CONTINENTAL RUBBER OF AMERICA, CORP.
(A Wholly Owned Subsidiary of Continental Automotive, Inc.)

Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Board of Directors
Continental Rubber of America, Corp.:

We have audited the accompanying financial statements of Continental Rubber of America, Corp. (a wholly owned subsidiary of Continental Automotive, Inc.), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations and comprehensive income (loss), shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Continental Rubber of America, Corp. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Norfolk, Virginia
March 30, 2020

CONTINENTAL RUBBER OF AMERICA, CORP.
(A Wholly Owned Subsidiary of Continental Automotive, Inc.)

Balance Sheets

December 31, 2019 and 2018

(Amounts in thousands except share amounts)

Assets		**2019**	**2018**
Current assets:			
Cash and cash equivalents	$	22,935	350,000
Interest receivable		126	314
Accounts receivable from affiliated companies		29,012	47,329
Notes receivable from affiliated companies (note 3)		814,760	895,149
Derivative (note 8)		—	34,435
Total current assets		866,833	1,327,227
Notes receivable from affiliated companies (note 3)		1,886,616	131,810
Notes receivable from investment funds (note 4)		36,477	79,190
Total noncurrent assets		1,923,093	211,000
Total assets	$	2,789,926	1,538,227
Liabilities and Shareholder's Equity			
Current liabilities:			
Accounts payable – trade	$	158	113
Accrued interest		—	4,841
Accounts payable to affiliated companies		23,297	13,525
Notes payable to affiliated companies (note 5)		453,518	256,500
Debt (note 6)		—	752,300
Total current liabilities		476,973	1,027,279
Notes payable to affiliated companies (note 5)		2,240,513	448,218
Deferred tax liabilities, net (note 7)		—	232
Total noncurrent liabilities		2,240,513	448,450
Total liabilities		2,717,486	1,475,729
Shareholder's equity			
Common shares, $1 par value. Authorized 400,000 shares; issued and outstanding 10,000 shares		10	10
Additional paid-in capital		35,422	35,422
Retained earnings		37,171	26,997
Accumulated other comprehensive (loss) income		(163)	69
Total shareholder's equity		72,440	62,498
Total liabilities and shareholder's equity	$	2,789,926	1,538,227

See accompanying notes to financial statements.

CONTINENTAL RUBBER OF AMERICA, CORP.

(A Wholly Owned Subsidiary of Continental Automotive, Inc.)

Statements of Operations and Comprehensive Income (Loss)

Years ended December 31, 2019 and 2018

(Amounts in thousands)

		2019	2018
Interest income from affiliated companies (note 3)	$	50,068	24,735
Interest income from investment funds (note 4)		1,085	1,858
Interest income from cash equivalents		609	88
Interest expense on affiliated debt (note 5)		(20,698)	(6,829)
Interest expense on debt (note 6)		(17,897)	(19,787)
Finance, general & administrative expense		(102)	(109)
Gain from foreign exchange on external debt		240	—
Income (loss) before income taxes		13,305	(44)
Income tax (expense) benefit (note 7)		(3,131)	10
Net income (loss)		10,174	(34)
Other comprehensive income (loss), net of tax:			
Cash flow hedge-effective portion of changes in fair value, net of tax benefit of $232 & $898 (notes 6, 7 and 8)		(232)	(3,073)
Other comprehensive loss, net of tax		(232)	(3,073)
Total comprehensive income (loss)	$	9,942	(3,107)

See accompanying notes to financial statements.

CONTINENTAL RUBBER OF AMERICA, CORP.
(A Wholly Owned Subsidiary of Continental Automotive, Inc.)

Statements of Shareholder's Equity

Years ended December 31, 2019 and 2018

(Amounts in thousands)

	Common shares	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholder's equity
December 31, 2017	$ 10	35,422	27,031	3,142	65,605
Net loss	—	—	(34)	—	(34)
Other comprehensive loss	—	—	—	(3,073)	(3,073)
December 31, 2018	10	35,422	26,997	69	62,498
Net income	—	—	10,174	—	10,174
Other comprehensive loss	—	—	—	(232)	(232)
December 31, 2019	$ 10	35,422	37,171	(163)	72,440

See accompanying notes to financial statements.

CONTINENTAL RUBBER OF AMERICA, CORP.

(A Wholly Owned Subsidiary of Continental Automotive, Inc.)

