6
Powertrain	-96.8	179.5	-153.9
Interior	605.9	380.6	59.2
Tires	1,829.4	1,752.7	4.4
ContiTech	433.3	462.1	-6.2
Other/consolidation	-107.2	-110.1	2.6
EBIT	**3,344.8**	**3,263.7**	**2.5**
Net interest expense	-265.3	-804.3	67.0
Earnings before income taxes	**3,079.5**	**2,459.4**	**25.2**
Income tax expense	-622.0	-449.6	-38.3
Net income	**2,457.5**	**2,009.8**	**22.3**
Non-controlling interests	-82.2	-86.7	5.2
Net income attributable to the shareholders of the parent	**2,375.3**	**1,923.1**	**23.5**
Basic earnings per share in €, undiluted	11.88	9.62	23.5

Net income attributable to the shareholders of the parent

The net income attributable to the shareholders of the parent increased by €452.2 million in 2014 to €2,375.3 million (PY: €1,923.1 million). This corresponds to earnings per share of €11.88 (PY: €9.62).

Employees

The number of employees in the Continental Corporation rose by 11,406 from 177,762 in 2013 to 189,168. As a result of the business performance and the expansion of research and development, the number of employees in the Automotive Group rose by 5,494. In the Rubber Group the increase in the number of employees by 5,880 is due to the expansion of distribution and retail structures and the further expansion of production capacity.

Employees by region in %	2014	2013
Germany	28	28
Europe excluding Germany	32	31
NAFTA	16	16
Asia	19	19
Other countries	5	6

Financial Position

› Free cash flow of more than €2 billion; up for third year in a row
› Capital expenditure at high level of over €2 billion
› Net indebtedness below €3 billion; gearing ratio of 25.6%

Reconciliation of cash flow
Cash flow from operating activities rose by €446.5 million year-on-year to €4,168.3 million (PY: €3,721.8 million) in 2014, corresponding to 12.1% (PY: 11.2%) of sales.

Interest payments resulting in particular from the syndicated loan and the bonds declined by €379.2 million to €185.9 million (PY: €565.1 million).

Income tax payments decreased by €30.4 million to €775.0 million (PY: €805.4 million).

The cash-effective increase in operating working capital led to a cash outflow of €207.4 million (PY: €3.9 million). This resulted from an increase in operating receivables in the amount of €246.6 million (PY: €451.6 million) which was not offset by the increase in operating liabilities in the amount of €59.3 million (PY: €379.8 million). Inventories rose by €20.1 million in the fiscal year (PY: reduction of €67.9 million).

Cash flow arising from investing activities amounted to an outflow of €2,153.4 million (PY: €1,903.5 million). This is essentially due to investments in property, plant and equipment, and software of €2,045.4 million (PY: €1,980.7 million). The net amount from the acquisition and disposal of companies and business operations resulted in a total cash outflow of €129.5 million (PY: cash inflow of €92.9 million) in 2014.

Free cash flow for fiscal 2014 amounted to €2,014.9 million (PY: €1,818.3 million). This corresponds to an increase of €196.6 million compared with the previous year.

Capital expenditure (additions)
Capital expenditure for property, plant and equipment, and software amounted to €2,045.4 million in 2014. Overall, there was a slight increase of €64.3 million compared with the previous year's level of €1,981.1 million, with the Powertrain, Interior and ContiTech divisions contributing to this in particular. As in the previous year, capital expenditure amounted to 5.9% of sales.

Financing and indebtedness
As at the end of 2014, gross indebtedness amounted to €6,431.6 million (PY: €6,637.5 million), down €205.9 million on the previous year's level.

On average, based on quarter-end values, 50.3% (PY: 50.4%) of gross indebtedness after hedging measures had fixed interest rates over the year.

The carrying amount of bonds increased by €94.9 million from €2,989.5 million at the end of 2013 to €3,084.4 million as at the end of fiscal 2014. There were no changes in the bonds held in 2014. The slight year-on-year increase essentially results from the foreign currency translation of the U.S. $950.0 million bond issued in September 2012 by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., into the reporting currency for the corporation (euro) and is due to the significantly stronger U.S. dollar at the end of 2014 compared to the previous year.

Bank loans and overdrafts amounted to €2,399.5 million (PY: €2,150.5 million) as at December 31, 2014, and were therefore up €249.0 million on the previous year's level.

To further improve the financial and maturity structure, in January 2013 a new syndicated loan agreement was concluded with a credit volume reduced to a total of €4.5 billion. Under the new loan agreement, Continental is no longer required to furnish security in rem and has obtained further simplifications of the documentation required. The credit margins are still based on the Continental Corporation's leverage ratio (net indebtedness/EBITDA, as defined in the syndicated loan agreement). To reflect the improvements in Continental's operating performance and its ratings achieved over 2013 in financing conditions as well, a new syndicated loan was concluded at the end of April 2014 and the syndicated loan concluded at the start of 2013 was repaid early. The committed volume of this new syndicated loan is still €4.5 billion and consists of a term loan of €1.5 billion and a revolving credit line of €3.0 billion. The term loan has a term of two years, while the revolving credit line has a term of five years. Further simplifications of the documentation required were achieved here as well. Furthermore, the margin level was reduced significantly and is now geared toward Continental's rating again. As at the end of 2014, the term loan had only been utilized by Continental AG in a nominal amount of €1.5 billion, as in the previous year. The revolving credit line of €3.0 billion had not been utilized.

Other indebtedness decreased by more than a third to €947.7 million (PY: €1,497.5 million) as at the end of 2014. This decline is due in particular to the fact that no commercial papers had been issued at the end of 2014. By contrast, the carrying amount of the commercial papers issued was €497.5 million as at the end of the previous year.

The use of sale of receivables programs was reduced by €73.3 million to €842.9 million (PY: €916.2 million). The financing volume of the sale of receivables program concluded with Norddeutsche Landesbank Luxembourg S.A., Luxembourg, was reduced from €300.0 million to €250.0 million on April 11, 2014,

by way of a new master agreement, and on September 29, 2014, it was prolonged until the end of April 2015. This program was almost fully utilized at the end of 2014 in the amount of €249.3 million (PY: €300.0 million).

The indefinite sale of receivables program in place with Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main, Germany, since December 2010 previously provided for flexible adjustment of the financing volume. At the end of 2013 this was €110.0 million. By way of the contractual amendment in September 2014, a maximum financing volume of €150.0 million was agreed. €104.4 million (PY: €109.9 million) of the program had been utilized as at the end of 2014.

The sale of receivables program previously concluded with the U.S. banks Wells Fargo Bank N.A., Atlanta, Georgia; The Bank of Nova Scotia, Houston, Texas; and Bank of America N.A., Charlotte, North Carolina, was prolonged by a further year on November 4, 2014, albeit with a change in the participating banks. At this time The Bank of Nova Scotia, Houston, Texas, U.S.A., transferred its share to Norddeutsche Landesbank, New York branch, New York, New York, U.S.A. The financing volume is still U.S. $400.0 million. As in the previous year, only €0.1 million of the program had been utilized as at the end of 2014.

Following contractual amendments in January and April 2014, the indefinite sale of receivables program originally set up with The Royal Bank of Scotland N.V. Frankfurt branch, Frankfurt am Main, Germany, at the end of April 2012 now provides for a reduced financing volume of GBP 81.0 million (PY: GBP 90.0 million) and can be utilized in both euro and pounds sterling. Total utilization as at the end of 2014 amounted to €90.7 million (PY: €90.5 million).

On July 26, 2012, a sale of receivables program with an unchanged financing volume of €300.0 million was agreed with Crédit Agricole Corporate and Investment Bank, Paris, France. The program has a term of up to five years if prolonged by both parties on an annual basis. This last occurred in July 2014. At the end of 2014, the program had been utilized in the amount of €248.4 million (PY: €287.7 million).

On January 30, 2013, a sale of receivables contract was concluded with Landesbank Baden-Württemberg, Stuttgart, Germany. The agreement, amended on July 25, 2014, continues until the end of January 2020, if prolonged by both parties on an annual basis. The agreed financing volume has now been reduced to €150.0 million (PY: €175.0 million). However, the agreement grants Continental the option to increase the maximum financing volume to €175.0 million again if necessary. The program had been utilized in the amount of €150.0 million (PY: €128.0 million) at the end of 2014.

Cash and cash equivalents, derivative instruments and interest-bearing investments were up significantly by €1,259.9 million at €3,608.1 million (PY: €2,348.2 million). A key portion of this relates to the rise in cash and cash equivalents, which were up by €1,199.0 million at the end of 2014 at €3,243.8 million (PY: €2,044.8 million). A sufficiently high level of cash and cash equivalents was maintained with regard to the closing of the acquisition of Veyance Technologies, Inc., Fairlawn, Ohio, U.S.A., at the start for 2015.

Net indebtedness fell by €1,465.8 million as compared to the end of 2013 to €2,823.5 million (PY: €4,289.3 million). The gearing ratio improved significantly year-on-year to 25.6% (PY: 46.0%).

Change in net indebtedness

in € millions	**2014**	2013
Cash flow arising from operating activities	4,168.3	3,721.8
Cash flow arising from investing activities	–2,153.4	–1,903.5
Cash flow before financing activities (free cash flow)	**2,014.9**	**1,818.3**
Dividends paid	–500.0	–450.0
Dividends paid and repayment of capital to non-controlling interests	–45.5	–62.7
Non-cash changes	64.4	–224.9
Other	–86.9	–61.7
Foreign exchange effects	18.9	11.6
Change in net indebtedness	**1,465.8**	**1,030.6**

As at December 31, 2014, Continental had liquidity reserves totaling €7,276.2 million (PY: €5,878.1 million), consisting of cash and cash equivalents of €3,243.8 million (PY: €2,044.8 million) and committed, unutilized credit lines totaling €4,032.4 million (PY: €3,833.3 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 cash and cash equivalents mentioned above are restricted with regard to pledged amounts, liquid funds from the contractual trust arrangements (CTAs), 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. Unrestricted cash and cash equivalents totaled €2,870.6 million.

Net Assets Position

- Equity at highest level at €11 billion
- Equity ratio at 36.5%
- Gearing ratio at 25.6%

Total assets
As at December 31, 2014, total assets amounted to €30,241.1 million and were thus up by €3,420.3 million on the previous year's level of €26,820.8 million. This was primarily due to the €248.2 million increase in goodwill to €5,769.1 million (PY: €5,520.9 million) and the €718.4 million rise in property, plant and equipment to €8,446.4 million (PY: €7,728.0 million). Deferred tax assets climbed by €645.0 million compared to the previous year to €1,573.4 million (PY: €928.4 million), influenced in particular by the recognition of deferred tax assets in the U.S.A. and Germany. Inventories rose by €156.7 million to €2,987.6 million (PY: €2,830.9 million), trade accounts receivable increased by €530.4 million to €5,846.2 million (PY: €5,315.8 million), both as a result of the growth in business activities. At the end of 2014, cash and cash equivalents were €1,199.0 million higher than in the previous year at €3,243.8 million (PY: €2,044.8 million). This was partially offset by a €114.4 million decline in intangible assets, primarily due to amortization from purchase price allocation (PPA). Investments in at-equity accounted investees declined by €151.5 million to €298.5 million (PY: €450.0 million) as a result of the impairment loss on the investment in SK Continental E-motion Pte. Ltd., Singapore, Singapore, and the acquisition of the remaining shares in Emitec Gesellschaft für Emissionstechnologie mbH, Lohmar, Germany.

Non-current assets
Non-current assets rose by €1,353.8 million year-on-year to €16,923.3 million (PY: €15,569.5 million). This was mainly due to the €248.2 million increase in goodwill to €5,769.1 million (PY: €5,520.9 million) and the €718.4 million rise in property, plant and equipment to €8,446.4 million (PY: €7,728.0 million). Deferred tax assets increased by €645.0 million year-on-year to €1,573.4 million (PY: €928.4 million). This was countered by the €114.4 million reduction in intangible assets to €443.3 million (PY: €557.7 million) and the €151.5 million decline in at-equity accounted investees to €298.5 million (PY: €450.0 million).

Current assets
At €13,317.8 million, current assets were €2,066.5 million higher than the previous year's figure of €11,251.3 million. Inventories climbed by €156.7 million to €2,987.6 million in the year under review (PY: €2,830.9 million). Trade accounts receivable rose by €530.4 million to €5,846.2 million (PY: €5,315.8 million). Cash and cash equivalents were €1,199.0 million higher than in the previous year at €3,243.8 million (PY: €2,044.8 million).

Equity
Equity was €1,702.4 million higher than in the previous year at €11,024.6 million (PY: €9,322.2 million). This was due primarily to the increase in accumulated retained earnings of €1,869.0 million. Equity was reduced by dividends in the amount of €500.0 million resolved by the Annual Shareholders' Meeting in April 2014. The equity ratio improved from 34.8% to 36.5%.

Non-current liabilities
At €9,141.0 million, non-current liabilities were up €1,270.2 million from €7,870.8 million in the previous year. This is essentially due to the €1,092.6 million rise in pension liabilities and similar obligations to €3,483.7 million (PY: €2,391.1 million), caused by lower discount rates used.

Current liabilities
At €10,075.5 million, current liabilities were up €447.7 million from €9,627.8 million in the previous year. This mainly resulted from the rise in trade accounts payable of €265.3 million to €4,861.6 million (PY: €4,596.3 million) and the €201.2 million increase in other short-term financial liabilities to €1,649.2 million (PY: €1,448.0 million). This was countered by the €242.1 million decrease in short-term indebtedness to €1,354.2 million (PY: €1,596.3 million).

Operating assets
The corporation's operating assets increased by €763.8 million year-on-year to €16,596.1 million (PY: €15,832.3 million) as at December 31, 2014.

Total working capital was up €425.3 million to €4,002.7 million (PY: €3,577.4 million). This development was essentially due to the €533.9 million increase in operating receivables to €5,876.7 million (PY: €5,342.8 million) and the €156.7 million rise in inventories to €2,987.6 million (PY: €2,830.9 million). This was countered by the €265.3 million increase in operating liabilities to €4,861.6 million (PY: €4,596.3 million).

Non-current operating assets amounted to €15,038.7 million (PY: €14,326.3 million), up €712.4 million year-on-year. Goodwill increased by €248.2 million to €5,769.1 million (PY: €5,520.9 million). In addition to exchange rate effects of €101.1 million, this change resulted from additions due to acquisitions totaling €147.1 million. Property, plant and equipment increased by €718.4 million to €8,446.4 million (PY: €7,728.0 million) due to investing activities. Other intangible assets fell by €114.4 million to €443.3 million (PY: €557.7 million). This decrease was

Consolidated statement of financial position

Assets in € millions	Dec. 31, 2014	Dec. 31, 2013
Goodwill	5,769.1	5,520.9
Other intangible assets	443.3	557.7
Property, plant and equipment	8,446.4	7,728.0
Investments in at-equity accounted investees	298.5	450.0
Other long-term assets	1,966.0	1,312.9
Non-current assets	**16,923.3**	**15,569.5**
Inventories	2,987.6	2,830.9
Trade accounts receivable	5,846.2	5,315.8
Other short-term assets	1,240.2	1,059.8
Cash and cash equivalents	3,243.8	2,044.8
Current assets	**13,317.8**	**11,251.3**
Total assets	**30,241.1**	**26,820.8**

Equity and liabilities in € millions	Dec. 31, 2014	Dec. 31, 2013
Total equity	**11,024.6**	**9,322.2**
Non-current liabilities	**9,141.0**	**7,870.8**
Trade accounts payable	4,861.6	4,596.3
Other short-term provisions and liabilities	5,213.9	5,031.5
Current liabilities	**10,075.5**	**9,627.8**
Total equity and liabilities	**30,241.1**	**26,820.8**
Net indebtedness	**2,823.5**	**4,289.3**
Gearing ratio in %	**25.6**	**46.0**

mainly due to the amortization of intangible assets from purchase price allocation (PPA) in the amount of €194.0 million (PY: €370.7 million).

The acquisition of the remaining 50% of shares in Alphapeak Ltd., Lichfield, U.K., as part of a share deal increased the Chassis & Safety division's operating assets by €24.3 million. In the Powertrain division the acquisition of the remaining shares in Emitec Gesellschaft für Emissionstechnologie mbH, Lohmar, Germany, led to a rise of €176.0 million.

The Tire division increased its operating assets by €81.6 million by acquiring MPI SAS, Mandelieu, France, and REPARATION PNEUMATIQUES DU SUD EST (REPNEU) SAS, Grasse, France, through Continental Holding France SAS, Sarreguemines, France, as part of a share deal. The acquisition of Gorvi S.A., Pamplona, Spain, and Mecapol S.A., Wagrowiec, Poland, by ContiTech Global Holding Netherlands B.V., Maastricht, Netherlands, as part of a share deal increased the operating assets of the ContiTech division by €16.7 million. Other changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets at corporation level.

Exchange rate effects increased the corporation's total operating assets by €394.9 million in the fiscal year. In the previous year, this effect had reduced operating assets by €551.4 million.

Average operating assets of the corporation fell by €77.5 million to €16,726.5 million as compared to the previous year (€16,804.0 million).

Automotive Group

Automotive Group in € millions	2014	2013	Δ in %
Sales	20,909.2	20,016.1	4.5
EBITDA	2,407.7	2,490.5	-3.3
in % of sales	11.5	12.4	
EBIT	1,189.3	1,158.9	2.6
in % of sales	5.7	5.8	
Research and development expenses	1,835.5	1,589.1	15.5
in % of sales	8.8	7.9	
Depreciation and amortization[1]	1,218.4	1,331.6	-8.5
– thereof impairment[2]	178.9	127.8	40.0
Operating assets as at December 31	10,410.3	10,376.7	0.3
Operating assets (average)	10,504.0	10,958.9	-4.2
ROCE	11.3	10.6	
Capital expenditure[3]	1,125.7	1,015.5	10.9
in % of sales	5.4	5.1	
Number of employees as at December 31[4]	108,711	103,217	5.3
Adjusted sales[5]	20,796.8	19,944.2	4.3
Adjusted operating result (adjusted EBIT)[6]	1,676.1	1,593.3	5.2
in % of adjusted sales	8.1	8.0	

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

The Automotive Group comprises three divisions:

- The **Chassis & Safety** division (22% of consolidated sales) develops, produces, and markets intelligent systems to improve safety and vehicle dynamics.
- The **Powertrain** division (19% of consolidated sales) designs and engineers innovative solutions for gasoline, diesel, hybrid, and electric drive systems.
- The **Interior** division (20% of consolidated sales) specializes in information management in vehicles.

The 14 business units in total generated 60.5% 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 electronic components, which together make up around 41% of the corporation's total purchasing volume for production material.

Development of the Chassis & Safety Division

- Sales up 3.4%
- Sales up 4.9% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 2.4%

Sales volumes
In the Vehicle Dynamics business unit, the number of electronic brake systems sold in 2014 increased to 21.9 million. In the Hydraulic Brake Systems business unit, sales of brake boosters rose by 5% year-on-year. Sales figures for brake calipers remained on par with the previous year's level in the period under review. In the Passive Safety & Sensorics business unit, sales of air bag control units were up year-on-year by approximately 3%. Sales of advanced driver assistance systems were up by more than 40%.

Sales up 3.4%
Sales up 4.9% before changes in the scope of consolidation and exchange rate effects
Sales in the Chassis & Safety division rose by 3.4% year-on-year to €7,514.9 million (PY: €7,269.2 million) in 2014. Before changes in the scope of consolidation and exchange rate effects, sales climbed by 4.9%.

Adjusted EBIT up 2.4%
The Chassis & Safety division's adjusted EBIT climbed by €16.5 million or 2.4% year-on-year in 2014 to €708.5 million (PY: €692.0 million), equivalent to 9.4% (PY: 9.5%) of adjusted sales.

EBIT up 13.6%
In comparison to the previous year, the Chassis & Safety division posted an increase in EBIT of €81.3 million, or 13.6%, to €680.2 million (PY: €598.9 million) in 2014. The return on sales rose to 9.1% (PY: 8.2%).

ROCE amounted to 17.2% (PY: 14.9%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €25.5 million (PY: €50.9 million).

Special effects in 2014
For the Chassis & Safety division, the total negative impact from special effects in 2014 amounted to €4.7 million, due solely to impairment losses on intangible assets and property, plant and equipment.

Special effects in 2013
Impairment losses of €40.5 million were recognized in the Chassis & Safety division as a result of the change in strategic direction in one segment. €40.3 million of this was attributable to property, plant and equipment, and €0.2 million to intangible assets.

In addition, smaller impairment losses on intangible assets and property, plant and equipment resulted in expense totaling €0.9 million.

The reversal of restructuring provisions no longer required at the former location in Elkhart, Indiana, U.S.A., resulted in a positive special effect of €0.3 million.

Special effects in 2013 had a negative impact totaling €41.1 million in the Chassis & Safety division.

Procurement
The year 2014 was characterized by stable procurement markets, thus production supplies were ensured at all times. The average prices for raw materials recorded a slight decrease, or were hedged by forward buying activities.

Research and development
Research and development expenses rose by €94.2 million or 17.6% year-on-year to €629.5 million (PY: €535.3 million), corresponding to 8.4% (PY: 7.4%) of sales.

Depreciation and amortization
Depreciation and amortization declined by €53.4 million compared to fiscal 2013 to €337.9 million (PY: €391.3 million) and amounted to 4.5% (PY: 5.4%) of sales. This included impairment losses totaling €4.7 million (PY: €41.4 million) in 2014.

Operating assets
Operating assets in the Chassis & Safety division rose by €135.3 million year-on-year to €4,000.6 million (PY: €3,865.3 million) as at December 31, 2014.

Working capital was up €13.9 million at €479.8 million (PY: €465.9 million). Inventories increased by €15.2 million to €347.7 million (PY: €332.5 million). Operating receivables increased by €110.6 million to €1,216.6 million (PY: €1,106.0 million) as at the reporting date. Operating liabilities were up €111.9 million at €1,084.5 million (PY: €972.6 million).

Non-current operating assets amounted to €4,087.4 million (PY: €3,908.0 million), up €179.4 million year-on-year. Goodwill increased by €47.5 million to €2,378.8 million (PY: €2,331.3 million). In addition to exchange rate effects of €34.7 million, the increase resulted from the acquisition of the remaining 50% of shares in Alphapeak Ltd., Lichfield, U.K., in the amount of €12.8 million. Property, plant and equipment increased by €157.4 million to €1,559.2 million (PY: €1,401.8 million) due to

Chassis & Safety in € millions	**2014**	2013	Δ in %
Sales	7,514.9	7,269.2	3.4
EBITDA	1,018.1	990.2	2.8
in % of sales	13.5	13.6	
EBIT	680.2	598.9	13.6
in % of sales	9.1	8.2	
Research and development expenses	629.5	535.3	17.6
in % of sales	8.4	7.4	
Depreciation and amortization[1]	337.9	391.3	-13.6
– thereof impairment[2]	4.7	41.4	-88.6
Operating assets as at December 31	4,000.6	3,865.3	3.5
Operating assets (average)	3,956.5	4,032.6	-1.9
ROCE	17.2	14.9	
Capital expenditure[3]	411.6	401.7	2.5
in % of sales	5.5	5.5	
Number of employees as at December 31[4]	38,127	36,496	4.5
Adjusted sales[5]	7,513.7	7,269.2	3.4
Adjusted operating result (adjusted EBIT)[6]	708.5	692.0	2.4
in % of adjusted sales	9.4	9.5	

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

investing activities. Other intangible assets fell by €22.0 million to €70.1 million (PY: €92.1 million). This decrease was mainly due to the amortization of intangible assets from purchase price allocation (PPA) in the amount of €25.5 million (PY: €50.9 million).

Overall, the acquisition of the remaining 50% of shares in Alphapeak Ltd., Lichfield, U.K., as part of a share deal increased the Chassis & Safety division's operating assets by €24.3 million. Other changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets.

Exchange rate effects increased the Chassis & Safety division's total operating assets by €89.3 million in the fiscal year. In the previous year, this effect had reduced operating assets by €96.8 million.

Average operating assets in the Chassis & Safety division fell by €76.1 million to €3,956.5 million as compared to fiscal 2013 (€4,032.6 million).

Capital expenditure (additions)

Additions to the Chassis & Safety division rose by €9.9 million year-on-year to €411.6 million (PY: €401.7 million). As in the previous year, capital expenditure amounted to 5.5% of sales.

In addition to increasing production capacity in Europe, investments were made in expanding the locations in North and South 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.

Employees

The number of employees in the Chassis & Safety division rose by 1,631 to 38,127 (PY: 36,496). In all business units, the increase was due to an adjustment in line with greater volumes. In addition, the expansion of research and development activities in the Advanced Driver Assistance Systems and Vehicle Dynamics business units also led to a rise in the number of employees.

Development of the Powertrain Division

› Sales up 3.7%
› Sales up 2.9% before changes in the scope of consolidation and exchange rate effects
› Adjusted EBIT down 18.9%

Sales volumes
Sales volumes in the Transmission and Fuel & Exhaust Management business units were up year-on-year in fiscal 2014, with Fuel & Exhaust Management posting both organic growth from existing business (formerly Fuel Supply) and additional unit sales from the integration of Emitec. The Sensors & Actuators business unit is also recording growth. The volume increase here is attributable in particular to the considerably higher sales figures for exhaust sensors, which were boosted by stricter environmental regulations in Asia, particularly in China. The Engine Systems business unit posted growth in engine management systems and turbochargers. By contrast, sales volumes of injectors and pumps were down on the previous year's level. There was a similar situation in the Hybrid Electric Vehicle business unit, where falling sales figures for electric motors and battery systems were offset by rising volumes in the field of on-board power supply systems.

Sales up 3.7%
Sales up 2.9% before changes in the scope of consolidation and exchange rate effects
Sales in the Powertrain division rose by 3.7% year-on-year to €6,494.3 million (PY: €6,260.3 million) in 2014. Before changes in the scope of consolidation and exchange rate effects, sales climbed by 2.9%.

Adjusted EBIT down 18.9%
The Powertrain division's adjusted EBIT decreased by €60.5 million or 18.9% year-on-year in 2014 to €259.2 million (PY: €319.7 million), equivalent to 4.1% (PY: 5.1%) of adjusted sales.

EBIT down 153.9%
In comparison to the previous year, the Powertrain division posted a decrease in EBIT of €276.3 million or 153.9% to €-96.8 million (PY: €179.5 million) in 2014. The return on sales fell to -1.5% (PY: 2.9%).

ROCE amounted to -3.5% (PY: 6.1%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €64.5 million (PY: €126.9 million).

Special effects in 2014
In the Powertrain division, the acquisition of the remaining shares in Emitec Gesellschaft für Emissionstechnologie mbH, Lohmar, Germany, made it necessary to recognize an impairment loss on the at-equity accounted investee, leading to expense of €33.8 million, and a negative special effect from the reclassification to profit and loss of the effects previously reported under reserves recognized directly in equity in the amount of €1.9 million.

In view of the increasing competition in the development and production of battery cells for the automobile industry, we and our Korean partner SK Innovation Co., Ltd., Seoul, South Korea, concluded and implemented an agreement to dissolve the joint venture SK Continental E-motion Pte. Ltd., Singapore, Singapore. This led to an impairment loss on the at-equity accounted investee in the amount of €74.3 million in the Powertrain division.

Furthermore, we took this new development as a triggering event to adjust the value of property, plant and equipment in the Hybrid Electric Vehicle business unit to the current utilization of capacity. This led to additional impairment losses on property, plant and equipment in the amount of €69.8 million.

After an in-depth quality review, we did not launch a diesel injector that was based on technologies from the time before the Siemens VDO acquisition. Impairment losses of €61.6 million on intangible assets and property, plant and equipment were incurred in the Powertrain division in this context, as well as restructuring expenses of €22.3 million, of which €6.2 million was attributable to impairment losses on property, plant and equipment.

This situation also prompted us to check pumps based on technologies from the time before the Siemens VDO acquisition, primarily in the diesel sector. This resulted in the necessity to recognize impairment losses on property, plant and equipment as part of valuation at the lower of cost or market value. This led to an additional expense of €27.3 million in the Powertrain division.

Further impairment losses on property, plant and equipment resulted in expense of €3.5 million.

The reversal of restructuring provisions no longer required resulted in a positive special effect of €9.4 million.

Special effects in 2014 had a negative impact totaling €285.1 million in the Powertrain division.

Powertrain in € millions	2014	2013	Δ in %
Sales	6,494.3	6,260.3	3.7
EBITDA	443.3	650.2	-31.8
in % of sales	6.8	10.4	
EBIT	-96.8	179.5	-153.9
in % of sales	-1.5	2.9	
Research and development expenses	635.1	561.8	13.0
in % of sales	9.8	9.0	
Depreciation and amortization[1]	540.1	470.7	14.7
– thereof impairment[2]	168.4	38.9	332.9
Operating assets as at December 31	2,641.4	2,759.7	-4.3
Operating assets (average)	2,733.0	2,936.9	-6.9
ROCE	-3.5	6.1	
Capital expenditure[3]	428.0	360.5	18.7
in % of sales	6.6	5.8	
Number of employees as at December 31[4]	34,529	32,353	6.7
Adjusted sales[5]	6,383.1	6,260.3	2.0
Adjusted operating result (adjusted EBIT)[6]	259.2	319.7	-18.9
in % of adjusted sales	4.1	5.1	

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.

Special effects in 2013
On January 1, 2013, the closing took place for SK Continental E-motion Pte. Ltd., Singapore, Singapore, a company jointly managed by SK Innovation Co., Ltd., Seoul, South Korea, and Continental, after the agreement to form the company was signed in July 2012. The transaction resulted at that time in income of €23.6 million in the Powertrain division.

The annual impairment test on goodwill resulted in an impairment loss of €27.6 million in the Powertrain division.

Impairment losses on property, plant and equipment resulted in expenses totaling €11.2 million for the locations in Kaluga, Russia; Trutnov, Czech Republic; Cuautla, Mexico; Sibiu, Romania; Limbach-Oberfrohna, Germany; Nuremberg, Germany; and Shanghai, China. The division also recognized an impairment loss of €0.1 million on intangible assets.

The reversal of restructuring provisions no longer required resulted in a positive special effect of €0.9 million.

Special effects in 2013 had a negative impact totaling €14.4 million in the Powertrain division.

Procurement
The procurement market for the Powertrain division was characterized by differently developing raw material prices. While prices for platinum fell, rising prices were observed for palladium and aluminum, though these were avoided in part thanks to forward buying activities. The procurement cooperation with the Schaeffler Group was successfully continued. Local procurement of components in the regions close to production was expanded further.

Research and development
Research and development expenses rose by €73.3 million or 13.0% year-on-year to €635.1 million (PY: €561.8 million), corresponding to 9.8% (PY: 9.0%) of sales.

Depreciation and amortization
Depreciation and amortization rose by €69.4 million compared to fiscal 2013 to €540.1 million (PY: €470.7 million) and amounted to 8.3% (PY: 7.5%) of sales. This included impairment losses totaling €168.4 million (PY: €38.9 million) in 2014.

Operating assets
Operating assets in the Powertrain division declined by €118.3 million year-on-year to €2,641.4 million (PY: €2,759.7 million) as at December 31, 2014.

Working capital increased by €99.6 million to €326.3 million (PY: €226.7 million). Inventories increased by €57.6 million to €319.1 million (PY: €261.5 million). Operating receivables increased by €90.3 million to €1,101.0 million (PY: €1,010.7 million) as at the reporting date. Total operating liabilities were up €48.3 million at €1,093.8 million (PY: €1,045.5 million).

Non-current operating assets amounted to €2,762.5 million (PY: €2,801.9 million), down €39.4 million year-on-year. Goodwill increased by €106.2 million to €954.4 million (PY: €848.2 million). This essentially resulted from the acquisition of Emitec Gesellschaft für Emissionstechnologie mbH, Lohmar, Germany, in the amount of €77.5 million and exchange rate effects of €28.7 million. Property, plant and equipment, at €1,674.1 million, was €39.9 million above the previous year's level of €1,634.2 million. Other intangible assets fell by €29.7 million to €75.1 million (PY: €104.8 million). This decrease was mainly due to the amortization of intangible assets from purchase price allocation (PPA) in the amount of €64.5 million (PY: €126.9 million).

In the Powertrain division the acquisition of the remaining shares in Emitec Gesellschaft für Emissionstechnologie mbH, Lohmar, Germany, led to a rise in operating assets of €176.0 million. Other changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets.

Exchange rate effects increased the Powertrain division's total operating assets by €88.4 million in the fiscal year. In the previous year, this effect had reduced operating assets by €77.6 million.

Average operating assets in the Powertrain division declined by €203.9 million to €2,733.0 million as compared to fiscal 2013 (€2,936.9 million).

Capital expenditure (additions)
Additions to the Powertrain division increased by €67.5 million year-on-year to €428.0 million (PY: €360.5 million). Capital expenditure amounted to 6.6% (PY: 5.8%) of sales.

In the Powertrain division, production capacity was increased at the German locations and in the U.S.A., China, the Czech Republic, 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. In Kaluga, Russia, investments were made in the establishment of a new plant for the Engine Systems and Fuel & Exhaust Management business units.

Employees
The number of employees in the Powertrain division rose by 2,176 compared with the previous year to 34,529 (PY: 32,353). The increase in staff numbers in the Sensors & Actuators and Transmission business units is due to rising volumes and the further expansion of research and development. In addition, the acquisition of the exhaust technologies specialist Emitec led to a rise in headcount in the Fuel & Exhaust Management business unit. The number of employees was down in the Engine Systems business unit.

Development of the Interior Division

- Sales up 6.0%
- Sales up 8.6% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT up 21.8%

Sales volumes
Sales volumes in the Body & Security business unit were significantly above the previous year's level in fiscal 2014. There were increases in all regions. This was achieved thanks to new projects in the product groups seat control devices, lighting control and body controllers. Sales volumes matched the previous year's level in the Infotainment & Connectivity business unit. Unit sales of multimedia systems picked up significantly on account of new products in Asia and on the U.S. market, and growing demand in Europe. There was a decline in device connectivity and telematics products. Sales volumes in the Commercial Vehicles & Aftermarket business unit were above the previous year's level. This is essentially due to the rise in demand for new third-generation braking systems and tire-pressure monitoring systems, and to a higher level of series products being taken on by the replacement part and aftermarket business, especially in Western Europe and NAFTA. In the Instrumentation & Driver HMI business unit, sales figures in 2014 as a whole were higher than in the previous year before consolidation changes. This was primarily attributable to considerably higher demand in China and increased sales volumes in North America and Europe. Sales volumes of instrument clusters saw the strongest year-on-year rise.

Sales up 6.0%
Sales up 8.6% before changes in the scope of consolidation and exchange rate effects
Sales in the Interior division rose by 6.0% year-on-year to €7,002.5 million (PY: €6,605.7 million) in 2014. Before changes in the scope of consolidation and exchange rate effects, sales climbed by 8.6%.

Adjusted EBIT up 21.8%
The Interior division's adjusted EBIT increased by €126.7 million or 21.8% year-on-year in 2014 to €708.4 million (PY: €581.7 million), equivalent to 10.1% (PY: 8.9%) of adjusted sales.

EBIT up 59.2%
In comparison to the previous year, the Interior division posted an increase in EBIT of €225.3 million or 59.2% to €605.9 million (PY: €380.6 million) in 2014. The return on sales rose to 8.7% (PY: 5.8%).

ROCE amounted to 15.9% (PY: 9.5%).

The amortization of intangible assets from purchase price allocation (PPA) reduced EBIT by €92.3 million (PY: €182.7 million).

Special effects in 2014
In the Interior division, the divestment of certain activities of the Infotainment & Connectivity business unit at the location in Rambouillet, France, resulted in a loss of €7.3 million. Impairment losses of €4.2 million on property, plant and equipment were also incurred in this context.

Further impairment losses on intangible assets and property, plant and equipment resulted in expense of €1.6 million in the Interior division.

The reversal of restructuring provisions no longer required resulted in a positive special effect of €1.2 million.

Effective September 30, 2014, certain activities of the Body & Security business unit were sold to a newly established joint venture. This transaction resulted in a positive special effect totaling €1.7 million in the Interior division.

Special effects in 2014 had a negative impact totaling €10.2 million in the Interior division.

