Independent auditor' s report 2018 format

The Continental Aktiengesellschaft, Hanover report for opinions on the audit of consolidated financial statements and the company management report We checked the consolidated financial statements of Continental Aktiengesellschaft and its subsidiaries (the company), which include the consolidated financial position statement due on December 31, 2018, from January 1, 2018 to December 31, 2018. In addition, we checked the continental aktiengesellschaft 2018. In accordance with German law, we have not verified the content of the combined corporate non-financial statement, which is included in the relevant section of the management report. In our opinion, based on the knowledge gained during the audit, the related consolidated financial statements correspond in all material respects to IFRSs adopted by the EU and, in accordance with these requirements, the Company provides a true and fair view of the company's 2018 financial statements. This corporate governance report is in line with the consolidated financial statements in all material respects, complies with German legal requirements and adequately presents the opportunities and risks of future development. According to 1 HGB sentence 322(3), we declare that our audit did not lead to any reservations regarding the legal compliance of the consolidated financial statements and the corporate governance report. Basis for opinions: The audit of consolidated financial statements and the corporate governance report was carried out in accordance with Section 317 HGB and eu audit regulation 537/2014 (hereinafter referred to as the EU Audit Regulation) and in accordance with German generally accepted financial statement control standards published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW). Our responsibilities under these requirements and principles are also described in the customer responsibility responsible for auditing consolidated financial statements and in the Corporate Governance Report section of the audit report. We are independent of the company's legal persons European law and German commercial and professional law, and we have fulfilled our other German professional obligations in accordance with these requirements. In addition, article 10 of the EU Control Regulation provides that the commission may, in accordance with the procedure laid down in Article 10 of the We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on consolidated financial statements and corporate governance reporting. Key audit issues for the audit of consolidated financial statements The most important audit issues are those that, in our professional judgement, are the 2018 audits. These issues have been addressed in the framework of the monitoring of the consolidated financial statements as a whole and the development of our opinion on this. We do not issue separate opinions on these issues. Return on the carrying amount of goodwill Accounting policies and assumptions are included in paragraph 2 of the notes to the consolidated financial statements. The disclosure of the amount of goodwill on 31 December 2018 amounted to EUR 7,233 million, a significant proportion of net assets of around 18%. Goodwill is tested annually for impairment at the level of cash-generating units. The carrying amount is thus comparable to the recoverable amount of that cash-generating unit. If the carrying amount exceeds the recoverable amount, impairment should be recognised. Recoverable amount is the higher of the fair value of the cash-generating unit's selling costs and value in use. The impairment investigation was carried out on November 30, 2018. Goodwill impairment assessment is complex and based on a number of judgmental assumptions. These include, inter alia, the expected business and profit and loss developments of cash-generating units over the next five years, assumed long-term growth rates and the discount rate applied. On the basis of the impairment assessment carried out, the company did not establish that impairment recording was necessary. The company's sensitivity analysis showed that a discount rate, long-term growth rate or reasonably possible changes in sales would not lead to a deterioration in the value of recoverable amount. In the case of financial statements, there is a risk that the impairment at the time of reporting has not been identified. In addition, there is a risk that the disclosures contained in the related comments will not be appropriate. OUR AUDIT APPROACH With the support of our assessment experts, we have, among other things, assessed the aacy of significant assumptions and Model. This included discussing the expected development of business and results, as well as hypothetical long-term growth rates with those responsible for the planning process. In addition, consultations were made with the annual plan prepared by the Executive Board approved by the Supervisory Board and with the long-term planning noted by the Supervisory Board. We also assessed whether the assumptions were in line with external market expectations. We also assessed the company's design accuracy, comparing the reprognosis of previous financial years with actual results, and analyzed the discrepancies. As small changes in the discount rate can have a significant impact on the results of the impairment test, we compared the assumptions and parameters underlying the discount rate — the risk-free interest rate, market risk premium and beta factor — with its own assumptions and publicly available information. In order to calculate the predictability of the valuation model used, the company's calculations were verified on the basis of elements selected in a risk-oriented