Statements of Cash Flows

Years ended December 31, 2019 and 2018

(Amounts in thousands)

		2019	2018
Cash flows from operating activities:			
Net income (loss)	$	10,174	(34)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Amortization of transaction costs and debt discount		150	1,156
(Increase) in net receivable from affiliated companies		(3,131)	(10)
Noncash change in deferred taxes		—	—
(Increase) decrease in other assets and liabilities, net		(59)	187
Net cash provided by operating activities		7,134	1,299
Cash flows from investing activities:			
Issuance of notes receivable from investment funds		—	(6,913)
Payments received on notes receivable from affiliated companies		227,371	367,344
Issuance of note receivable from affiliated companies		(1,859,075)	(895,149)
Net cash used in investing activities		(1,631,704)	(534,718)
Cash flows from financing activities:			
Net increase (decrease) in revolving credit line		(180,000)	180,000
Debt settlement		(543,030)	—
Proceeds from issuance of notes payable to affiliated companies		1,937,669	704,718
Increase (decrease) in net receivable from affiliated companies as a result of cash management activity		82,866	(1,299)
Net cash and cash equivalents provided by financing activities		1,297,505	883,419
Net change in cash and cash equivalents		(327,065)	350,000
Cash and cash equivalents at beginning of year		350,000	—
Cash and cash equivalents at end of year	$	22,935	350,000
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	35,193	22,957
Noncash conversion of investment fund receivable		42,713	—

See accompanying notes to financial statements.

(1) Description of Business

Continental Rubber of America, Corp. (the Company) is a wholly owned subsidiary of Continental Automotive, Inc. (Parent). Continental Automotive, Inc. is, through a series of subsidiaries, a wholly owned subsidiary of Continental AG, a German company. The Company provides financing for wholly owned subsidiaries of Continental AG, in particular, but not limited to, subsidiaries based in the United States of America.

The Company, its affiliates, and Parent are dependent on Continental AG for financial support. Continental AG provides financial support for its U.S. subsidiaries (note 6). Continental AG has communicated to management of the Parent that it will continue to provide financial support to the Parent and its subsidiaries, if necessary, through at least April 30, 2021.

Certain affiliates render administrative services on behalf of the Company. Such affiliates do not charge the Company for such services, and therefore, the Company's financial statements as of and for the years ended December 31, 2019 and 2018 do not reflect any expense for such intercompany administrative services.

Substantially all of the Company's operations consist of external financing transactions with banks and internal financing of its affiliates. As a result, substantially all of the Company's assets represent amounts due from affiliates. The Company's ability to satisfy its financial obligations as they become due is dependent upon the Company's recovery of amounts receivable from its affiliates. As both Continental AG and the affiliates the Company finances are suppliers to the automotive industry (in both the original equipment and replacement markets), the operating results and financial position of those affiliates are impacted by developments in the automotive industry.

(2) Summary of Significant Accounting Policies

(a) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

The Company accounts for uncertain income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Interest and penalties related to income tax assessments, if any, are reflected in income tax expense in the statements of operations and comprehensive income (loss).

(Continued)

The Company's taxable income is included in the consolidated federal tax return filed by the Parent. Under the terms of a tax allocation agreement with the Parent, the Company determines income tax amounts as if the Company were filing a separate return. Accordingly, federal and state tax amounts payable or receivable, except deferred tax amounts indicated above, are reflected in the intercompany accounts with the Parent.

(b) Foreign Currency Transactions

The Company remeasures instruments denominated in foreign currencies in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 830-20, *Foreign Currency Matters*, using year-end rates of exchange. Gains and losses resulting from such remeasurements are included in the statement of operations and comprehensive income (loss).

(c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the income tax uncertainties, fair value of derivatives and other contingencies. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash and cash equivalents include interest bearing financial instruments with an original maturity of three months or less.

(e) Receivables and Notes Receivable

Receivables from affiliates, notes receivable from affiliates including net cash positions, and notes receivable from investment funds are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Notes receivable are interest bearing notes that arise when the Company provides money directly to a debtor with no intention of trading the receivable and are recorded at face value. Interest is recognized over the life of the note. Receivables from affiliates are primarily interest receivable on the notes receivable from affiliates. They are included in current assets, except for maturities greater than twelve months after the balance sheet date which are included in noncurrent assets. The Company evaluates receivables for impairment annually and has determined that no allowance for doubtful accounts is necessary at December 31, 2019 and 2018.