Special effects in 2013
As at January 29, 2013, Continental sold its shares in S-Y Systems Technologies Europe GmbH, Regensburg, Germany, to Yazaki Europe Ltd., Hemel Hempstead, U.K. The transaction resulted in income of €54.6 million in the Interior division.

On July 10, 2013, the European Commission imposed fines on a number of automotive suppliers for anti-competitive conduct in the field of supplying wire harnesses for automotive applications. These companies included S-Y Systems Technologies Europe GmbH, Regensburg, Germany, and its French subsidiary, which had to pay a fine of €11.1 million due to cartel agreements with regard to one automotive manufacturer. Since Continental held a 50% share of S-Y Systems Technologies Europe GmbH, Regensburg, Germany, until January 29, 2013, a provision of €9.0 million was recognized in the Interior division based upon contingent liabilities.

The annual impairment test on goodwill resulted in an impairment loss of €40.0 million in the Interior division.

The reversal of restructuring provisions no longer required resulted in a positive special effect of €13.8 million.

Interior in € millions	2014	2013	Δ in %
Sales	7,002.5	6,605.7	6.0
EBITDA	946.3	850.2	11.3
in % of sales	13.5	12.9	
EBIT	605.9	380.6	59.2
in % of sales	8.7	5.8	
Research and development expenses	570.9	492.0	16.0
in % of sales	8.2	7.4	
Depreciation and amortization[1]	340.4	469.6	-27.5
– thereof impairment[2]	5.8	47.5	-87.8
Operating assets as at December 31	3,768.3	3,751.7	0.4
Operating assets (average)	3,814.5	3,989.4	-4.4
ROCE	15.9	9.5	
Capital expenditure[3]	286.1	253.3	12.9
in % of sales	4.1	3.8	
Number of employees as at December 31[4]	36,055	34,368	4.9
Adjusted sales[5]	7,002.5	6,533.8	7.2
Adjusted operating result (adjusted EBIT)[6]	708.4	581.7	21.8
in % of adjusted sales	10.1	8.9	

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.

Activities were concluded and restructured in one product segment within the Infotainment & Connectivity business unit. Expenses totaling €39.4 million were incurred in this context, of which €7.4 million was attributable to impairment of property, plant and equipment, and €0.1 million to impairment of intangible assets. This affected the locations in Manaus, Brazil (€13.2 million); Bizerte, Tunisia (€10.0 million); Wetzlar, Germany (€7.0 million); Rambouillet, France (€2.0 million); Nogales, Mexico (€1.9 million); Tianjin, China (€1.6 million); Melbourne, Australia (€1.4 million); Guarulhos, Brazil (€1.4 million); and Deer Park, Illinois, U.S.A. (€0.9 million).

As part of an asset deal effective July 1, 2013, Continental Automotive Trading France SAS, Rambouillet, France, sold its cockpit activities in the Instrumentation & Driver HMI business unit at the location in Hambach, France, to SAS Automotive France, Voisins le Bretonneux, France. This transaction resulted in a positive special effect in the amount of €0.2 million.

Special effects in 2013 had a negative impact totaling €19.8 million in the Interior division.

Procurement
The year 2014 was again characterized by stable procurement markets, in which the demand for electronic and electromechanical components was fully met by the suppliers. Production and customer supplies were ensured. The share of displays in total procurement volumes and their size has risen further. As part of active risk management, progress was made in nominating alternative supply sources for key components.

Research and development
Research and development expenses rose by €78.9 million or 16.0% year-on-year to €570.9 million (PY: €492.0 million), corresponding to 8.2% (PY: 7.4%) of sales.

Depreciation and amortization
Depreciation and amortization declined by €129.2 million compared to fiscal 2013 to €340.4 million (PY: €469.6 million) and amounted to 4.9% (PY: 7.1%) of sales. This included impairment losses totaling €5.8 million (PY: €47.5 million) in 2014.

Operating assets

Operating assets in the Interior division increased by €16.6 million year-on-year to €3,768.3 million (PY: €3,751.7 million) as at December 31, 2014.

Working capital increased by €38.5 million to €566.0 million (PY: €527.5 million). Inventories increased by €26.9 million to €572.6 million (PY: €545.7 million). Operating receivables increased by €152.4 million to €1,115.8 million (PY: €963.4 million) as at the reporting date. Operating liabilities were up €140.8 million at €1,122.4 million (PY: €981.6 million).

Non-current operating assets amounted to €3,607.3 million (PY: €3,549.5 million), up €57.8 million year-on-year. Goodwill increased, due solely to exchange rate effects, by €33.3 million to €2,187.3 million (PY: €2,154.0 million). Property, plant and equipment, at €1,126.1 million, was €89.8 million above the previous year's level of €1,036.3 million. Other intangible assets fell by €80.2 million to €188.3 million (PY: €268.5 million). This decrease was mainly due to the amortization of intangible assets from purchase price allocation (PPA) in the amount of €92.3 million (PY: €182.7 million).

Changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets in the Interior division.

Exchange rate effects increased the Interior division's total operating assets by €88.3 million in the fiscal year. In the previous year, this effect had reduced operating assets by €90.5 million.

Average operating assets in the Interior division decreased by €174.9 million to €3,814.5 million in comparison to fiscal 2013 (€3,989.4 million).

Capital expenditure (additions)

Additions to the ContiTech division rose by €32.8 million year-on-year to €286.1 million (PY: €253.3 million). Capital expenditure amounted to 4.1% (PY: 3.8%) of sales.

Investments focused primarily on the expansion of manufacturing capacity for the Body & Security and Instrumentation & Driver HMI business units. Investments were made in production capacity at the German locations and in China, Mexico, Romania, and the Czech Republic. At the location in Wuhu, China, the division invested in the construction of a new plant for the Instrumentation & Driver HMI business unit.

Employees

The number of employees in the Interior division rose by 1,687 to 36,055 (PY: 34,368). The rise in staff numbers in the Body & Security, Commercial Vehicles & Aftermarket and Instrumentation & Driver HMI business units 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. In the Infotainment & Connectivity business unit, there was a decrease in the number of employees as a result of restructuring and consolidation programs, particularly at the Manaus, Brazil, location.

Rubber Group

Rubber Group in € millions	2014	2013	Δ in %
Sales	13,637.6	13,355.5	2.1
EBITDA	2,832.6	2,714.0	4.4
in % of sales	20.8	20.3	
EBIT	2,262.7	2,214.8	2.2
in % of sales	16.6	16.6	
Research and development expenses	302.2	289.3	4.5
in % of sales	2.2	2.2	
Depreciation and amortization[1]	569.9	499.2	14.2
– thereof impairment[2]	–	-1.1	100.0
Operating assets as at December 31	6,288.8	5,545.0	13.4
Operating assets (average)	6,339.2	5,913.3	7.2
ROCE	35.7	37.5	
Capital expenditure[3]	914.9	964.6	-5.2
in % of sales	6.7	7.2	
Number of employees as at December 31[4]	80,113	74,233	7.9
Adjusted sales[5]	13,421.9	13,355.5	0.5
Adjusted operating result (adjusted EBIT)[6]	2,305.6	2,256.6	2.2
in % of adjusted sales	17.2	16.9	

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 (28% of consolidated sales) offers the complete spectrum of tires, ranging from tires for cars, trucks, and buses to specialist products for construction and industrial vehicles to tires for bicycles and motorcycles.
- The **ContiTech** division (11% of consolidated sales) combines our rubber and plastics activities for numerous key industries.

The 14 business units in total generated 39.5% of consolidated sales in the year under review.

Key raw materials for the Rubber Group are natural rubber and oil-based chemicals such as synthetic rubber and carbon black, which together account for just under a fifth of the total purchasing volume for production material in the corporation.

Development of the Tire Division

› Sales up 2.1%
› Sales up 2.1% before changes in the scope of consolidation and exchange rate effects
› Adjusted EBIT up 4.4%

Sales volumes
Sales figures for passenger and light truck tires to vehicle OEMs were on par with the previous year's level. While the EMEA region (Europe, the Middle East and Africa) added around 2%, there was a slight decline in other regions. Sales volumes in passenger and light truck tire replacement business expanded further in all regions. In the commercial vehicle tire business, sales figures climbed by around 3% as compared to the same period of the previous year.

Sales up 2.1%
Sales up 2.1% before changes in the scope of consolidation and exchange rate effects
Sales in the Tire division rose by 2.1% year-on-year to €9,784.4 million (PY: €9,583.2 million) in 2014. Before changes in the scope of consolidation and exchange rate effects, sales also climbed by 2.1%.

Adjusted EBIT up 4.4%
The Tire division's adjusted EBIT rose by €78.8 million or 4.4% year-on-year in 2014 to €1,867.1 million (PY: €1,788.3 million), equivalent to 19.4% (PY: 18.7%) of adjusted sales.

EBIT up 4.4%
In comparison to the previous year, the Tire division posted an increase in EBIT of €76.7 million, or 4.4%, to €1,829.4 million (PY: €1,752.7 million) in 2014. The return on sales rose to 18.7% (PY: 18.3%).

ROCE amounted to 37.1% (PY: 37.7%).

Special effects in 2014
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 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. Continental has filed another appeal (cassation). However, we cannot rule out the possibility that the obligation to pay damages may be upheld in full or in part after the final resolution of the proceedings. For this reason, an additional provision of €26.1 million was recognized in the Tire division in the year under review.

There were also positive special effects totaling €0.5 million.

Special effects in 2014 had a negative impact totaling €25.6 million in the Tire division.

Special effects in 2013
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 and Continental AG to pay damages for the allegedly unlawful dismissal of employees. Continental considered the plaintiffs' claims to be unfounded and appealed the tribunal's ruling. A provision totaling €40.5 million was recognized for this in the Tire division.

As part of the step acquisition of the SACI Group (Société Alsacienne de Commerce et d'Investissement SAS, Colmar, France), the market value adjustment of the shares previously held resulted in income of €7.9 million in the Tire division.

Reversal of impairment losses and impairment losses on property, plant and equipment resulted in a positive effect totaling €1.3 million.

Special effects in 2013 had a negative impact totaling €31.3 million in the Tire division.

Procurement
The Tire division profited from lower prices year-on-year for production materials owing to continuing weak demand on the raw material markets. The price for natural rubber fell the most by 32% compared to the previous year, based on the SICOM quotations for the type TSR 20. The price for butadiene, an important raw material for many types of synthetic rubber, fell by an average of 15% year-on-year in 2014 for contracts in Europe. The price decline was less pronounced in the Americas and Asia at 8% and 11% respectively. The sharp decline in prices for crude oil since the fourth quarter of 2014 already had an initial positive effect on procurement prices for carbon black as at the end of 2014.

Tires in € millions	2014	2013	Δ in %
Sales	9,784.4	9,583.2	2.1
EBITDA	2,280.8	2,137.7	6.7
in % of sales	23.3	22.3	
EBIT	1,829.4	1,752.7	4.4
in % of sales	18.7	18.3	
Research and development expenses	216.9	204.7	6.0
in % of sales	2.2	2.1	
Depreciation and amortization[1]	451.4	385.0	17.2
– thereof impairment[2]	–	-1.3	100.0
Operating assets as at December 31	4,882.7	4,309.3	13.3
Operating assets (average)	4,932.0	4,645.8	6.2
ROCE	37.1	37.7	
Capital expenditure[3]	724.3	798.6	-9.3
in % of sales	7.4	8.3	
Number of employees as at December 31[4]	47,338	44,508	6.4
Adjusted sales[5]	9,609.8	9,583.2	0.3
Adjusted operating result (adjusted EBIT)[6]	1,867.1	1,788.3	4.4
in % of adjusted sales	19.4	18.7	

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.

Research and development

Research and development expenses rose by €12.2 million or 6.0% year-on-year to €216.9 million (PY: €204.7 million), corresponding to 2.2% (PY: 2.1%) of sales.

Depreciation and amortization

Depreciation and amortization rose by €66.4 million as compared to fiscal 2013 to €451.4 million (PY: €385.0 million) and amount to 4.6% (PY: 4.0%) of sales. In fiscal 2014 there were no impairment losses or reversals of impairment losses (PY: reversals of €1.3 million).

Operating assets

Operating assets in the Tire division increased by €573.4 million year-on-year to €4,882.7 million (PY: €4,309.3 million) as at December 31, 2014.

The Tire division posted a €222.5 million rise in working capital to €2,064.9 million (PY: €1,842.4 million). Inventories increased by €41.2 million to €1,332.4 million (PY: €1,291.2 million). Operating receivables increased by €129.2 million to €1,811.0 million (PY: €1,681.8 million) as at the reporting date. Operating liabilities were down €52.1 million at €1,078.5 million (PY: €1,130.6 million).

Non-current operating assets amounted to €3,586.4 million (PY: €3,192.2 million), up €394.2 million year-on-year. This increase was primarily due to the €321.7 million rise in property, plant and equipment to €3,267.3 million (PY: €2,945.6 million). Goodwill increased by €54.8 million to €152.0 million (PY: €97.2 million). In addition to minor exchange rate effects, at €52.9 million this development is essentially due to the acquisition of shares in MPI SAS, Mandelieu, France, and REPARATION PNEUMATIQUES DU SUD EST (REPNEU) SAS, Grasse, France.

Overall, the acquisition of MPI SAS, Mandelieu, France, and REPARATION PNEUMATIQUES DU SUD EST (REPNEU) SAS, Grasse, France, through Continental Holding France SAS, Sarreguemines, France, as part of a share deal led to a rise in the operating assets of the Tire division of €81.6 million. Other changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets.

Exchange rate effects increased the Tire division's total operating assets by €99.2 million in the year under review. In the previous year, this effect had reduced operating assets by €251.4 million.

Average operating assets in the Tire division increased by €286.2 million to €4,932.0 million compared with fiscal 2013 (€4,645.8 million).

Capital expenditure (additions)
Additions to the Tire division decreased by €74.3 million year-on-year to €724.3 million (PY: €798.6 million). Capital expenditure amounted to 7.4% (PY: 8.3%) of sales.

In the Tire division, production capacity was established and expanded at European best-cost locations, in North and South America and in Asia. There were major additions relating to the construction of new plants in Sumter, South Carolina, U.S.A., and Kaluga, Russia, and the expansion of existing sites in Mount Vernon, Illinois, U.S.A.; Otrokovice, Czech Republic; Puchov, Slovakia; Lousado, Portugal; Hefei, China; and Camacari, Brazil. Quality assurance and cost-cutting measures were also implemented.

Employees
The number of employees in the Tire division increased by 2,830 to 47,338 (PY: 44,508). At the production companies, the increase in staff numbers was due to the recruitment of additional staff in connection with the ongoing expansion of the two new plants in Kaluga, Russia, and Sumter, South Carolina, U.S.A. Furthermore, the increase in the number of employees is also attributable to expansion projects at distribution and retail companies, in particular as a result of the acquisition of MPI SAS, Mandelieu, France, and REPARATION PNEUMATIQUES DU SUD EST (REPNEU) SAS, Grasse, France.

Development of the ContiTech Division

- Sales up 1.4%
- Sales up 1.3% before changes in the scope of consolidation and exchange rate effects
- Adjusted EBIT down 6.4%

Sales up 1.4%
Sales up 1.3% before changes in the scope of consolidation and exchange rate effects

Sales in the ContiTech division rose by 1.4% year-on-year to €3,931.2 million (PY: €3,878.3 million) in 2014. Before changes in the scope of consolidation and exchange rate effects, sales climbed by 1.3%.

Both automotive replacement business and original equipment (OE) business posted growth in sales in 2014. In industrial business, sales did not reach the previous year's level.

Adjusted EBIT down 6.4%

The ContiTech division's adjusted EBIT fell by €29.8 million or 6.4% year-on-year in 2014 to €438.5 million (PY: €468.3 million), equivalent to 11.3% (PY: 12.1%) of adjusted sales.

EBIT down 6.2%

Compared with the previous year, the ContiTech division posted a decrease in EBIT of €28.8 million or 6.2% to €433.3 million (PY: €462.1 million) in 2014. The return on sales fell to 11.0% (PY: 11.9%).

ROCE amounted to 30.8% (PY: 36.5%).

Special effects in 2014

In the ContiTech division, income totaling €2.3 million resulted from bargain purchases from purchase price allocations. €0.7 million of this was attributable to the Fluid Technology business unit and €0.6 million to the Benecke-Kaliko Group business unit. There was also €1.0 million from the final purchase price allocation of a transaction in 2013 in the Conveyor Belt Group business unit.

Special effects in 2013

Special effects in 2013 had a negative impact totaling €0.3 million in the ContiTech division. This included impairment losses on property, plant and equipment totaling €0.2 million.

Procurement

Like the Tire division, the ContiTech division benefited from similar year-on-year raw material price effects. The prices for natural rubber, synthetic rubber and carbon black were significantly lower than the previous year's level. However, owing to a lower share of natural rubber, which saw the biggest year-on-year price decline, and a higher share of specialty rubbers, the price decline at ContiTech was less pronounced than in the Tire division.

Research and development

Research and development expenses rose by €0.7 million or 0.8% year-on-year to €85.3 million (PY: €84.6 million), corresponding to 2.2% of sales as in the previous year.

Depreciation and amortization

Depreciation and amortization rose by €4.3 million compared to fiscal 2013 to €118.5 million (PY: €114.2 million) and amounted to 3.0% (PY: 2.9%) of sales. In fiscal 2014 there were no impairment losses or reversals of impairment losses (PY: impairment losses of €0.2 million).

Operating assets

Operating assets in the ContiTech division increased by €170.4 million year-on-year to €1,406.1 million (PY: €1,235.7 million) as at December 31, 2014.

Working capital was up €61.5 million at €608.0 million (PY: €546.5 million). Inventories increased by €15.7 million to €415.8 million (PY: €400.1 million). Operating receivables increased by €49.3 million to €637.4 million (PY: €588.1 million) as at the reporting date. Operating liabilities were up €3.5 million at €445.2 million (PY: €441.7 million).

Non-current operating assets amounted to €973.9 million (PY: €857.7 million), up €116.2 million year-on-year. This increase was primarily due to the €108.3 million rise in property, plant and equipment to €814.8 million (PY: €706.5 million). Goodwill increased as a result of the acquisition of various business units and exchange rate effects by €6.4 million to €96.6 million (PY: €90.2 million).

The acquisition of Gorvi S.A., Pamplona, Spain, and Mecapol S.A., Wagrowiec, Poland, by ContiTech Global Holding Netherlands B.V., Maastricht, Netherlands, as part of a share deal increased the operating assets of the ContiTech division by €16.7 million. Other changes in the scope of consolidation and asset deals did not result in any notable additions or disposals of operating assets.

Exchange rate effects increased the ContiTech division's total operating assets by €29.7 million in the fiscal year. In the previous year, this effect had reduced operating assets by €35.2 million.

Average operating assets in the ContiTech division climbed by €139.7 million to €1,407.2 million in comparison to fiscal 2013 (€1,267.5 million).

ContiTech in € millions	2014	2013	Δ in %
Sales	3,931.2	3,878.3	1.4
EBITDA	551.8	576.3	-4.3
in % of sales	14.0	14.9	
EBIT	433.3	462.1	-6.2
in % of sales	11.0	11.9	
Research and development expenses	85.3	84.6	0.8
in % of sales	2.2	2.2	
Depreciation and amortization[1]	118.5	114.2	3.8
– thereof impairment[2]	–	0.2	-100.0
Operating assets as at December 31	1,406.1	1,235.7	13.8
Operating assets (average)	1,407.2	1,267.5	11.0
ROCE	30.8	36.5	
Capital expenditure[3]	190.6	166.0	14.8
in % of sales	4.8	4.3	
Number of employees as at December 31[4]	32,775	29,725	10.3
Adjusted sales[5]	3,890.1	3,878.3	0.3
Adjusted operating result (adjusted EBIT)[6]	438.5	468.3	-6.4
in % of adjusted sales	11.3	12.1	

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.

Capital expenditure (additions)

Additions to the ContiTech division rose by €24.6 million year-on-year to €190.6 million (PY: €166.0 million). Capital expenditure amounted to 4.8% (PY: 4.3%) of sales.

In the ContiTech division significant additions related to the expansion of production capacity at German locations and in China, Brazil, the U.S.A., Mexico and Romania. At the location in Changshu, China, investments are being made in the construction of a new plant for the Elastomer Coatings business unit. In addition, the division built new plants for the Fluid Technology business unit at the locations in Macae, Brazil, and Kaluga, Russia. Investments were also made in all business units to rationalize existing production processes.

Employees

The number of employees in the ContiTech division increased by 3,050 compared with the previous year to 32,775 (PY: 29,725). This increase in the number of employees was due to volume increases in the Fluid Technology, Power Transmission Group, Vibration Control, and Air Spring Systems business units. Furthermore, the acquisition of the decorative foil and upholstery fabric specialist Gorvi S.A., Pamplona, Spain; and Mecapol S.A., Wagrowiec, Poland, in the Benecke-Kaliko Group business unit caused staff numbers to rise further.

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. In order to duly reflect the nature of Continental AG as a holding company, its net investment income is presented as its primary earnings figure.

Total assets increased by €1,214.7 million year-on-year to €19,028.3 million (PY: €17,813.6 million). On the assets side, the change is primarily due to the €497.3 million rise in receivables from affiliated companies, the €475.8 million rise in cash and cash equivalents, and the €259.7 million rise in short-term securities.

Net assets and financial position of Continental AG	**Dec. 31, 2014**	Dec. 31, 2013
Assets in € millions		
Intangible assets	29.0	17.3
Property, plant and equipment	2.1	1.5
Investments	11,073.7	11,082.2
Non-current assets	**11,104.8**	**11,101.0**
Inventories	0.0	0.0
Receivables and other assets	6,668.1	6,174.1
Short-term securities	259.7	0.0
Cash and cash equivalents	979.2	503.4
Current assets	**7,907.0**	**6,677.5**
Prepaid expenses and deferred charges	**16.5**	**35.1**
Total assets	**19,028.3**	**17,813.6**
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	413.4	416.5
Net income	335.8	496.9
Shareholders' equity	**5,495.0**	**5,659.2**
Provisions	**750.2**	**724.3**
Liabilities	**12,783.1**	**11,430.1**
Deferred income	**0.0**	**0.0**
Total equity and liabilities	**19,028.3**	**17,813.6**
Gearing ratio in %	95.1	91.7
Equity ratio in %	28.9	31.8

Investments decreased by €8.5 million as compared to the previous year to €11,073.7 million (PY: €11,082.2 million) and now account for 58.2% of total assets after 62.2% in the previous year.

At €16.5 million (PY: €35.1 million), prepaid expenses were down €18.6 million. The decline essentially results from the reversal of expenses deferred in 2013 that were incurred for the renegotiation of the syndicated loan. This syndicated loan was replaced by a new syndicated loan at the end of April 2014.

On the equity and liabilities side, liabilities to affiliated companies increased by €1,521.6 million year-on-year to €8,826.6 million (PY: €7,305.0 million), corresponding to 20.8%. Furthermore, bank loans and overdrafts increased by €312.5 million to €2,344.2 million (PY: €2,031.7 million). Offsetting this, bonds decreased by €497.5 million to €1,568.3 million (PY: €2,065.8 million). The decline is due in particular to the fact that no commercial papers had been issued as at December 31, 2014. The carrying amount of the commercial papers issued was €497.5 million as at the end of the previous year.

Provisions increased by €25.9 million to €750.2 million (PY: €724.3 million) due to the rise of €20.0 million in provisions for pension liabilities and similar obligations, of €4.2 million for tax provisions and of €1.7 million for other provisions.

Equity decreased by €164.2 million to €5,495.0 million (PY: €5,659.2 million). The decrease as a result of the dividend payment for 2013 in the amount of €500.0 million was not completely offset by the net income of €335.8 million generated in fiscal 2014. As a result of this and the rise in total assets, the equity ratio decreased from 31.8% to 28.9%.

Net investment income decreased by €380.4 million year-on-year to €724.7 million (PY: €1,105.1 million). In the previous year, net investment income had included gains from the sale of an investment amounting to €175.6 million. As in the previous year, it mainly consisted of profit and loss transfers from the subsidiaries. The income from profit transfers essentially resulted from the German companies Continental Automotive GmbH, Hanover, in the amount of €295.0 million, Continental Caoutchouc-Export-GmbH, Hanover, in the amount of €280.7 million, and Formpolster GmbH, Hanover, in the amount of €177.9 million. This was partly offset by expenses from loss transfers from UMG Beteiligungsgesellschaft mbH, Hanover, in the amount of €65.5 million.

As in the previous year, other operating income and other operating expenses particularly include expenses and income from corporate overheads and cost credits and charges from or for other subsidiaries. In the previous year, other operating expenses included premiums for the early redemption of the four bonds issued via Conti-Gummi Finance B.V., Maastricht, Netherlands, in fiscal 2010 and transferred to Continental AG via intragroup loans in the amount of €112.0 million.

Net interest expense improved by €160.6 million year-on-year to €117.5 million in fiscal 2014 (PY: €278.1 million). The €166.2 million decline in interest expenses to €160.1 million (PY: €326.3 million) is due in particular to the utilization in the previous year of the option for the early redemption of the four bonds issued in 2010 via Conti-Gummi Finance B.V., Maastricht, Netherlands, and transferred to Continental AG via intragroup loans. Continental AG issued considerably lower-interest bonds in the second half of 2013 for their partial refinancing.

The decline in interest expenses is also due to the lower year-on-year average level of margins for the syndicated loan. In addition to the margin decreases achieved over the course of fiscal 2013, the margin level was reduced further with the new syndicated loan agreement concluded in April 2014.

The tax expense of €71.9 million (PY: €24.5 million) results from current expenses in Germany and non-imputable foreign withholding tax.

Statement of income of Continental AG in € millions	**2014**	2013
Net investment income	**724.7**	**1,105.1**
General administrative expenses	122.4	101.7
Other operating income	151.7	119.7
Other operating expenses	241.7	336.5
Income from other securities and long-term loans	12.9	12.9
Net interest expense	-117.5	-278.1
Result from ordinary activities	**407.7**	**521.4**
Income tax expense	-71.9	-24.5
Net income	**335.8**	**496.9**
Accumulated profits brought forward from the previous year	413.4	416.5
Retained earnings	**749.2**	**913.4**

After taking this tax expense into account, Continental AG posted net income for the year of €335.8 million (PY: €496.9 million). The after-tax return on equity was 6.1% (PY: 8.8%).

Taking into account the profit carryforward from the previous year of €413.4 million, retained earnings amounted to €749.2 million. The Supervisory Board and the Executive Board will propose to the Annual Shareholders' Meeting the distribution of a dividend of €3.25 per share. With 200,005,983 shares entitled to dividends, the total distribution will therefore amount to €650,019,444.75. The remaining amount is to be carried forward to new account.

We expect a rise in the income from profit and loss transfers from the subsidiaries in fiscal 2015.

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 2014, 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, 2014, 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 2014 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) of *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).

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 39 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**
   6.1 The Executive Board can issue new shares only on the basis of resolutions by the Shareholders' Meeting.

   a) By way of resolution of the Annual Shareholders' Meeting of April 27, 2012 (Article 4 (3) of the Articles of Incorporation), the Executive Board is authorized, with the approval of the Supervisory Board, to increase the share capital by up to €70.0 million by issuing new shares against cash or non-cash contributions by April 26, 2015 (Authorized Capital 2012).

      In doing so, the Executive Board may exclude shareholders' pre-emptive rights with the approval of the Supervisory Board,

      (1) if this is necessary in order to exclude any fractional amounts from shareholders' pre-emptive rights;

      (2) if this is necessary in order to ensure that holders of option or conversion rights or requirements from warrant-linked bonds or convertible bonds are granted pre-emptive rights to new shares to the extent they would have been entitled after exercising their option or conversion rights or meeting the conversion requirement as shareholders;

      (3) if the capital is increased against cash contributions and the entire pro rata amount relating to shares to be issued and already issued against cash contributions using this authorization and disapplying pre-emptive rights exceeds neither the amount of €51.0 million nor the amount of 10% of share capital at the

time of this authorization being exercised ("maximum amount") and the issue price of the new shares is not significantly less than the quoted price of shares of the same type already listed at the time the issue price is conclusively established. The pro rata amount of share capital relating to new or previously acquired treasury shares issued or sold during the term of this authorization with the simplified disapplication of pre-emptive rights as per or in accordance with Section 186 (3) Sentence 4 *AktG*, and the pro rata amount of share capital relating to shares that can or must be subscribed to on the basis of option or conversion rights or requirements issued during the term of this authorization with pre-emptive rights disapplied in accordance with Section 186 (3) Sentence 4 *AktG*, mutatis mutandis, must be deducted from this maximum amount.

b) Finally, on the basis of the contingent capital in place in accordance with Article 4 (6) of the Articles of Incorporation, the Executive Board may issue up to 19,921,875 shares to the bearers or creditors of convertible bonds and/or warrant-linked bonds, participation rights and/or income bonds (or combinations of these instruments) that are issued by the company, or by domestic or foreign companies in which it directly or indirectly holds a majority interest, on the basis of the authorization resolved by the Annual Shareholders' Meeting of April 27, 2012, and that grant a conversion or option right in relation to bearer shares of the company or stipulate a conversion requirement. To date, none of the above rights have been issued on the basis of this authorization. The authorization ends on April 26, 2015.

6.2 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) The agreement concluded on April 24, 2014, for a syndicated loan of €4.5 billion grants each creditor the right to terminate the agreement prematurely and to demand repayment of the loans granted by it if one person or several persons acting in concert acquire control of Continental AG and subsequent negotiations concerning a continuation of the loan do not lead to an agreement. The term "control" is defined as the holding of more than 50% of the voting rights or if Continental AG concludes a domination agreement as defined under Section 291 *AktG* with Continental AG as the company dominated.

b) The bonds issued by Continental AG 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, and the bond issued by another subsidiary of Continental AG, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., on September 24, 2012, at a nominal amount of U.S. $950 million entitle each bondholder to demand that the respective issuer redeem or acquire the bonds held by the bondholder at a price established in the bond conditions in the event of a change of control at Continental AG. The bond conditions define a change of control as one person or several persons acting in concert, pursuant to Section 2 (5) of the German Takeover Code *(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 Schaeffler Verwaltung Zwei GmbH following the changes in its legal form), 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 du Groupe Michelin, "Senard et Cie", 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, Czech Republic, 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 takeover 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 the fixed salary, the bonus including components with a long-term incentive effect, and additional benefits including post-employment benefits. Further details including the individual remuneration are specified in the Remuneration Report contained in the Corporate Governance Report starting on page 22. The Remuneration Report is a part of the Corporate Management Report.

Corporate Governance Declaration Pursuant to Section 289a of *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 Subsequent Events ›

As at February 13, 2015, 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, 2014.

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 and ensuring a well-balanced financing structure. For us, this means sustainably increasing the value of each individual business unit and the corporation as a whole. The aim is that Continental generates a long-term return on capital (ROCE) that exceeds our weighted-average costs of capital. We evaluate the risks and opportunities that arise responsibly and on an ongoing basis in order to achieve our goal of adding value.

We understand 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

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.

To ensure that risks are detected in time, that their causes are analyzed, and that the risks are assessed and avoided or at least minimized, there is a uniform corporation-wide risk management system, which also comprises the early detection system for risks to the company as a going concern in accordance with section 91 (2) of the German Stock Corporation Act (*Aktiengesetz – AktG*). The risk management system regulates the identification, recording, assessment, documentation and reporting of risks and is integrated into the company's strategy, planning, and budgeting processes. By including risk management in the management and reporting systems, Continental ensures that risk management is an integral component of business processes in the corporation.

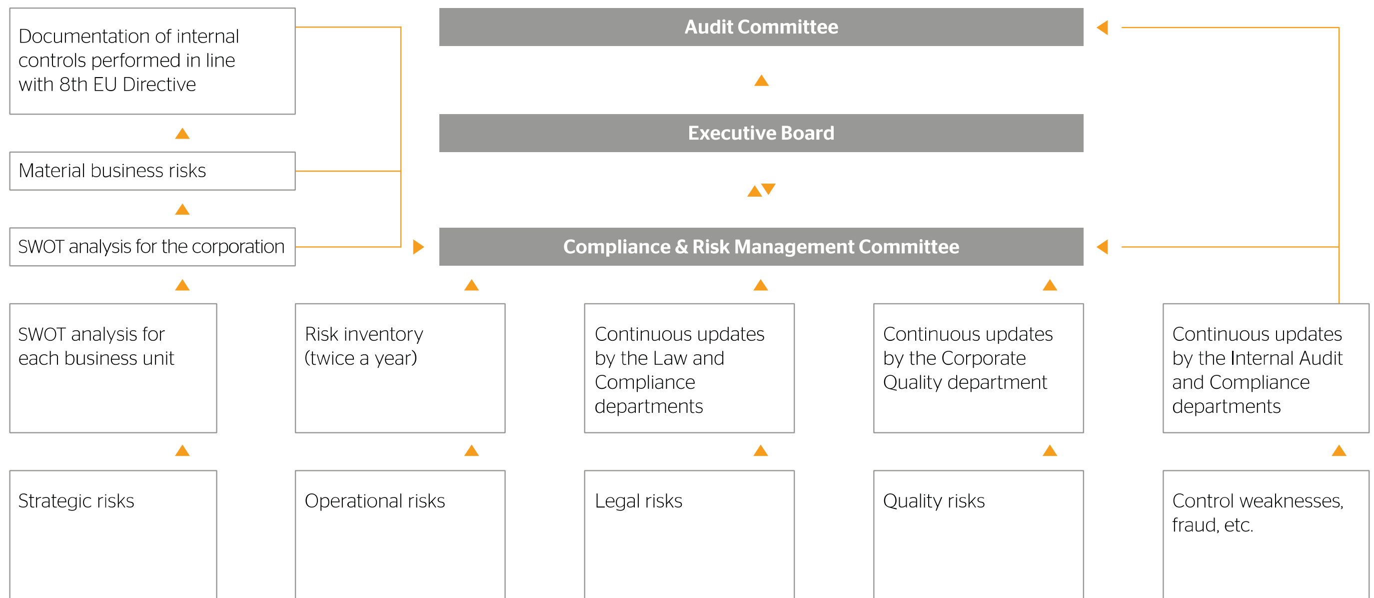
In order to operate successfully as a company in our complex business sector and to ensure the effectiveness, efficiency and propriety of accounting and compliance with the relevant legal and sublegislative regulations, Continental AG has created an effective, integrated internal control system that encompasses all relevant business processes. The internal control system forms an integral part of the risk management system. A summarized presentation is therefore given below. The risk management system also includes the compliance management system, which is described in detail in the Corporate Governance Declaration on page 24.

The Executive Board is responsible for the risk management system and the internal control system. The Supervisory Board and the Audit Committee monitor and review its effectiveness. For this purpose, the internal control system includes regulations on reporting to the Supervisory Board, the Audit Committee, the Executive Board and the Compliance & Risk Management Committee.

The risk management system and the internal control system include all subsidiaries significant to the consolidated financial statements. 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 dual control principle 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 accounting-related internal control system is evaluated in major areas through effectiveness testing of the reporting units. The results of the effectiveness tests

Risk reporting



must be recorded in the Continental Corporation's reporting systems on a quarterly basis and are then evaluated by the corporation's management.

If any weaknesses are identified, the corporation's management initiates the necessary measures.

In our opportunity management, 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.

Early risk identification and assessment

Responsibility for identifying and assessing material risks is distributed among various levels and organizational units within the Continental Corporation.

For purposes of risk identification, assessment and reporting, the management of each unit of the corporation analyzes the material risks relating to that unit. Local management can utilize various instruments for this, such as local operations management handbooks, centrally-developed function-specific questionnaires and the process and control descriptions of the "Internal-Controls@Continental" system, which are available for all major companies. In line with this, the key controls in business processes (e.g. purchase to pay, order to cash, asset management, HR, IT authorizations and the financial statement process) are controlled on a quarterly basis and reviewed with respect to their effectiveness.

Corporate functions such as Compliance, HR, Quality, Law, Purchasing, Insurance, Systems & Standards and Finance & Treasury also conduct additional audits with respect to the implementation of the respective corporate guidelines relevant to each area and analyze the processes concerned in terms of efficiency and potential weak points. The aim is to monitor compliance with the guidelines, identify potential risks in processes and to support the standardization of the operating processes.

The risks identified within the framework described above are categorized and assessed according to specified criteria. Risks are normally assessed according to their negative impact on the unit's operating result.

