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Annual Report of Continental AG 2004.

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a successful year for Continental.

The management report of Continental Aktiengesellschaft is combined with the management report of the Corporation in accordance with section 315 (3) of the *Handelsgesetzbuch* (German Commercial Code) and published in Continental's 2004 Annual Report.

The annual financial statements and the summarized management report of Continental Aktiengesellschaft for fiscal year 2004 are announced in the *Bundesanzeiger* (Federal Gazette) and filed with the commercial register of the Hanover Local Court under HRB No. 3527.

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Continental Aktiengesellschaft

Income Statement

in € millions	See Note	2004	2003
Sales	13	2,242.7	2,035.6
Cost of sales		1,696.5	1,560.6
Gross profit on sales		546.2	475.0
Selling expenses		225.5	214.9
General administrative expenses		76.2	71.7
Other operating income	14	286.9	195.5
Other operating expenses	15	410.0	184.9
Net income/loss from financial activities	16	153.9	- 35.2
Earnings before taxes		275.3	163.8
Income tax expense		148.1	157.7
Net income for the year		127.2	6.1
Retained profits brought forward from the previous year		0.5	0.4
Transfer from the reserve for treasury stock		-	64.5
Transfer to other surplus reserves		11.0	-
Retained earnings		116.7	71.0

Balance Sheet

Assets

in € millions	See Note	Dec. 31, 2004	Dec. 31, 2003
Intangible assets	1	49.5	47.3
Property, plant, and equipment	1	142.7	135.0
Investments	2	2,730.6	2,473.0
Fixed assets and investments		2,922.8	2,655.3
Inventories	3	149.1	136.6
Accounts receivable and other assets	4	1,133.0	1,026.8
Marketable securities/cash and cash equivalents	5	626.1	462.1
Current assets		1,908.2	1,625.5
Prepaid expenses	6	69.9	5.9
		4,900.9	4,286.7

Shareholders' Equity and Liabilities

in € millions	See Note	Dec. 31, 2004	Dec. 31, 2003
Common stock	7	372.3	346.7
Additional paid-in capital	8	1,304.6	985.8
Surplus reserves	9	45.7	34.7
Retained earnings		116.7	71.0
Shareholders' equity		1,839.3	1,438.2
Special tax-allowable reserves	10	4.8	6.4
Provisions	11	655.1	655.0
Liabilities	12	2,401.7	2,187.1
		4,900.9	4,286.7

Statement of Changes in Fixed Assets and Investments

in € millions	Acquisition/Construction cost				Dec. 31, 2004
	Jan. 1, 2004	Additions	Transfers	Disposals	
Franchises, operating licenses, industrial property and similar rights and assets, and licenses for such rights and assets	148.8	11.5	31.1	27.9	163.5
Advances to suppliers	31.8	5.1	- 31.1	-	5.8
Intangible assets	180.6	16.6	-	27.9	169.3
Land, land rights, and buildings including buildings on land not owned	143.2	1.7	0.2	-	145.1
Technical equipment and machinery	452.3	10.9	9.9	7.1	466.0
Other equipment, factory, and office equipment	262.8	20.1	2.1	26.1	258.9
Advances to suppliers and assets under construction	13.3	17.3	- 12.2	-	18.4
Property, plant, and equipment	871.6	50.0	-	33.2	888.4
Shares in affiliated companies	3,143.9	451.3	- 5.0	881.9	2,708.3
Shares in associated companies	87.1	5.3	5.0	9.0	88.4
Entitlements under reinsurance policies	-	57.1	-	-	57.1
Other loans granted	2.0	-	-	-	2.0
Investments	3,233.0	513.7	-	890.9	2,855.8
	4,285.2	580.3	-	952.0	3,913.5

Depreciation/Amortization					Net book values		
Jan. 1, 2004	Additions	Write-ups	Disposals	Dec. 31, 2004		Dec. 31, 2004	Dec. 31, 2003
133.3	14.1	-	27.6	119.8		43.7	15.5
-	-	-	-	-		5.8	31.8
133.3	14.1	-	27.6	119.8		49.5	47.3
115.4	2.2	-	-	117.6		27.5	27.8
396.2	16.0	-	6.6	405.6		60.4	56.1
225.0	22.1	-	24.6	222.5		36.4	37.8
-	-	-	-	-		18.4	13.3
736.6	40.3	-	31.2	745.7		142.7	135.0
757.1	0.5	22.0	618.3	117.3		2,591.0	2,386.8
2.2	5.0	-	-	7.2		81.2	84.9
-	-	-	-	-		57.1	-
0.7	-	-	-	0.7		1.3	1.3
760.0	5.5	22.0	618.3	125.2		2,730.6	2,473.0
1,629.9	59.9	22.0	677.1	990.7		2,922.8	2,655.3