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(f) Fair Value Measurements

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels in accordance with FASB ASC Topic 820, *Fair Value Measurement.*

Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The carrying value of the derivative asset is at estimated fair value for the Company's Cross Currency Interest-rate Swaps (CCIRS). To calculate the fair value of the CCIRS, the U.S. Dollar (USD) future cash flows are converted into future Euro (EUR) cash flows by means of forward rates and the resulting future EUR cash flows are discounted with the interest rates for the respective maturities, with deposit rates used as short-term interest rates while long-term interest rates are based on the swap rates in the respective currency. Furthermore, the counterparty risk is considered on each discounted cash flow. These derivatives are considered Level 2 financial instruments.

(g) Derivative Instruments and Hedging Activities

The Company accounts for its derivatives in accordance with FASB ASC Topic 815, *Derivatives and Hedging*, which requires that all derivative financial instruments be recorded on the balance sheet at their fair value as either assets or liabilities. Derivatives are measured at fair value using pricing and valuation models whenever possible, including market-based inputs to models, broker or dealer quotations, or alternative pricing sources. To qualify for hedge accounting, the relationship between the hedged item and the hedging instrument must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness, and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting treatment and both the hedged item and the hedging instrument are reported independently, as if there was no hedging relationship.

The Company currently uses derivatives for cash flow hedges. The effective portion of the change in fair value of the hedging instrument is recorded in the statements of comprehensive income (loss), while the ineffective portion is recognized immediately in the statements of operations. Gains and losses on cash flow hedges accumulated in other comprehensive (loss) income are transferred to the statements of operations in the same period the hedged items affect the statements of operations.

(Continued)

(Amounts in thousands)

(h) New Accounting Pronouncements

There are no new accounting pronouncements that materially affect the presentation of the financial statements and accompanying footnotes.

(3) Notes Receivable from Affiliated Companies

	2019	2018
Intercompany net cash positions, due upon demand. Interest receivable monthly. Variable interest rate computed daily based on overnight LIBOR. Average rates were 1.8904% in 2019.	$ 1,712,093	—
Intercompany note, due upon demand. Interest receivable monthly. Variable interest rate computed monthly based on average external borrowing costs of the Company, plus 30 basis points. Average rates were 3.8546% in 2019 and 3.2722% in 2018.	131,810	131,810
Intercompany note, due June 15, 2025. Interest receivable due quarterly and principle payments due annually. Fixed interest rate of 2.6400%.	42,713	—
Intercompany note, due January 3, 2020. Interest receivable at maturity. Fixed interest rate of 2.6130%.	303,336	293,352
Intercompany note, due June 22, 2020. Interest receivable at maturity. Fixed interest rate of 2.6301%.	300,197	300,197
Intercompany note, due February 15, 2019. Interest receivable at maturity. Fixed interest rate of 3.1424%.	—	206,000
Intercompany note, due May 13, 2020. Interest receivable at maturity. Fixed interest rate of 2.6333%.	101,696	—
Intercompany note, due April 22, 2020. Interest receivable at maturity. Fixed interest rate of 2.5928%.	50,000	60,000
Intercompany note, due January 21, 2020. Interest receivable at maturity. Fixed interest rate of 5.5089%.	28,258	—
Intercompany note, due March 27, 2020. Interest receivable at maturity. Fixed interest rate of 2.5384%.	24,500	24,500
Intercompany note, due January 25, 2019. Interest receivable at maturity. Fixed interest rate of 3.1696%.	—	5,600
Intercompany notes, due June 3, 2020. Interest receivable at maturity. Fixed interest rate of 2.8185%.	5,500	5,500
Intercompany note, due January 3, 2020. Interest receivable at maturity. Fixed interest rate of 5.4000%.	1,273	—
Total notes receivable from affiliated companies	2,701,376	1,026,959
Less short-term portion	(814,760)	(895,149)
Long-term notes receivable from affiliated companies	$ 1,886,616	131,810

(Continued)

(Amounts in thousands)

Notes receivable from affiliated companies that are due upon demand, including net cash positions, have been classified as noncurrent in the accompanying 2019 balance sheet as the Company does not intend to demand repayment in 2020.