The risks and their effects are assessed primarily according to qualitative criteria and assigned to different categories that take account of the respective probability of occurrence and the impacts. A quantification of the individual risks is carried out only for risks that can be classified in corresponding fluctuation margins.

In addition to the risk analyses carried out by the local management and the corporate functions, the internal audit department also performs audits.

Continental AG has set up a Compliance & Anti-Corruption Hotline to give the employees and third parties outside the corpo-

ration 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 via the hotline where permissible by law. Tips received by the hotline are examined and pursued by Corporate Audit and the Compliance department.

Risk reporting

As with risk assessment, the reporting of the identified and analyzed risks is also allocated to various organizational levels.

Using an extensive risk inventory, the units regularly report any changes to previously reported risks plus any new developments that could turn into material risks. Any new material risks arising between regular reporting dates have to be reported immediately. This also includes risks identified in the audits of the corporate functions. Furthermore, the central controlling function analyzes the key figures provided as part of this reporting at corporation and division level so that the causes of potential risks can be identified early on.

The Compliance & Risk Management Committee informs the Executive Board of Continental on a regular basis of existing risks, their assessment and the measures taken. In addition, there is reporting to the management levels below the Executive Board according to their area of responsibility. The Supervisory Board and the Audit Committee are also informed regularly of the major risks, any weaknesses in the control system and measures taken. Moreover, the auditors are to report to the Audit Committee of the Supervisory Board regarding any weaknesses in the accounting-related internal control system which the auditors identified as part of their audit activities.

Risk management

The responsible management initiates suitable countermeasures that are also documented in the reporting systems for each risk identified and assessed as material. The Compliance & Risk Management Committee monitors and consolidates the identified risks at the corporation level. It regularly reports to the Executive Board and recommends further measures if needed. The Executive Board discusses and resolves these 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 the internal auditors guarantee its efficiency and further development.

Material Risks

The order of the risks presented within the four categories reflects the current assessment of the relative risk exposure for Continental and thus provides an indication of the current significance of these risks to us. The risks are presented in gross terms.

Financial Risks

The financial risks described below would, in the event of the respective risk occurring, ultimately influence all of Continental's borrowing costs as a result of rising interest rates. If borrowing rates increase by one percentage point, interest expenses of the gross indebtedness would rise in a range from €50 million to €100 million.

Continental's current investment-grade credit rating could be downgraded.
If the present global economic situation and the level of production in the automotive sector prove not to be lasting, this could have negative effects on Continental's liquidity and lead to a deterioration of its credit rating. Any such downgrade could have adverse effects on Continental's options for obtaining funding as well as its financing costs and interest expenses. A downgrade of Continental's credit rating could also impact Continental's liquidity position if its suppliers change the terms of payment offered to Continental for this reason, for example by requesting payment in advance. These consequences could be exacerbated if credit insurers were to restrict coverage for Continental's accounts payable.

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, especially the bond of U.S. $950.0 million issued in September 2012 (due in 2019) and the three bonds that Continental issued in the amount of €750.0 million each in July 2013 (due for repayment in 2018) and in September 2013 (due in 2017 and 2020) as part of its Debt Issuance Programme launched in May 2013. These financing agreements contain covenants that could limit Continental's capacity to take action and require Continental to maintain specific financial ratios, as well as change-of-control provisions. However, as long as Continental's credit rating is classified as investment grade, the obligations to maintain specific financial ratios have been suspended or disapplied in some cases.

Furthermore, Continental is subject to risks related to the syndicated loan. In order to finance its current business activities as well as its investments and payment obligations, Continental concluded a new syndicated loan agreement in April 2014. 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 report in accordance with Section 289 (4) and Section 315 (4) *HGB* (see page 114). The loans described 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 as 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 above. If Continental fails in this obligation, the creditors are entitled to declare their facilities immediately due and payable.

The leverage ratio was 0.39 as at December 31, 2014. This financial covenant was complied with at all times.

Continental is exposed to risks in connection with interest rate changes and hedging.
Continental is exposed to risks associated with changes in variable interest rates, as a number of Continental's credit facilities (in particular the facilities granted under the syndicated loan) bear interest at a floating rate. Therefore, an increase or decrease in interest rates would affect Continental's current interest expenses and its future refinancing costs. These risks are monitored and evaluated as part of our interest rate management activities and managed by means of derivative interest rate hedging instruments as needed. However, the future use of derivative interest rate hedging instruments is also generally dependent on the availability of adequate credit lines. The availability of additional credit lines could be negatively affected by disruptions in the financial markets, Continental's level of net indebtedness and its credit rating. Moreover, any hedging transactions executed in the form of derivative instruments could result in losses.

Regarding the risks from the use of financial instruments we refer to the information provided in Note 29 of the Notes to the Consolidated Statement of Financial Position.

Continental cannot dispose freely of all of the corporation's reported liquidity.
Limitations that can negatively impact the availability of capital are understood as comprising all existing limitations on liquidity. In the Continental Corporation, this relates to the following items: pledging of cash and cash equivalents and other financial assets (e.g. assignment of receivables in connection with sale of receivables programs), plan assets from the contractual trust arrangements (CTAs) and balances in countries with exchange restrictions or otherwise restricted access to liquidity. Taxes payable on the transfer of cash assets from one country to another are not as a rule considered to represent a limitation on liquidity.

The liquid funds of Continental Pension Trust e. V., which acts as trustee under contractual trust arrangements for Continental AG, Continental Reifen Deutschland GmbH and Continental Teves AG & Co. OHG, are reported under cash and cash equivalents in Continental AG's consolidated financial statements, since Continental Pension Trust e. V. does not fulfill the requirements for qualification as plan assets pursuant to IAS 19. These liquid funds totaling €296.3 million must be used only for the purposes of Continental Pension Trust e. V. as set out in its Articles of Association and are thus subject to a restriction on disposal.

Unrestricted cash and cash equivalents totaled €2.9 billion at the end of the fiscal year.

Risks Related to the Markets in which Continental Operates

Continental could be exposed to significant risks in connection with a global financial and economic crisis.
Continental generates a large percentage (approximately 73%) of its sales from automotive manufacturers (OEMs). The remainder of Continental's sales is generated from the replacement or industrial markets, mainly in the replacement markets for passenger, van 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 approximately 53% of its sales in 2014. 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 45% of the Continental Corporation's sales in 2014. 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.

Continental operates in a cyclical industry.
Global production of vehicles and, as a result, sales to OEM customers (from whom Continental currently generates approximately 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 and 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.

The automotive supply industry is characterized by intense competition, which could reduce Continental's sales or put continued pressure on its sales prices.
The automotive supply industry is highly competitive and has been characterized by rapid technological change, high capital expenditures, intense pricing pressure from major customers, periods of oversupply and continuous advancements in process technologies and manufacturing facilities. As OEMs are increasingly affected by innovation and cost-cutting pressures from competitors, they seek price reductions in both the initial bidding process and during the term of the contract with their suppliers. In particular, vehicle manufacturers expect lower prices from suppliers for the same, and in some cases even enhanced functionality, as well as a consistently high product quality. Should Continental be unable to offset continued price reductions through improved operating efficiencies and reduced expenditures, price reductions could impact profit margins. In addition, Continental's existing competitors, in particular its competitors from Asia, may pursue an aggressive pricing policy and offer conditions to customers that are more favorable than Continental's. Aside from this, the markets in which Continental is active are characterized by a trend toward consolidation. Increased consolidation among Continental's competitors or between Continental's competitors and any of its OEM customers could allow competitors to further benefit from economies of scale, offer more comprehensive product portfolios and increase the size of their serviceable markets. This could require Continental to accept considerable reductions in its profit margins and the loss of market share due to price pressure. Furthermore, competitors may gain control over or influence suppliers or customers of Continental by shareholdings in such companies, which could adversely affect Continental's supplier relationships.

Continental is exposed to fluctuations in prices of raw materials, electronic components and energy.
For the divisions of the Automotive Group, cost increases could result, in particular, from rising steel and electronic components prices, while the divisions of the Rubber Group are mainly affected by the development of prices for oil, natural rubber and synthetic rubber. To date, prices for steel and electronic components, oil, natural and synthetic rubber have at times been subject to substantial fluctuations around the world. 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 or pass on its increased costs to customers, such price increases could have a significant adverse impact on Continental's results of operations.

As a manufacturer dependent on large quantities of energy for production purposes, Continental is also affected by changes in energy prices. If Continental is unable to compensate for or pass on its increased costs resulting from rising energy prices to customers, such price increases could also have an adverse impact on Continental's earnings situation.

If the prices for commodities, electronic components or energy rise by 10 percentage points without it being possible to pass on these price increases to our customers, ceteris paribus, this would negatively influence Continental's earnings in a range from €150 million to up to €250 million.

Continental generates by far the greatest share of its total sales in Europe and, in particular, in Germany.
In 2014, Continental generated 53% of its total sales in Europe and 23% in Germany alone. By comparison, 22% of Continental's total sales in 2014 were generated in NAFTA, 20% in Asia, and 5% in other countries. Therefore, in the event of an economic downturn in Europe or in Germany in particular, Continental's business and earnings situation could be affected more extensively than its competitors'. Furthermore, the automotive and tire markets in Europe and NAFTA 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 Asian and North American markets, while demand in Europe is losing relative importance. It is not known if the development in Asia and North America will prove sustainable. If demand falls there and is not compensated for by an increase on another regional market, this could adversely affect demand for Continental products.

Continental is exposed to risks associated with the market trends and developments that could affect the vehicle mix sold by OEMs.
Continental currently generates approximately 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, as well as oil price fluctuations and the resulting significant increase in fuel costs, car manufacturers are increasingly being forced to develop environmentally-friendly technologies aimed at lower fuel consumption and a reduction of CO_2 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 (those costing less than U.S. $10,000/€7,000) has grown steadily, particularly in emerging markets such as China, India, Brazil and 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 described above and technical developments, the vehicle mix sold by Continental's customers has shifted significantly over the past two years and can also change further in future. As a technology leader, Continental is reacting to this development with a balanced and innovative product portfolio.

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, 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 member of the Continental Corporation (transaction risk). In particular, Continental is exposed to fluctuations in the U.S. dollar, Mexican peso, Czech koruna, Chinese renminbi, Romanian leu, South Korean won, Japanese yen and Hungarian forint. To the extent that cash outflows of the respective member 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 member 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 euro when preparing Continental's consolidated financial statements (translation risk). Translation risks are generally not hedged.

If the exchange rate of each functional currency of the companies of the Continental Corporation changes by 10 percentage points compared to the deviating transaction currencies of these companies – essentially, the euro and the U.S. dollar – ceteris paribus, this could negatively influence Continental's earnings by as much as €50 million due to the transaction-related net foreign currency risk from financial instruments.

Risks Related to Continental's Business Operations

Continental depends on its ability to develop and bring to the market innovative products in a timely manner, which includes providing sufficient funds for this purpose.
The future success of Continental depends on its ability to develop and launch new and improved products in a timely manner. The automotive market in particular is characterized by a trend toward higher performance and simultaneously more fuel-efficient, less polluting and quieter engines, growing demands by customers and stricter regulations with respect to engine efficiency and by the trend toward affordable cars and hybrid and electric vehicles. These new developments could entail technical challenges, the mastering of which could be very time-consuming for Continental. Consequently, Continental may be unable to develop innovative products and adapt them to market conditions quickly enough. Furthermore, developing new and improved products is very costly and therefore requires a substantial amount of funding. If Continental is unable to provide sufficient funding to finance its development activities, it could lose its competitive position in a number of important and rapidly growing sub-markets. Continental spends significant resources on research and development, especially in the divisions of its Automotive Group, but also in the Rubber Group. In the business year, Continental's research and development (R&D) expenses in relation to total sales accounted for more than 6%. If Continental devotes resources to the pursuit of new technologies and products that fail to be accepted in the marketplace or that fail to be commercially viable, all or part of these significant R&D expenses may be lost.

Continental depends on a limited number of key suppliers for certain products.
Continental is subject to the 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, a 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 (for example, 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 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.

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 recall campaigns 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 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 warranty and recall participation. 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. Besides this, 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.

Continental's operations depend on qualified executives and key employees.
Continental's success depends on its Executive Board members, other qualified executives, and employees in key functions. The loss of executives or key employees could have a material adverse effect on the market position and prospects of Continental. Considerable expertise could be lost or access thereto gained by competitors. Due to the intense competition in the automotive industry, there is a risk of losing qualified employees to competitors or being unable to find a sufficient number of appropriate new employees. There is no guarantee that Continental will be successful in retaining these executives and the employees in key positions or in attracting new employees with corresponding qualifications. Continental tries to retain the commitment of its qualified executives and key employees through interesting development perspectives and performance-based remuneration systems.

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, 2014, the pension obligations amounted to €5,265.6 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, 2014, Continental's net pension obligations (pension obligations less pension plan assets) amounted to €3,229.9 million.

Continental's externally invested pension plan assets are funded through 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 pension 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 risk that these costs will increase in the future.

If the discount rates used to calculate net pension obligations were to decrease by 0.5 percentage points, ceteris paribus, this would lead to a rise in net pension obligations in a range from €300 million to up to €400 million.

Continental is exposed to risks in connection with its interest in MC Projects B.V. and its interests in other companies.
Continental and Compagnie Financière du Groupe Michelin, "Senard et Cie", 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, Czech Republic – 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.

Furthermore, Continental conducts its business in part via companies in which it does not hold a 100% interest. Continental's ability to fully exploit the strategic potential in markets in which it operates through associated companies would be impaired if it were unable to agree with its partners or other interest groups on a strategy and the implementation thereof. Moreover, Continental could be subjected to fiduciary obligations to its partners or other shareholders, which could prevent or impede its ability to unilaterally expand in a business area in which the company in question operates. Additionally, there is a risk that the transfer of know-how and/or trade secrets to partners in the context of such collaborations could result in a drain of expertise from Continental. In particular, after a potential separation from a collaboration partner, there is no guarantee that the know-how and/or trade secrets transferred to such partner will not be used or disclosed to third parties, thereby adversely affecting Continental's competitive position.

Continental's operations rely on complex IT systems and networks.
Continental relies heavily on centralized, standardized information technology systems and networks to support business processes, as well as internal and external communications. These systems and networks are potentially vulnerable to damage or interruption from a variety of sources. Although Continental has taken precautions to manage its risks related to system and network disruptions, an extended outage in a data center or telecommunications network or a similar event could lead to an extended unanticipated interruption of Continental's systems or networks. Furthermore, Continental has outsourced all its SAP operations and certain other business-critical systems to an external service provider, making it and thus Continental vulnerable to damage and loss caused by fire, natural hazards, terrorism, power failure, or other disturbance at such third party's facilities and networks. Continental's systems and networks are also subject to the risk that third parties could attempt to spy on confidential information that is saved, processed or communicated in the systems and networks. If the precautions taken by Continental to provide adequate protection of its systems, networks and information are insufficient, the knowledge or use of its information by third parties could result in disadvantages for Continental.

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, especially in emerging economies. In particular, as a result of the current conflict over the Ukraine, there is a risk that Russia will respond to the sanctions imposed by the EU and the U.S.A. by imposing counter-sanctions. In the past fiscal year, Continental's sales in Russia and in the Ukraine represented less than 1% of its consolidated sales. Continental's fixed assets in this region also correspond to less than 1% of its total assets. Furthermore, 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.

Legal, Environmental and Taxation Risks

Continental could be held liable for soil, water or groundwater contamination or for risks related to hazardous materials.

Many of the sites at which Continental operates have been used for industrial purposes for many years, leading to risks of contamination and the resulting site restoration obligations. Moreover, Continental could be responsible for the remediation of areas adjacent to its sites if these areas were contaminated due to Continental's activities, that is, if Continental were to be found the polluter of these areas. Furthermore, soil, water and/or groundwater contamination has been discovered at a number of sites operated by Continental in the past, including Mayfield, Kentucky, U.S.A.; Adelheidsdorf, Germany; Culpeper, Virginia, U.S.A.; Gifhorn, Germany; Mechelen, Belgium; and Varzea Paulista, Brazil. The responsible authorities could assert claims against Continental, as the owner and/or tenant of the affected plots, for the examination or remediation of such soil and/or groundwater contamination, or order Continental to dispose of or treat contaminated soil excavated in the course of construction. Continental could also be sued for damages by the owner of plots leased by Continental or of other properties, if the authorities were to pursue claims against the relevant owner of the property and if Continental had caused the contamination.

On several of the sites where contamination has been discovered, remediation activities have already taken place upon order by or agreement with the competent authorities. Costs typically incurred in connection with such claims are generally difficult to predict. Moreover, if any contamination were to become a subject of public discussion, there is a risk that Continental's general reputation or its relations with its customers could be harmed.

Furthermore, at some of the sites at which Continental operates, hazardous materials were used in the past, such as asbestos-containing building materials used for heat insulation. The health and safety of third parties (for example former employees) may have been affected due to the use of such hazardous materials and Continental could therefore be exposed to related damage claims in the future.

Continental faces similar risks with respect to former sites which it has since sold. Even if Continental has contractually excluded or limited its liability vis-à-vis a purchaser, it could be held responsible for currently unknown contamination on properties which it previously owned or used. Likewise, there can be no assurance that environmentally hazardous substances will not pollute the environment or that Continental will not be called upon to remove such contamination.

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 across the world 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.

Furthermore, prior to the acquisition of Siemens VDO by Continental, Siemens AG (i) contributed to Siemens VDO industrial property rights, know-how and software that were exclusively attributed to the "Siemens VDO Automotive" business unit, (ii) granted to Siemens VDO non-exclusive rights to use industrial property rights, know-how and software that were not exclusively attributed to the "Siemens VDO Automotive" business unit as of the contribution date, including certain industrial property rights of Siemens AG related to electric motors and voice recognition systems, and (iii) granted to Siemens VDO exclusive rights to use certain industrial property rights of Siemens AG

related to the piezo fuel injection system. At the same time, Siemens AG retained non-exclusive, irrevocable, unrestricted, transferable and royalty-free rights to use such contributed industrial property rights, inventions on which such rights are based, know-how and software. As a consequence, Siemens AG may still use the industrial property rights, inventions on which such rights are based, know-how and software which were contributed to Siemens VDO, or for which non-exclusive rights of use were granted to Siemens VDO, to compete with Continental on the market or could license such industrial property to third parties, thereby materially adversely affecting Continental's competitive position.

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 competition authorities determined an "invitation to cartel" and imposed a fine of BRL 12 million (around €3.7 million) on CBIA, which was then reduced to BRL 10.8 million (around €3.3 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 addition, third parties may claim damages from CBIA in case of an infringement of Brazilian antitrust law.

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 company that is 100% owned by 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 South Korean subsidiaries of Continental became aware of investigations by the U.S. Department of Justice (DOJ) and the South Korean antitrust authorities 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 authorities announced that they had imposed a fine of KRW 45,992 million (around €35 million) on Continental Automotive Electronics LLC, Bugan-myeon, South Korea (CAE). On November 13, 2014, the criminal court also imposed a fine of KRW 200 million (around €150,000). CAE has appealed both of these rulings. 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 (about €3.3 million). The agreement is still subject to confirmation by the court. 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 alleges that there were indications of violations against EU antitrust law. In another case, a subsidiary of Continental received a request for information from the European Commission. However, it is not clear whether or in what amount the Commission will impose fines on Continental and/or its subsidiaries. Requests for information and searches are preliminary steps in investigations of suspected antitrust conduct and provide no indication of their results. 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 the consolidated sales of the company involved 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.

Continental could be subject to tax risks attributable to previous tax assessment periods.
Additional tax expenses could accrue at the level of the company or its subsidiaries in relation to previous tax assessment periods which have not been subject to a tax audit yet. The last completed tax audit for the company and its German subsidiaries related to the assessment periods up to and including 2007. A routine tax audit for the company and its German subsidiaries is currently being conducted by the German tax authorities for the assessment periods of 2008 to 2010. Tax audits are also pending in foreign jurisdictions for essentially the same assessment periods. As a result of the aforementioned tax audits, a material increase in the company's or its subsidiaries' tax burden is currently not expected. It cannot however be ruled out that tax audits may lead to an additional tax burden.

Furthermore, Continental is exposed to risks in connection with the takeover of Siemens VDO in 2007, since the tax indemnity provided by the seller of Siemens VDO does not cover the entire tax exposure potentially materializing for pre-acquisition periods.

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. Further information on legal disputes can be found in Note 34.

Material Opportunities

There are opportunities for Continental if the 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 (53%).

There are opportunities for Continental if there is a stable price level on the raw material 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, natural rubber and synthetic rubber. If prices for natural and synthetic rubber in particular settle down at the level of 2014, this could have a positive impact on Continental's earnings. We currently anticipate that prices, particularly for rubbers, will rise again over the course of 2015 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 and 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 intelligent networking of advanced driver assistance systems and driver information systems with the Internet.
Through intelligent networking of 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 the intelligent use of automotive data.
Continental is convinced that the car of the future will be connected to the Internet. For that reason, we recently founded Intelligent Transportation Systems (ITS) business unit, which is to develop new business ideas from our knowledge of the car and the "connectedness" of the car and its users with the Internet. Experts estimate potential sales of more than US $70 billion resulting from the possibility of using the Internet of Things for the automotive industry by 2020. The goal of the new business unit is to develop some of this potential for Continental. With additional sales in this field, Continental would come closer to achieving its strategic goal of greater independence from the automotive industry.

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.

For example, uncertainty regarding the economic recovery in Europe still persists. Accordingly, market risks in conjunction with falling demand remain high in Europe, which is precisely the most important market.

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 ›

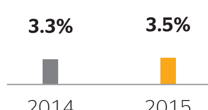
Future General Conditions

Forecast of Macroeconomic Development

Forecast economic growth (GDP) for 2015

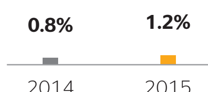
Key aspects of the economic development

WORLD



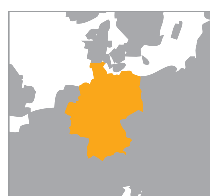
- **Global economy to gain momentum only slightly:** Structural problems in the eurozone, Japan, Brazil, Russia and elsewhere, and lower growth impetus from China, are expected to continue to curb global economic growth in 2015.
- **Growth in established economies expected to rise by 0.6 percentage points to 2.4%:** The U.S.A. is expected to be a driving force for global economic growth again in 2015, which should also benefit other industrialized nations. In addition, the low oil prices and interest rates should stimulate investment and private consumer spending.
- **Growth in emerging and developing economies forecast to decrease slightly by 0.1 percentage points to 4.3%:** China, India and the South-East Asian countries in particular are expected to expand further. However, this will be countered by a modest or weak development in Brazil and Russia.

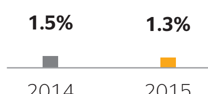
EUROZONE



- **Slight recovery probable:** The economy is expected to pick up as a result of a trade surplus, a slight decline in unemployment, higher lending and rising investment. There are still high risks in connection with diminishing efforts at reform in France and Italy, a possible exit from the euro or debt haircut for Greece, and the Russia-Ukraine conflict. Exports should benefit from the significant depreciation of the euro. The favorable oil price is also expected to help stimulate the economy.
- **Inflation to remain low:** Owing to continued low energy and food prices and unutilized capacity, pricing pressure is unlikely to increase to any significant extent. However, the lower euro exchange rate could have the effect of driving up prices.
- **Even more expansive monetary policy:** In view of the continued low pric- ing pressure and the slow pace of economic recovery, in January 2015 the European Central Bank decided to purchase government bonds on a huge scale starting from March 2015.

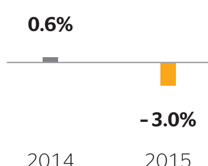
GERMANY





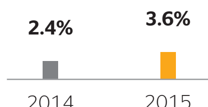
- **Economy in robust condition:** With employment at a high level and real income on the rise, private consumer spending should make a significant contribution to growth again. Furthermore, the current reticence with regard to corporate investment may ease. This is indicated by the favorable financing conditions and the investment backlog at companies. Exports should also increase more substantially, boosted by growing global demand and the lower euro exchange rate.
- **Solid labor market:** A slight increase in employment (0.5%) is anticipated and the unemployment rate is expected to fall slightly.
- **Pricing pressure to remain low:** Despite the economy picking up and wages rising, the increase in the price level is likely to remain moderate due to the low oil price.

RUSSIA



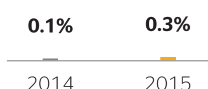
- **Russia to fall into recession:** The sharp decline in the oil price and other raw material prices in particular will put a great deal of strain on the Russian economy in the current year. In addition, the sanctions imposed by the Western world are continuing to hold back economic development.
- **Investment backlog and withdrawal of capital to continue:** Further outflows of capital and continuing reticence to invest are probable in light of the political uncertainties.
- **Increasing inflationary pressure:** The decline in the ruble is making imports more expensive; consumer prices are likely to rise substantially. The inflation rate could climb to an average of 10.0% in 2015 (2014: 7.7%). The latest interest rate move by the Russian central bank (reduction of key interest rate from 17.0% to 15.0%) is also likely to contribute to inflation.

U.S.A.



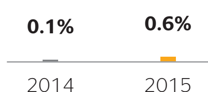
- **U.S. economy to continue recovery:** In the U.S.A., growing consumer spending by increasingly well-off private households and a high level of corporate investment are expected to continue to drive growth in 2015.
- **Financial policy to remain neutral:** The budget deficit is likely to improve slightly due to a rise in economic activity alone.
- **U.S. Federal Reserve (Fed) to begin gradual exit from very expansive monetary policy:** The economic upturn and rising employment figures indicate that an interest rate turnaround by the Fed can be expected in the second half of the year at the latest.

BRAZIL



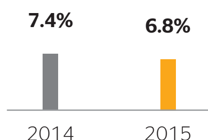
- **Continued low economic growth:** Only a slight increase in economic growth is expected again in 2015. The weak domestic economy and high interest rates will probably continue to create a difficult environment.
- **Slight decrease in inflation rate:** According to the latest estimates, inflation could fall to 5.9% in 2015 (2014: 6.3%).
- **Rising unemployment:** The unemployment rate is expected to increase slightly to 6.1% in 2015 (2014: 5.5%).

JAPAN



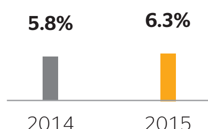
- **Tax increase suspended for now:** With the re-election of Prime Minister Abe in December 2014, the Japanese population confirmed the course taken by the government ("Abenomics"). The suspension of the tax increase for the time being is expected to lead to a slight increase in growth in 2015.
- **Inflation target to be achieved in 2015, too:** The inflation rate is expected to achieve the target of 2% again or slightly exceed it in 2015.
- **Strong exchange rate fluctuations:** Depreciation of the yen in relation to the U.S. dollar will make Japanese exports cheaper; by contrast, the yen is currently displaying an upward trend in relation to the euro.
- **Structural problems:** The demographic development, a rigid labor market and overregulation are holding back growth.

CHINA



- **Further decrease in growth:** Economic growth is expected to slow down again in 2015. However, this decreasing momentum is consistent with the political goal of sustainable growth. With the currently anticipated GDP growth of 6.8%, China is still among the world's fastest-growing economies.
- **Slight rise in inflation:** The inflation rate is expected to increase from 2.3% to 2.5%.
- **Appreciation of renminbi:** The appreciation of the renminbi in relation to the euro is likely to continue in 2015 despite the recent cut in the key interest rate.
- **Debt risk:** The high level of debt of the regional authorities represents a risk in the medium term.

INDIA



- **Further increase in economic growth anticipated:** The recent positive development is driven by a 10-point plan by the government elected in 2014, which provides for infrastructure investments and a reduction in bureaucracy, among other goals.
- **Inflation to decrease further:** The inflation rate, which already decreased significantly over the course of the previous year, could fall slightly again in 2015.
- **Slight decrease in interest rate:** The key interest rate, which was raised to 8.0% in January 2014, was lowered again to 7.75% in January 2015. Further interest measures are possible in principle due to diminishing pricing pressure.

Sources: IMF – World Economic Outlook Update 1/2015, central banks 12/2014, European Commission – Eurostat, Germany Trade & Invest 2014 – New Indian Government Presents Ten-Point Plan, statistical offices of the respective countries, Destatis 2014, own estimates.

Development of Key Customer Sectors

Global original equipment business with vehicle manufacturers is crucial to the performance of the Automotive divisions Chassis & Safety, Powertrain, and Interior. This also applies to the ContiTech division, which generated about 58% of its sales in the year under review with global automotive original equipment manufacturers.

By contrast, the development of the global replacement markets for passenger, light truck and commercial vehicle tires is the key success factor for the Tire division, since original equipment business with automotive manufacturers accounts for only 29% of its sales.

Development of light vehicle production

For the global production of light vehicles (passenger cars, station wagons and light commercial vehicles weighing less than 6 tons), we currently anticipate growth of around 2% to approximately 89 million units in 2015.

China is once again expected to contribute the largest share of the global increase in production. However, it currently seems likely that the pace of growth will slow further. We anticipate growth of 6% to 8% here in 2015. Owing to the size the market has reached, this would nonetheless be equivalent to between 1.4 million and 1.8 million units. Following the Japanese economy's slide into recession at the end of 2014, we do not currently see any signs of a turnaround and therefore anticipate a further decline in production volumes in 2015. By contrast, India, Indonesia and Thailand should be able to expand their light vehicle production in comparison to 2014 as a result of growing demand. For Asia as a whole, we anticipate a 4% increase in production to 47.5 million units in 2015.

We expect NAFTA to post another increase in production in 2015. However, owing to the high level of production that has already been reached, this increase is only likely to come to around 2%. There are sales opportunities arising from the still comparatively old pool of passenger cars in the U.S.A., where the average age of a car is over eleven years old. The recent significant decline in gasoline prices should also help boost demand.

With regard to light vehicle demand and production in Europe in 2015, we currently expect to see a split between two different developments. For the Western part of Europe we anticipate a slight upturn in domestic demand, combined with generally stagnating export figures. However, declining volumes are expected again in various Eastern European countries and particularly in Russia. For Europe as a whole, we expect light vehicle production to increase by just under 1%.

Development of heavy vehicle production

After stagnation in the previous year, global production of heavy vehicles should increase again somewhat in 2015 in view of the growing global economy. We are currently forecasting an increase of around 2% to 3.2 million units worldwide.

As a result of the positive economic prospects for the U.S.A., we expect production in NAFTA to increase by 5%. For Europe, South America and Asia, we anticipate increases of up to 2%.

Development of passenger car and light truck tire replacement markets

We expect the positive trend in demand for replacement passenger car and light truck tires to continue in 2015. Here we are anticipating a global increase in demand of 3%.

Over half of this growth is once again likely to be attributable to the Asian market – still driven by Chinese demand. In Europe, demand should improve further and rise by 2%. For NAFTA we still anticipate slight growth of 1% as a result of price increases in the budget tire segment owing to the decision by the International Trade Commission (ITC) with regard to imposing import duties. For South America and the other markets, we currently anticipate little change in volumes. Furthermore, additional demand for replacement tires could result from an increase in miles driven due to cheaper gasoline prices in the respective regions.

	Light vehicles[1] in millions of units		Heavy vehicles[2] in thousands of units	
Vehicle production	**2015**	2014	**2015**	2014
Europe[3]	19.9	19.8	553	543
NAFTA	17.3	17.0	570	542
South America	3.7	3.8	190	187
Asia[4]	47.5	45.9	1,890	1,858
Other markets	0.9	0.9	0	0
Worldwide	**89.3**	**87.4**	**3,203**	**3,130**

Source: IHS, preliminary figures and own estimates.
1 Passenger cars, station wagons, and light commercial vehicles (<6t).
2 Commercial vehicles (>6t).
3 Western, Central and Eastern Europe, including Russia and Turkey.
4 Asia including Kazakhstan, Uzbekistan, Middle East and Oceania with Australia.

Replacement sales of tires	Passenger car and light truck tires in millions of units		Commercial vehicle tires in millions of units	
	2015	2014	**2015**	2014
Europe	326	320	22.8	22.3
NAFTA	283	280	22.2	21.5
South America	66	66	13.3	13.6
Asia	411	387	88.8	87.0
Other markets	41	40	6.7	6.7
Worldwide	**1,127**	**1,093**	**153.8**	**151.1**

Source: LMC World Tyre Forecast Service, preliminary figures and own estimates.

Development of commercial vehicle tire replacement markets

Global demand for replacement commercial vehicle and trailer tires should increase further in 2015 due to increasing tonnage in most countries and regions. After strong growth in the previous year, we currently anticipate a 2% increase in global sales volumes for commercial vehicle tires.

We expect this growth to be attributable to increases in demand of around 3% for NAFTA and around 2% each for Europe and Asia. For South America and the other markets, we currently anticipate a slight decrease or almost no change in volumes.

Outlook for the Continental Corporation

Comparison of the past fiscal year against forecast
Continental achieved, and in some cases significantly exceeded, the key figures from the forecast for fiscal 2014 it issued in March 2014. Due primarily to negative exchange rate effects and lower-than-expected replacement tire sales, we were unable to achieve the sales figure of around €35 billion we had forecast for the corporation at the beginning of 2014. The negative effect of exchange rates amounted to about €470 million. In both the Automotive Group and the Rubber Group, we achieved our own targets for the adjusted EBIT margin. Net interest expense was better than expected, due in part to the delay in closing the acquisition of Veyance Technologies. The reason for the lower-than-expected tax rate is the recognition of deferred tax assets in the U.S.A. in the amount of €161.2 million and the recognition of deferred tax assets on interest carryforwards in Germany in the amount of €98.0 million, which are considered likely to be utilized in the future. Both reduced the income tax reported in the statement of income. Free cash flow before acquisitions was higher than we had forecast as a result of the higher EBIT and the positive development in working capital as at the end of the year.

Order situation
The Automotive Group continued to experience a positive trend in incoming orders in the past fiscal year. All together, the Automotive divisions Chassis & Safety, Powertrain, and Interior acquired orders for a total value of some €30 billion over 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 material prices. The volume of orders calculated in this way represents a benchmark for the sales achievable in the medium term that may be subject to deviations if the specified influencing factors change. Should the assumptions prove to be correct, the lifetime sales are a good benchmark for the sales volumes that can be achieved in the Automotive Group in four to five years.

Because the replacement tire business accounts for a large share of the Tire division's sales, it is not possible to calculate a reliable figure for order volumes. The same applies to the ContiTech division, which consists of eight business units operating in various markets and industrial sectors, each in turn with their own influencing 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 2015, we anticipate an increase in global light vehicle production (passenger cars, station wagons and light commercial vehicles) of around 2% to approximately 89 million units. We expect demand on Continental's key markets for replacement passenger tires (Europe and NAFTA) to grow by 9 million replacement tires or 1% to 2%.

Based on these assumptions, we anticipate an increase in consolidated sales to more than €36 billion in 2015. Moreover, we are anticipating an additional contribution to sales of at least €1.3 billion from the first-time consolidation of Veyance Technologies. The acquisition was concluded at the end of January 2015. The emerging favorable development of many currency pairs important to Continental, particularly the euro in relation to the U.S. dollar, the Japanese yen, the Brazilian real, as well as the Chinese renminbi may have a positive influence on the sales forecast. At present, a positive currency translation effect of some €1 billion is to be expected for 2015.

We have set ourselves the goal of achieving a consolidated adjusted EBIT margin of more than 10.5% for fiscal 2015. For the Automotive Group, we anticipate sales growth of more than 5% to approximately €22 billion with an adjusted EBIT margin of at least 8.5%. For the Rubber Group, we expect sales to grow by around 4% to more than €14 billion, and the adjusted EBIT margin to exceed 15%.

We do not anticipate any negative impact from increases in raw material prices in the Rubber Group in 2015, assuming an average price of U.S. $1.75 per kilogram for natural rubber (TSR 20) and U.S. $0.95 per kilogram for butadiene, a base material for synthetic rubber. Additional positive effects could result from the recent sharp drop in the price of oil. For the Rubber Group, every U.S. $10 decline in the average price of crude oil equates to a positive annual gross effect on EBIT of around U.S. $50 million. The average price of North Sea Brent was around U.S. $99 in 2014.