anamnesis. In order to reflect the current uncertainty about forecasts and the previous valuation date of the impairment test, reasonable changes in the discount rate and eBIT differential (sensitivity analysis) of sales, recoverable amount representativity and eBIT margins were assessed by calculating alternative scenarios and comparing them with the company's valuation results. The risk-oriented focal point of our analysis was four cash-generating units, for which detailed analyses were carried out. Finally, it was examined whether the disclosures in the notes on the recovery of the carrying amount of goodwill were appropriate. OBSERVATIONS The underlying valuation model used in the impairment assessment of goodwill is appropriate and consistent with applicable accounting principles. The company's assumptions and the parameters underlying the assessment are within acceptable bandwidth and are overall balanced. The disclosures in the related comments are appropriate. Accrual of sales in accordance with IFRS 15, accrual of sales over time Accounting policies and assumptions are defined in paragraph 2. Financial statement risk Corporate sales in the 2018 financial year were €44.404 million. Sales revenue is recognized when an entity performs a performance obligation by placing a promised good or service on the customer. The device is transferred when (or as) the customer acquires control of that asset. On the basis of the transfer of control, sales revenues shall be recognised either at a given time or at the amount at which the claim is expected to exist. On the basis of the following criteria, it was found that the performance time, rather than at the time under IAS 18. Time. for each part of the sales revenue, and the accounting for sales revenue is therefore related to a period: The customer receives and uses the benefits of the company's performance at the same time, as the company does. The performance of the company does not create an asset that can be used in other ways, and the company has a enforceable right to pay for its performance so far, including an appropriate deposit. Sales revenues will be increased by 31 December 2018. In this respect, the current discretion to assess the criteria for assessing the diversity of the various complex contractual arrangements for global companies and the timing of the transfer of control subject to the introduction of IFRS 15 exists in this respect, there is a risk in the financial statement that sales revenues will accumulate erroneously at the time of reporting. Our audit approach With the introduction of IFRS 15, we assessed the interpretation by legal representatives of the interpretation of sales revenue recognition criteria under IFRS 15 ifrs 15 as a priority on IFRS 15. Based on our knowledge of transactions, we recognize the appropriate structure of accounting policy at company level. We assessed the aacy of significant judgments, such as the definition of different performance obligations, the existence of an alternative use of the asset for the company, the existence of legally enforceable payment rights, including an appropriate deposit for the services performed so far, a determination of the extent of progress and an assessment of the degree of performance progress achieved. , on the basis of risk-oriented agreements. OUR OBSERVATIONS The approach to the accumulation of sales revenues based on IFRS 15 is appropriate. The assumptions on which the accounting is based are appropriate. Measurement of investment in OSRAM CONTINENTAL GmbH Accounting policies and assumptions are set out in Section 2 of the notes to the consolidated financial statements. RISK OF THE FINANCIAL STATEMENT As part of the development of a new business partnership with OSRAM, parts of the business unit will be replaced by 31 December 2018. In addition, the rest of the same business was sold to OSRAM CONTINENTAL GmbH and its subsidiaries. At the time of acquisition, a total book value of €189 million and a positive result effect of €184 million were reported after the intercompany profit was proportionally eliminated. The acquisition cost of an investment in an associate is based on the cash payment and the fair value of the business parts transferred. The sales price of the rest of the division is also valued on the basis of the fair value of these parts sold. the business unit. Continental has asked an external evaluator to assess the transferred and sold parts of the business and to determine and evaluate proportionately the identifiable assets purchased on the basis of the capital method and the valuation of OSRAM CONTINENTAL GmbH. The measurement of the investment in the associate is complex and is based on discretionary assumptions by the Board of Directors. Significant assumptions relate to the planning of sales and the development of capital costs and margin development. In the case of consolidated financial statements, there is a risk that the measurement of the associate may be incorrect. In addition, there is a risk that the disclosures contained in the main section of consolidated financial statements are inadequate. Our approach to control With the support of our own measurement experts, we have assessed, among other things, the aacy of significant assumptions and evaluation and measurement methods. To do this, we were initially able to understand the transaction on the basis of an assessment of employee investigations and relevant agreements. We assessed the expertise, skills and objectivity of independent evaluators conducted by Continental AG. We also took note of the procedure used to proportionally determine the assets acquired on the basis of our knowledge of osram continental gmbh's business