(4) Notes Receivable from Investment Funds

		2019	2018
Note receivable from Investment Fund II due August 29, 2043. Fixed interest rate of 3.12%. Interest only payments due quarterly through October 10, 2020, after which the loan principal will be amortized over the remaining life of the loan (note a).	$	15,564	15,564
Note receivable from Investment Fund III due October 29, 2044. Fixed interest rate of 2.00%. Interest only payments due quarterly through September 15, 2021, after which the loan principal will be amortized over the remaining life of the loan (note b).		8,277	8,277
Note receivable from Contitech Investment Fund I due September 25, 2047. Fixed interest rate of 1.00%. Interest only payments due monthly through September 15, 2024. Beginning October 1, 2024 principal and interest shall accrue and be payable monthly over the remaining life of the loan (note c).		1,697	1,697
Note receivable from Contitech Investment Fund II due September 25, 2032. Fixed interest rate of 1.00%. Interest only payments due monthly through September 15, 2024. Beginning October 1, 2024 principal and interest shall accrue and be payable monthly over the remaining life of the loan (note d).		4,026	4,026
Notes receivable from Contitech State Investment Fund due October 9, 2044. Fixed interest rate of 1.00%. Interest only payments due quarterly through September 15, 2025. Beginning October 1, 2025 principal and interest shall accrue and be payable monthly over the remaining life of the loan (note e).		6,513	6,513
Notes receivable from Contitech Federal Investment Fund due October 8, 2031. Fixed interest rate of 1.5837%. Interest only payments due quarterly through September 15, 2025. Beginning October 1, 2025 principal and interest shall accrue and be payable monthly over the remaining life of the loan (note f).		400	400
Note receivable from Investment Fund I due June 15, 2052. Fixed interest rate of 2.64%. Interest only payments due quarterly through August 2, 2019, after which the loan principal will be amortized over the remaining life of the loan (note g).		—	42,713
Total notes receivable from investment funds	$	36,477	79,190

The loans have been made in connection with the U.S. federal government's and state of Nebraska's tax credit programs and are intended to ultimately support capital spending for affiliated companies. The loans are due from investment funds listed above, which are not affiliated with the Company.

As part of the tax credit program agreements, each of the investment funds holds put options to sell its interest in the respective investment fund to the Company (for one thousand dollars during a 90-day period (notes a, b, c, d and e) or 180-day period (notes f and g) after the end of the tax compliance period (note a, October 20, 2020; note b, October 29, 2021; notes c and d, September 25, 2024; and notes e and f, October 26, 2025).

The Company has call options to purchase the respective investment fund's interests in the respective investment funds at fair market value if the put options are not exercised. The put and call options do not permit or require contractual net settlement and the put and call options do not meet the criteria in ASC Topic 815 to be accounted for as a derivative since the shares that must be delivered under the options are not readily convertible to cash (the investment funds are nonpublic entities).

On July 10, 2019, Chase Community Equity, LLC, the "Fund Member" gave notice of its intention to exercise its option (the Put) to sell the Fund Member's entire interest in Chase NMTC Continental Tire Investment Fund, LLC pursuant to Section 2 of the Put/Call Option Agreement made and entered into as of June 27, 2012 by and between Chase Community Equity, LLC and Continental Rubber of America Corp.

Effective December 31, 2019 Continental affiliates purchased the majority and minority interest of Chase NMTC Continental Tire Investment Fund, LLC. Additionally, a Continental affiliate purchased the applicable Subsidiary Community Development Entity (Sub-CDE) Membership Interests. As of December 31, 2019, the loans remain outstanding, specifically the Investment Fund I note, and the corresponding subsidiary notes held by the Sub-CDE's (note g).

(Continued)

(Amounts in thousands)

(5) Notes Payable to Affiliated Companies

		2019	2018
Intercompany Net Cash Positions, due upon demand. Interest receivable monthly. Variable interest rate computed daily based on overnight LIBOR. Average rates were 1.8904% in 2019.	$	2,240,513	—
Intercompany note, due upon demand. Interest payable monthly. Variable interest rate computed monthly based on average external borrowing costs of the Company, plus 30 basis points. Average rate was 3.2722% in 2018.		—	448,218
Intercompany note, due February 12, 2020. Interest payable at maturity. Fixed interest rate of 2.7281%.		307,000	207,000
Intercompany note, due January 31, 2020. Interest payable at maturity. Fixed interest rate of 2.7033%.		52,018	—
Intercompany note, due February 20, 2020. Interest payable at maturity. Fixed interest rate of 2.7043%.		49,500	49,500
Intercompany note, due January 23, 2020. Interest payable at maturity. Fixed interest rate of 2.4176%.		45,000	—
Total notes payable to affiliated companies		2,694,031	704,718
Less short-term portion		(453,518)	(256,500)
Long-term notes payable to affiliated companies	$	2,240,513	448,218

Notes payable to affiliated companies that are due upon demand, including net cash positions, have been classified as noncurrent in the accompanying 2019 balance sheet as the counterparty does not intend to demand repayment in 2020.