Comparison of fiscal 2014 against forecast

	Corporation				Automotive Group		Rubber Group	
	Sales	Adjusted EBIT margin	Capital expenditure in % of sales	Free cash flow[1]	Sales	Adjusted EBIT margin	Sales	Adjusted EBIT margin
2014 forecast	~€35 billion	>10%	~6%	>€1.2 billion	~€21 billion	>8%	~€14 billion	>15%
2014 reported	**€34.5 billion**	**11.3%**	**5.9%**	**€2.1 billion**	**€20.9 billion**	**8.1%**	**€13.6 billion**	**17.2%**

1 Before acquisitions.

As a result of the substantial reduction in net indebtedness, we forecast net interest expense of around -€300 million in the current year, taking into account the purchase price financing for the acquisition of Veyance Technologies. The tax rate should be around 30% in 2015.

For the current year, we expect special effects of approximately €100 million. Amortization from the purchase price allocation resulting primarily from the acquisition of Veyance Technologies is expected to be about €100 million and to affect the ContiTech division. Amortization from the purchase price allocation from the acquisition of Siemens VDO in 2007 will no longer be incurred in the current year (2014: €173 million).

In fiscal 2015, the capital expenditure ratio before financial investments will again amount to around 6% of sales. Approximately 55% of capital expenditure is attributable to the Automotive Group and 45% to the Rubber Group. The largest projects within the Automotive Group are the global expansion of production capacity for the MK 100 and MK C1 brake generations in the Vehicle Dynamics business unit, the construction of new production facilities for hydraulic brake systems in North America, and investments for the expansion of capacity for multifunction cameras and radar sensors in the Advanced Driver Assistance Systems business unit. In its Engine Systems business unit, the Powertrain division is investing primarily in the expansion of manufacturing capacity for gasoline and diesel high pressure injectors in Germany and China, and for turbochargers in the U.S.A. and the Czech Republic. Further investments are also planned in the Hybrid Electric Vehicle business unit for 48-Volt Eco Drive projects.

In the Tire division, capital expenditure will focus on the continuation of the ongoing investment projects (capacity expansions as well as quality-assurance and cost-cutting measures) in 2015. Capital expenditure in the ContiTech division will concentrate on increasing capacity in the Fluid Technology and Benecke-Kaliko business units.

Taking into account the purchase price payment for Veyance Technologies, Continental's net indebtedness again exceeded €4 billion at the start of 2015. This figure remains high compared to our competitors. We also intend to further strengthen the industrial business in particular. The acquisition of further companies for this purpose has not been ruled out. For 2015 we are planning on free cash flow of at least €1.5 billion before acquisitions.

Continental has had a good start to 2015, thus confirming our expectations for the year on the whole.

In addition to the parent company, the consolidated financial statements include 458 (PY: 443) 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, 344 (PY: 316) are fully consolidated and 114 (PY: 127) are accounted for using the equity method.

Consolidated Financial Statements ›

140 Statement of the Executive Board
141 Independent Auditor's Report
142 Consolidated Statement of Income
143 Consolidated Statement of Comprehensive Income
144 Consolidated Statement of Financial Position
146 Consolidated Statement of Cash Flows
147 Consolidated Statement of Changes in Equity

148 **Notes to the Consolidated Financial Statements**
148 Segment Reporting
152 General Information and Accounting Principles
161 New Accounting Pronouncements
166 Companies Consolidated and Information on Subsidiaries and Investments
167 Acquisition and Disposal of Companies and Business Operations
171 Notes to the Consolidated Statement of Income
177 Notes to the Consolidated Statement of Financial Position
220 Other Disclosures

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, and 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 concept as part of the corporation's value-oriented management, plus internal audits. 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 year 2014 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 13, 2015

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 business year from January 1 to December 31, 2014. 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 management. 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 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 20, 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

Ufer
Wirtschaftsprüfer

Papenberg
Wirtschaftsprüfer

Consolidated Statement of Income

in € millions	See Note	2014	2013
Sales		**34,505.7**	**33,331.0**
Cost of sales		–25,839.6	–25,529.4
Gross margin on sales		**8,666.1**	**7,801.6**
Research and development expenses		–2,137.7	–1,878.4
Selling and logistics expenses		–1,840.6	–1,657.0
Administrative expenses		–762.8	–698.7
Other expenses and income	6	–507.4	–342.2
Income from at-equity accounted investees	8	–73.8	37.6
Other income from investments	8	1.0	0.8
Earnings before interest and taxes		**3,344.8**	**3,263.7**
Interest income[1]	9	94.5	81.8
Interest expense[1, 2]	9	–359.8	–886.1
Net interest expense		**–265.3**	**–804.3**
Earnings before taxes		**3,079.5**	**2,459.4**
Income tax expense	10	–622.0	–449.6
Net income		**2,457.5**	**2,009.8**
Non-controlling interests		–82.2	–86.7
Net income attributable to the shareholders of the parent		2,375.3	1,923.1
Basic earnings per share in €	36	**11.88**	**9.62**
Diluted earnings per share in €	36	**11.88**	**9.62**

1 Including interest effects of pension obligations, of other long-term employee benefits, and of pension funds. In the prior year, the resulting income was reported under interest expense; the comparative figures for the prior year have been adjusted accordingly.
2 Including gains and losses from foreign currency translation, from changes in the fair value of derivative instruments as well as from available-for-sale financial assets.

Consolidated Statement of Comprehensive Income

in € millions	2014	2013
Net income	**2,457.5**	**2,009.8**
Reclassification within equity not affecting net income	-6.3	–
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit plans[1]	-599.6	269.9
Fair value adjustments[1]	-987.7	267.9
Reclassification from disposals of pension obligations	0.8	–
Portion for at-equity accounted investees[2, 3]	4.2	-4.4
Tax on other comprehensive income	383.1	6.4
Items that may be reclassified subsequently to profit or loss		
Currency translation[1]	383.5	-564.4
Difference from currency translation[1]	382.5	-563.3
Reclassification adjustments to profit and loss	0.6	3.1
Portion for at-equity accounted investees[3]	0.4	-4.2
Available-for-sale financial assets	9.2	-0.3
Fair value adjustments	12.2	3.9
Reclassification adjustments to profit and loss	-3.0	-4.2
Cash flow hedges	0.1	-0.1
Portion for at-equity accounted investees[3]	0.1	-0.1
Tax on other comprehensive income	16.4	8.2
Other comprehensive income	**-190.4**	**-286.7**
Comprehensive income	**2,260.8**	**1,723.1**
Attributable to non-controlling interests	-98.9	-41.7
Attributable to the shareholders of the parent	2,161.9	1,681.4

1 Including non-controlling interests.
2 Including a share of -€5.7 million (PY: –) from reclassifications as a result of disposals of pension obligations.
3 Including taxes.

Consolidated Statement of Financial Position

Assets

in € millions	See Note	Dec. 31, 2014	Dec. 31, 2013
Goodwill	11	5,769.1	5,520.9
Other intangible assets	11	443.3	557.7
Property, plant and equipment	12	8,446.4	7,728.0
Investment property	13	17.5	20.4
Investments in at-equity accounted investees	14	298.5	450.0
Other investments	15	10.7	7.9
Deferred tax assets	16	1,573.4	928.4
Defined benefit assets	25	1.6	6.0
Long-term derivative instruments and interest-bearing investments	29	301.2	285.1
Other long-term financial assets	17	41.9	45.0
Other long-term assets	18	19.7	20.1
Non-current assets		**16,923.3**	**15,569.5**
Inventories	19	2,987.6	2,830.9
Trade accounts receivable	20	5,846.2	5,315.8
Other short-term financial assets	17	382.5	336.2
Other short-term assets	18	731.3	601.2
Income tax receivables	27	60.3	69.3
Short-term derivative instruments and interest-bearing investments	29	63.1	18.3
Cash and cash equivalents	21	3,243.8	2,044.8
Assets held for sale	22	3.0	34.8
Current assets		**13,317.8**	**11,251.3**
Total assets		**30,241.1**	**26,820.8**

Equity and liabilities

in € millions	See Note	Dec. 31, 2014	Dec. 31, 2013
Subscribed capital		512.0	512.0
Capital reserves		4,155.6	4,155.6
Retained earnings		7,404.3	5,535.3
Other comprehensive income		–1,399.8	–1,191.7
Equity attributable to the shareholders of the parent		**10,672.1**	**9,011.2**
Non-controlling interests		352.5	311.0
Total equity	23	**11,024.6**	**9,322.2**
Provisions for pension liabilities and similar obligations	25	3,483.7	2,391.1
Deferred tax liabilities	16	178.5	113.2
Long-term provisions for other risks and obligations	26	306.3	266.9
Long-term portion of indebtedness	28	5,077.4	5,041.2
Other long-term financial liabilities	30	48.7	16.2
Other long-term liabilities	32	46.4	42.2
Non-current liabilities		**9,141.0**	**7,870.8**
Trade accounts payable	31	4,861.6	4,596.3
Income tax payables	27	577.3	588.2
Short-term provisions for other risks and obligations	26	732.7	631.1
Indebtedness	28	1,354.2	1,596.3
Other short-term financial liabilities	30	1,649.2	1,448.0
Other short-term liabilities	32	900.2	767.9
Liabilities held for sale	33	0.3	–
Current liabilities		**10,075.5**	**9,627.8**
Total equity and liabilities		**30,241.1**	**26,820.8**

Consolidated Statement of Cash Flows

in € millions	See Note	2014	2013
Net income		**2,457.5**	**2,009.8**
Income tax expense	10	622.0	449.6
Net interest expense	9	265.3	804.3
EBIT		**3,344.8**	**3,263.7**
Interest paid		-185.9	-565.1
Interest received		28.2	30.8
Income tax paid	10, 27	-775.0	-805.4
Dividends received		33.7	37.9
Depreciation, amortization, impairment and reversal of impairment losses	6, 11, 12, 13	1,789.0	1,831.3
Income from at-equity accounted and other investments, incl. impairment and reversal of impairment losses	8, 14	71.3	-46.3
Gains from the disposal of assets, companies and business operations		-13.6	-86.9
Other non-cash items		–	-2.4
Changes in			
inventories	19	-20.1	67.9
trade accounts receivable	20	-246.6	-451.6
trade accounts payable	31	59.3	379.8
pension and similar obligations	25	-20.5	-8.2
other assets and liabilities		103.7	76.3
Cash flow arising from operating activities		**4,168.3**	**3,721.8**
Cash flow from the disposal of property, plant and equipment, and intangible assets	11, 12	86.4	27.2
Capital expenditure on property, plant and equipment, and software	11, 12	-2,045.4	-1,980.7
Capital expenditure on intangible assets from development projects and miscellaneous	11	-64.9	-42.9
Cash flow from the disposal of companies and business operations	5	-0.5	246.9
Acquisition of companies and business operations	5	-129.0	-154.0
Cash flow arising from investing activities		**-2,153.4**	**-1,903.5**
Cash flow before financing activities (free cash flow)		**2,014.9**	**1,818.3**
Changes in short-term debt		-323.2	-339.1
Proceeds from the issuance of long-term debt		1,565.0	4,082.3
Principal repayments on long-term debt		-1,604.6	-5,276.6
Step acquisitions		0.0	-48.5
Dividends paid		-500.0	-450.0
Dividends paid and repayment of capital to non-controlling interests		-45.5	-62.7
Cash and cash equivalents arising from first consolidation of subsidiaries		0.4	1.7
Cash flow arising from financing activities		**-907.9**	**-2,092.9**
Change in cash and cash equivalents		**1,107.0**	**-274.6**
Cash and cash equivalents as at January 1		2,044.8	2,397.2
Effect of exchange rate changes on cash and cash equivalents		92.0	-77.8
Cash and cash equivalents as at December 31		**3,243.8**	**2,044.8**

Consolidated Statement of Changes in Equity

in € millions	Subscribed capital[1]	Capital reserves	Retained earnings	Successive purchases[2]	Difference from: Remeasurement of defined benefit plans[3]	Difference from: Currency translation[4]	Difference from: Financial instruments[5, 6]	Subtotal	Non-controlling interests	Total
As at Jan. 1, 2013	**512.0**	**4,155.6**	**4,062.2**	**-19.2**	**-1,012.5**	**77.1**	**3.8**	**7,779.0**	**377.4**	**8,156.4**
Net income	–	–	1,923.1	–	–	–	–	1,923.1	86.7	**2,009.8**
Comprehensive income	–	–	–	–	271.3	-513.0	0.0	-241.7	-45.0	**-286.7**
Net profit for the period	**–**	**–**	**1,923.1**	**–**	**271.3**	**-513.0**	**0.0**	**1,681.4**	**41.7**	**1,723.1**
Dividends paid	–	–	-450.0	–	–	–	–	-450.0	-62.7	**-512.7**
Step acquisitions	–	–	–	0.5	–	–	–	0.5	-48.5	**-48.0**
Other changes[7]	–	–	–	0.3	–	–	–	0.3	3.1	**3.4**
As at Dec. 31, 2013	**512.0**	**4,155.6**	**5,535.3**	**-18.4**	**-741.2**	**-435.9**	**3.8**	**9,011.2**	**311.0**	**9,322.2**
Net income	–	–	2,375.3	–	–	–	–	2,375.3	82.2	**2,457.5**
Comprehensive income	–	–	-6.3	–	-598.4	384.8	6.5	-213.4	16.7	**-196.7**
Net profit for the period	**–**	**–**	**2,369.0**	**–**	**-598.4**	**384.8**	**6.5**	**2,161.9**	**98.9**	**2,260.8**
Dividends paid/resolved	–	–	-500.0	–	–	–	–	-500.0	-47.1	**-547.1**
Step acquisitions	–	–	–	-0.1	–	–	–	-0.1	–	**-0.1**
Other changes[7]	–	–	–	-0.9	–	–	–	-0.9	-10.3	**-11.2**
As at Dec. 31, 2014	**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**

See Notes 2, 5, 23 and 24 to the consolidated financial statements.

1 Divided into 200,005,983 shares outstanding.

2 Successive purchases of shares in fully consolidated companies, subsequent purchase price adjustments and effects from the first consolidation of previously non-consolidated subsidiaries and, in the year under review, an effect from the acquisition of treasury stock in at-equity accounted investees.

3 Includes shareholder's portion of -€1.5 million (PY: -€4.4 million) in non-realized gains and losses from pension obligations and €5.7 million (PY: –) from reclassification as a result of disposals of at-equity accounted investees.

4 Includes shareholder's portion of €0.4 million (PY: -€4.2 million) in the foreign currency translation of at-equity accounted investees.

5 Includes shareholder's portion of €0.1 million (PY: -€0.1 million) in non-realized gains and losses from cash flow hedges of at-equity accounted investees.

6 The difference arising from financial instruments, including deferred taxes, is mainly due to available-for-sale financial assets.

7 Other changes in non-controlling interests due to changes in the scope of consolidation and, in the previous year, also effects from a capital increase.

Notes to the Consolidated Financial Statements

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 focuses on modern technologies for active and passive safety and for vehicle dynamics.

Powertrain, as part of its "Clean Power" vision, strives to make present and future vehicles more efficient, more environmentally friendly, and more powerful.

Interior develops technologies and concepts for gathering, prioritizing, preparing, and presenting information.

Tires offers the right tires for nearly every application – from cars, trucks, buses, and construction vehicles to special vehicles, motorcycles and bicycles.

ContiTech specializes in high-tech products made from rubber and plastic, and deploys its innovations in a range of industries.

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 is 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 operating result (EBIT). This is expressed as the return on sales (ROS) 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 impairments on intangible assets, property, plant and equipment, and investment properties as well as the impairments on goodwill. This figure does not include impairments 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 fiscal 2013, this item also included carrying amount adjustments in profit or loss on the syndicated loan. The previous year's figures are presented comparably.

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 €5,656.1 million (PY: €5,404.7 million) with a group of companies under common control in the year under review.

In 2014, more than 20% of sales were generated in Germany. Otherwise, there were no countries, except the U.S.A. and China, in which more than 10% of sales were made in the period under review.

Segment report for 2014

in € millions	Chassis & Safety	Powertrain	Interior
External sales	7,480.4	6,430.7	6,994.3
Intercompany sales	34.5	63.6	8.2
Sales (total)	**7,514.9**	**6,494.3**	**7,002.5**
EBIT (segment result)	680.2	-96.8	605.9
in % of sales	9.1	-1.5	8.7
- thereof income from at-equity accounted investees	19.3	-113.0	18.7
Capital expenditure[1]	411.6	428.0	286.1
in % of sales	5.5	6.6	4.1
Depreciation and amortization[2]	337.9	540.1	340.4
- thereof impairment[3]	4.7	168.4	5.8
Internally generated intangible assets	15.3	2.2	40.4
Significant non-cash expenses/income	16.4	-125.2	5.7
Segment assets	5,773.8	4,279.5	5,426.9
- thereof investments in at-equity accounted investees	75.6	47.5	79.6
Operating assets as at December 31	4,000.6	2,641.4	3,768.3
Operating assets (average)	3,956.5	2,733.0	3,814.5
ROCE	17.2	-3.5	15.9
Segment liabilities	1,773.2	1,638.1	1,658.6
Number of employees as at December 31[4]	38,127	34,529	36,055

in € millions	Tires	ContiTech	Other/ consolidation	Continental Corporation
External sales	9,768.3	3,832.0	—	34,505.7
Intercompany sales	16.1	99.2	-221.6	—
Sales (total)	**9,784.4**	**3,931.2**	**-221.6**	**34,505.7**
EBIT (segment result)	1,829.4	433.3	-107.2	3,344.8
in % of sales	18.7	11.0	—	9.7
- thereof income from at-equity accounted investees	0.2	0.2	0.8	-73.8
Capital expenditure[1]	724.3	190.6	4.8	2,045.4
in % of sales	7.4	4.8	—	5.9
Depreciation and amortization[2]	451.4	118.5	0.7	1,789.0
- thereof impairment[3]	—	—	—	178.9
Internally generated intangible assets	—	—	—	57.9
Significant non-cash expenses/income	14.3	-1.4	1.4	-88.8
Segment assets	6,866.8	2,107.0	26.5	24,480.5
- thereof investments in at-equity accounted investees	87.3	1.5	7.0	298.5
Operating assets as at December 31	4,882.7	1,406.1	-103.0	16,596.1
Operating assets (average)	4,932.0	1,407.2	-116.7	16,726.5
ROCE	37.1	30.8	—	20.0
Segment liabilities	1,984.1	700.9	129.5	7,884.4
Number of employees as at December 31[4]	47,338	32,775	344	189,168

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.

Segment report for 2013

in € millions	Chassis & Safety	Powertrain	Interior
External sales	7,229.4	6,195.0	6,589.5
Intercompany sales	39.8	65.3	16.2
Sales (total)	**7,269.2**	**6,260.3**	**6,605.7**
EBIT (segment result)	598.9	179.5	380.6
in % of sales	8.2	2.9	5.8
– thereof income from at-equity accounted investees	15.6	-3.5	22.4
Capital expenditure[1]	401.7	360.5	253.3
in % of sales	5.5	5.8	3.8
Depreciation and amortization[2]	391.3	470.7	469.6
– thereof impairment[3]	41.4	38.9	47.5
Internally generated intangible assets	5.4	5.8	29.1
Significant non-cash expenses/income	12.9	-13.7	0.5
Segment assets	5,447.4	4,173.3	5,193.7
– thereof investments in at-equity accounted investees	76.7	204.1	75.5
Operating assets as at December 31	3,865.3	2,759.7	3,751.7
Operating assets (average)	4,032.6	2,936.9	3,989.4
ROCE	14.9	6.1	9.5
Segment liabilities	1,582.1	1,413.6	1,442.0
Number of employees as at December 31[4]	36,496	32,353	34,368

in € millions	Tires	ContiTech	Other/ consolidation	Continental Corporation
External sales	9,567.9	3,749.2	—	33,331.0
Intercompany sales	15.3	129.1	-265.7	—
Sales (total)	**9,583.2**	**3,878.3**	**-265.7**	**33,331.0**
EBIT (segment result)	1,752.7	462.1	-110.1	3,263.7
in % of sales	18.3	11.9	—	9.8
– thereof income from at-equity accounted investees	1.9	0.0	1.2	37.6
Capital expenditure[1]	798.6	166.0	1.0	1,981.1
in % of sales	8.3	4.3	—	5.9
Depreciation and amortization[2]	385.0	114.2	0.5	1,831.3
– thereof impairment[3]	-1.3	0.2	—	126.7
Internally generated intangible assets	—	—	-0.1	40.2
Significant non-cash expenses/income	12.6	-6.7	7.7	13.3
Segment assets	6,277.4	1,908.0	29.9	23,029.7
– thereof investments in at-equity accounted investees	85.4	1.3	7.0	450.0
Operating assets as at December 31	4,309.3	1,235.7	-89.4	15,832.3
Operating assets (average)	4,645.8	1,267.5	-68.2	16,804.0
ROCE	37.7	36.5	—	19.4
Segment liabilities	1,968.1	672.3	119.3	7,197.4
Number of employees as at December 31[4]	44,508	29,725	312	177,762

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.

Reconciliation of EBIT to net income

in € millions	2014	2013
Chassis & Safety	680.2	598.9
Powertrain	-96.8	179.5
Interior	605.9	380.6
Tires	1,829.4	1,752.7
ContiTech	433.3	462.1
Other/consolidation	-107.2	-110.1
EBIT	**3,344.8**	**3,263.7**
Net interest expense	-265.3	-804.3
Earnings before taxes	**3,079.5**	**2,459.4**
Income tax expense	-622.0	-449.6
Net income	**2,457.5**	**2,009.8**
Non-controlling interests	-82.2	-86.7
Net income attributable to the shareholders of the parent	**2,375.3**	**1,923.1**

Segment report by region

in € millions	Germany	Europe excluding Germany	NAFTA	Asia	Other countries	Continental Corporation
External sales 2014	**8,106.5**	**10,313.4**	**7,636.3**	**6,887.9**	**1,561.6**	**34,505.7**
External sales 2013	7,920.4	9,933.0	7,277.0	6,449.3	1,751.3	33,331.0
Capital expenditure 2014[1]	**566.2**	**685.3**	**369.8**	**328.3**	**95.8**	**2,045.4**
Capital expenditure 2013[1]	455.2	679.0	430.3	311.0	105.6	1,981.1
Segment assets as at Dec. 31, 2014	**8,748.0**	**6,519.9**	**4,390.9**	**4,144.4**	**677.3**	**24,480.5**
Segment assets as at Dec. 31, 2013	8,781.9	6,220.8	3,810.8	3,575.0	641.2	23,029.7
Number of employees as at Dec. 31, 2014[2]	**52,411**	**60,462**	**31,414**	**35,612**	**9,269**	**189,168**
Number of employees as at Dec. 31, 2013[2]	49,884	55,636	29,114	33,230	9,898	177,762

1 Capital expenditure on property, plant and equipment, and software.
2 Excluding trainees.

Reconciliation of total assets to operating assets

in € millions	Dec. 31, 2014	Dec. 31, 2013
Total assets	**30,241.1**	**26,820.8**
– Cash and cash equivalents	3,243.8	2,044.8
– Current and non-current derivative instruments, interest-bearing investments	364.3	303.4
– Other financial assets	114.1	96.4
Less financial assets	**3,722.2**	**2,444.6**
Less other non-operating assets	**404.7**	**348.8**
– Deferred tax assets	1,573.4	928.4
– Income tax receivables	60.3	69.3
Less income tax assets	**1,633.7**	**997.7**
Segment assets	**24,480.5**	**23,029.7**
Total liabilities and provisions	**19,216.5**	**17,498.6**
– Current and non-current indebtedness	6,431.6	6,637.5
– Interest payable and other financial liabilities	91.8	66.7
Less financial liabilities	**6,523.4**	**6,704.2**
– Deferred tax liabilities	178.5	113.2
– Income tax payables	577.3	588.2
Less income tax liabilities	**755.8**	**701.4**
Less other non-operating liabilities	**4,052.9**	**2,895.6**
Segment liabilities	**7,884.4**	**7,197.4**
Operating assets	**16,596.1**	**15,832.3**

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 (HRB 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 13, 2015, the consolidated financial statements of Continental AG for fiscal 2014 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, 2014, 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 2014 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 euro. Unless otherwise stated, all amounts are shown in millions of euro. 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 accordingly. These 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.

The shares 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.

For the term during which Continental or any of its subsidiaries have made binding offers to minority shareholders to purchase their shares in subsidiaries, those non-controlling interests are reported as financial liabilities and not as equity. These financial liabilities are recognized at fair value, which corresponds to the price offered. In the event that the offer was made simultaneously at the time of the business combination, then the fair value of the binding purchase offer is considered part of the total cost of acquisition. On the other hand, if that offer was made separately from the business combination, then any difference between the binding purchase offer and the carrying amount of the non-controlling interests at the time that offer is made is recognized outside profit or loss.

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 euro 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, and for which repayment is not expected in the foreseeable future, are recognized in the difference from currency translation in equity.

Goodwill is recognized directly as an asset of the subsidiary acquired and therefore also translated into euro 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, 2014**	Dec. 31, 2013	**2014**	2013
Brazil	BRL	3.23	3.25	3.12	2.87
Switzerland	CHF	1.20	1.23	1.21	1.23
China	CNY	7.54	8.33	8.19	8.17
Czech Republic	CZK	27.73	27.41	27.54	25.98
United Kingdom	GBP	0.78	0.83	0.81	0.85
Hungary	HUF	315.09	297.17	308.71	296.95
Japan	JPY	145.17	144.51	140.39	129.65
South Korea	KRW	1,322.31	1,448.72	1,399.08	1,453.94
Mexico	MXN	17.88	18.03	17.67	16.96
Malaysia	MYR	4.25	4.51	4.35	4.19
Philippines	PHP	54.49	61.17	59.02	56.42
Romania	RON	4.48	4.48	4.44	4.42
U.S.A.	USD	1.22	1.38	1.33	1.33
South Africa	ZAR	14.06	14.49	14.41	12.83

Revenue recognition

Only sales of products 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 series 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-series 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 obligations as well as deferred tax assets and liabilities are shown 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 losses are 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 costs to sell 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 an impairment loss. 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 (sub-segments) 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 taxes. An impairment loss is recognized to the extent the carrying amount exceeds the recoverable amount for the 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 material prices and exchange rates. In addition to these current 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. A more detailed model with a longer period of detailed planning was used for the Hybrid Electric Vehicle (HEV) CGU on account of its specific situation as a start-up. Owing to the finite project terms in the Steering CGU, the planning period was extended until the projects end in 2022.

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. A uniform interest rate of 11.2% (PY: 11.3%) before taxes was used to discount cash flows. This pre-tax WACC is based on the capital structure of the relevant peer group on average over the last five years. The risk-free interest rate is 1.8% and the market risk premium 6.25%. Borrowing costs were calculated as the total of the risk-free interest rate plus the credit spreads of peer group companies rated by S&P, Moody's or Fitch. The sources of this information were data from Bloomberg and Bonds-Online.

The long-term growth rate for the CGUs of the Interior, Chassis & Safety and Powertrain segments was 1.0% in the year under review (PY: 1.0%). 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 annual impairment test for 2014 found that, in the HEV and Steering CGUs, the carrying amounts of the operating assets exceed the recoverable amount of the CGUs. This led to a total impairment loss of €74.2 million (PY: €67.6 million impairment on goodwill). In the Powertrain segment for the HEV CGU, this resulted in impairment losses on property, plant and equipment of €69.8 million and, in the Chassis & Safety segment for the Steering CGU, impairment losses on property, plant and equipment, and intangible assets of €4.4 million. The impairment related to all operating assets qualifying for this as at the end of the reporting period. The impairment loss is reported under other expenses and income. According to management opinion, the asset impairment at the HEV CGU is due to the delayed market penetration of e-mobility products. The cause for the asset impairment at the Steering CGU lies in the strategic change of direction implemented in 2013.

Assuming a 0.5 percentage point increase in the discount rate to 11.7% before taxes would not result in goodwill impairment. There would be no additional asset impairment. The asset impairment in the HEV and Steering business units would be unchanged as all operating assets qualifying for this are already impaired. Reducing long-term growth rates by 0.5 percentage points would not have resulted in goodwill impairment. There would be no additional asset impairment. The asset impairment in the HEV and Steering business units would be unchanged as all operating assets qualifying for this are already impaired. If sales in perpetuity would decline by 5%, this would not result in goodwill impairment. There would be no additional asset impairment. The asset impairment in the HEV and Steering business units would be unchanged as all operating assets qualifying for this are already impaired.

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 at the date of initial recognition as well as a fixed maturity and are intended to be held until that 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 impairments. They are reported in the statement of financial position in accordance with their term as non-current or current financial assets.

- Available-for-sale financial assets – which were designated as available for sale and not assigned to the other categories at the date of initial recognition – 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, 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. Continental AG generally measures all non-derivative financial liabilities 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 recognized 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 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 profit or loss as incurred, independently of the hedged item.

Embedded derivatives
Non-derivative host contracts are regularly inspected for embedded derivatives, e.g. contractual payment terms neither in the functional currency of a contractual partner 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.

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.

Provisions for pension liabilities and similar obligations
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 outside profit or loss. Expenses for the interest cost on pension liabilities and income from the pension funds are reported separately in net interest expense.

Accordingly, the interest effects of other long-term employee benefits are reported in net interest expense. 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 provision for pension and other post-employment liabilities 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 net interest expenses including an effect from a change in interest.

Non-financial liabilities
Current 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 taxes 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. 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 Continental AG became effective in 2014 and have been adopted accordingly:
IFRS 10, *Consolidated Financial Statements*, establishes principles for the presentation and preparation of consolidated financial statements when an entity (parent) controls one or more other entities. A reporting entity is required to consolidate an investee when that entity controls the investee. Control exists only if the investor has the power over the investee, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee to affect the amount of the investor's returns. Besides the introduction of a uniform consolidation model based on the principle of control, IFRS 10 includes accounting requirements regarding, inter alia, non-controlling interests, potential voting rights, and loss of control. The standard supersedes the requirement related to consolidated financial statements in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. 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, 2014. The standard and the consequential amendments had no significant effect on the consolidated financial statements of Continental AG.

IFRS 11, *Joint Arrangements*, describes the principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements). A joint arrangement is either a joint operation or a joint venture. A joint operator shall recognize assets, liabilities, expense and revenue in relation to its interest in the joint operation. A joint venturer shall recognize its interest in a joint venture as investment and shall account for the investment using the equity method in accordance with IAS 28, *Investments in Associates and Joint Ventures*. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. 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, 2014. The standard and the consequential amendments had no significant effect on the consolidated financial statements of Continental AG.

IFRS 12, *Disclosure of Interests in Other Entities*, requires the disclosure of information that enables users of financial statements to evaluate the nature of and risk associated with interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities, and the financial effect of those interests. The standard and the consequential amendments to other standards are required to be applied for annual periods beginning on or after January 1, 2014. IFRS 12 and the consequential amendments had no significant 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 27 (revised 2011), *Separate Financial Statements (Investment Entities)*, deal with the definition of investment entities and introduce an exception to the general principle that all subsidiaries are to be consolidated. An investment entity that is a parent should measure its investments in particular subsidiaries in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, and accordingly IFRS 9, *Financial Instruments*. Furthermore, the amendments specify new disclosure requirements for investment entities. The amendments and the consequential amendments to other standards are required to be applied for annual periods beginning on or after January 1, 2014. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, and IFRS 12, *Disclosure of Interests in Other Entities (Transition Guidance)*, define the date of initial application of IFRS 10 and explain when and how adjustments should be made. The amendments describe that an entity need only present adjusted comparative information for the annual period immediately preceding the date of initial application of IFRS 10. A similar transition relief is provided for IFRS 11 and IFRS 12 regarding the presentation and adjustment of comparative information. The requirement to present comparatives for the disclosures relating to unconsolidated structured entities for periods before the annual reporting period in which IFRS 12 is first applied is eliminated. The amendments and the consequential amendment of IFRS 1, *First-time Adoption of International Financial Reporting Standards*, are required to be applied for annual periods beginning on or after January 1, 2014. The amendments had no significant effect on the consolidated financial statements of Continental AG.

IAS 27 (revised 2011), *Separate Financial Statements*, deals with the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates in separate financial statements. IAS 27 requires that investments in subsidiaries, joint ventures and associates be accounted for either at cost or in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, and accordingly IFRS 9, *Financial Instruments*. The standard is required to be applied for annual periods

beginning on or after January 1, 2014. The standard had no effect on the consolidated financial statements of Continental AG.

IAS 28 (revised 2011), *Investments in Associates and Joint Ventures*, deals with the accounting for investments in associates and the application of the equity method when accounting for investments in associates and joint ventures. Furthermore, IAS 28 clarifies cases in which an investment, or a portion of an investment, in an associate or a joint venture is classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations.* The standard implements a measurement option for investments in associates or joint ventures which are held by, or are held indirectly through, an entity that is a venture capital organization, a mutual fund, unit trust or similar entity including investment-linked insurance funds. IAS 28 (revised 2011) supersedes IAS 28 (revised 2003), *Investment in Associates*, and incorporates rules of SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers.* IAS 28 is required to be applied for annual periods beginning on or after January 1, 2014. The standard had no significant effect on the consolidated financial statements of Continental AG.

The amendments to IAS 32, *Financial Instruments: Presentation*, clarify the conditions for the offsetting of financial assets and financial liabilities. The amendments are required to be applied for annual periods beginning on or after January 1, 2014. The amendments had no significant effect on the consolidated financial statements of Continental AG.

The amendments to IAS 39, *Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting),* provide relief from discontinuing hedge accounting when the novation of a hedging instrument to a central counterparty is required by new law or regulations and meets certain criteria. IFRS 9, *Financial Instruments*, has been amended accordingly. The amendments are required to be applied for annual periods beginning on or after January 1, 2014. 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:

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 are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRIC 21, *Levies*, provides guidance on when to recognize a liability for a levy imposed by a government, other than income taxes. IFRIC 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* and the accounting for a liability to pay a levy whose timing and amount is certain. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is required to be applied for annual periods beginning on or after June 17, 2014. The interpretation is not expected to have any significant effect on the future 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 will become effective at a later date:

- 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 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 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 are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

Under the IASB's sixth annual improvements project *(Improvements to IFRSs, December 2013, Cycle 2011-2013)*, the following amendments will become effective at a later date:

- The amendment to IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, clarifies in the basis for conclusions the meaning of "effective IFRSs".

- The amendment to IFRS 3, *Business Combinations*, clarifies the scope of IFRS 3. Consequently, the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself is excluded from the scope of the standard.

- The amendment to IFRS 13, *Fair Value Measurement*, clarifies that the portfolio exception of IFRS 13 applies to all contracts within the scope of, and accounted for in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, or IFRS 9, *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities in IAS 32, *Financial Instruments: Presentation*.

- The amendment to IAS 40, *Investment Property*, clarifies that a determination whether a specific transaction meets the definition of a business combination as defined in IFRS 3, *Business Combinations*, and includes an investment property as defined in IAS 40, *Investment Property*, requires the separate application of both standards.

The amendments are required to be applied for annual periods beginning on or after January 1, 2015. The amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

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 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 are not expected to have any significant effect on the future 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 are not expected to have any significant effect on the future 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 are not expected to have any effect on the future 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 are not expected to have any effect on the future consolidated financial statements of Continental AG.

IFRS 9, *Financial Instruments*, replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 includes new requirements on the classification and measurement of financial instruments, especially financial assets. For calculating impairment the standard replaces the incurred loss model with an expected credit loss model. Furthermore IFRS 9 introduces a new (general) hedge accounting model with the aim of aligning risk management more closely with the accounting. The standard introduces new presentation requirements and extensive new disclosure requirements. 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. IFRS 9 and the consequential amendments are 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. The amendments are required to be applied for annual periods beginning on or after January 1, 2016. The amendments are not expected to have any significant effect on the future 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 are not expected to have any significant effect on the future 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 are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

IFRS 14, *Regulatory Deferral Accounts*, permits first-time adopters within its scope to continue to account for regulatory deferral account balances in its first IFRS financial statements in accordance with its previous generally accepted accounting principles when it adopts IFRS. If an entity chooses to apply IFRS 14 it has to fulfill specific presentation and disclosure requirements. IFRS 14 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 standard and the consequential amendment are not expected to have any effect on the future consolidated financial statements of Continental AG.

IFRS 15, *Revenue from Contracts with Customers*, replaces existing revenue recognition guidance and supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyality 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. 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, 2017. The standard and the consequential amendments are not expected to have any significant effect on the future consolidated financial statements of Continental AG.