model. We have assessed the measurement methods used to verify that they are in line with accounting policy. We discussed the expected sales and margin development responsible for the planning process. We also assessed whether the assumptions were in line with external market expectations. We compared the assumptions and parameters underlying the cost of capital, in particular the risk-free interest rate, the market risk premium and the beta factor, with publicly available own assumptions and data. In order to assess the correctness of the calculation, we checked the selected calculations in a risk-oriented manner. We have also examined whether the disclosures in the comments are appropriate. OBSERVATIONS The method for measuring the associate is appropriate and in accordance with the relevant accounting guidelines. The consolidated financial statements are appropriate. Other information The Executive Board shall be responsible for the other information. The other information includes the remaining parts of the combined corporate non-financial statement and the annual report, with the exception of the audited consolidated financial statements and the corporate governance report, as well as the report of our auditor. Our opinion on consolidated financial statements and the company management report does not cover other information and therefore we do not express an opinion or any other reliability conclusions. In the context of our audit, it is our responsibility to read the other information and thus whether the other information is materially incompatible with the consolidated financial statements, the company management report or our knowledge gained during the audit, or otherwise appears to have been materially wrongly established. In accordance with our commitment, we have carried out a separate operational audit of the combined corporate non-financial statement. The type, scope and results of the operational audit will be added in our unqualified audit opinion of 20 February 2019. Responsibility of the Executive Board and the Supervisory Board for consolidated financial statements and corporate management reporting The Executive Board is responsible for drawing up consolidated financial statements that comply with IFRS and German commercial law adopted by the EU in all material respects in accordance with HGB 315e, which gives a true and fair view of the company's assets, liabilities, financial position and financial performance in accordance with these requirements. In addition, the Executive Board shall be responsible for internal audits which it deems necessary to enable consolidated financial statements to be drawn up which are free, either by fraud or by mistake. When preparing consolidated financial statements, the Executive Board is responsible for assessing the company's ability to continue to work as an undertaking. It shall also be responsible for the disclosure, where appropriate, of matters relating to the continuing undertaking. In addition, the Board of Directors is responsible for financial reporting on a continuous accounting basis, unless they intend to liquidate the company or cease operations, or there is no realistic alternative other than to do so. Furthermore, the Executive Board is responsible for the preparation of the company management report, which gives an overall adequate picture of the situation of the company and is in line with the consolidated financial statements in all relevant respects, complies with German legal requirements and adequately presents the possibilities and risks of future development. In addition, the Executive Board is responsible for the rules and measures (systems) it deems necessary to enable a company management report in line with the applicable German legal requirements to be drawn up and to provide sufficient evidence of the allegations contained in the corporate governance report. The supervisory body is responsible for overseeing the company's financial reporting process for the preparation of consolidated financial statements and a company management report. The auditor's responsibility in auditing consolidated financial statements and corporate governance reports Our goal is to obtain reasonable assurance that the consolidated financial statements as a whole whether due to fraud, error, fraud or error, and whether the corporate governance report as a whole provides an adequate picture of the company's situation and is in line with consolidated financial statements and audit knowledge in all relevant respects, complies with German legal requirements and adequately demonstrates the potential and risks of future development. , as well as an audit report containing our opinion on consolidated financial statements and corporate governance reporting. Reasonable certainty is a high level of certainty, but it does not guarantee that article 317 will be replaced by the following: Misreceptions may result from fraud or error and are considered material if, individually or aggregated, it can reasonably be expected to influence the economic decisions of users made under these consolidated financial statements and this corporate governance report. We exercise professional judgment and maintain professional skepticism during the audit. Furthermore: Identify and evaluate the risk of material misresage of consolidated financial statements and corporate management reporting, whether due to fraud or error; the design and implementation of control procedures to respond to these risks; and to obtain audit evidence that is sufficient and appropriate to establish our opinion. The risk of showing the causes of material misrepresentation resulting from fraud is greater than in the case of an