(Amounts in thousands)

(6) Debt

Debt balances at December 31, 2019 and 2018 consists of the following:

		2019	2018
Senior unsecured Euro Notes (Notes), issued 2015, fixed interest rate of 0.5% payable annually, matured and paid February 2019.	$	—	572,450
Variable-rate utilization issued under the revolving credit facility $180,000 note, 2.7551% paid January 2019.		—	180,000
		—	752,450
Debt issuance costs and discount		—	(150)
		—	752,300
Less short-term portion		—	(752,300)
Long-term debt	$	—	—

In November 2015, the Company issued Notes in the amount of Euro 500,000 and a fixed rate of interest of 0.5%, payable annually. The Notes were issued at 99.739%, as such the discount of $1,407 is being amortized to interest expense using the effective interest method. During 2019 and 2018, $64 and $488, respectively, were amortized to interest expense.

The Company incurred issuance costs related to the Notes of approximately $1,926, which are being amortized to interest expense using the effective interest method. During 2019 and 2018, $87 and $668, respectively, were amortized to interest expense.

The Notes contain an early redemption feature at the option of the Company as well as a put option of the holders in the event of a change in control. However, both the call and put options are considered to be clearly and closely related to the Notes in accordance with ASC Topic 815. As such, the options and the debt instrument are not required to be bifurcated. The Company utilizes derivative instruments in the form of cross-currency interest rate swaps to hedge certain foreign currency risks of its Euro-denominated debt as discussed in note 8. The five swap contracts have notional receivables with cash flows offsetting the Notes principal and interest payments, and a total USD obligation of $539,000 at an average fixed interest rate of approximately 2.37% payable semiannually, that matured and was settled in February 2019.

(Amounts in thousands)

During the years ended December 31, 2019 and 2018, the balance of long-term debt increased $1,400 and decreased $26,550, respectively, due to foreign currency exchange rate movements. An offsetting portion of the other comprehensive income (loss) balance attributable to changes in foreign currency exchange rates is also immediately reclassified into earnings.

The Company, along with Continental AG is a participant in a Euro 4 billion revolving credit line (the Facility) that extends until April 2021 and is intended for general corporate purposes. The Company had borrowings under the Facility at December 31, 2019 and 2018 of $0 and $180,000, respectively. Under the terms of the Facility, each borrower is independently liable for its own borrowings, with any such borrowings ultimately guaranteed by Continental AG. All borrowings under the Facility require the prior approval of Continental AG.

The Company’s ability to meet its debt repayment and servicing obligations depends on other affiliates, and ultimately upon Continental AG. Continental AG has guaranteed the Company’s debt and, as described in note 1, has represented to management that it will continue to provide financial support, if necessary, through at least April 30, 2021.

(7) Income Taxes

The income tax (expense) benefit for the years ended December 31, 2019 and 2018 was allocated as follows:

		2019	2018
Current	$	(3,131)	10
Deferred		—	—
Statements of operations		(3,131)	10
Other comprehensive income		232	898
Income tax (expense) benefit	$	(2,899)	908

The (expense) benefit for income taxes of $(3,131) and $10 for the years ended December 31, 2019 and 2018, respectively, differed from the amount computed by applying the U.S. corporate income tax rate of 21% to income before income taxes because of state income taxes.

The Company has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2019 and 2018.

(Amounts in thousands)

Deferred income taxes as disclosed on the accompanying balance sheets reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company's deferred tax liabilities of $0 and $232 at December 31, 2019 and 2018, respectively, are due to timing differences related to the Company's derivative instruments.

The significant portions of the deferred tax assets and liabilities are as follows:

		2019	2018
Deferred tax assets:			
Foreign exchange translation on external debt	$	—	7,871
Deferred tax liabilities:			
Change in fair value of cross currency interest rate swaps		—	(8,103)
Net deferred tax liabilities	$	—	(232)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion, or all of the deferred tax assets will not be realized. The ultimate realization of tax-deferred assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods over which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences.