Under the IASB's seventh annual improvement project (*Improvements to IFRSs, September 2014, Cycle 2012-2014*), the following amendments will become effective at a later date:

- 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 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 458 (PY: 443) 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, 344 (PY: 316) are fully consolidated and 114 (PY: 127) are accounted for using the equity method.

The number of consolidated companies has increased by a total of 15 since the previous year. 20 companies were formed, 11 were acquired and three previously unconsolidated units were included in consolidation for the first time. Seven companies were liquidated, six were deconsolidated, and four were sold. In addition, the number of companies consolidated was reduced by two as a result of mergers.

In particular, the 2014 additions to the scope of consolidation relate to the newly formed companies and acquisitions in the Automotive Group and the Rubber Group. Companies no longer included in the scope of consolidation essentially relate to mergers, liquidations and disposals in the Automotive Group. The effects of this are shown under Note 5.

39 (PY: 36) 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. 38 (PY: 35) of these are affiliated companies, 8 (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, 2014 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 requirements, contractual agreements or rights to protect non-controlling interests.

With a share of voting rights of 49.91%, Alencon Pneus SAS, Alencon, France, is fully consolidated as there is a purchase option for the remaining shares through the parent company controlled by Continental AG. The potential voting rights on the basis of the purchase option are classified as substantial.

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 40.

5. Acquisition and Disposal of Companies and Business Operations

Acquisition of companies and business operations
In view of the increasing competition in the development and production of battery cells for the automobile industry, Continental and its Korean partner SK Innovation Co., Ltd., Seoul, South Korea, implemented on December 18, 2014, an agreement – which had been concluded on December 15, 2014 – to dissolve the joint venture SK Continental E-motion Pte. Ltd., Singapore, Singapore. In this context, Continental Automotive Singapore Pte. Ltd., Singapore, Singapore, sold 49% in SK Continental E-motion Pte. Ltd., Singapore, Singapore, for one euro. At the same time, Conti Temic microelectronic GmbH, Nuremberg, Germany, acquired 100% in SK Continental E-motion Germany GmbH, Berlin, Germany, formerly a wholly owned subsidiary of SK Continental E-motion Pte. Ltd., Singapore, Singapore, for a purchase price of one euro. The company was integrated into the Powertrain segment. No intangible assets were assumed. There was no goodwill or bargain purchase resulting from the purchase price allocation. There was no material effect on the net assets, financial and earnings position of the Continental Corporation as at December 31, 2014.

Effective July 31, 2014, CAS-One Holdinggesellschaft mbH, Hanover, Germany, acquired the remaining 50% of shares in the exhaust technology specialist Emitec Gesellschaft für Emissionstechnologie mbH, Lohmar, Germany, which was previously a joint venture with GKN Driveline International GmbH, Lohmar, Germany. Effective October 24, 2014, the company is operating as Continental Emitec GmbH, Lohmar, Germany. The incorporation of this business into the Powertrain segment enables Continental to act as a supplier of complete systems for exhaust aftertreatment and thereby take advantage of existing growth potential. The purchase price for the remaining shares was €46.3 million and was paid in cash. At the same time, CAS-One Holdinggesellschaft mbH, Hanover, Germany, took on a receivable from the previous joint venture partner GKN Driveline International GmbH, Lohmar, Germany, against Emitec Gesellschaft für Emissionstechnologie mbH, Lohmar, Germany, in an amount of €10.6 million. The incidental acquisition costs of €1.5 million were recognized as other expenses. The fair value measurement of the shares previously held resulted in an impairment loss of €33.8 million, which was recognized under income from at-equity accounted investees. In addition, there was a negative effect of €1.9 million resulting from the reclassification to profit and loss of reserves previously recognized directly in equity. As part of the purchase price allocation, intangible assets of €40.5 million and goodwill of €77.5 million were recognized. In general, this goodwill is expected not to be deductible for tax purposes. If the transaction had already been completed as at January 1, 2014, net income after taxes would have been €4.6 million higher and sales would have been up by €118.1 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, 2014.

As part of the acquisition of Emitec Gesellschaft für Emissionstechnologie mbH, Lohmar, Germany, assets and liabilities recognized in the consolidated statement of financial position for the first time were posted at the following amounts:

Acquired net assets in € millions	**Carrying amount immediately before acquisition**	**Preliminary fair value at date of first-time consolidation**
Other intangible assets	51.2	41.6
Property, plant and equipment	57.4	51.5
Other investments	0.3	0.3
Deferred tax assets	23.4	20.6
Long-term derivative instruments and interest-bearing investments	0.4	0.4
Inventories	19.4	19.8
Trade accounts receivable	37.5	37.5
Other short-term financial assets	2.7	2.7
Other short-term assets	2.8	2.8
Income tax receivables	5.2	5.2
Short-term derivative instruments and interest-bearing investments	2.5	2.5
Cash and cash equivalents	2.5	2.5
Provisions for pension liabilities and similar obligations	-33.4	-38.2
Deferred tax liabilities	-17.3	-10.2
Long-term provisions for other risks and obligations	-1.9	-2.0
Long-term portion of indebtedness	-1.0	-1.0
Trade accounts payable	-42.9	-42.9
Income tax payables	-5.5	-5.5
Short-term provisions for other risks and obligations	-1.4	-11.1
Indebtedness	-40.7	-40.7
Other short-term financial liabilities	-15.8	-15.8
Other short-term liabilities	-4.9	-4.9
Purchased net assets	**40.5**	**15.1**
Fair value of previously held shares		46.3
Purchase price		46.3
Goodwill		**77.5**

Effective June 27, 2014, Continental Holding France SAS, Sarreguemines, France, acquired 100% of shares in both MPI SAS, Mandelieu, France, and REPARATION PNEUMATIQUES DU SUD EST (REPNEU) SAS, Grasse, France, with the aim of expanding the sales network on the French tire market. The purchase price totals €40.7 million, €26.7 million of which was paid in cash. A liability of €14.0 million is due one year after closing. At the same time, Continental Holding France SAS, Sarreguemines, France, assumed from the seller a receivable of €40.5 million from MPI SAS, Mandelieu, France. The incidental acquisition costs of €0.5 million were recognized as other expenses. As part of the purchase price allocation, intangible assets of €14.1 million and goodwill of €52.9 million were identified. If the transaction had already been completed as at January 1, 2014, net income after taxes would have been €3.6 million lower and sales would have been up by €73.6 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, 2014.

To strengthen the sales network in the Tire segment, Vergölst GmbH, Hanover, Germany, closed an asset deal effective March 1, 2014, with ESKA Reifendienst GmbH, Regensburg, Germany, and L.A.C.K. GmbH & Co. KG, Icking, Germany, to take over the operating activities of the companies. The purchase price was €5.1 million and was paid entirely in cash. The purchase price allocation resulted in intangible assets of €0.7 million. Adam Touring GmbH, Dietikon, Switzerland, closed a further asset deal on March 1, 2014. The purchase price was €0.5 million. Intangible assets of €0.2 million were identified in purchase price allocation. Other than this, there was no material effect on the net assets, financial and earnings position of the Continental Corporation as at December 31, 2014.

Continental is meeting the rising demand for engineering services with the acquisition of the remaining 50% in Alphapeak Ltd., Lichfield, U.K., as at February 3, 2014. Also effective February 3, 2014, this company is now operating as Continental Engineering Services Ltd., Lichfield, U.K. The purchase price was €0.3 million. The purchase price allocation resulted in acquired net assets of €2.2 million and goodwill of €12.8 million for the Chassis & Safety segment. Other than this, there was no material effect on the net assets, financial and earnings position of the Continental Corporation as at December 31, 2014.

Effective November 1, 2014, ContiTech Global Holding Netherlands B.V., Maastricht, Netherlands, acquired 100% of shares in Gorvi S.A. in Pamplona, Spain, and Mecapol S.A. in Wagrowiec, Poland, to increase the manufacturing capacity and market presence of the Benecke-Kaliko Group. The provisional purchase price was €16.5 million. The incidental acquisition costs of €0.6 million were recognized as other expenses. Intangible assets of €2.2 million were identified in provisional purchase price allocation. There is a provisional bargain purchase effect of €0.6 million, which was included in other income. If the transaction had already been completed as at January 1, 2014, net income after taxes would have been €1.6 million higher and sales would have been up by €21.2 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, 2014.

The ContiTech segment has selectively expanded its business in the Power Transmission Group and Fluid Technology with further asset and share deals. The purchase prices amount to a total of €15.7 million, €0.6 million of which is accounted for by purchase price liabilities. The incidental acquisition costs of €0.5 million were recognized as other expenses. As part of the purchase price allocation, intangible assets of €1.8 million and goodwill totaling €5.9 million were capitalized. In addition, a bargain purchase effect of €0.7 million was recognized in profit or loss in other income. Other than this, there was no material effect on the net assets, financial and earnings position of the Continental Corporation as at December 31, 2014.

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	Carrying amount immediately before acquisition	Preliminary fair value at date of first-time consolidation
Other intangible assets	1.1	21.6
Property, plant and equipment	24.1	29.6
Investments in at-equity accounted investees	1.5	1.5
Other investments	2.8	2.8
Deferred tax assets	3.3	2.6
Other long-term financial assets	0.3	0.3
Inventories	30.1	29.7
Trade accounts receivable	28.3	28.3
Other short-term financial assets	5.0	5.0
Other short-term assets	3.9	3.3
Income tax receivables	0.9	0.9
Short-term derivative instruments and interest-bearing investments	0.1	0.1
Cash and cash equivalents	11.4	11.4
Provisions for pension liabilities and similar obligations	–2.2	–2.4
Deferred tax liabilities	0.0	–4.6
Long-term provisions for other risks and obligations	–0.3	–0.3
Long-term portion of indebtedness	–5.6	–5.6
Other long-term liabilities	–0.1	–0.1
Trade accounts payable	–36.1	–36.1
Income tax payables	0.0	–1.7
Short-term provisions for other risks and obligations	–4.0	–7.7
Indebtedness	–43.1	–43.1
Other short-term financial liabilities	–3.9	–3.9
Other short-term liabilities	–8.4	–8.4
Purchased net assets	**9.1**	**23.2**
Fair value of previously held shares		14.7
Purchase price		78.8
Goodwill		**71.6**
Negative difference		–1.3

Disposal of companies and business operations

Effective September 30, 2014, certain activities of the Body & Security business unit in the Interior segment were sold to a newly established joint venture. This transaction resulted in income of €1.7 million that was reported under other expenses and income.

Effective June 30, 2014, Continental Automotive France SAS, Toulouse, France, divested certain activities of the Interior segment's Infotainment & Connectivity business unit at the Rambouillet location in France. This transaction resulted in a loss of €7.3 million, which is reported in other expenses and income and corresponds to the purchase price liability. Impairment losses of €4.2 million on property, plant and equipment were also incurred in this context.

Notes to the Consolidated Statement of Income

6. Other Expenses and Income

in € millions	2014	2013
Other expenses	-724.2	-627.5
Other income	216.8	285.3
Other expenses and income	**-507.4**	**-342.2**

Other expenses

in € millions	2014	2013
Expenses for provisions	252.2	240.1
Impairment on property, plant and equipment, and intangible assets	178.9	61.4
Compensation to customers and suppliers	67.4	3.9
Litigation and environmental risks	51.6	101.0
Expenses for termination benefits	40.1	20.7
Valuation allowances for doubtful accounts	21.7	22.1
Incidental acquisition costs from acquisitions of companies and business operations	19.5	2.9
Realized and unrealized foreign currency exchange losses	16.9	5.1
Losses on the sale of property, plant and equipment, and from scrapping	13.5	14.5
Losses on the sale of companies and business operations	7.3	–
Special bonuses	4.8	15.9
Impairment of goodwill	–	67.6
Other	50.3	72.3
Other expenses	**724.2**	**627.5**

Other expenses increased by €96.7 million to €724.2 million (PY: €627.5 million) in the reporting period.

Additions to specific warranty provisions, provisions for restructuring measures and provisions for valuation at the lower of cost or market resulted in expenses totaling €252.2 million (PY: €240.1 million). 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 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. Continental has filed another appeal (cassation). However, we cannot rule out the possibility that the obligation to pay damages may be upheld in full or in part after the final resolution of the proceedings. For this reason, an additional provision of €26.1 million was recognized in the Tire segment. Please see Notes 26 and 34.

Impairment on intangible assets and property, plant and equipment amounted to €178.9 million (PY: €61.4 million) in the reporting period. In the Powertrain segment, impairment losses on property, plant and equipment and intangible assets totaling €168.4 million were recognized due to capacity utilization levels in the Hybrid Electric Vehicle and Engine Systems business units as well as valuation at the lower of cost or market in the Engine Systems business unit.

Compensation from customer and supplier claims that are not warranties resulted in expenses of €67.4 million (PY: €3.9 million) in the reporting period.

In connection with provisions for litigation and environmental risks, there were expenses of €51.6 million (PY: €101.0 million).

Personnel adjustments not related to restructuring led to expenses for severance payments of €40.1 million (PY: €20.7 million).

The cost resulting from creditworthiness allowances on receivables was €21.7 million (PY: €22.1 million).

Incidental acquisition costs of €19.5 million (PY: €2.9 million) were incurred for the acquisition of companies and business operations, mainly in conjunction with the preparations for the acquisition of Veyance Technologies, Inc., Fairlawn, Ohio, U.S.A.

In the year under review, expenses of €16.9 million (PY: €5.1 million) were incurred as a result of foreign currency translations from operating receivables and liabilities in foreign currencies not classified as indebtedness.

Losses of €13.5 million (PY: €14.5 million) arose on the sale of property, plant and equipment, and scrapping activities in 2014.

In the Interior segment, the divestment of certain activities of the Infotainment & Connectivity business unit at the location in Rambouillet, France, resulted in a loss of €7.3 million.

The special bonuses relate to expenses for the virtual shares in the amount of €4.8 million (PY: €15.9 million).

In the previous year the annual impairment test on goodwill resulted in an impairment loss in the Powertrain and Interior segments totaling €67.6 million.

The “Other” item also includes expenses for other taxes and losses due to force majeure.

Other income

in € millions	2014	2013
Gain on the reversal of provisions	69.8	90.2
Compensation from customers and suppliers	23.2	41.3
Gain on the sale of property, plant and equipment	20.0	10.4
Litigation and environmental risks	16.5	12.8
Gain from the reimbursement of customer tooling expenses	10.3	12.6
Negative difference	2.3	–
Gain on the sale of companies and business operations	2.2	78.4
Adjustments of the syndicated loan	–	2.4
Reversal of impairment losses on property, plant and equipment	–	2.3
Other	72.5	34.9
Other income	**216.8**	**285.3**

In particular, the €68.5 million decline in other income to €216.8 million (PY: €285.3 million) results from the €76.2 million lower gain on the sale of companies and business operations in the amount of €2.2 million (PY: €78.4 million) in total.

The reversal of specific warranty provisions and provisions for restructuring measures resulted in income of €69.8 million (PY: €90.2 million) in the reporting period.

Income of €20.0 million (PY: €10.4 million) was generated from the sale of property, plant and equipment in the period under review.

The reversal of provisions for litigation and environmental risks resulted in income of €16.5 million (PY: €12.8 million).

Reimbursements for customer tooling resulted in income of €10.3 million (PY: €12.6 million) in 2014.

In the ContiTech segment, income totaling €2.3 million resulted from bargain purchases from purchase price allocations, in part from the adjustment of a purchase price allocation for an acquisition in the previous year.

Effective September 30, 2014, certain activities of the Body & Security business unit were sold to a newly established joint venture. This transaction resulted in income totaling €1.7 million in the Interior segment. There were gains from the disposal of an investment of €0.5 million in the Tire segment.

There were no reversals of impairment losses on property, plant and equipment in the reporting period (PY: €2.3 million).

Other income includes, among other things, 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 €7.9 million (PY: €7.9 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:

in € millions	2014	2013
Wages and salaries	6,318.7	5,765.2
Social security contributions	1,248.8	1,167.6
Pension and post-employment benefit costs	189.7	191.7
Personnel expenses	**7,757.2**	**7,124.5**

Compared to the 2013 reporting year, personnel expenses increased by €632.7 million to €7,757.2 million (PY: €7,124.5 million). The rise is due in particular to global recruitment activities and collectively agreed salary increases.

The average number of employees in 2014 was 185,976 (PY: 175,431). As at the end of the year, there were 189,168 (PY: 177,762) employees in the Continental Corporation. Please also see the comments in the Corporate Management Report.

8. Income from Investments

in € millions	2014	2013
Share of income from at-equity accounted investees	35.8	37.3
Impairment and reversal of impairment losses on investments in at-equity accounted investees	-108.1	0.3
Other[1]	-1.5	–
Income from at-equity accounted investees	**-73.8**	**37.6**
Income from other investments	0.9	0.7
Reversal of impairment losses	0.1	0.1
Other income from investments	**1.0**	**0.8**

1 Includes the buyback of treasury shares in an at-equity accounted investee and the reclassification to profit and loss of reserves recognized directly in equity in conjunction with the inclusion in consolidation of a formerly at-equity accounted investee.

Please see Note 14 for information on impairment and reversal of impairment losses for at-equity accounted investees.

9. Net Interest Expense

in € millions	2014	2013
Interest and similar income	28.3	29.1
Interest income from long-term employee benefits and from pension funds[1]	66.2	52.7
Interest income	**94.5**	**81.8**
Interest and similar expenses	-214.7	-471.9
Finance lease expenses	-2.8	-0.7
Losses from foreign currency translation	-25.7	-29.0
Losses/gains from changes in the fair value of derivative instruments	43.2	-239.1
Gains from available-for-sale financial assets	3.0	4.2
Interest cost for long-term provisions and liabilities	-10.7	-10.4
Capitalized interest	—	0.4
Interest expense from pension obligations and other long-term employee benefits	-152.1	-139.6
Interest expense	**-359.8**	**-886.1**
Net interest expense	**-265.3**	**-804.3**

1 In the prior year, interest income from long-term employee benefits and from pension funds was reported under interest expense; the comparative figures for the prior year have been adjusted accordingly.

Net interest expense declined by €539.0 million year-on-year to €265.3 million (PY: €804.3 million) in 2014. This decrease was due in particular to the utilization in the previous year of the option for the early redemption of the four bonds issued in 2010 and their partial refinancing with considerably lower-interest bonds issued in the second half of 2013.

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 €380.3 million in 2014, which was €241.9 million lower than the figure for the previous year of €622.2 million. At €228.2 million, interest expense resulting from bank borrowings, capital market transactions and other financing instruments was €254.4 million lower than the prior year figure of €482.6 million. The major portion related to the expenses 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 from the utilization of the syndicated loan.

At €60.8 million (PY: €76.9 million), the interest expense for the syndicated loan in 2014 remained €16.1 million below the previous year's level, even including a negative special effect attributable to the early redemption of the existing syndicated loan at the end of April 2014 due to its successful refinancing. The decrease in expenses for the syndicated loan was due firstly to lower utilization and secondly to the lower level of margins on average. The lower utilization of the syndicated loan in 2014 was essentially due to the considerably lower average net indebtedness in 2014. In addition to the margin decreases achieved over the course of 2013, a further reduction in the margin level was achieved with the new syndicated loan agreement concluded in April 2014.

The expenses for the aforementioned bonds decreased significantly by €233.6 million year-on-year from €335.4 million to €101.8 million. This decrease resulted in particular from the successful refinancing of the four bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, in 2010 with a total volume of €3.0 billion with new, considerably lower-interest bonds with a total volume of €2.25 billion and from the utilization of cash and cash equivalents in the second half of 2013. The average nominal interest rate of the new bonds is 2.875% p.a., while for the bonds redeemed early in the previous year it was 7.464% p.a. A further reason for the higher expenses in the prior-year period was the higher redemption prices to be paid in the event of early redemption in accordance with the terms and conditions of issue, which resulted in interest expense totaling €112.0 million for the bonds redeemed in the second half of 2013.

The interest cost on expected pension obligations as well as on long-term employee benefits resulted in interest expense totaling €152.1 million (PY: €139.6 million) in 2014.

Interest income in 2014 increased by €12.7 million year-on-year to €94.5 million (PY: €81.8 million). Of this, expected income from long-term employee benefits and from pension funds amounted to €66.2 million (PY: €52.7 million).

In contrast to the previous year, valuation effects from changes in the fair value of derivative instruments and from the development of exchange rates made a positive overall contribution to earnings of €17.5 million (PY: valuation loss of €268.1 million) in 2014. This included a valuation gain of €4.7 million for the reporting of the early redemption option for the bond issued by Continental Rubber of America, Corp., Wilmington, Delaware,

U.S.A. In the prior-year period, there had been a valuation loss of €227.5 million relating to the reporting of early redemption options for all of the bonds issued by Conti-Gummi Finance B.V., Maastricht, Netherlands, in 2010 that were redeemed early in 2013, as well as for the bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A. Available-for-sale financial assets gave rise to a positive effect of €3.0 million (PY: €4.2 million).

10. Income Tax Expense

The domestic and foreign income tax expense of the corporation is as follows:

in € millions	2014	2013
Current taxes (domestic)	-109.4	-93.5
Current taxes (foreign)	-678.1	-616.7
Deferred taxes (domestic)	20.9	15.1
Deferred taxes (foreign)	144.6	245.5
Income tax expense	**-622.0**	**-449.6**

The average domestic tax rate in 2014 was 30.2% (PY: 30.2%). 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 14.4% (PY: 14.4%).

The following table shows the reconciliation of the expected to the reported tax expense:

in € millions	2014	2013
Earnings before taxes	**3,079.5**	**2,459.4**
Expected tax expense at the domestic tax rate	-930.0	-742.7
Foreign tax rate differences	164.3	114.9
First-time recognition of deferred tax assets likely to be realized	262.1	284.0
Non-deductible expenses and non-imputable withholding taxes	-89.4	-106.7
Incentives and tax holidays	61.7	38.4
Non-recognition of deferred tax assets unlikely to be realized	-52.6	-79.7
Taxes for previous years	-31.2	27.1
Realization of previously non-recognized deferred taxes	28.2	21.1
Effects from sale of or impairments on investments	-22.8	–
Local income tax with different tax base	-19.6	-29.1
Tax effect of companies consolidated at equity	10.3	13.6
Effects from changes in enacted tax rate	-5.2	8.5
Other	2.2	1.0
Reported tax expense	**-622.0**	**-449.6**
Effective tax rate in %	**20.2**	**18.3**

The reduction in the expected tax expense from the difference in foreign tax rates primarily reflects the volume of activities in Eastern Europe and Asia.

In the year under review, the reported tax expense was influenced in particular by the recognition of deferred tax assets of €161.2 million in the U.S.A. and the recognition of deferred tax assets on interest carryforwards in Germany of €98.0 million, both of which are considered likely to be utilized in the future. In the previous year, deferred tax assets of €256.2 million were already recognized due to the consistently positive business performance in the U.S.A.

As in the previous year, the item non-deductible expenses and non-imputable withholding taxes relates in part to Germany owing to an insufficient volume of imputable tax for foreign withholding taxes.

The effect of not recognizing deferred tax assets due to insufficient probability of recoverability is lower than in the previous year. In the year under review, the effect of allowances on deferred tax assets recognized in foreign corporation companies amounted to €52.6 million (PY: €79.7 million), €9.1 million (PY: €33.9 million) of which for previous years. For further information please see Note 16.

The tax effects from government incentives and tax holidays increased in comparison to the previous year. As in the previous year, they result in particular from the ongoing utilization of incentives in Europe and Asia.

In the year under review, local income taxes of €19.6 million (PY: €29.1 million) were incurred with an alternative assessment basis, mainly in Hungary, the U.S.A. and Italy.

The result of at-equity accounted investees included in net income resulted in tax income of €10.3 million (PY: €13.6 million) in the year under review.

The effects of changes in tax rates 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 effects of disposals and write-downs on investments relate to the dissolution of the joint venture SK Continental E-motion Pte. Ltd., Singapore, Singapore, and the acquisition of the remaining 50% of shares in Emitec Gesellschaft für Emissionstechnologie mbH, Lohmar, Germany. For further information please see Note 5.

Notes to the Consolidated Statement of Financial Position

11. Goodwill and Other Intangible Assets

in € millions	Goodwill	Internally generated intangible assets	Purchased intangible assets	Advances to suppliers	Total other intangible assets
As at January 1, 2013					
Cost	**8,114.5**	308.0	3,701.0	16.5	**4,025.5**
Accumulated amortization	**-2,492.3**	-140.2	-2,940.2	–	**-3,080.4**
Book value	**5,622.2**	**167.8**	**760.8**	**16.5**	**945.1**
Net change in 2013					
Book value	**5,622.2**	167.8	760.8	16.5	**945.1**
Foreign currency translation	**-81.5**	-0.6	-5.8	-0.4	**-6.8**
Additions	**-0.1**	40.2	35.1	11.7	**87.0**
Additions from first consolidation of subsidiaries[1]	**47.9**	–	11.8	–	**11.8**
Reclassification to assets held for sale	**–**	–	0.0	–	**0.0**
Transfers	**–**	–	11.2	-11.2	**0.0**
Disposals	**–**	–	-0.1	-0.9	**-1.0**
Amortization	**–**	-63.1	-414.8	–	**-477.9**
Impairment[2]	**-67.6**	–	-0.5	–	**-0.5**
Book value	**5,520.9**	**144.3**	**397.7**	**15.7**	**557.7**
As at December 31, 2013					
Cost	**8,077.5**	343.7	3,698.3	15.7	**4,057.7**
Accumulated amortization	**-2,556.6**	-199.4	-3,300.6	–	**-3,500.0**
Book value	**5,520.9**	**144.3**	**397.7**	**15.7**	**557.7**
Net change in 2014					
Book value	**5,520.9**	144.3	397.7	15.7	**557.7**
Foreign currency translation	**101.1**	0.5	6.1	0.1	**6.7**
Additions	**–**	57.9	62.2	17.4	**137.5**
Additions from first consolidation of subsidiaries[1]	**147.1**	–	65.4	–	**65.4**
Reclassification to assets held for sale	**–**	–	0.0	–	**0.0**
Transfers	**–**	–	12.7	-12.7	**0.0**
Disposals	**–**	–	-0.3	-1.6	**-1.9**
Amortization	**–**	-58.5	-249.3	–	**-307.8**
Impairment[2]	**–**	-14.1	-0.2	–	**-14.3**
Book value	**5,769.1**	**130.1**	**294.3**	**18.9**	**443.3**
As at December 31, 2014					
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**

1 Including subsequent adjustment from purchase price allocations.
2 Impairment also includes necessary reversal of impairment losses.

The acquisition of companies resulted in an addition to goodwill totaling €147.1 million (PY: €47.9 million). In the year under review, this included a reduction of €2.0 million (PY: increase of €2.4 million) due to subsequent changes in the preliminary purchase price allocations for purchases in the respective previous periods within the measurement period.

The remaining carrying amount of goodwill relates principally to the acquisitions of Siemens VDO (2007), Continental Teves (1998), the automotive electronics business from Motorola (2006), 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		
in € millions	Dec. 31, 2014		Dec. 31, 2013
Hydraulic Brake Systems	401.7	Hydraulic Brake Systems	391.0
Passive Safety & Sensorics	522.8	Passive Safety & Sensorics	438.8
Advanced Driver Assistance Systems	238.0	Advanced Driver Assistance Systems	237.0
Continental Engineering Services	13.5	Continental Engineering Services	–
Vehicle Dynamics	1,202.8	Electronic Brake Systems	1,084.8
		Chassis Components	179.7
Chassis & Safety	**2,378.8**	**Chassis & Safety**	**2,331.3**
Engine Systems	434.2	Engine Systems	419.4
Transmission	238.6	Transmission	232.9
Sensors & Actuators	203.2	Sensors & Actuators	195.9
Fuel & Exhaust Management	78.4	Fuel Supply	–
Powertrain	**954.4**	**Powertrain**	**848.2**
Instrumentation & Driver HMI	499.5	Instrumentation & Driver HMI	497.1
Infotainment & Connectivity	506.7	Infotainment & Connectivity	494.5
Body & Security	678.1	Body & Security	662.1
Commercial Vehicles & Aftermarket	503.0	Commercial Vehicles & Aftermarket	500.3
Interior	**2,187.3**	**Interior**	**2,154.0**
Passenger Tire Original Equipment	2.0	Passenger Tire Original Equipment	2.0
Passenger Tire Replacement Business - EMEA	118.2	Passenger Tire Replacement Business - EMEA	65.2
Commercial Vehicles Tires	31.8	Commercial Vehicles Tires	30.0
Tires	**152.0**	**Tires**	**97.2**
Air Spring Systems	1.0	Air Spring Systems	1.0
Benecke-Kaliko Group	11.2	Benecke-Kaliko Group	11.2
Compounding Technology	1.8	Compounding Technology	1.8
Conveyor Belt Group	5.6	Conveyor Belt Group	7.4
Elastomer Coatings	14.2	Elastomer Coatings	14.2
Fluid Technology	55.8	Fluid Technology	54.0
Power Transmission Group	6.4	Power Transmission Group	0.0
Vibration Control	0.6	Vibration Control	0.6
ContiTech	**96.6**	**ContiTech**	**90.2**
Continental Corporation	**5,769.1**	**Continental Corporation**	**5,520.9**

The additions to acquired intangible assets from consolidation changes are primarily attributable to customer relationships and know-how. Other additions related mainly to software in the amount of €55.0 million (PY: €32.4 million).

Amounts reported under internally generated intangible assets represent capitalized development costs. €57.9 million (PY: €40.2 million) of the total development expenses incurred in 2014 qualified for recognition as an asset under IAS 38.

Amortization on intangible assets amounted to €307.8 million (PY: €477.9 million), €246.2 million (PY: €382.3 million) of which is included in the consolidated statement of income under the cost of sales and €61.6 million (PY: €95.6 million) of which is included in administrative expenses.

The acquired intangible assets include carrying amounts adjusted for translation-related currency effects and not subject to amortization in the amount of €80.9 million. These relate in particular to the VDO brand name in the amount of €71.2 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 purchased intangible assets mainly comprise the carrying amount of software amounting to €100.0 million (PY: €78.8 million), which is amortized on a straight-line basis as scheduled.

12. Property, Plant and Equipment

in € 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, 2013					
Cost	3,140.7	11,404.4	1,749.2	1,471.2	**17,765.5**
Accumulated depreciation	–1,271.0	–7,781.0	–1,315.3	–7.2	**–10,374.5**
Book value	**1,869.7**	**3,623.4**	**433.9**	**1,464.0**	**7,391.0**
thereof finance leases	36.5	2.4	1.2	—	**40.1**
Net change in 2013					
Book value	1,869.7	3,623.4	433.9	1,464.0	**7,391.0**
Foreign currency translation	–69.9	–139.1	–17.2	–84.2	**–310.4**
Additions[2]	164.1	652.3	128.3	992.1	**1,936.8**
Additions from first consolidation of subsidiaries	15.1	10.3	1.3	1.6	**28.3**
Amounts disposed of through disposal of subsidiaries	0.0	0.0	0.0	—	**0.0**
Reclassification to/from assets held for sale	–1.3	0.0	0.0	—	**–1.3**
Transfers	243.8	721.8	88.5	–1,055.8	**–1.7**
Disposals	–1.3	–20.7	–2.3	–5.9	**–30.2**
Depreciation	–121.5	–953.8	–150.6	—	**–1,225.9**
Impairment[3]	–2.7	–50.3	–2.9	–2.7	**–58.6**
Book value	**2,096.0**	**3,843.9**	**479.0**	**1,309.1**	**7,728.0**
As at December 31, 2013					
Cost	3,447.4	12,140.1	1,846.6	1,318.5	**18,752.6**
Accumulated depreciation	–1,351.4	–8,296.2	–1,367.6	–9.4	**–11,024.6**
Book value	**2,096.0**	**3,843.9**	**479.0**	**1,309.1**	**7,728.0**
thereof finance leases	31.6	1.3	0.7	—	**33.6**
Net change in 2014					
Book value	2,096.0	3,843.9	479.0	1,309.1	**7,728.0**
Foreign currency translation	15.5	118.1	6.9	34.2	**174.7**
Additions[2]	97.8	691.4	129.4	1,054.2	**1,972.8**
Additions from first consolidation of subsidiaries	30.9	37.7	10.1	3.4	**82.1**
Amounts disposed of through disposal of subsidiaries	0.0	0.0	0.0	—	**0.0**
Reclassification to/from assets held for sale	–0.1	0.0	–0.3	—	**–0.4**
Transfers	205.2	684.8	148.0	–1,038.0	**0.0**
Disposals	–9.4	–26.9	–2.8	–5.5	**–44.6**
Depreciation	–136.1	–984.7	–180.7	—	**–1,301.5**
Impairment[3]	–6.4	–136.2	–12.4	–9.7	**–164.7**
Book value	**2,293.4**	**4,228.1**	**577.2**	**1,347.7**	**8,446.4**
As at December 31, 2014					
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**

1 Investment property is shown separately under Note 13.
2 The additions include no capitalized interest (PY: €0.4 million).
3 Impairment also includes necessary reversal of impairment losses.

The additions to property, plant and equipment from changes in consolidation essentially relate to the acquisitions of Emitec Gesellschaft für Emissionstechnologie mbH, Lohmar, Germany, and Gorvi S.A., Pamplona, Spain, and Mecapol S.A., Wagrowiec, Poland. Please see Note 5.

Investments in the Chassis & Safety segment focused on both increasing production capacity in Europe and expanding the locations in North and South 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 the Powertrain segment production capacity was increased at the German locations and in the U.S.A., China, the Czech Republic, 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. In Kaluga, Russia, investments were made in the establishment of a new plant for the Engine Systems and Fuel & Exhaust Management business units.

Investments in the Interior segment focused primarily on the expansion of manufacturing capacity for the Body & Security and Instrumentation & Driver HMI business units. Investments were made in production capacity at the German locations and in China, Mexico, Romania, and the Czech Republic. At the location in Wuhu, China, the segment invested in the construction of a new plant for the Instrumentation & Driver HMI business unit.

In the Tire segment, production capacity was established and expanded at European best-cost locations, in North and South America and in Asia. There were major additions relating to the construction of new plants in Sumter, South Carolina, U.S.A., and Kaluga, Russia, and the expansion of existing sites in Mount Vernon, Illinois, U.S.A.; Otrokovice, Czech Republic; Puchov, Slovakia; Lousado, Portugal; Hefei, China; and Camacari, Brazil. Quality assurance and cost-cutting measures were also implemented.

In the ContiTech segment significant additions related to the expansion of production capacity at German locations and in China, Brazil, the U.S.A., Mexico and Romania. At the location in Changshu, China, investments are being made in the construction of a new plant for the Elastomer Coatings business unit. The segment built new plants for the Fluid Technology business unit at the locations in Macae, Brazil, and Kaluga, Russia. Investments were also made in all business units to rationalize existing production processes.

Please see Note 6 for information on impairment losses and reversals of the same.

Government investment grants of €10.6 million (PY: €34.5 million) were deducted directly from cost, including for the plant in Sibiu, Romania.

In adopting IAS 23, no borrowing costs were capitalized (PY: €0.4 million). The capitalization rate used in the previous year was 4.1%.

Reclassifications to assets held for sale in the period related to a business to be sold in Austria.

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 5.0% and 8.4% (PY: 5.5% and 8.3%). The main leases do not include prolongation or purchase options.

There are restrictions on title and property, plant and equipment pledged as security for liabilities in the amount of €10.3 million (PY: €11.4 million).

13. Investment Property

in € millions	2014	2013
Cost as at January 1	38.5	34.3
Accumulated depreciation as at January 1	-18.1	-14.5
Net change		
Book value as at January 1	**20.4**	**19.8**
Foreign currency translation	-0.5	-0.1
Additions	0.2	0.1
Disposals	-1.8	-0.2
Reclassifications	0.0	1.7
Depreciation	-0.8	-0.9
Book value as at December 31	**17.5**	**20.4**
Cost as at December 31	30.3	38.5
Accumulated depreciation as at December 31	-12.8	-18.1

The fair value – determined using the gross rental method – of land and buildings accounted for as investment property as at December 31, 2014, amounted to €20.9 million (PY: €26.7 million). Rental income in 2014 amounted to €3.4 million (PY: €5.8 million), while associated maintenance costs of €1.4 million (PY: €1.8 million) were incurred. The disposals include the sale of a property of the ContiTech segment.