error, as fraud may involve collusion, forgery, wilful omission, deception or overrule of internal control. Understanding the measures and measures (systems) relevant for the audit of consolidated financial statements and the audit of the corporate governance report in order to develop an appropriate but not effective opinion on the effectiveness of these systems in the circumstances. Assess the adequacy of the accounting policies applied by the Executive Board and the reasonableness of the estimates and related disclosures made by the Executive Board. It is necessary to conclude whether the Board of Directors is properly using the fund for the continuation of the undertaking and, on the basis of the audit evidence received, whether there is material uncertainty as to events or conditions which may raise significant doubts as to the company's ability to continue to operate as a functioning undertaking. If we conclude that there is significant uncertainty, the auditor's report should draw attention to the related disclosure in the consolidated financial statements and the corporate management report, or, if such disclosures are inadequate, it should be amended Opinions. Our conclusions are based on audit evidence acquired by the time of the audit report. However, due to future events or conditions, the company will cease to pursue as a continuing concern. Evaluate the overall presentation of consolidated financial statements, structure and content, including disclosures, and whether consolidated financial statements present the underlying transactions and events in such a way that the consolidated financial statements give a fair and fair view of the company's assets, liabilities, financial position and financial performance to THE IFRS accepted by the EU and German commercial law under HGB 315e. , which express opinions on consolidated financial statements and corporate governance reporting. We are responsible for the management, supervision and performance of corporate control. We remain solely responsible for our opinions. Assess the consistency of the corporate governance report and the consolidated financial statements, its compliance with German law and the assessment of its position. It implements control procedures for the expected information presented by the Board of Directors in the company management report. In particular, on the basis of appropriate audit evidence, we assess the significant assumptions that the Executive Board uses as a basis for the expected information and assess the appropriate derivation of the expected information from these assumptions. We do not give a separate opinion on the expected information and the assumptions used. There is a significant unavoidable risk that future events will differ materially from the expected information. We communicate with those in charge of management, including on the intended scope and timing of the audit and on significant audit findings, including the significant deficiencies identified during the internal audit. We will also give those in charge of governance a declaration that we have complied with the relevant independence requirements and will communicate with them all contacts and other issues that can reasonably be assumed to be our independence and, where appropriate, the related safeguards. From the cases communicated to the management trustees, we identify the issues that were most important in the verification of the consolidated financial statements for the current period and therefore the most important audit issues. These cases will be described in the report of our auditor, unless the law or regulation excludes disclosure in relation to the case. Other legal and regulatory requirements Article 10 of the EU Control Regulation provides for the possibility of applying the provisions of this Regulation. 27 April 2018. On 27 December 2018, we were engaged to the Supervisory Board. We have been the company's examiner of Continental Aktiengesellschaft for more than 30 years. We declare that the opinions expressed in the auditor's report are in line with the opinion expressed in accordance with Article 11 of the European Audit Regulation. We provided the following services to the legal persons of the company that were not disclosed in the consolidated financial statements or corporate governance report: In addition to checking the consolidated and annual financial statements and reviewing continental aktiengesellschaft's half-yearly financial statements, we carried out various financial statements and a review of the half-yearly financial statements of the subsidiaries. It services related to control, audits of different IT systems and IT processes, and migration tests were carried out. We also provided other verification services, such as the granting of a confirmation letter and legal or contractual verification services such as eeg checks, EMIR audits under WpHG 20, and verification of the use of funds. We've given out confirmation deeds on compliance with contractual arrangements. With regard to the first adoption of new accounting standards such as IFRS 9, IFRS 15 and IFRS 16, we supported the implementation of regulatory requirements in a qualitatively confident manner. In addition, working meetings were held on accounting issues and tax issues. The tax advice services we provide include support services for tax returns and tax audits, as well as income tax and sales tax advice in individual cases. The German state auditor responsible for the commitment is Dirk Papenberg, the German State auditor responsible for the commitment. Hanover, March 5, 2019 KPMG AG Wirtschaftsprüfungsgesellschaft Ufer Wirtschaftsprüfer Papenberg Wirtschaftsprüfer Wirtschaftsprüfer