The Company is included in the consolidated U.S. federal income tax return of its Parent. The open audit period for U.S. federal and state tax purposes is 2016 to 2018.

(8) Derivative and Hedging Instruments

The Company's historic objective in utilizing derivative instruments is to manage its exposure to changes in interest and foreign exchange rates in order to limit the impact of such changes on earnings and cash flows. The Company uses derivative instruments in the form of cross-currency interest rate swaps, which address foreign currency cash flow risks. The Company estimates the fair value of its derivative instruments based on quoted market prices and pricing models using current market rates. The Company does not speculate using derivative instruments. The Company's ultimate parent, Continental AG, is the counterparty to all of the Company's derivative financial instruments.

In accordance with the provisions of FASB ASC Topic 815, the Company formally documents the nature and relationships between the hedging instruments and hedged items, as well as its risk-management objectives, strategies for utilizing the hedging instruments, and method of assessing hedge effectiveness in order to apply hedge accounting. Derivative instruments that qualify for hedge accounting must maintain a specified level of effectiveness with the item being hedged, both at inception and throughout the hedge period. If the effectiveness between the hedging instrument and the item being hedged falls below the specified level, the Company would immediately discontinue hedge accounting on a prospective basis. If hedge accounting were discontinued, the derivative would continue to be carried on the balance sheet at its fair value with subsequent changes in its fair value recognized immediately in earnings. Related gains and losses that were recorded in accumulated other comprehensive (loss) income (AOCI) would remain in AOCI until earnings are affected by the hedged item, unless it was no longer probable that the hedged transaction would occur, in which case the gain or loss would be immediately reclassified from AOCI to earnings. Any interest related amounts reclassified to income out of AOCI are reflected in interest expense on long-term and short-term debt on the accompanying statements of operations and comprehensive income (loss). The $69 net AOCI balance as of December 31, 2018 matured in February of 2019 and was classified out of AOCI to earnings.

At December 31, 2018, a current asset of $34,435, was recorded in the accompanying balance sheets representing the ending fair value of the derivatives. These derivatives hedge the foreign currency cash flow risks of fixed rate Euro debt, through maturity. At December 31, 2018, the weighted average contractual rate was 1.078 U.S. dollars per Euro. The Company's derivative financial instruments qualify for hedge accounting. The Euro debt matured in February 2019 in accordance with the terms of the agreement. As a result, there is no outstanding derivative balance at December 31, 2019.

Any interest related amounts reclassified to income out of AOCI are reflected in the interest expense on long-term debt on the accompanying statements of operations and comprehensive (loss) income. A portion of Derivative financial instruments are subject to default risk to the extent that the counterparty may not meet its payment obligations either in part or in full. The Company believes the risk is effectively mitigated by the fact that Continental AG, the Company's ultimate parent, is the counterparty.

(9) Transactions with Related Parties

All of the Company's cash activities are managed by an affiliate. In addition, the Company charges affiliates for interest on the notes receivable. Current receivable from affiliated companies and current payable to affiliated companies consist of receivables and payables derived from cash management activities as well as income tax allocation and interest charges from the Parent. The Company recorded interest expense to affiliates of $20,698 and $6,829 in 2019 and 2018, respectively. Payables to affiliated companies as of December 31, 2019 and 2018 include charges of $1,278 and $4,241, respectively, for parental guarantee fees of the Company's debt. These fees were charged out to affiliates and included in interest income from affiliated companies in the accompanying statements of operations and comprehensive (loss) income.

(10) Events after Balance Sheet Date

The Company has evaluated events occurring subsequent to the balance sheet date through March 30, 2020, the date the financial statements were available to be issued, and concluded no such events or transactions occurred except as follows. As of March 30, 2020, certain intercompany notes due to the Company have been renewed resulting in $822 of interest paid and $2,061 of interest capitalized into the principal. The Company issued a new intercompany note in January 2020, due April 2020, in the amount of $60,000. In addition, certain intercompany notes owed by the Company were renewed and extended resulting in increases in principal of $11,500 and interest paid of $643. The Company also made principal payments of $177,000, with interest paid of $1,922. The Company entered into two new intercompany notes in February 2020, that are due for settlement in May 2020, for a total of $227,000.

The recent global outbreak of COVID-19 has disrupted economic markets and the prolonged economic impact is uncertain. The operational and financial performance of the Company depends on future developments, including the duration and spread of the outbreak, and such uncertainty may in turn impact the performance and cash flows of the Company.