14. Investments in At-Equity Accounted Investees

in € millions	2014	2013
As at January 1	**450.0**	**376.5**
Additions	13.7	88.2
Changes in the consolidation method, and transfers	-61.4	-1.9
Share of earnings	35.8	37.3
Impairment and reversal of impairment losses	-108.1	0.3
Dividends received	-32.9	-37.2
OCI changes of at-equity accounted investees	-2.9	-8.7
Foreign currency translation	4.3	-4.5
As at December 31	**298.5**	**450.0**

Investments in at-equity accounted investees include carrying amounts of joint ventures in the amount of €202.2 million (PY: €351.0 million) and of associates in the amount of €96.3 million (PY: €99.0 million).

The additions in the year under review essentially result from the capital increase in the joint venture SK Continental E-motion Pte. Ltd., Singapore, Singapore, in the amount of €7.0 million. Furthermore, effective July 5, 2014, an associate, Nisshinbo-Continental Precision Machining (Yangzhou) Co., Ltd., Yangzhou, China, was founded, in which Continental holds 30%. On September 8, 2014, a joint venture, OTA keys S.A., Ixelles, Belgium, was founded, in which Continental holds 50% of shares at a value of €2.1 million.

Additions in the previous year in the amount of €88.2 million mainly result from the addition of shares in SK Continental E-motion Pte. Ltd., Singapore, Singapore, a joint venture with SK Innovation Co., Ltd., Seoul, South Korea.

At €46.3 million, the changes in the consolidation method in the year under review relate to the shares in the exhaust technology specialist Emitec Gesellschaft für Emissionstechnologie mbH, Lohmar, Germany, which was reclassified to fully consoli-

dated companies following the acquisition of the remaining shares and now operates as Continental Emitec GmbH, Lohmar, Germany, effective October 24, 2014. On February 3, 2014, the investment carrying amount of €15.1 million in Alphapeak Ltd., Lichfield, U.K., was reclassified to fully consolidated companies owing to the acquisition of the remaining 50% of shares. Effective February 3, 2014, this company is now operating under the name Continental Engineering Services Ltd., Lichfield, U.K.

The changes in the consolidation method in the previous year include €1.9 million in shares in the SACI Group (Société Alsacienne de Commerce et d'Investissement, Colmar, France), which were reclassified after its successive purchase to fully consolidated companies.

The acquisition of the remaining 50% of shares in Emitec Gesellschaft für Emissionstechnologie mbH, Lohmar, Germany, from the former co-shareholder GKN Driveline International GmbH, Lohmar, Germany, made it necessary to recognize an impairment loss of €33.8 million on the at-equity accounted investee.

In view of the increasing competition in the development and production of battery cells for the automobile industry, Continental and its Korean partner SK Innovation Co., Ltd., Seoul, South Korea, concluded and, as at December 18, 2014, executed an agreement to dissolve the joint venture SK Continental E-motion Pte. Ltd., Singapore, Singapore. This led to an impairment loss on the carrying amount of the investment of €74.3 million in the Powertrain segment.

Effects from at-equity accounted investees in an amount of -€2.9 million (PY: -€8.7 million) were reported in other comprehensive income recognized directly in equity in the year under review.

A significant joint venture of the Rubber Group 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 DU GROUPE MICHELIN, "Senard et Cie", 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 Aktiengesellschaft, Hanover, Germany, holds 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 (2013 and 2012) 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**	
in € millions	2013	2012	2013	2012	2013	2012
Dividends received	–	7.5	14.9	15.2	20.0	25.0
Current assets	134.5	120.7	196.6	194.0	462.6	462.4
thereof cash and cash equivalents	22.9	21.8	44.2	61.2	110.0	98.4
Non-current assets	71.0	72.5	62.9	53.4	77.1	70.4
Total assets	205.5	193.0	259.4	247.4	539.7	532.9
Current liabilities	83.6	73.4	121.8	110.4	437.5	429.1
thereof other short-term financial liabilities	2.1	2.1	–	–	–	–
Non-current liabilities	6.5	3.7	–	–	11.3	13.7
thereof long-term financial liabilities	1.3	1.3	–	–	–	–
Total liabilities	90.1	77.2	121.8	110.4	448.7	442.8
Sales	152.9	185.4	379.7	341.8	3,000.6	3,422.2
Interest income	0.5	0.6	0.6	2.8	0.4	0.5
Interest expense	0.4	0.5	–	–	0.3	0.4
Depreciation and amortization	11.6	9.0	9.4	2.0	16.1	18.0
Earnings from continued operations	-0.6	9.4	33.6	36.0	44.1	54.1
Earnings from discontinued operations after taxes	–	–	–	–	–	–
Other comprehensive income	-0.1	0.2	–	–	-3.3	0.4
Income tax expense	6.1	7.5	10.5	-5.8	16.5	21.8
Earnings after taxes	-0.6	9.6	33.6	36.0	40.9	54.5
Contingent liabilities	–	–	–	–	43.7	51.0
Net assets	115.4	116.0	137.6	137.1	91.0	90.1
Share of net assets	57.7	58.0	67.4	67.2	45.5	45.0
Goodwill	–	–	10.6	10.6	20.3	20.3
Foreign currency translation	–	–	-8.8	-11.0	–	–
Gain on the sale of shares in investments	–	–	-0.5	-0.5	–	–
Change in other comprehensive income prior year	–	-0.1	-1.1	3.1	1.4	0.5
Share of earnings prior year	2.8	1.0	0.0	-0.1	0.1	0.0
Carrying amount	60.5	58.9	67.6	69.3	67.3	65.8

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 in the Powertrain segment.

The figures taken from the last two available sets of IFRS annual financial statements (2013 and 2012) 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	
in € millions	2013	2012
Dividends received	0.2	0.1
Current assets	222.0	211.3
Non-current assets	148.9	131.6
Total assets	370.9	342.9
Current liabilities	150.4	161.0
Non-current liabilities	68.2	51.2
Total liabilities	218.6	212.2
Sales	585.7	533.5
Earnings from continued operations	22.3	23.6
Earnings from discontinued operations after taxes	–	–
Other comprehensive income	–	–
Earnings after taxes	22.3	23.6
Contingent liabilities	81.2	71.2
Net assets	152.3	130.6
Share of net assets	30.5	26.1
Goodwill	12.7	12.7
One-time effect from IFRS adoption	–	-3.6
Change in other comprehensive income prior year	0.0	0.4
Share of earnings prior year	-0.4	0.0
Carrying amount	42.8	35.6

The figures taken from the last two available sets of annual financial statements (2013 and 2012) 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	
in € millions	2013	2012	2013	2012
Earnings from continued operations	3.1	4.3	0.4	0.2
Earnings from discontinued operations after taxes	–	–	–	–
Other comprehensive income	–	–	–	–
Earnings after taxes	3.1	4.3	0.4	0.2

15. Other Investments

in € millions	**Dec. 31, 2014**	Dec. 31, 2013
Investments in unconsolidated affiliated companies	4.7	1.8
Other participations	6.0	6.1
Other investments	**10.7**	**7.9**

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. The additions of €2.6 million in the year under review relate in particular to a company acquired as part of the acquisition of MPI SAS, Mandelieu, France.

16. Deferred Taxes

Deferred tax assets and liabilities are composed of the following items:

in € millions	**Dec. 31, 2014**	Dec. 31, 2013
Intangible assets	-107.1	-109.5
Property, plant and equipment	-78.4	2.2
Inventories	176.6	163.7
Other assets	-80.2	-59.1
Pension liabilities and similar obligations less defined benefit assets	668.2	282.6
Provisions for other risks and obligations	171.9	88.2
Indebtedness	249.4	224.7
Other differences	29.9	21.0
Allowable tax credits	51.8	30.2
Tax losses carried forward and limitation of interest deduction	312.8	171.2
Net deferred taxes	**1,394.9**	**815.2**
Deferred tax assets	1,573.4	928.4
Deferred tax liabilities	-178.5	-113.2

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 the change in actuarial gains and losses from pensions and similar obligations in the year under review. Please see Note 25.

Deferred tax assets on property, plant and equipment reversed to deferred tax liabilities in the reporting year essentially on account of accelerated tax depreciation in the U.S.A.

Deferred tax assets on provisions for other risks and obligations increased by €83.7 million to €171.9 million in the year under review. This increase is essentially due to provisions for valuation at the lower of cost or market and provisions for compensation from customer and supplier claims in Germany and restructuring provisions in France. Please see Note 26.

The deferred tax assets on loss and interest carryforwards rose to €312.8 million (PY: €171.2 million) in the year under review. This development was influenced by the first-time recognition of deferred taxes on loss carryforwards in the U.S.A. and on interest carryforwards in Germany, and the recognition of new loss carryforwards. This was offset by the utilization of loss carryforwards in the amount of €379.6 million (PY: €385.6 million).

As at December 31, 2014, the corporate tax loss carryforwards amounted to €2,536.2 million (PY: €2,419.7 million). The majority of the corporation's tax loss carryforwards relates to foreign subsidiaries and is mostly limited in the time period they can be carried forward.

In total, €479.3 million (PY: €784.8 million) in deferred tax assets were written down as it is currently not deemed sufficiently likely that they will be utilized. €419.1 million (PY: €588.8 million) of this relates to allowances on loss and interest carryforwards. In particular, €130.2 million (PY: €215.8 million) of this relates to the German tax group and €55.7 million (PY: €43.0 million) to India.

As at December 31, 2014, some corporation companies and tax groups that reported a loss recognized total deferred tax assets of €71.1 million (PY: €36.3 million), which arose from current losses, loss carryforwards 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.

No deferred tax assets were reported for loss carryforwards abroad of €31.7 million (PY: €31.7 million).

The interest carryforward in Germany as at the end of the reporting period amounted to €102.7 million (PY: €369.8 million).

In addition, allowances of €41.1 million (PY: €42.6 million) were recognized on eligible tax credits in Malaysia as it is currently not deemed sufficiently likely that the credits will be utilized.

The cumulative amount of deferred taxes for items deducted from or added to equity was €603.6 million (PY: €219.7 million) as at the end of the reporting period. Of that amount, €612.2 million (PY: €224.0 million) is attributable to pensions and other obligations, €2.4 million (PY: -€3.0 million) to inventories, and -€4.1 million (PY: -€1.3 million) to other assets. See Note 25 for information in connection with deferred taxes on actuarial gains and losses.

The temporary differences from retained earnings of foreign companies amount to a total of €487.7 million (PY: €426.9 million). Corresponding deferred tax liabilities in the amount of €17.4 million (PY: —) were taken into account for amounts, for which remittance to the parent company cannot be ruled out in the short and medium term. The previous year's amounts are presented comparably.

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, 2014		Dec. 31, 2013	
	Maturity		Maturity	
in € millions	**up to 1 year**	**over 1 year**	up to 1 year	over 1 year
Amounts receivable from related parties	47.1	0.3	59.2	2.4
Loans to third parties	–	33.2	–	18.9
Amounts receivable from employees	19.5	–	19.4	–
Amounts receivable for customer tooling	210.2	–	168.3	–
Other amounts receivable	105.7	8.4	89.3	23.7
Other financial assets	**382.5**	**41.9**	**336.2**	**45.0**

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 rise of €41.9 million as compared to the previous year essentially results 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 €3.6 million (PY: €3.8 million) was recognized for the probable default risk on other financial assets. Income of €0.2 million (PY: €0.1 million) was incurred in the period under review.

18. Other Assets

	Dec. 31, 2014		Dec. 31, 2013	
	Maturity		Maturity	
in € millions	**up to 1 year**	**over 1 year**	up to 1 year	over 1 year
Tax refund claims (incl. VAT and other taxes)	433.7	–	369.8	–
Prepaid expenses	119.4	–	99.8	–
Others	178.2	19.7	131.6	20.1
Other assets	**731.3**	**19.7**	**601.2**	**20.1**

The tax refund claims primarily result 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 amounting to a total of €5.5 million (PY: €5.5 million) was recognized for the probable default risk on other assets. Expenses of an insignificant amount (PY: €0.2 million) were incurred in the period under review.

19. Inventories

in € millions	Dec. 31, 2014	Dec. 31, 2013
Raw materials and supplies	995.2	1,002.1
Work in progress	366.7	343.5
Finished goods and merchandise	1,625.7	1,485.3
Inventories	**2,987.6**	**2,830.9**

Write-downs recognized on inventories decreased by €23.2 million to €320.8 million (PY: €344.0 million).

20. Trade Accounts Receivable

in € millions	Dec. 31, 2014	Dec. 31, 2013
Trade accounts receivable	5,953.9	5,412.1
Allowances for doubtful accounts	–107.7	–96.3
Trade accounts receivable	**5,846.2**	**5,315.8**

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:

in € millions	2014	2013
As at January 1	**96.3**	**89.0**
Additions	43.4	40.6
Utilizations	–14.0	–12.2
Reversals	–19.1	–18.5
Foreign currency translation	1.1	–2.6
As at December 31	**107.7**	**96.3**

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 €2,082.8 million (PY: €2,095.5 million) are approximately equivalent to their fair value. The respective liabilities with a fair value of €840.9 million (PY: €910.6 million) and a carrying amount of €842.9 million (PY: €916.2 million) represent the liquidation proceeds from the sale of the receivables.

The financing volume of the sale of receivables program concluded with Norddeutsche Landesbank Luxembourg S.A., Luxembourg, was reduced from €300.0 million to €250.0 million on April 11, 2014, by way of a new master agreement, and on September 29, 2014, it was prolonged until the end of April 2015. This program was almost fully utilized at the end of 2014 in the amount of €249.3 million (PY: €300.0 million).

The indefinite sale of receivables program in place with Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main, Germany, since December 2010 previously provided for flexible adjustment of the financing volume. At the end of 2013 this was €110.0 million. By way of the contractual amendment in September 2014, a maximum financing volume of €150.0 million was agreed. €104.4 million (PY: €109.9 million) of the program had been utilized as at the end of 2014.

The sale of receivables program previously concluded with the U.S. banks Wells Fargo Bank N.A., Atlanta, Georgia; The Bank of Nova Scotia, Houston, Texas; and Bank of America N.A., Charlotte, North Carolina, was prolonged by a further year on November 4, 2014, albeit with a change in the participating banks. At this time, The Bank of Nova Scotia, Houston, Texas, U.S.A., transferred its share to Norddeutsche Landesbank, New York branch, New York, New York, U.S.A. The financing volume is still U.S. $400.0 million. As in the previous year, only €0.1 million of the program had been utilized as at the end of 2014.

Following contractual amendments in January and April 2014, the indefinite sale of receivables program originally set up with The Royal Bank of Scotland N.V. Frankfurt branch, Frankfurt am Main, Germany, at the end of April 2012 now provides for a reduced financing volume of GBP 81.0 million (PY: GBP 90.0 million) and can be utilized in both euro and pounds sterling. Total utilization as at the end of 2014 amounted to €90.7 million (PY: €90.5 million).

On July 26, 2012, a sale of receivables program with an unchanged financing volume of €300.0 million was agreed with Crédit Agricole Corporate and Investment Bank, Paris, France. The program has a term of up to five years if prolonged by both parties on an annual basis. This last occurred in July 2014. As at December 31, 2014, the program had been utilized in the amount of €248.4 million (PY: €287.7 million).

On January 30, 2013, a sale of receivables contract was concluded with Landesbank Baden-Württemberg, Stuttgart, Germany. The agreement, amended on July 25, 2014, continues until the end of January 2020, if prolonged by both parties on an annual basis. The agreed financing volume has now been reduced to €150.0 million (PY: €175.0 million). However, the agreement grants Continental the option to increase the maximum financing volume to €175.0 million again if necessary. The program had been utilized in the amount of €150.0 million (PY: €128.0 million) at the end of 2014.

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					
in € 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, 2014								
Trade accounts receivable[1]	**5,218.2**	4,889.1	128.0	66.5	62.4	15.9	10.3	46.0
Dec. 31, 2013								
Trade accounts receivable[1]	**4,611.2**	4,276.5	164.0	55.0	47.3	14.4	9.6	44.4

1 The difference between this figure and the first table in this Note of €735.7 million (PY: €800.9 million) results 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 will be settled in full and no valuation allowance will be required. The receivables as at December 31, 2014, 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.

For information on the interest rate risk and the sensitivity analysis for financial assets and liabilities, please see Note 29.

22. Assets Held for Sale

in € millions	Dec. 31, 2014	Dec. 31, 2013
Assets held for sale	2.6	34.8
Assets of a disposal group	0.4	–
Assets held for sale	**3.0**	**34.8**

The assets held for sale in the amount of €3.0 million (PY: €34.8 million) predominantly include smaller properties. In addition, a portion in the amount of €0.4 million relates to a business to be sold in Austria.

The property, including land, that was reclassified to our Automotive location in Deer Park, Illinois, U.S.A., in the previous year was sold in the current fiscal year.

Assets held for sale are measured at the lower of their carrying amount prior to classification of the group of assets as held for sale and the fair value less costs to sell.

23. Equity

Number of shares outstanding	2014	2013
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.

By way of resolution of the Annual Shareholders' Meeting on April 27, 2012, the Executive Board was authorized, with the approval of the Supervisory Board, to increase the share capital by up to €70.0 million by issuing new shares against cash or contributions in kind by April 26, 2015 (Article 4 (3) of the Articles of Incorporation).

The share capital has been conditionally increased by up to €3.8 million in accordance with Article 4 (4) of the Articles of Incorporation. The conditional capital increase is intended to grant the bearers of rights under the 2004 stock option plan new shares when their rights are exercised. The Annual Shareholders' Meeting on May 14, 2004, approved the 2004 stock

option plan for members of the Executive Board and senior executives. The 2004 stock option plan authorized the Executive Board to grant, in line with the plan's more detailed specifications, a total of 3,936,000 subscription rights until May 13, 2009, each of which entitles the option holder to subscribe for one share. There were no subscription rights still outstanding as at the end of the reporting period.

The share capital has been conditionally increased by up to €20.0 million in accordance with Article 4 (5) of the Articles of Incorporation. The conditional capital increase is intended to grant the bearers of rights under the 2008 stock option plan new shares when their rights are exercised. The 2008 stock option plan adopted at the Annual Shareholders' Meeting on April 25, 2008, authorizes the issuance of up to 7,800,000 subscription rights to the Executive Board and senior executives until April 24, 2013. There were no subscription rights still outstanding as at the end of the reporting period.

The authorization of the Executive Board to issue subscription rights from the 2008 stock option plan or the 2004 stock option plan expired as at the end of the reporting period.

In accordance with Article 4 (6) of the Articles of Incorporation, the share capital has been conditionally increased by up to €51.0 million by issuing up to 19,921,875 new bearer shares. The conditional capital increase serves the issue of bearer shares to the bearers and creditors of convertible and warrant-linked bonds, profit participation rights and participating bonds (or a combination of these instruments) that are issued on the basis of the authorization resolved by the Annual Shareholders' Meeting of April 27, 2012, under agenda item 8 and that grant or establish a conversion or warrant right or a conversion obligation for new shares of Continental AG. The authorization to issue these instruments is limited until April 26, 2015, and a maximum nominal amount of €2,500 million. The authorization had not been utilized as at the end of the reporting period.

The change in conditional capital is shown in the table below:

in € thousands	2014	2013
Conditional capital as at January 1	**67,463**	**67,585**
Expiration of subscription rights granted	–	-122
Conditional capital as at December 31	**67,463**	**67,463**

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, 2014, of €749.2 million (PY: €913.4 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 €3.25 per share. With 200,005,983 shares entitled to dividends, the total distribution will therefore amount to €650,019,444.75. The remaining amount is to be carried forward to new account.

24. Share-Based Payment

There was no equity-settled share-based payment in the year under review. The 2008 variable stock option plan affected this for the last time in the previous year. With the approval of the Annual Shareholders' Meeting on April 25, 2008, Continental AG had introduced this variable stock option plan for senior executives and the Executive Board. Each stock option granted as part of this plan carried the right to subscribe for one share. The exercise of these stock options was subject to a time limit and was only possible within an exercise window. Furthermore, exercise was also linked to the attainment of a performance target. At the start of the previous year there were still 1,165,500 stock options remaining which, however, all expired as the performance target was not attained. Thus, as at December 31, 2013, there were no longer any claims under stock option plans.

All the share-based remuneration existing in the year under review is now cash-settled. The notes on the remuneration plans for members of the Executive Board can be found in the remuneration report. Senior executives are granted long term incentive plans. Please see Note 30.

25. Provisions for Pension Liabilities and Similar Obligations

Provisions for pension liabilities and similar obligations are shown in the following items of the statement of financial position:

in € millions	Dec. 31, 2014	Dec. 31, 2013
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	3,240.7	2,187.9
Provisions for other post-employment benefits	212.9	173.8
Provisions for similar obligations	30.1	29.4
Provisions for pension liabilities and similar obligations	**3,483.7**	**2,391.1**
Defined benefit assets (difference between pension obligations and related funds)	**1.6**	**6.0**

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 143,409 beneficiaries, including 91,617 active employees, 17,725 former employees with vested benefits and 34,067 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 obligation is 15 years. This term is based on the present value of the obligation.

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.

The plan assets reported for Germany do not include those of the CTA Continental Pension Trust e. V. as they did not meet the status of qualifying plan assets in accordance with IAS 19 in connection with the acquisition of shares in ContiTech AG.

Some prior commitments were granted through two legally independent pension 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 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 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 fund. In accordance with IAS 19, the pension obligations covered by the pension fund are therefore defined benefit pension plans. The pension

funds met their minimum net funding requirement as at December 31, 2014. 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 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 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 section 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. 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 union and non-union workers 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 all 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.

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 last technical assessments of the four defined benefit pension plans took place between December 2011 and March 2013 and led to the following result:

- Continental Teves UK Employee Benefit Scheme (assessment as at December 31, 2011): As part of the assessment, an agreement on a minimum annual endowment of GBP 1.4 million over a period of four years was resolved.

- Continental Group Pension and Life Assurance Scheme (assessment as at April 5, 2012): As part of the assessment, an agreement on a minimum annual endowment of GBP 1.8 million and an annual adjustment of 3% over a period of six years and ten months was resolved.

- 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 their complete wind-up via a third party insurance company for several defined benefit commitments, the Canadian plans are no longer significant.

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 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.

Net amount recognized for pension provisions

in € millions	Dec. 31, 2014	Dec. 31, 2013
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	3,240.7	2,187.9
Defined benefit assets (difference between pension obligations and related funds)	1.6	6.0
Net amount recognized	**3,239.1**	**2,181.9**

Pension provisions rose by €1,057.2 million as compared to the previous year. The rise in pension obligations is essentially due to a significant decline in discounting rates, leading to actuarial losses. Defined benefit assets representing the net assets from pension obligations and related funds fell by €4.4 million year-on-year.

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:

	2014						2013					
in € 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	**2,605.5**	**863.5**	**69.1**	**292.0**	**222.1**	**4,052.2**	**2,532.2**	**1,001.3**	**91.9**	**283.2**	**218.1**	**4,126.7**
Foreign currency differences	–	123.2	3.0	22.2	4.9	**153.3**	–	-38.2	-8.7	-6.3	-6.4	**-59.6**
Current service cost	104.8	–	0.4	3.8	17.8	**126.8**	99.7	–	0.6	3.4	17.3	**121.0**
Service cost from plan amendments	0.7	–	–	–	0.7	**1.4**	0.3	–	–	–	-0.2	**0.1**
Curtailments/settlements	–	-18.1	-1.6	–	-6.3	**-26.0**	–	–	–	–	-2.6	**-2.6**
Interest on defined benefit obligations	90.8	42.0	3.2	13.2	9.1	**158.3**	84.9	38.7	3.2	11.1	8.6	**146.5**
Actuarial gains/losses from changes in demographic assumptions	-0.4	73.4	3.5	–	-0.8	**75.7**	–	1.9	–	1.8	0.1	**3.8**
Actuarial gains/losses from changes in financial assumptions	644.2	107.8	5.5	44.6	21.0	**823.1**	-22.2	-95.0	-9.7	10.3	-4.9	**-121.5**
Actuarial gains/losses from experience adjustments	89.6	-5.1	-0.8	0.0	-0.9	**82.8**	0.2	8.3	-1.9	-4.5	-1.9	**0.2**
Net changes in the scope of consolidation	39.6	–	–	–	-0.5	**39.1**	-0.3	–	–	–	1.0	**0.7**
Employee contributions	–	–	–	0.7	0.3	**1.0**	–	–	–	0.7	0.4	**1.1**
Other changes	–	–	–	-0.6	1.0	**0.4**	–	–	–	0.1	3.7	**3.8**
Benefit payments	-91.9	-105.6	-3.6	-8.4	-13.0	**-222.5**	-89.3	-53.5	-6.3	-7.8	-11.1	**-168.0**
Defined benefit obligations as at December 31	**3,482.9**	**1,081.1**	**78.7**	**367.5**	**255.4**	**5,265.6**	**2,605.5**	**863.5**	**69.1**	**292.0**	**222.1**	**4,052.2**

The reconciliation of the changes in the plan assets from the beginning to the end of the year is as follows:

	2014						2013					
in € 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	**710.3**	**714.9**	**63.4**	**289.9**	**103.7**	**1,882.2**	**709.3**	**662.8**	**68.6**	**279.7**	**94.0**	**1,814.4**
Foreign currency differences	–	91.4	2.5	21.3	3.2	**118.4**	–	-30.5	-7.4	-6.1	-3.8	**-47.8**
Interest income from pension funds	36.6	35.2	3.0	13.2	5.2	**93.2**	22.0	25.5	2.4	9.3	4.1	**63.3**
Actuarial gains/losses from plan assets	11.0	28.5	1.8	19.1	-0.1	**60.3**	3.4	101.4	4.7	5.0	-1.8	**112.7**
Employer contributions	1.7	13.3	0.6	9.0	14.8	**39.4**	2.2	21.5	1.9	9.8	15.4	**50.8**
Employee contributions	–	–	–	0.7	0.3	**1.0**	–	–	–	0.7	0.4	**1.1**
Curtailments/settlements	–	–	–	–	-4.9	**-4.9**	–	–	–	–	–	**–**
Net changes in the scope of consolidation	2.1	–	–	–	-0.5	**1.6**	–	–	–	–	–	**–**
Other changes	–	-5.5	-0.2	-0.7	0.9	**-5.5**	–	-12.3	-0.5	-0.7	0.7	**-12.8**
Benefit payments	-25.6	-105.6	-3.6	-8.4	-6.8	**-150.0**	-26.6	-53.5	-6.3	-7.8	-5.3	**-99.5**
Fair value of plan assets as at December 31	**736.1**	**772.2**	**67.5**	**344.1**	**115.8**	**2,035.7**	**710.3**	**714.9**	**63.4**	**289.9**	**103.7**	**1,882.2**

€5,177.2 million (PY: €3,966.7 million) of the defined benefit obligations as at December 31, 2014, relates to plans that are fully or partially funded and €88.4 million (PY: €85.5 million) relates to plans that are unfunded.

The significant rise in defined benefit obligations of €1,213.4 million compared to December 31, 2013, results in particular from the decline in the discount factor and the associated actuarial losses, and negative exchange rate effects, especially in the U.S.A.

Plan assets in Germany include the CTA assets amounting to €333.6 million (PY: €311.6 million), pension contribution fund assets of €306.7 million (PY: €307.0 million) and insurance annuity contracts amounting to €93.7 million (PY: €91.7 million). Actuarial gains and losses on plan assets in Germany resulted from the actuarial losses of €10.6 million (PY: actuarial gains of €2.6 million) on official retirement funds and actuarial gains of €11.1 million (PY: €3.4 million) from the CTA.

In the Continental Corporation there are pension 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, 2014, the minimum net funding requirement was exceeded; Continental AG has no requirement to make additional contributions. The pension fund assets had a fair value as at December 31, 2014, of €306.7 million (PY: €307.0 million). The pension 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; 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, 2014						Dec. 31, 2013					
in € millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Funded status[1]	**-2,746.8**	**-308.9**	**-11.2**	**-23.4**	**-139.6**	**-3,229.9**	**-1,895.2**	**-148.6**	**-5.7**	**-2.1**	**-118.4**	**-2,170.0**
Asset ceiling	–	–	-0.3	-6.2	-2.7	**-9.2**	–	–	-2.7	-6.6	-2.6	**-11.9**
Net amount recognized	**-2,746.8**	**-308.9**	**-11.5**	**-29.6**	**-142.3**	**-3,239.1**	**-1,895.2**	**-148.6**	**-8.4**	**-8.7**	**-121.0**	**-2,181.9**

1 Difference between plan assets and defined benefit obligations.

The net amount recognized comprises the following items of the statement of financial position:

	Dec. 31, 2014						Dec. 31, 2013					
in € millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Defined benefit assets	–	–	1.5	–	0.1	**1.6**	–	2.9	0.1	2.9	0.1	**6.0**
Pension and similar obligations	-2,746.8	-308.9	-13.0	-29.6	-142.4	**-3,240.7**	-1,895.2	-151.5	-8.5	-11.6	-121.1	**-2,187.9**
Net amount recognized	**-2,746.8**	**-308.9**	**-11.5**	**-29.6**	**-142.3**	**-3,239.1**	**-1,895.2**	**-148.6**	**-8.4**	**-8.7**	**-121.0**	**-2,181.9**

The pension plan of Continental Automotive Trading UK Ltd., Birmingham, U.K., reports plan assets as at the end of the fiscal year that exceed the defined benefit obligations. The recognition of such an asset is limited to the present value of the benefits to the corporation (asset ceiling). As at December 31, 2014, this present value is €0.0 million (PY: €0.0 million).

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:

	2014					2013				
in %	**Germany[1]**	**U.S.A.**	**CAN**	**U.K.**	**Other**	Germany[1]	U.S.A.	CAN	U.K.	Other
Discount rate	2.15	4.00	4.00	3.60	3.54	3.50	4.90	4.75	4.40	3.77
Long-term salary growth rate	3.00	3.50	3.50	3.90	3.39	3.00	3.50	3.50	3.96	2.86

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, 2014, for the key countries: Germany 1.75% (PY: 1.75%), Canada 1.6% (PY: 1.8%), U.K. 3.1% (PY: 3.4%). For the U.S.A., the long-term pension trend does not constitute a significant measurement parameter due to the fact that the pension plans are closed to new entrants and to future accrual.

Net pension cost can be summarized as follows:

	2014						2013					
in € millions	**Germany**	**U.S.A.**	**CAN**	**U.K.**	**Other**	**Total**	Germany	U.S.A.	CAN	U.K.	Other	Total
Current service cost	104.8	–	0.4	3.8	17.8	**126.8**	99.7	–	0.6	3.4	17.3	**121.0**
Service cost from plan amendments	0.7	–	–	–	0.7	**1.4**	0.3	–	–	–	-0.2	**0.1**
Curtailments/settlements	–	-18.1	-1.6	–	-1.3	**-21.0**	–	–	–	–	-2.6	**-2.6**
Interest on defined benefit obligations	90.8	42.0	3.2	13.2	9.1	**158.3**	84.9	38.7	3.2	11.1	8.6	**146.5**
Expected return on plan assets	-36.6	-35.2	-3.0	-13.2	-5.2	**-93.2**	-22.0	-25.5	-2.4	-9.3	-4.1	**-63.3**
Effect of change of asset ceiling	–	–	0.1	–	0.4	**0.5**	–	–	–	–	0.3	**0.3**
Other pension income and expenses	–	0.9	0.3	–	0.1	**1.3**	–	1.0	0.5	-1.8	3.2	**2.9**
Net pension cost	**159.7**	**-10.4**	**-0.6**	**3.8**	**21.6**	**174.1**	**162.9**	**14.2**	**1.9**	**3.4**	**22.5**	**204.9**

Curtailments and settlements in 2014 result in particular from the termination indemnities paid to former employees with vested benefits in the U.S.A.

The table below shows the reconciliation of changes in actuarial gains and losses at the start and end of the reporting year:

	2014						2013					
in € 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	-621.4	-218.9	-8.9	-49.6	-39.1	**-937.9**	-644.2	-405.1	-22.5	-50.5	-43.7	**-1,166.0**
Actuarial gains/losses from defined benefit obligations	-733.4	-176.1	-8.2	-44.6	-19.3	**-981.6**	19.4	84.8	11.6	-7.6	6.7	**114.9**
Actuarial gains/losses from plan assets	11.0	23.9	1.8	18.9	-0.1	**55.5**	3.4	101.4	4.7	5.0	-1.8	**112.7**
Actuarial gains/losses from asset ceiling	—	—	2.5	0.9	0.3	**3.7**	—	—	-2.7	3.5	-0.3	**0.5**
Actuarial gains/losses as at Dec. 31	**-1,343.8**	**-371.1**	**-12.8**	**-74.4**	**-58.2**	**-1,860.3**	**-621.4**	**-218.9**	**-8.9**	**-49.6**	**-39.1**	**-937.9**

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 and the experience adjustments. A significant decline in the discounting factor compared to 2013 resulted in actuarial losses in all key countries in the 2014 reporting period. By contrast, the actuarial gains incurred in the 2013 reporting period were essentially due to a slight rise in the discounting factor compared to the 2012 reporting year.

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, 2014					Dec. 31, 2013				
in € 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	-10.5	1.8	0.2	0.0	-0.4	-6.1	2.3	0.0	-0.1	-0.6
Effects on benefit obligations	-238.5	-61.4	-4.8	-28.8	-16.6	-161.2	-43.9	-4.1	-24.2	-12.5
0.5% decrease										
Effects on service and interest cost	11.9	-1.5	-0.2	0.0	1.3	6.8	-2.7	0.1	0.0	0.7
Effects on benefit obligations	271.1	68.1	5.3	32.8	18.6	182.0	48.1	4.7	27.5	14.0

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, 2014				Dec. 31, 2013			
in € millions	**Germany**	**U.S.A.[1]**	**CAN**	**U.K.**	Germany	U.S.A.[1]	CAN	U.K.
0.5% increase								
Effects on benefit obligations	2.1	–	0.1	4.6	0.9	–	0.4	3.9
0.5% decrease								
Effects on benefit obligations	-2.0	–	-0.1	-4.3	-0.9	–	-0.4	-3.7

1 The pension plans in the U.S.A. have been closed to new entrants and frozen to accretion of further benefits. Any change in the long-term salary growth rate would thus 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, 2014				Dec. 31, 2013			
in € millions	**Germany**	**U.S.A.[1]**	**CAN**	**U.K.**	Germany	U.S.A.[1]	CAN	U.K.
0.5% increase								
Effects on benefit obligations	105.8	–	3.8	20.9	36.7	–	3.1	19.0
0.5% decrease								
Effects on benefit obligations	-97.2	–	-3.5	-20.0	-33.9	–	-2.7	-17.8

1 The pension plans in the U.S.A. have been closed to new entrants and frozen to accretion of further benefits. Any change in long-term pension trend would thus 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 €91.8 million (PY: €90.4 million) increase in the value of the benefit obligations, and that figure would be broken down as follows: Germany €53.4 million (PY: €59.3 million), U.S.A. €27.0 million (PY: €24.0 million), U.K. €9.6 million (PY: €5.5 million), and Canada €1.8 million (PY: €1.6 million). 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.

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 2014 and 2013 are as follows:

in %	2014					2013				
Asset class	**Germany[1]**	**U.S.A.**	**CAN**	**U.K.**	**Other**	Germany[1]	U.S.A.	CAN	U.K.	Other
Equity instruments	9	69	49	25	12	9	61	48	15	10
Debt securities	76	26	51	46	52	76	35	51	45	70
Real estate	13	4	–	1	1	13	4	–	1	3
Diversified growth fund	–	–	–	23	22	–	–	–	32	16
Cash, cash equivalents and other	2	1	–	5	13	2	–	1	7	1
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.

The following table shows the cash contributions made by the company to the pension funds for 2014 and 2013 as well as the expected contributions for 2015:

in € millions	2015 (expected)	2014	2013
Germany	0.1	1.7	2.2
U.S.A.	9.4	13.3	21.5
CAN	1.1	0.6	1.9
U.K.	9.8	9.0	9.8
Other	9.5	14.8	15.4
Total	**29.9**	**39.4**	**50.8**

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:

in € millions	Germany	U.S.A.	CAN	U.K.	Other	Total
Benefits paid						
2013	89.3	53.5	6.3	7.8	11.1	**168.0**
2014	91.9	105.6	3.6	8.4	13.0	**222.5**
Benefit payments as expected						
2015	115.4	62.6	4.1	8.9	10.4	**201.4**
2016	104.8	62.8	4.2	9.3	11.3	**192.4**
2017	108.5	62.6	4.2	9.6	24.9	**209.8**
2018	112.5	62.6	4.1	10.7	45.6	**235.5**
2019	118.5	63.0	4.3	12.3	64.8	**262.9**
Total of years 2020 to 2024	681.1	312.3	21.4	71.0	96.5	**1,182.3**

The pension payments from 2012 onwards relate to lump-sum amounts in connection with fixed service cost benefit plans, as well as annual pension benefits. For the purposes of estimating the future payments, in those cases where employees have an option to immediately receive their benefits in cash on retirement or to opt for monthly pension payments, it has been assumed that in all cases the lump-sum will be chosen. 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, deficit, as well as the experience adjustments to plan liabilities and to plan assets are as follows:

in € millions	2014	2013	2012	2011	2010
Defined benefit obligations	5,265.6	4,052.2	4,126.7	3,365.3	3,342.8
Plan assets	2,035.7	1,882.2	1,814.4	1,752.1	1,779.8
Deficit	-3,229.9	-2,170.0	-2,312.3	-1,613.2	-1,563.0
Experience adjustments to plan liabilities	981.6	-117.5	768.7	2.3	124.7
Experience adjustments to plan assets	55.5	112.7	76.0	-50.9	30.5

In particular, the increase in the deficit as against the previous year is due to the change in the defined benefit obligations. The decline in the discount rate is resulting in actuarial losses in all countries.

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:

in € millions	2014	2013
Defined benefit obligations as at January 1	**173.8**	**213.6**
Foreign currency differences	21.8	-10.0
Current service cost	1.2	1.7
Service cost from plan amendments	0.5	–
Curtailments/settlements	-0.2	0.0
Interest on healthcare and life insurance benefit obligations	8.3	7.8
Actuarial gains/losses from changes in demographic assumptions	7.8	0.0
Actuarial gains/losses from changes in financial assumptions	16.4	-18.9
Actuarial gains/losses from experience adjustments	-3.0	-4.0
Benefit payments	-14.6	-16.4
Defined benefit obligations/net amount recognized as at December 31	**212.0**	**173.8**

In particular, the increase in defined benefit obligations is due to actuarial losses on account of lower discount factors and negative exchange rate effects in the U.S.A.

At the end of 2006, all hourly workers at the U.S. tire operations and retirees were notified that their maximum amount of medical coverage would be reduced further starting at the beginning of 2007. As a result of this amendment, these beneficiaries now have a standardized level of medical coverage. These plan amendments resulted in a reversal of provisions in 2006 for post-employment obligations of €108.8 million. Certain affected individuals filed a class action lawsuit contesting this measure at the end of 2006. Owing to a judicially approved settlement, which ended the legal proceedings, the company had to make a one-time payment totaling €43.5 million as compensation. Most of the payment was made in 2008, with payment of the remainder spread over the following seven years. As at December 31, 2014 the remaining provision was reversed in full (PY: €2.5 million).

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:

in %	2014	2013
Discount rate	4.00	4.88
Rate of increase in healthcare and life insurance benefits in the following year	6.29	6.74
Long-term rate of increase in healthcare and life insurance benefits	4.92	4.91

The net cost of healthcare and life insurance benefit obligations can be broken down as follows:

in € millions	2014	2013
Current service cost	1.2	1.7
Service cost from plan amendments	0.5	–
Curtailments/settlements	-0.2	0.0
Interest on healthcare and life insurance benefit obligations	8.3	7.8
Net cost	**9.8**	**9.5**

The following table shows the effects of a 0.5% increase or decrease in the cost trend for healthcare and life insurance obligations:

in € millions	2014	2013
0.5% increase		
Effects on service and interest cost	0.1	0.1
Effects on benefit obligations	1.8	1.3
0.5% decrease		
Effects on service and interest cost	-0.1	-0.1
Effects on benefit obligations	-1.8	-1.2

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:

in € millions	2014	2013
0.5% increase		
Effects on service and interest cost	0.4	0.4
Effects on benefit obligations	-10.3	-7.6
0.5% decrease		
Effects on service and interest cost	-0.4	-0.3
Effects on benefit obligations	11.4	8.4

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:

in € millions	
Benefits paid	
2013	16.4
2014	14.6
Benefit payments as expected	
2015	14.6
2016	14.5
2017	14.4
2018	14.4
2019	14.3
Total of years 2020 to 2024	70.1

The amounts for the defined benefit obligations, deficit and experience adjustments to plan liabilities for the current and four preceding reporting periods are as follows:

in € millions	**2014**	2013	2012	2011	2010
Defined benefit obligations	212.0	173.8	213.6	202.2	210.9
Deficit	–212.0	–173.8	–213.6	–202.2	–210.9
Experience adjustments to plan liabilities	21.2	–22.9	20.7	6.2	7.3

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. In the fiscal year, the expenses for these obligations were €2.5 million (PY: €2.8 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 were €59.3 million (PY: €53.4 million) in the fiscal year. The year-on-year increase results mainly from the newly concluded compensation schemes and the switch from defined benefit to defined contribution plans.

26. Provisions for Other Risks and Obligations

	Dec. 31, 2014		Dec. 31, 2013	
in € millions	**Current**	**Non-current**	Current	Non-current
Restructuring provisions	63.0	22.2	82.1	26.8
Litigation and environmental risks	70.8	106.1	99.8	89.8
Other employee benefits	–	124.4	–	105.5
Warranties	358.6	1.0	324.4	6.2
Other provisions	240.3	52.6	124.8	38.6
Provisions for other risks and obligations	**732.7**	**306.3**	**631.1**	**266.9**

The provisions for other risks developed as follows:

in € millions	**Restructuring provisions**	**Litigation and environmental risks**	**Other employee benefits**	**Warranties**	**Other provisions**
As at January 1, 2014	**108.9**	**189.6**	**105.5**	**330.6**	**163.4**
Additions	42.2	51.6	56.4	353.8	242.8
Utilizations	-57.9	-66.0	-36.4	-227.8	-89.3
Net changes in the scope of consolidation	–	1.0	1.9	6.2	11.9
Reversals	-10.4	-16.5	-8.5	-112.8	-45.2
Interest	1.9	0.9	5.8	–	0.7
Foreign currency translation	0.5	16.3	-0.3	9.6	8.6
As at December 31, 2014	**85.2**	**176.9**	**124.4**	**359.6**	**292.9**

The utilization of restructuring provisions primarily relates to the implementation of restructuring measures decided in previous years – particularly at the German locations in Wetzlar, Babenhausen, and Dortmund, and at the French location Clairoix.

Reversals of restructuring provisions are due in particular to the location at Dortmund, Germany.

The addition to restructuring provisions was caused by the restructuring in Clairoix, France, and in Limbach-Oberfrohna, Germany.

As in the previous year, the additions to litigation and environmental risks relate in particular to product liability risks from the tire activities in the U.S.A. Please see Note 34.

Utilization mainly includes the product liability risks from tire activities mentioned above and payments in connection with the rulings of the Korea Fair Trade Commission against Continental Automotive Electronics LLC, Bugan-myeon, South Korea.

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 1.5% (PY: 1.75%). Provisions for anniversary and other long-service benefits were calculated using a discount rate of 2.15% (PY: 3.5%). In accordance with the option under IAS 19, the interest component is reported in net interest expense.

The changes in provisions for warranties include utilization of €227.8 million (PY: €233.6 million) and reversals of €112.8 million (PY: €135.4 million), partially offset by additions of €353.8 million (PY: €353.0 million), in particular for specific individual cases in the Automotive Group.

Please see Note 5 for information on changes in the scope of consolidation.

The other provisions also comprise provisions for risks from operations, partially in connection with compensation from customer and supplier claims that are not warranties. They also include provisions for valuation at the lower of cost or market and provisions for tire recycling obligations.

27. Income Tax Liabilities

Tax liabilities developed as follows:

in € millions	2014	2013
As at January 1	**588.2**	**713.3**
Additions	523.2	510.3
Utilizations and advance payments for the current fiscal year	-531.6	-592.5
Reversals	-15.8	-34.4
Additions from the first consolidation of subsidiaries	7.2	0.8
Foreign currency translation	6.1	-9.3
As at December 31	**577.3**	**588.2**

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.

28. Indebtedness

	Dec. 31, 2014			Dec. 31, 2013		
		Maturity			Maturity	
in € millions	**Total**	**up to 1 year**	**over 1 year**	Total	up to 1 year	over 1 year
Bonds	**3,084.4**	2.6	3,081.8	**2,989.5**	2.3	2,987.2
Bank loans and overdrafts[1]	**2,399.5**	698.8	1,700.7	**2,150.5**	432.9	1,717.6
Derivative instruments	**22.3**	20.3	2.0	**13.7**	13.2	0.5
Finance lease liabilities	**48.0**	6.7	41.3	**54.2**	7.5	46.7
Liabilities from sale of receivables programs	**842.9**	594.5	248.4	**916.2**	628.5	287.7
Other indebtedness[2]	**34.5**	31.3	3.2	**513.4**	511.9	1.5
Indebtedness	**6,431.6**	**1,354.2**	**5,077.4**	**6,637.5**	**1,596.3**	**5,041.2**

1 Thereof €4.9 million (PY: €4.3 million) secured by land charges, mortgages and similar securities.
2 Other indebtedness in 2013 included €497.5 million utilized under the commercial paper program in 2013. No commercial papers had been issued as at the end of 2014.

Continental's key bond issues

in € millions Issuer/type	**Amount of issue Dec. 31, 2014**	**Carrying amount Dec. 31, 2014**	**Stock market value Dec. 31, 2014**	Amount of issue Dec. 31, 2013	Carrying amount Dec. 31, 2013	Stock market value Dec. 31, 2013	Coupon p.a.	Issue/maturity and fixed interest until	Issue price
CGF euro bond	750.0	745.0	784.8	750.0	742.9	776.8	2.500%	2013 / 03.2017	99.595%
CAG euro bond	750.0	740.7	812.4	750.0	738.2	790.8	3.000%	2013 / 07.2018	98.950%
CRoA U.S. dollar bond	781.6	800.9	816.5	690.2	710.4	734.1	4.500%	2012 / 09.2019	100.000%
CAG euro bond	750.0	741.2	844.7	750.0	739.9	785.1	3.125%	2013 / 09.2020	99.228%
Total	**3,031.6**	**3,027.8**	**3,258.4**	**2,940.2**	**2,931.4**	**3,086.8**			

The carrying amount of bonds increased by €94.9 million from €2,989.5 million at the end of 2013 to €3,084.4 million as at the end of fiscal 2014. There were no changes in the bonds held in 2014. The slight year-on-year increase essentially results from the foreign currency translation of the U.S. $950.0 million bond issued in September 2012 by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., into the reporting currency for the corporation (euro) and is therefore due to the

significantly stronger U.S. dollar at the end of 2014 compared to the previous year.

The aforementioned U.S. dollar bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., is the last bond in the portfolio for which the early redemption option provided for in the terms is measured as an embedded derivative in accordance with IAS 39 as in the previous year (see also comments in Note 29).

The carrying amount of the bonds also includes the U.S. dollar bonds issued in the years 2011 to 2013 by Continental Tire Andina S.A., Quito, Ecuador, at a total of €6.6 million (PY: €8.1 million) and 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.

Breakdown of credit lines and available financing from banks

in € millions		Dec. 31, 2014		Dec. 31, 2013			
Company	Type[1]	Amount of issue	Carrying amount	Amount of issue	Carrying amount	Interest	Maturity
CAG, CRoA, CGF, Conti Autom. Benelux[2]	SL	3,000.0	–	3,000.0	–	Euribor/USD Libor +	2019[2]
	SL	1,500.0	1,496.8	1,500.0	1,489.9	margin	2016[2]
Conti Mabor	LBL	5.5	5.2	8.2	7.8	0%[3]	2016[4]
	LBL	2.8	2.6	2.8	2.5	0%[3]	2016
CAG	LBL	50.0	50.0	–	–	Euribor + margin	2019
Conti Tire do Brasil	LBL	50.7	50.7	54.7	54.7	variable[5] + margin	2018[6]
	LBL	18.6	18.6	18.0	18.0	variable[5] + margin	2019[6]
Continental Kaluga	LBL	30.8	30.8	48.7	48.7	7.4% + margin	2020[7]
	LBL	19.9	19.9	31.4	31.4	MosPrime + margin	2020[7]
Conti Autom. (Thail.) Co., Ltd.	LBL	19.5	19.5	27.2	27.2	Euribor + margin	2017[4]
	LBL	29.6	29.6	35.0	35.0	Euribor + margin	2020[4]
Various bank lines		1,712.7	675.8	1,273.5	435.3	mainly variable	mainly < 1 year
Credit lines and available financing from banks		**6,440.1**		**5,999.5**			
Bank loans and overdrafts			**2,399.5**		**2,150.5**		

1 SL: syndicated loan; LBL: long-term bank loan.
2 With the new conclusion of the syndicated loan agreement in April 2014, on the one hand the following companies are no longer entitled: Conti Automotive, Conti Benelux, Conti Autom. Holding Netherlands, Conti Autom. Czech Republic. On the other, there are longer terms: for the term loan until April 2016 (PY: January 2016) and for the revolving tranche until April 2019 (PY: January 2018).
3 Interest-free development loan.
4 Semi-annual repayments.
5 Different variable interest bases.
6 Monthly repayments.
7 Quarterly repayments.

The previous year's figures are presented comparably.

Abbreviations

- CAG, Continental Aktiengesellschaft, Hanover, Germany
- CGF, Conti-Gummi Finance B.V., Maastricht, Netherlands
- Conti Automotive, Continental Automotive GmbH, Hanover, Germany
- Conti Autom. Benelux, Continental Automotive Benelux BVBA, Mechelen, Belgium
- Conti Autom. Czech Republic, Continental Automotive Czech Republic s.r.o., Jicin, Czech Republic
- Conti Autom. Holding Netherlands, Continental Automotive Holding Netherlands B.V., Maastricht, Netherlands

- Conti Autom. (Thail.) Co., Ltd., Continental Automotive (Thailand) Co., Ltd., Rayong, Thailand
- Conti Benelux, Continental Benelux SPRL, Herstal, Belgium
- Conti Mabor, Continental Mabor Indústria de Pneus S.A., Lousado, Portugal
- Continental Kaluga, OOO "Continental Kaluga", Kaluga, Russia
- Conti Tire do Brasil, Continental do Brasil Produtos Automotivos Ltda., Camacari, Brazil
- CRoA, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.

On December 31, 2014, there were financing commitments from banks in the amount of €6,440.1 million (PY: €5,999.5 million). A nominal amount of €4,032.4 million of this had not been utilized as at the end of the reporting period (PY: €3,833.3 million). €3.0 billion (PY: €3.0 billion) of this relates to the revolving tranche of the syndicated loan that therefore – as in the previous year – was not utilized. In the year under review, the Continental Corporation utilized its commercial paper program, its sale of receivables programs and its various bank lines to meet short-term credit requirements.

Bank loans and overdrafts amounted to €2,399.5 million (PY: €2,150.5 million) as at December 31, 2014, and were therefore down €249.0 million on the previous year's level.

To further improve the financial and maturity structure, in January 2013 a new syndicated loan agreement was concluded with a credit volume reduced to a total of €4.5 billion. Under the new loan agreement, Continental was no longer required to furnish security in rem and has obtained further simplifications of the documentation required. The credit margins were still based on the Continental Corporation's leverage ratio (net indebtedness/EBITDA, as defined in the syndicated loan agreement). To reflect the improvements in Continental's operating performance and its ratings achieved over 2013 in financing conditions as well, a new syndicated loan was concluded at the end of April 2014 and the syndicated loan concluded at the start of 2013 was repaid early. The committed volume of this new syndicated loan is still €4.5 billion and consists of a term loan of €1.5 billion and a revolving credit line of €3.0 billion. The term loan has a term of two years, while the revolving credit line has a term of five years. Further simplifications of the documentation required were achieved here as well. Furthermore, the margin level was reduced significantly and is now geared toward Continental's rating again. As at the end of 2014, as in the previous year, under the syndicated loan only the term loan of nominally €1.5 billion had been utilized by Continental AG.

As in the previous year, the agreed financial covenants were also complied with as at the end of the respective quarter in 2014. Please see Note 29 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, 2014, in € millions	2015	2016	2017	2018	2019	from 2020	**Total**
Minimum lease payments	9.0	12.6	10.5	6.4	3.9	15.4	**57.8**
Interest component	2.3	1.9	1.5	1.2	0.8	2.1	**9.8**
Finance lease liabilities	**6.7**	**10.7**	**9.0**	**5.2**	**3.1**	**13.3**	**48.0**

Dec. 31, 2013, in € millions	2014	2015	2016	2017	2018	from 2019	**Total**
Minimum lease payments	10.1	8.6	12.2	10.3	5.9	19.1	**66.2**
Interest component	2.6	2.3	1.7	1.5	0.7	3.2	**12.0**
Finance lease liabilities	**7.5**	**6.3**	**10.5**	**8.8**	**5.2**	**15.9**	**54.2**

The fair value of finance lease liabilities is €54.2 million (PY: €56.9 million). The effective interest rate of the main leases is between 5.0% and 8.4% (PY: between 5.5% and 8.3%).

29. 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:

in € millions	Measurement category in acc. with IAS 39	**Carrying amount as at Dec. 31, 2014**	**Fair value as at Dec. 31, 2014**	Carrying amount as at Dec. 31, 2013	Fair value as at Dec. 31, 2013
Other investments	AfS	10.7	10.7	7.9	7.9
Derivative instruments and interest-bearing investments					
Derivative instruments accounted for as hedging instruments	n. a.	–	–	3.0	3.0
Derivative instruments not accounted for as hedging instruments	HfT	80.2	80.2	30.0	30.0
Available-for-sale financial assets	AfS	266.8	266.8	257.8	257.8
Other receivables with a financing character	LaR	17.3	17.3	12.6	12.6
Trade accounts receivable	LaR	5,846.2	5,846.2	5,315.8	5,315.8
Other financial assets	LaR	424.4	424.4	381.2	381.2
Cash and cash equivalents					
Cash and cash equivalents	LaR	2,960.5	2,960.5	2,044.8	2,044.8
Available-for-sale financial assets	AfS	283.3	283.3	0.0	0.0
Financial assets		**9,889.4**	**9,889.4**	**8,053.1**	**8,053.1**
Indebtedness					
Derivative instruments accounted for as hedging instruments	n. a.	4.9	4.9	–	–
Derivative instruments not accounted for as hedging instruments	HfT	17.4	17.4	13.7	13.7
Finance lease liabilities	n. a.	48.0	54.2	54.2	56.9
Other indebtedness	FLAC	6,361.3	6,609.1	6,569.6	6,757.5
Trade accounts payable	FLAC	4,861.6	4,861.6	4,596.3	4,596.3
Other financial liabilities	FLAC	1,697.9	1,697.2	1,464.2	1,463.6
Financial liabilities		**12,991.1**	**13,244.4**	**12,698.0**	**12,888.0**
Aggregated according to categories as defined in IAS 39:					
Financial assets held for trading (HfT)		80.2		30.0	
Loans and receivables (LaR)		9,248.4		7,754.4	
Available-for-sale financial assets (AfS)		560.8		265.7	
Financial liabilities held for trading (HfT)		17.4		13.7	
Financial liabilities measured at amortized cost (FLAC)		12,920.8		12,630.1	

Abbreviations

- AfS: available for sale
- FLAC: financial liability at amortized cost
- HfT: held for trading
- LaR: loans and receivables
- n. a.: not applicable (effective hedging instruments are not part of the measurement categories of IAS 39).

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 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, trade accounts payable 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.

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 table below shows the fair values of financial assets and liabilities that are measured at fair value in accordance with IAS 39 on the one hand and the classes of financial instruments for which the fair value was calculated for comparison with the carrying amount on the other. It does not contain information on the fair value for financial assets and liabilities not measured at fair value if the carrying amount is an appropriate approximation of the fair value. The levels of the fair value hierarchy are defined as follows:

- 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 € millions		**Dec. 31, 2014**	Level 1	Level 2	Cost
Other investments	AfS	10.7	–	–	10.7
Available-for-sale financial assets	AfS	550.1	541.5	8.6	0.0
Derivative instruments not accounted for as hedging instruments	HfT	80.2	–	80.2	–
Financial assets measured at fair value		**641.0**	**541.5**	**88.8**	**10.7**
Derivative instruments accounted for as hedging instruments	n. a.	4.9	–	4.9	–
Derivative instruments not accounted for as hedging instruments	HfT	17.4	–	17.4	–
Financial liabilities measured at fair value		**22.3**	**–**	**22.3**	**–**
Finance lease liabilities	n. a.	54.2	–	54.2	–
Other indebtedness	FLAC	6,609.1	3,265.4	2,072.0	1,271.7
Other financial liabilities	FLAC	1,697.2	–	28.0	1,669.2
Financial liabilities not measured at fair value		**8,360.5**	**3,265.4**	**2,154.2**	**2,940.9**

in € millions		**Dec. 31, 2013**	Level 1	Level 2	Cost
Other investments	AfS	7.9	–	–	7.9
Available-for-sale financial assets	AfS	257.8	247.2	10.6	0.0
Derivative instruments accounted for as hedging instruments	n. a.	3.0	–	3.0	–
Derivative instruments not accounted for as hedging instruments	HfT	30.0	–	30.0	–
Financial assets measured at fair value		**298.7**	**247.2**	**43.6**	**7.9**
Derivative instruments not accounted for as hedging instruments	HfT	13.7	–	13.7	–
Financial liabilities measured at fair value		**13.7**	**–**	**13.7**	**–**
Finance lease liabilities	n. a.	56.9	–	56.9	–
Other indebtedness	FLAC	6,757.5	3,095.1	2,259.0	1,403.4
Other financial liabilities	FLAC	1,463.6	–	13.2	1,450.4
Financial liabilities not measured at fair value		**8,278.0**	**3,095.1**	**2,329.1**	**2,853.8**

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 up to the end of the reporting period, in which the change occurred. In 2014, 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	
in € millions	From interest	At fair value	Currency translation	Impairment losses	**2014**	2013
Loans and receivables	23.4	–	45.5	-21.6	47.3	24.9
Available-for-sale financial assets	4.9	3.0	–	0.1	8.0	10.4
Financial assets and financial liabilities held for trading	–	42.3	–	–	42.3	-238.5
Financial liabilities at amortized cost	-214.7	–	-36.2	–	-250.9	-445.4
Net gains and losses	**-186.4**	**45.3**	**9.3**	**-21.5**	**-153.3**	**-648.6**

Interest income and expense from financial instruments is reported in net interest expense (see Note 9). No interest income was generated from impaired financial assets.

The valuation allowance for loans and receivables essentially results 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 €12.2 million (PY: €3.9 million) in the reporting year; €3.0 million (PY: €4.2 million) was taken from equity and recognized in profit or loss in 2014.

Collateral

As at December 31, 2014, a total of €2,564.9 million (PY: €2,463.0 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. Trade accounts receivable sold under sale of receivables programs as well as the aforementioned collateral in the form of trade accounts receivable are shown in Note 20.

At the end of April 2014 the syndicated loan concluded in January 2013 was completely replaced by a new syndicated loan with a nominal amount of still €4.5 billion. The new syndicated loan includes a term loan of €1.5 billion maturing in April 2016 and a revolving loan of nominally €3.0 billion maturing in April 2019.

With the conclusion of the new syndicated loan, guarantees previously assumed by several selected subsidiaries have ceased to apply. This is also true of the bond issued by Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A., in September 2012 with a total volume of U.S. $950.0 million and the three bonds with a total volume of €2.25 billion issued under the Debt Issuance Programme in 2013.

Hedging policy and derivative instruments

The international nature of its business activities and the resulting financing requirements mean that the 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 audit. 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 exports against imports in the individual currencies, is regularly recorded and measured. For many years now, the corporation has been using natural hedges to reduce currency risks so that the

difference between receipts and payments in any one currency is kept as low as possible. Expected exchange rate developments are also monitored and analyzed accordingly. Exchange rate risks are hedged as necessary using appropriate financial instruments. 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 those derivative instruments that 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. 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 currency management purposes. These amounts 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 review and initiate hedging measures. These must not exceed 30% of the 12-month exposure per currency without Executive Board permission.

Financial foreign currency risks

In addition, currency risks also result from external and internal loan agreements that are denominated in a currency other than the functional currency of the respective subsidiary. As at December 31, 2014, the net exposure of the major currencies euro and U.S. dollar, including net investment in foreign business operations, amounted to €143.2 million (PY: -€140.8 million) and €90.3 million (PY: €23.7 million) respectively. 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, the financial instruments are categorized into foreign currency pairs for this portfolio, and a 10% appreciation or depreciation of the respective functional currency of the subsidiaries is assumed in relation to the foreign currency. The following table shows, before income taxes, 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.

	2014		2013	
in € millions	**Total equity[1]**	**Net income[1]**	Total equity[1]	Net income[1]
Local currency +10%				
Total	**90.2**	**-28.3**	**85.7**	**-2.3**
thereof EUR	51.4	-27.7	51.4	-10.5
thereof USD	38.8	13.3	34.3	12.9
Local currency –10%				
Total	**-90.2**	**28.3**	**-85.7**	**2.3**
thereof EUR	-51.4	27.7	-51.4	10.5
thereof USD	-38.8	-13.3	-34.3	-12.9

1 Not including tax effects.

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 is the euro, the financial statements of these companies are translated into euro. In order to address translation-related currency effects as part of risk management, 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 euro changes as a result of currency fluctuations are recognized directly in equity in the consolidated financial statements.

2. Interest rate management

Variable interest agreements pose the risk of rising interest rates for liabilities and falling interest rates for interest-bearing financial investments. These risks are monitored and evaluated 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. One of the goals is to keep around 35% to 60% of gross interest-bearing debt at a fixed interest rate.

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. If the corporation has the right to redeem instruments before maturity, such redemption is considered only if this is advantageous from the Continental Corporation's perspective.

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:

in € millions	2014	2013
Fixed-interest instruments		
Financial assets	0.1	0.8
Financial liabilities	–3,275.2	–3,180.5
Floating-rate instruments		
Financial assets	3,527.8	2,314.4
Financial liabilities	–3,134.1	–3,443.3

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

An increase in interest rates of 100 basis points in 2014 would have led to a higher net interest expense of €15.2 million (PY: €8.4 million). The significant effects of this were due to the change in U.S. dollar interest rates.

A decline in interest rates of 100 basis points would have improved net interest expense by €31.4 million (PY: €26.2 million). The significant effects of this were due to the change in U.S. dollar interest rates.

These effects resulted primarily from the embedded early redemption options of the bonds. This analysis assumes that interest rates cannot be lower than or equal to 0%. Tax effects have not been taken into account.

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 net interest expense. The effects essentially result from floating-rate financial instruments. In the scenario in which there is a decrease in the pertinent interest rates, it was 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. Consequently, the analysis includes a minimum interest rate for the pertinent currencies of 0%. Previous year figures were restated accordingly. This analysis is based on the assumption that all other variables, and in particular exchange rates, remain unchanged. The same assumption applied to 2013.

in € millions	2014	2013
Interest rate increase +100 basis points		
Total	**3.9**	**-11.3**
thereof EUR	-10.1	-20.9
thereof CNY	5.0	4.4
thereof KRW	0.9	0.7
thereof MXN	1.7	0.5
thereof USD	3.7	1.6
Interest rate decline -100 basis points		
Total	**-9.1**	**1.4**
thereof EUR	0.7	4.7
thereof CNY	-5.0	-0.8
thereof KRW	-0.9	-0.7
thereof MXN	-1.7	-0.5
thereof USD	-0.5	-0.1

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 €4.5 billion (PY: €4.5 billion) and other bilateral loans. Furthermore, approximately 48% 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, Continental AG 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 28.

The following undiscounted cash outflows result in the next five years and after from the financial liabilities of €12,991.1 million (PY: €12,698.0 million):

Dec. 31, 2014, in € millions	2015	2016	2017	2018	2019	thereafter	Total
Other indebtedness incl. interest payments	-1,457.8	-1,678.2	-1,135.6	-854.7	-899.8	-838.1	**-6,864.2**
Derivative instruments[1]	-21.5	–	–	-3.5	–	–	**-25.0**
Finance lease liabilities	-9.0	-12.6	-10.5	-6.4	-3.9	-15.4	**-57.8**
Trade accounts payable	-4,861.6	–	–	–	–	–	**-4,861.6**
Other financial liabilities	-1,649.2	-21.5	-17.6	-10.3	-1.2	-0.3	**-1,700.1**

1 Not including embedded derivative instruments as they do not give rise to cash outflows.

Dec. 31, 2013, in € millions	2014	2015	2016	2017	2018	thereafter	Total
Other indebtedness incl. interest payments	–1,718.0	–197.1	–1,671.9	–1,174.1	–855.5	–1,604.0	**–7,220.6**
Derivative instruments[1]	–12.3	—	—	—	—	—	**–12.3**
Finance lease liabilities	–10.1	–8.6	–12.2	–10.3	–5.9	–19.1	**–66.2**
Trade accounts payable	–4,596.3	—	—	—	—	—	**–4,596.3**
Other financial liabilities	–1,448.0	–7.3	–2.7	–2.7	–2.7	–0.8	**–1,464.2**

1 Not including embedded derivative instruments 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 euro. 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 the 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 derivatives on the basis of the German Master Agreement on Financial Derivatives Transactions (*Deutscher Rahmenvertrag für Finanztermingeschäfte – DRV*). Fundamentally there is the option to combine the amounts owed by each counterparty under such agreements on a single day in respect of all outstanding transactions in the same currency into a single net amount to be paid by one party to another. In certain cases – for example when a credit event such as a default occurs – 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.

The DRV agreements do 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. The right to netting can only be enforced when future events occur, such as the insolvency of a contractual party. Nor are there any possibilities of offsetting the amounts against hedging transactions concluded directly by subsidiaries.

The table below shows the carrying amounts of the financial instruments recognized that are subject to the agreements shown:

in € millions	Carrying amounts gross	Amounts netted in accordance with IAS 32.42	Carrying amounts net	Respective financial instruments not netted	Net amount
Dec. 31, 2014					
Financial assets					
Derivative instruments	46.4	—	46.4	–8.7	**37.7**
Financial liabilities					
Derivative instruments	–21.8	—	–21.8	8.7	**–13.1**
Dec. 31, 2013					
Financial assets					
Derivative instruments	6.9	—	6.9	–1.9	**5.0**
Financial liabilities					
Derivative instruments	–13.2	—	–13.2	1.9	**–11.3**

5. Default risk

Credit risk from trade accounts receivable and 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 losses 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. 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 recognized at fair value, which is generally determined by discounting the expected cash flows on the basis of yield curves. For example, 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, 2014, positive fair values of embedded derivatives amounted to €33.8 million (PY: €26.1 million) while negative fair values of embedded derivatives amounted to €0.5 million (PY: €0.5 million). The positive fair value essentially relates to the early redemption option for the bond issued in September 2012 by Continental Rubber of America Corp., Wilmington, Delaware, U.S.A.

The option was measured using an option pricing model. A risk-free yield curve adapted to the credit risk of Continental AG was used. The volatility of the Continental AG refinancing rate was determined approximately using swaption volatilities. The recognized amortized costs of this bond take into account the value calculated for the embedded options on issue.

The following overview shows the fair values and nominal values of the stand-alone derivative instruments as at the end of the reporting period:

in € millions	**Dec. 31, 2014**		Dec. 31, 2013	
Fair value	**Assets**	**Liabilities**	Assets	Liabilities
Hedge of a net investment				
Currency swaps	—	-4.9	3.0	—
Other derivative instruments				
Currency swap/currency forwards	46.4	-16.9	3.9	-13.2
Total fair value	**46.4**	**-21.8**	**6.9**	**-13.2**
– thereof long-term	—	-1.5	—	—
– thereof short-term	46.4	-20.3	6.9	-13.2
Nominal values				
Hedge of a net investment	188.3		173.8	
Currency swap/currency forwards	1,411.4		1,019.8	
Total of nominal values	**1,599.7**		**1,193.6**	

In the case of highly effective and longer term hedges, Continental usually applies hedge accounting as set out in IAS 39.

In 2013 and 2014, the Continental Corporation designated currency swaps as hedging instruments in hedges of net investments in foreign operations. 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. 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 at the end of 2014 and also 2013, these hedges did not result in an ineffectiveness to be recognized in profit or loss.

30. Other Financial Liabilities

	Dec. 31, 2014			Dec. 31, 2013		
in € millions	**Total**	**Current**	**Non-current**	Total	Current	Non-current
Liabilities to related parties	**176.0**	175.5	0.5	**153.8**	153.3	0.5
Interest payable	**48.9**	48.9	–	**41.3**	41.3	–
Liabilities for payroll and personnel related costs	**743.3**	743.3	–	**639.3**	639.3	–
Liabilities for selling expenses	**615.0**	615.0	–	**567.7**	567.7	–
Termination benefits	**22.3**	22.3	–	**14.0**	14.0	–
Purchase prices payable on company acquisitions	**27.4**	21.8	5.6	**24.0**	21.5	2.5
Miscellaneous financial liabilities	**65.0**	22.4	42.6	**24.1**	10.9	13.2
Other financial liabilities	**1,697.9**	**1,649.2**	**48.7**	**1,464.2**	**1,448.0**	**16.2**

The liabilities to related parties relate in particular to liabilities to associates for services provided. The clear rise results from a corporation company formed in 2010 that sources significant portions of its merchandise from an at-equity accounted investee.

Interest payable at the end of 2014 is mainly due to deferred interest for the bonds issued. The rise compared to the end of 2013 results in particular from the increase in interest payable at Conti-Gummi Finance B.V., Maastricht, Netherlands. The euro bond issued by this company in September 2013 provides for annual interest payments from March 2014 after an abridged first interest payment period. The longer interest settlement period compared to the end of 2013 therefore causes a rise in interest payable as at the end of 2014.

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 essentially include the liability from a call option for non-controlling interests in a corporation company in the amount of €21.8 million.

The miscellaneous financial liabilities also include an amount of €14.7 million (PY: €13.8 million) representing, in particular, an obligation to Chase Community Equity, LLC, Delaware, U.S.A., a subsidiary of JP Morgan Chase Bank, N.A., New York, U.S.A., in connection with greenfield project and plant expansion investments.

The Continental value sharing bonus is a program allowing Continental employees to share in net income. The amount of profits shared is calculated on the basis of key internal figures. A provision of €125.5 million (PY: €107.8 million) was recognized in liabilities for staff costs for the period under review.

Liabilities for payroll and personnel related costs
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 2014 LTI plan 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 all long term incentive plans, amounting to €48.9 million (PY: €27.3 million), and those of the deferral, amounting to €4.8 million (PY: €15.9 million), are recognized in the respective function costs.

› **2010 LTI plan:** In 2010, senior executives of the Continental Corporation were granted a long term incentive (LTI) bonus which depends on their job grade and their degree of target achievement. 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 2010/14, with a term of four years, was issued in 2010. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2010/14 tranche was resolved on September 6, 2010.

For each beneficiary of an LTI tranche, the Executive Board of Continental AG specifies the amount of a target bonus in euro 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 expiry of the 2010/14 LTI tranche in September 2014, the bonus was paid out by utilizing the provision in November 2014.

- **2011 LTI plan:** In 2011, the 2011/15 tranche was issued with a term of four years. The term commences on the date of the Executive Board resolution concerning the issue of the respective tranche. The 2011/15 tranche was resolved on August 22, 2011, and its basic features are the same as the 2010 LTI plan.

- **2012 LTI plan:** In 2012, the 2012/16 tranche was issued with a term of four years. 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, and its basic features are the same as the 2010 LTI plan.

- **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 2010 LTI plan.

- **2014 LTI plan:** In 2014, senior executives of the Continental Corporation and members of the Executive Board were granted a long term incentive (LTI) bonus, the basic structure of which was altered. This bonus is still 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 (LTI tranches).

The term of the 2014/2017 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.

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 euro 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 AG 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 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 are defined by the Supervisory Board or the Executive Board when the LTI tranche is issued. For the 2014/2017 LTI 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 through the multiplication of the two target criteria and 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, 2014:

- Constant zero rates as at the measurement date of December 31, 2014, of -0.09% as at the maturity date and -0.08% as 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 2015 and 2016; the dividend amounted to €2.50 per share in 2014.
- 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 tranche is 28.09%.

The fair value of the 2014 LTI plan was €27.0 million as at the end of the reporting period. The vesting level is 25%, hence expenses of €6.7 million resulted from the addition to the LTI provision.

- **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 restriction for the distribution amount.

The following parameters were used as at the measurement date of December 31, 2014:

- Constant zero rates as at the measurement date of December 31, 2014, of 0.11% for the 2011 tranche, 0.09% for the 2012 tranche, and 0.10% for the 2013 tranche.
- Interest rate based on the yield curve for government bonds.
- Dividend payments as the arithmetic mean based on publicly available estimates for 2015 and 2016; the dividend amounted to €2.50 per share in 2014, and Continental AG distributed a dividend of €2.25 per share in 2013.
- 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 2011 tranche is 28.58%, for the 2012 tranche 25.21%, and for the 2013 tranche 25.33%.

As at December 31, 2014, commitments with a fair value of €28.1 million (equivalent to 156,533 units) are attributable to Executive Board members active at the end of the reporting period.

31. Trade Accounts Payable

Trade accounts payable amounted to €4,861.6 million (PY: €4,596.3 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 29.

32. Other Short-Term Liabilities

	Dec. 31, 2014			Dec. 31, 2013		
in € millions	**Total**	**Current**	**Non-current**	Total	Current	Non-current
Liabilities for workers' compensation	**66.6**	33.5	33.1	**60.7**	30.6	30.1
Liabilities for social security	**152.2**	152.2	–	**134.8**	134.8	–
Liabilities for vacation	**141.8**	141.8	–	**129.6**	129.6	–
Liabilities for VAT and other taxes	**254.8**	254.8	–	**196.2**	196.2	–
Deferred income	**90.8**	80.8	10.0	**78.7**	69.9	8.8
Others	**240.4**	237.1	3.3	**210.1**	206.8	3.3
Other liabilities	**946.6**	**900.2**	**46.4**	**810.1**	**767.9**	**42.2**

Deferred income includes advance payments by customers for deliveries of goods and for research and development work outstanding and for tools purchases. Government grants are also reported here.

33. Liabilities Held for Sale

in € millions	**Dec. 31, 2014**	Dec. 31, 2013
Liabilities held for sale	–	–
Liabilities of a disposal group	0.3	–
Liabilities held for sale	**0.3**	**–**

Liabilities held for sale in the amount of €0.3 million (PY: –) include staff liabilities for a business to be sold in Austria.

Other Disclosures

34. Litigation and Compensation 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 proceedings regarding rescission and nullification by Phoenix AG shareholders brought against the resolutions adopted by the Shareholders' Meeting of the company held on December 28, 2004, for approval of a management and profit and loss transfer agreement and the merger agreement with ContiTech AG and for confirmatory resolutions by the Annual Shareholders' Meeting of Phoenix AG on May 19, 2005, have been substantively concluded since 2009. On September 16, 2011, the Hamburg Regional Court (*Landgericht*) ruled on the judicial review proceedings on the appropriateness of compensation and settlement under the management and profit and loss transfer agreement and the conversion ratio established in the merger agreement, ordering ContiTech AG to make additional payments. Continental is still of the opinion that the 2004 valuation of Phoenix AG and ContiTech AG was appropriate and that the compensation and settlement under the management and profit and loss transfer agreement as well as the conversion ratio in the merger agreement were established correctly. Appeals against the rulings have therefore been filed and are pending before the Hanseatic Higher Regional Court of Hamburg. However, an increase in the amounts paid to the minority shareholders after the end of these proceedings cannot be ruled out.

The actions of rescission and nullification by shareholders of ContiTech AG 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 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 a few 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 2007, the European Commission and the U.S. Department of Justice (DOJ) initiated investigations into antitrust behavior in the marine hose market. The European Commission found Continental AG, ContiTech AG and Dunlop Oil & Marine Limited (DOM) liable – among other companies – for infringements of antitrust law. The proceedings of the European Commission and the DOJ, and of the authorities in other countries (Brazil, Japan, Australia, South Korea and Canada) against DOM for violations of their respective national antitrust law have since all been concluded or, as in the case of Canada, will not be pursued further. Customers and other third parties have claimed damages from DOM on account of its involvement in the marine hose cartel. Class actions in the U.S.A. were settled. A pending claim for damages brought before the British High Court was also settled, as were several claims made out of court. However, further claims in the U.K. or other countries cannot be ruled out.

In May 2005, the Brazilian antitrust authorities opened investigations against Continental's Brazilian subsidiary Continental Brasil Indústria Automotiva Ltda., Guarulhos, Brazil (CBIA), fol-

lowing a complaint by a third party of alleged anticompetitive behavior in the area of the commercialization of tachographs. On August 18, 2010, the Brazilian competition authorities determined an "invitation to cartel" and imposed a fine of BRL 12 million (around €3.7 million) on CBIA, which was then reduced to BRL 10.8 million (around €3.3 million). CBIA refutes the accusation. The court of first instance appealed to by CBIA initially upheld the ruling of the competition authorities. However, on further appeal of CBIA, the court of second instance annulled the ruling and remanded the matter. In addition, third parties may claim damages from CBIA in case of an infringement of Brazilian antitrust law.

On October 2, 2006, the 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, South Africa (CTSA), a company that is meanwhile wholly owned by Continental. On August 31, 2010, the South African antitrust authorities came to the conclusion that CTSA and other companies had violated South African antitrust law and referred the matter to the competent Competition Tribunal for a decision. CTSA denies all allegations 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 claim damages from CTSA in case of an infringement of South African competition law.

In a case that had come to light at the start of 2010 as a result of searches at several companies, the European Commission imposed fines on a number of automotive suppliers on July 10, 2013 for anti-competitive conduct in the field of supplying wire harnesses for automotive applications. These companies included S-Y Systems Technologies Europe GmbH, Regensburg, Germany (S-Y), and its French subsidiary, which had to pay a fine of €11.1 million due to cartel agreements with regard to one automotive manufacturer. Continental held a 50% share of S-Y until January 29, 2013. Class action lawsuits filed by alleged victims against S-Y and other companies are pending in Canada. A claim for damages brought against S-Y was settled out of court. Further claims cannot be ruled out.

In October 2012, Continental Automotive Systems US, Inc., Auburn Hills, Michigan, U.S.A., and two South Korean subsidiaries of Continental 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 fines on Continental Automotive Electronics LLC, Bugan-myeon, South Korea (CAE), and another automotive supplier, for violations of antitrust law in instrument cluster business. The fine imposed on CAE amounts to KRW 45,992 million (around €35 million). In addition, the criminal court imposed a fine of KRW 200 million (around €150,000) on November 13, 2014. CAE has appealed both of these rulings.

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 (approximately €3.3 million). The agreement is still subject to confirmation by the court. 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 alleges that there were indications of violations against EU antitrust law. In another case, another subsidiary of Continental received a request for information from the European Commission. However, it is not clear whether or in what amount the Commission will impose fines on Continental and/or its subsidiaries. Requests for information and searches are preliminary steps in investigations of suspected antitrust conduct and provide no indication of their results. 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 the consolidated sales of the company involved 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.

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 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. Continental has filed another appeal (cassation). However, we cannot rule out the possibility that the obligation to pay damages may be upheld in full or in part after the final resolution of the proceedings.

35. Contingent Liabilities and Other Financial Obligations

in € millions	Dec. 31, 2014	Dec. 31, 2013
Liabilities on guarantees	69.9	61.2
Liabilities on warranties	3.0	3.4
Other financial obligations	55.6	78.6
Other contingent liabilities	10.0	9.4
Contingent liabilities and other financial obligations	**138.5**	**152.6**

The contingent liabilities primarily relate to guarantees for the liabilities of affiliated companies and third parties not included in consolidation and to contractual warranties relating to associated companies. In particular, they include a guarantee for a major project by a business segment disposed of in the previous years in the amount of €26.4 million (PY: €25.6 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 and to UEFA and FIFA sponsorship.

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 €407.9 million (PY: €271.2 million).

In 2014, expenses for operating leases and rental agreements amounted to €196.0 million (PY: €171.5 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, 2014, for which the corporation is not the beneficial owner, and for which the related assets are therefore not recognized as property, plant and equipment, are shown in the table below for 2015 and cumulatively for the years 2016 through 2019, and likewise cumulatively from 2020:

Dec. 31, 2014, in € millions	2015	2016–2019	from 2020
Operating leases and rental agreements	248.5	425.3	216.5

Dec. 31, 2013, in € millions	2014	2015–2018	from 2019
Operating leases and rental agreements	196.0	359.3	140.0

36. Earnings per Share

Basic earnings per share rose to €11.88 in 2014 (PY: €9.62), 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.

in € millions/millions of shares	2014	2013
Net income attributable to the shareholders of the parent	2,375.3	1,923.1
Weighted average number of shares issued	200.0	200.0
Earnings per share in €	**11.88**	**9.62**

37. Events after the End of the Reporting Period

Acquisition of Veyance Technologies completed
Once all agreed conditions had been met, the agreement that was concluded on February 10, 2014, with The Carlyle Group, Washington D.C., U.S.A., regarding the acquisition of Veyance Technologies, Inc., Fairlawn, Ohio, U.S.A., was closed on January 30, 2015. The closing took place by way of the merger of South Acquisition Corp., Inc., Wilmington, Delaware, U.S.A., a wholly owned subsidiary of the Continental Corporation, with EPD Holdings Inc., Wilmington, Delaware, U.S.A., which up to then had been a wholly owned subsidiary of The Carlyle Group, Washington D.C., U.S.A.

Veyance Technologies operates globally in the field of rubber and plastics technology. It posted sales in 2013 of approximately €1.5 billion, about 90% of which was generated in the industrial business. At the end of 2013, it had a workforce of about 9,000 employees in its 27 plants worldwide. Conveyor belts, hoses, power transmission belts, and air spring systems are the focus of its product range. The acquisition should strengthen in particular the ContiTech segment's Conveyor Belt Group, Fluid Technology, and Power Transmission Group business units in regions where ContiTech has little or no representation. With the additional business in markets such as the U.S.A. and South America, but also in Mexico, Canada, China, Australia, and South Africa, ContiTech will in the future achieve some 60% of its sales with customers outside of the automotive original equipment sector. In doing so, Continental has taken another step toward achieving its strategic goal of further increasing sales from industrial clients and the aftermarket.

The provisional purchase price was €650 million and was paid in cash. The incidental acquisition costs of €16.0 million were recognized as other expenses in the year under review. According to our preliminary calculations, we are expecting intangible assets of €725 million and goodwill of €435 million for the ContiTech segment. This goodwill results from the skills and professional aptitude of the workforce and from expectations regarding the improved geographical market coverage of the group of companies following the transaction. This particularly relates to regions in which ContiTech operated only to a limited extent in the past, such as North America, Latin America, China and South Africa. Furthermore, we expect to leverage synergies from optimizations in the procurement of manufacturing materials and from the production processes. Veyance Technologies generated sales of around €120 million from January 1, 2015, up until the closing of the acquisition.

The net assets to be acquired are expected to consist of the following:

Acquired net assets in € millions	Preliminary carrying values immediately before merger[1]
Property, plant and equipment	357.2
Other long-term assets	62.4
Inventories	214.3
Trade accounts receivable	287.3
Other short-term assets	25.5
Cash and cash equivalents	109.6
Long-term portion of indebtedness	-888.6
Other long-term provisions and liabilities	-95.4
Trade accounts payable	-152.2
Income tax payables	-4.0
Indebtedness	-134.9
Other short-term provisions and liabilities	-114.2
Purchased net assets	**-333.0**
Acquired non-controlling interests	-41.6

1 Adjusted for effects from earlier purchase price allocations.

Owing to time restrictions in light of the closing having taken place only a few days before the preparation of the financial statements, there is no further data available yet that is subject to disclosure requirements.

38. Auditor's Fees

For fiscal 2014, a global fee of €9.3 million (PY: €8.6 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:

in € millions	2014	2013
Audit of financial statements	3.2	3.0
Other assurance services	0.9	1.1
thereof assurance services in connection with bond issues[1]	–	0.1
Tax advisory services	0.1	0.1
Other services provided to the parent company or its subsidiaries	0.1	0.1
Total	**4.3**	**4.3**

1 These amounts essentially relate to the directly attributable costs in connection with the issue of the bonds in accordance with IAS 32.37. These are included in the cost of the bonds and recognized in profit or loss over their term.

KPMG AG Wirtschaftsprüfungsgesellschaft and its registered branches are deemed the auditor.

39. 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:

in € thousands	2014	2013
Short-term benefits	15,229	10,449
Service cost relating to post-employment benefits[1]	2,415	4,965
Termination benefits	1,619	–
Share-based payment	14,712	20,917
Non share-based long term incentive plan	–	5,089
Total	**33,975**	**41,420**

1 Including past service cost resulting from the plan amendment.

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 Corporate Management Report with the Continental AG.

The total remuneration granted to the Executive Board of Continental AG in 2014 amounted to €25.0 million (PY: €21.7 million). That total remuneration also includes a newly granted long term incentive plan totaling €5.2 million (PY: €5.1 million) and the long-term component of variable remuneration totaling €4.7 million (PY: €6.1 million), which is converted into virtual shares of the company. In 2014, this resulted in the long-term component for 2013 being converted into 36,180 virtual shares.

Moreover, former members of the Executive Board and their surviving dependents received payments totaling €7.2 million (PY: €5.3 million). Provisions for pension obligations for former members of the Executive Board and their surviving dependents amounted to €109.8 million (PY: €97.2 million).

Remuneration paid to the members of Continental AG's Supervisory Board, including meeting fees, totaled €4.2 million in the past fiscal year (PY: €3.7 million). As in 2013, no advances or loans were granted to members of Continental AG's Executive Board or Supervisory Board in 2014.

Transactions with related parties other than subsidiaries:

in € millions	2014	2013
Income	188.2	150.6
Expenses	110.5	116.8

Income, mainly from sales, and expenses, mainly from product and material procurement, resulting from transactions between subsidiaries and related parties are attributable solely to the ordinary business activities of the respective company and were conducted on an arm's length basis. The corresponding receivables from and liabilities to these companies are reported in the statement of financial position. Please see Notes 17 and 30.

Please refer to Note 25 regarding transactions with Continental Pension Trust e. V. in the year under review.

The transactions with the Schaeffler Group in the reporting year are attributable to ordinary business activities and were concluded on an arm's length basis. The income in the reporting year of €62.8 million (PY: €49.1 million) and expenses totaling €95.7 million (PY: €94.0 million) are both included in the transactions with related parties.

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 limits stated in this provision being reached, exceeded or fallen 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% are still disclosed as at the end of the reporting period.

By way of letter dated September 30, 2014, we received notification that:

- the share of voting rights in Continental AG held by BlackRock, Inc., New York, NY, U.S.A., on September 25, 2014, amounted to 4.49% (8,985,220 voting rights).

  1.54% of these voting rights (3,080,719 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

  2.72% of these voting rights (5,439,068 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

  0.23% of these voting rights (460,758 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 and Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

  0.002% of these voting rights (4,675 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 2 in conjunction with Sentence 2 and Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock Holdco 2, Inc., Wilmington, Delaware, U.S.A., on September 25, 2014, amounted to 4.44% (8,886,166 voting rights).

  1.54% of these voting rights (3,080,719 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

  2.67% of these voting rights (5,340,014 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

  0.23% of these voting rights (460,758 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 and Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

  0.002% of these voting rights (4,675 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 2 in conjunction with Sentence 2 and Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock Financial Management, Inc., New York, NY, U.S.A., on September 25, 2014, amounted to 4.39% (8,787,372 voting rights).

  1.54% of these voting rights (3,080,719 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

  0.02% of these voting rights (31,770 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 6 *WpHG*.

  2.60% of these voting rights (5,209,382 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

  0.23% of these voting rights (460,758 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 and Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

  0.002% of these voting rights (4,675 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 2 in conjunction with Sentence 2 and Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

  0.00002% of these voting rights (34 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 6 and Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock Advisors Holdings, Inc., New York, NY, U.S.A., on September 25, 2014, amounted to 2.97% (5,933,923 voting rights).

  1.10% of these voting rights (2,194,172 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

  0.002% of these voting rights (4,675 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 2 in conjunction with Sentence 2 *WpHG*.

  1.67% of these voting rights (3,330,604 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

  0.20% of these voting rights (404,472 voting rights) are attributed to the company in accordance with Section 22 (1)

Sentence 1 No. 1 and Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock International Holdings, Inc., New York, NY, U.S.A., on September 25, 2014, amounted to 2.97% (5,933,923 voting rights).

  1.10% of these voting rights (2,194,172 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

  0.002% of these voting rights (4,675 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 2 in conjunction with Sentence 2 *WpHG*.

  1.67% of these voting rights (3,330,604 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

  0.20% of these voting rights (404,472 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 and Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BR Jersey International Holdings, L.P., St. Helier, Jersey, Channel Islands, on September 25, 2014, amounted to 2.97% (5,933,923 voting rights).

  1.10% of these voting rights (2,194,172 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

  0.002% of these voting rights (4,675 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 2 in conjunction with Sentence 2 *WpHG*.

  1.67% of these voting rights (3,330,604 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

  0.20% of these voting rights (404,472 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 and Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

- the share of voting rights in Continental AG held by BlackRock Group Limited, London, U.K., on September 25, 2014, amounted to 2.87% (5,738,531 voting rights).

  1.07% of these voting rights (2,135,764 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

  1.60% of these voting rights (3,198,295 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

  0.20% of these voting rights (404,472 voting rights) are attributed to the company in accordance with Section 22 (1) Sentence 1 No. 1 and Section 22 (1) Sentence 1 No. 6 in conjunction with Sentence 2 *WpHG*.

On October 6, 2011, we received notification that:

- the share of voting rights in Continental AG held by Schaeffler Beteiligungsholding GmbH & Co. KG, Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time.

- the share of voting rights in Continental AG held by Schaeffler Familienholding Drei GmbH & Co. KG, Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Familienholding Zwei GmbH, Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Familienholding Eins GmbH, Herzogenaurach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler GmbH*, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 36.14% (72,290,458 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Verwaltungs GmbH, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. 36.14% of these shares (72,290,458 voting rights) are attributed to Schaeffler Verwaltungs GmbH in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Holding GmbH & Co. KG, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Management GmbH, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Schaeffler Holding LP, Dallas, Texas, U.S.A., remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Mrs. Maria-Elisabeth Schaeffler**, Germany, remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

- the share of voting rights in Continental AG held by Mr. Georg F. W. Schaeffler, U.S.A., remained above the threshold of 30% of voting rights on September 30, 2011, and amounted to 49.90% (99,802,986 voting rights) at this time. The shares are attributed to this shareholder in accordance with Section 22 (1) Sentence 1 No. 1 *WpHG*.

On September 17, 2013, our major shareholder, the Schaeffler Group, Herzogenaurauch, Germany, announced the sale of 7.8 million Continental shares and thus reduced its shareholding in Continental AG from 49.9% to 46.0%.

In 2014 and until February 13, 2015, 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 2014 and until February 13, 2015, 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.

* *Since October 23, 2014: (after change of corporate form operating as) Schaeffler Verwaltung Zwei GmbH.*
** *Since August 14, 2014: Maria-Elisabeth Schaeffler-Thumann.*

40. 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 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

Company	Registered office
ContiTech Verwaltungs-GmbH	Hanover
ContiTech Vibration Control GmbH	Hanover
ContiTech-Universe Verwaltungs-GmbH	Hanover
Eddelbüttel + Schneider GmbH	Hamburg
eStop GmbH	Schwalbach am Taunus
Formpolster GmbH	Hanover
Gerap Grundbesitz- und Verwaltungsgesellschaft mit beschränkter Haftung	Frankfurt am Main
Göppinger Kaliko GmbH	Eislingen
IDM GmbH Industriesensoren	Lindau
IPM GmbH Informationen Prozesse Menschen (i.L.)	Hamburg
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
REG Reifen-Entsorgungsgesellschaft mbH	Hanover
STEINEBRONN BETEILIGUNGS-GMBH	Oppenweiler
TEMIC Automotive Electric Motors GmbH	Berlin
UMG Beteiligungsgesellschaft mbH	Hanover
Vergölst GmbH	Bad Nauheim

41. 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 2014, and is available to our shareholders on the following website: www.continental-corporation.com in the Investor Relations section under Corporate Governance.

Further Information ›

234 Responsibility Statement by the Company's Legal Representatives
235 Other Directorships – The Executive Board
236 Other Directorships – The Supervisory Board
238 Ten-Year Review – Corporation
239 Glossary of Financial Terms
C5 Financial Calendar
C5 Publication Details

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 13, 2015

Continental AG
The Executive Board

Other Directorships – The Executive Board

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 (formerly Emitec Gesellschaft für Emissionstechnologie mbH), Lohmar* (Member of the Board of Directors, until September 22, 2014);
Continental Automotive France SAS, Toulouse, France* (until February 2, 2014);
SK Continental E-motion Pte. Ltd., Singapore, Singapore* (until December 18, 2014)

Dr. Ralf Cramer
President & CEO China
Continental Automotive Changchun Co., Ltd., Changchun, China* (Chairman);
Continental Automotive Holding Co., Ltd., Shanghai, China* (Chairman);
Continental Automotive Interior Wuhu Co., Ltd., Wuhu, China* (Chairman);
Continental Automotive Jinan Co., Ltd., Jinan, China* (Chairman);
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 Automotive Wuhu Co., Ltd., Wuhu, China* (Supervisor);
Continental Brake Systems (Shanghai) Co., Ltd., Shanghai, China* (Chairman);
Continental Tires (China) Co., Ltd., Hefei, China* (Chairman);
Continental Automotive Systems Holding US, Inc., Wilmington, Delaware, U.S.A.* (until March 31, 2014);
Continental Automotive Systems, Inc., Wilmington, Delaware, U.S.A.* (until March 31, 2014);
Continental Automotive, Inc., Wilmington, Delaware, U.S.A.* (until March 31, 2014);
Continental Automotive Corporation, Yokohama, Japan* (until December 21, 2013)

Frank Jourdan
Chassis & Safety Division
Continental Automotive Corporation, Yokohama, Japan* (since January 1, 2014);
Continental Automotive Mexicana S.A. de C.V., Morelos, Mexico*

Helmut Matschi
Interior Division
Continental Automotive GmbH, Hanover* (Chairman);
SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe* (Vice Chairman);
Continental Automotive France SAS, Toulouse, France*
SAS Autosystemtechnik Verwaltungs GmbH, Karlsruhe*

Dr. Ariane Reinhart
Human Relations, Director of Labor Relations, CSR
(Member of the Executive Board since October 1, 2014)

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
Continental Reifen Deutschland GmbH, Hanover* (Chairman);
Continental India Limited, New Delhi, India* (until December 11, 2014);
Continental Tire Holding US, LLC, Wilmington, Delaware, U.S.A.*;
Continental Tire the Americas LLC, Fort Mill, South Carolina, U.S.A.*

Elke Strathmann
Human Resources, Director of Labor Relations, CSR
(Member of the Executive Board until April 25, 2014)

Heinz-Gerhard Wente
ContiTech Division
Corporate Purchasing
Benecke-Kaliko AG, Hanover* (Vice Chairman);
ContiTech Antriebssysteme GmbH, Hanover* (Chairman);
ContiTech Elastomer Beschichtungen GmbH, Hanover* (Chairman);
ContiTech Luftfedersysteme GmbH, Hanover* (Chairman);
ContiTech MGW GmbH, Hann. Münden* (Vice Chairman);
ContiTech Schlauch GmbH, Hanover* (Chairman);
ContiTech Techno-Chemie GmbH, Karben* (Vice Chairman);
ContiTech Transportbandsysteme GmbH, Hanover* (Chairman);
ContiTech Vibration Control GmbH, Hanover* (Chairman);
Phoenix Compounding Technology GmbH, Hamburg* (Chairman);
ContiTech Grand Ocean Fluid (Changchun) Co., Ltd., Changchun, China*;
ContiTech North America, Inc., Wilmington, Delaware, U.S.A.*;
ContiTech Thermopol, LLC, Manchester, New Hampshire, U.S.A.*;
ContiTech Oil & Marine Corp., Dallas, Texas, U.S.A.*

* Companies pursuant to Section 100 (2) of the German Stock Corporation Act *(Aktiengesetz – AktG)*.

Other Directorships – The Supervisory Board

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 Board of Directors of Holcim Ltd., Zurich, Switzerland
Axel Springer SE, Berlin (since August 1, 2014);
Hawesko Holding AG, Hamburg (since August 1, 2014);
Medical Park AG, Amerang (Chairman since June 1, 2014)

Hartmut Meine*, Vice Chairman
District manager of IG Metall (Metalworkers' Union) for Lower Saxony and Saxony-Anhalt
KME Germany GmbH, Osnabrück;
Volkswagen AG, Wolfsburg

Michael Deister*
Chairman of the Works Council for the Stöcken Plant (Member of the Supervisory Board until April 25, 2014)

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., Luxembourg** (Chairman);
NORD/LB Covered Finance Bank S.A., 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)
Bayer AG, Leverkusen;
Henkel AG & Co. KGaA, Düsseldorf;
50Hertz Transmission GmbH, Berlin (Vice Chairman);
Vivawest GmbH, Gelsenkirchen

Prof. Dr.-Ing. E. h. Hans-Olaf Henkel
Honorary Professor at the University of Mannheim (Member of the Supervisory Board until April 25, 2014)
UsedSoft Schweiz AG, Zug, Switzerland

Michael Iglhaut*
Works Council for the Frankfurt Location

Jörg Köhlinger*
Trade Union Secretary, IG Metall (Metalworkers' Union) for the Central Region, and IG Metall Delegate for the Corporate Works Council of Continental Teves, as well as the Supervisory Committee of the Central Works Council of Continental Teves, Temic and Automotive (Member of the Supervisory Board until April 25, 2014)
C.+H. Winter GmbH, Stadtallendorf;
Rasselstein GmbH, Andernach

Prof. Dr. Klaus Mangold
Chairman of the Supervisory Board of Rothschild GmbH
Alstom Deutschland AG, Mannheim (Chairman);
TUI AG, Hanover (Chairman);
Alstom S.A., Paris, France;
Baiterek JSC, Astana, Kazakhstan;
Swarco AG, Wattens, Austria

Sabine Neuß
Member of the Management Board of Linde Material Handling GmbH, Aschaffenburg (Member of the Supervisory Board since April 25, 2014)
Juli Motorenwerk, s.r.o., Moravany, Czech Republic;
Linde Xiamen Forklift Truck Corp., Xiamen, China**

Prof. Dr. Rolf Nonnenmacher
Certified Accountant, self employed, Berg (Member of the Supervisory Board since October 1, 2014)

Dirk Nordmann*
Chairman of the Works Council for the Vahrenwald Plant, ContiTech Antriebssysteme GmbH, Hanover
ContiTech Luftfedersysteme GmbH, Hanover

Artur Otto*
Head of Marketing & Business Development Automotive Systems & Technology

Klaus Rosenfeld
Chief Executive Officer of Schaeffler AG, Herzogenaurach

Georg F. W. Schaeffler
Co-owner of the Schaeffler Group
Schaeffler AG, Herzogenaurach** (Chairman)

Maria-Elisabeth Schaeffler-Thumann
Co-owner of the Schaeffler Group
Schaeffler AG, Herzogenaurach**;
Österreichische Industrieholding AG, Vienna, Austria (until March 10, 2014)

Jörg Schönfelder*
Chairman of the Works Council for the Korbach Plant and Chairman of the European Works Council
Continental Reifen Deutschland GmbH, Hanover

Kirsten Vörkel*
Chairperson of the Works Council of Continental Automotive GmbH, Dortmund,
Vice Chairperson of the Central Works Council of Continental Automotive GmbH,
Member of the Corporate Works Council of Continental AG
(Member of the Supervisory Board since April 25, 2014)

Elke Volkmann*
Second Authorized Representative of the IG Metall Administrative Office for North Hesse, Kassel
(Member of the Supervisory Board since April 25, 2014)
Krauss-Maffei Wegmann Verwaltungs GmbH, Munich

Dr. Bernd W. Voss
Member of various Supervisory Boards
(Member of the Supervisory Board until September 30, 2014)
Wacker Chemie AG, Munich

Erwin Wörle*
Chairman 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
Banque Baring Brothers Sturdza SA, Geneva, Switzerland;
GAZ Group, Nizhny Novgorod, Russia (Chairman);
Glavstroy Corporation, OJSC, Moscow, Russia (Chairman);
Österreichische Industrieholding AG, Vienna, Austria (Chairman since June 26, 2014);
SBERBANK Europe AG, Vienna, Austria (Chairman);
Schaeffler AG, Herzogenaurach (since July 1, 2014);
Siemens Aktiengesellschaft Austria, Vienna, Austria (until June 17, 2014);
STRABAG SE, Vienna, Austria;
VERBUND AG, Vienna, Austria (until June 17, 2014)

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 (since April 25, 2014)
Michael Deister (until April 25, 2014)

2. Audit Committee

Prof. Dr. Rolf Nonnenmacher
(Chairman since October 1, 2014),
Dr. Bernd W. Voss (Chairman until September 30, 2014),
Hans Fischl (until April 25, 2014),
Peter Hausmann,
Michael Iglhaut (until April 25, 2014),
Dirk Nordmann (since April 25, 2014),
Klaus Rosenfeld,
Georg F. W. Schaeffler,
Erwin Wörle (since April 25, 2014)

3. Nomination Committee

Prof. Dr. Rolf Nonnenmacher (since October 1, 2014),
Prof. Dr.-Ing. Wolfgang Reitzle,
Georg F. W. Schaeffler,
Maria-Elisabeth Schaeffler-Thumann,
Dr. Bernd W. Voss (until September 30, 2014)

* Employee representative.
** Companies pursuant to Section 100 (2) of the German Stock Corporation Act *(Aktiengesetz – AktG)*.

Ten-Year Review – Corporation

		2014	2013	2012[6]	2011	2010	2009	2008	2007	2006	2005
Balance sheet											
Non-current assets	in € millions	16,923.3	15,569.5	15,685.7	15,075.5	14,887.9	14,724.6	16,348.4	17,383.9	5,877.9	5,193.8
Current assets	in € millions	13,317.8	11,251.3	11,764.4	10,962.9	9,502.6	8,324.6	8,339.5	10,353.7	4,975.1	5,353.9
Total assets	in € millions	30,241.1	26,820.8	27,450.1	26,038.4	24,390.5	23,049.2	24,687.9	27,737.6	10,853.0	10,547.7
Shareholders' equity (excl. non-controlling interests)	in € millions	10,672.1	9,011.2	7,779.0	7,146.1	5,859.6	3,772.6	5,265.4	6,583.2	4,470.8	3,574.2
Non-controlling interests	in € millions	352.5	311.0	377.4	397.2	343.3	289.1	264.5	272.9	239.1	220.8
Total equity (incl. non-controlling interests)	in € millions	11,024.6	9,322.2	8,156.4	7,543.3	6,202.9	4,061.7	5,529.9	6,856.1	4,709.9	3,795.0
Equity ratio[1]	in %	36.5	34.8	29.7	29.0	25.4	17.6	22.4	24.7	43.4	36.0
Capital expenditure[2]	in € millions	2,045.4	1,981.1	2,019.4	1,711.3	1,296.4	860.1	1,595.2	896.9	805.0	871.8
Net indebtedness	in € millions	2,823.5	4,289.3	5,319.9	6,772.1	7,317.0	8,895.5	10,483.5	10,856.4	1,181.0	493.2
Gearing ratio	in %	25.6	46.0	65.2	89.8	118.0	219.0	189.6	158.3	25.1	13.0
Income statement											
Sales	in € millions	34,505.7	33,331.0	32,736.2	30,504.9	26,046.9	20,095.7	24,238.7	16,619.4	14,887.0	13,837.2
Share of foreign sales	in %	76.6	76.2	75.4	73.7	72.8	71.0	68.5	69.2	67.6	65.8
Cost of sales[3]	in %	74.9	76.6	78.3	79.0	77.8	80.0	80.4	75.8	75.3	74.6
Research and development expenses[3]	in %	6.2	5.6	5.3	5.3	5.6	6.7	6.2	5.0	4.5	4.3
Selling expenses[3]	in %	5.3	5.0	4.8	4.7	5.0	5.6	4.9	5.5	5.7	6.1
Administrative expenses[3]	in %	2.2	2.1	2.0	2.1	2.5	3.0	3.2	2.7	3.0	3.1
EBITDA	in € millions	5,133.8	5,095.0	4,967.4	4,228.0	3,587.6	1,591.2	2,771.4	2,490.6	2,301.5	2,248.9
EBITDA[3]	in %	14.9	15.3	15.2	13.9	13.8	7.9	11.4	15.0	15.5	16.3
Personnel expenses	in € millions	7,757.2	7,124.5	6,813.7	6,354.3	5,891.7	5,199.8	5,746.3	3,652.7	3,175.2	3,054.3
Depreciation and amortization[4]	in € millions	1,789.0	1,831.3	1,781.2	1,631.1	1,652.4	2,631.6	3,067.6	814.8	699.6	741.8
Net income attributable to the shareholders of the parent	in € millions	2,375.3	1,923.1	1,905.2	1,242.2	576.0	-1,649.2	-1,123.5	1,020.6	981.9	929.6
Dividend and earnings per share											
Dividend for the fiscal year	in € millions	650.0[5]	500.0	450.0	300.0	–	–	–	323.4	293.1	145.9
Number of shares as at December 31	in millions	200.0	200.0	200.0	200.0	200.0	169.0	169.0	161.7	146.5	145.9
Net income (per share) attributable to the shareholders of the parent	in €	11.88	9.62	9.53	6.21	2.88	-9.76	-6.84	6.79	6.72	6.38
Employees											
Annual average	in thousands	186.0	175.4	169.0	159.7	142.7	133.4	148.4	93.9	81.6	81.1

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 30, 2015.
6 IAS 19 (revised 2011), Employee Benefits, has been applied since 2012.

Glossary of Financial Terms

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

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

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

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

Defined Benefit Obligation (DBO). DBO is defined as the present value of all vested and non-vested benefits calculated on the basis of estimated salary levels at retirement. The only actuarial method that may be used to calculate the DBO is the projected unit credit method. DBO corresponds to PBO (projected benefit obligation).

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

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

EBIT. Earnings Before Interest and Taxes. EBIT represents the results of operations.

EBITDA. Earnings Before Interest, Taxes, Depreciation and Amortization.

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.

GDP. Gross domestic product is 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.

Gearing ratio. The gearing ratio represents the net indebtedness divided by total equity, expressed as a percentage.

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 of the IASB.

IASB. International Accounting Standards Board. The authority that defines the International Financial Reporting Standards.

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

IFRS. International Financial Reporting Standards. Accounting standards of the IASB.

Interest rate swap. An interest rate swap is the exchange of interest payments between two parties. For example, this allows variable interest 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, cash and cash equivalents, the positive fair values of the derivative instruments as well as other interest-bearing investments.

Operating assets. Operating assets are the assets less liabilities as reported in the balance sheet, without recognizing the net indebtedness, discounted trade bills, 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. PPA is 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 recognized as "PPA adjustments".

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.

ROCE. Return On Capital Employed. We define ROCE as the ratio of EBIT to average operating assets for the fiscal year.

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

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

Financial Calendar

2015	
Annual Financial Press Conference	March 5
Analyst and Investor Conference Call	March 5
Annual Shareholders' Meeting	April 30
Financial Report as at March 31, 2015	May 7
Half-Year Financial Report as at June 30, 2015	August 4
Financial Report as at September 30, 2015	November 9

2016	
Annual Financial Press Conference	March
Analyst and Investor Conference Call	March
Annual Shareholders' Meeting	April 29
Financial Report as at March 31, 2016	May
Half-Year Financial Report as at June 30, 2016	August
Financial Report as at September 30, 2016	November

Contact details
This Annual Report is also published in German. The financial statements of Continental Aktiengesellschaft are also available in English and German.

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