Continental Aktiengesellschaft Notes

The annual financial statements of Continental Aktiengesellschaft were prepared in accordance with the provisions of the *Handelsgesetzbuch* (HGB – German Commercial Code) as well as the supplementary provisions of the *Aktiengesetz* (AktG – German Stock Corporation Act).

We have summarized individual items of the balance sheet and the income statement to improve clarity. These items are shown separately in the notes.

The income statement has been prepared using the cost of sales method in line with customary international practice.

A full list of the Company's shareholdings has been filed with the commercial register of the Hanover Local Court under HRB No. 3527.

Effective December 31, 2004, Continental ISAD Electronic Systems GmbH & Co. oHG, Landsberg am Lech, was merged with Continental Aktiengesellschaft by way of universal succession. Continental Aktiengesellschaft sold its Agricultural Tires unit with effect from October 1, 2004. The merger and the disposal had no effect on comparability with the previous year.

Accounting Policies

Assets

Purchased intangible assets are stated at their acquisition cost and are depreciated over their probable useful life using the straight-line method.

Property, plant, and equipment is carried at the cost of acquisition or production less regular depreciation. Moveable assets are depreciated using the declining balance method, while all other assets are depreciated using the straight-line method. Where the declining balance method is used, the straight-line method is substituted where this would produce higher depreciation. Depreciation using the declining balance method is calculated in each case at the maximum rate permitted under tax law. Special tax write-downs are charged where these are required to ensure compliance with accounting rules for commercial financial statements and tax laws. Due to changes in tax regulations, moveable assets are depreciated ratably as from the year of their acquisition starting from fiscal year 2004. Low-value assets are written off in full in the year of their acquisition.

The probable useful lives of intangible assets and property, plant, and equipment are based on the tax depreciation tables.

Shares in affiliated and associated companies are carried at cost less write-downs for impairment. Write-downs for impairment may be reversed up to the amount of historical cost if the reasons for impairment no longer apply. Interest-bearing loans are carried at their principal amount; interest-free and low-interest loans are discounted to their present value. In a change against the previous year, entitlements under reinsurance policies for pension obligations are reported separately in investments for the first time in the year under review. They were previously reported in other assets.

Raw materials, consumables, supplies, and merchandise are carried at acquisition or production cost or at the lower fair value. All inventories of natural rubber are valued using the LIFO method. Finished goods and work in progress are carried at production cost. The production costs comprise directly attributable costs and proportionate material and production overheads, as well as depreciation. Write-downs take account of inventory risks resulting from impaired marketability or excessive storage periods. Advances from customers are deducted from inventories on the face of the balance sheet.

Accounts receivable and other assets are carried at their principal amount, with appropriate valuation allowances taking account of all identifiable risks. Global valuation allowances are recognized for the general credit risk.

Equity and liabilities

Provisions for pensions and similar obligations are measured on the basis of actuarial calculations in accordance with FAS 87, and are based on the 1998 mortality tables published by Prof. Klaus Heubeck, adjusted to comply with international principles. The other provisions have been set up for all identifiable risks, uncertain obligations, and expected losses on the basis of prudent business practice. Provisions have been set up for deferred maintenance to be performed in the first quarter of the following year in the amount of the forecast expense.

Unrealized losses arising for currency hedges from comparison with the forward rate for the same maturity at the balance sheet date are accrued. Unrealized gains are not considered, and there is no netting of gains and losses.

Liabilities are carried at their redemption amount.

Income statement

The cost of sales comprises all variable and fixed costs for production, the cost of purchasing merchandise, and allocations paid to affiliated companies to cover research and development expenses.

The selling expenses include all variable selling expenses as well as the fixed costs for sales-related functions.

General administrative expenses relate to the cost of the finance, administration, human resources, and holding functions.

Business transactions in foreign currency are valued at the exchange rate on the date the transaction is first entered in the accounts or, if hedged, at their hedged rates. Unrealized losses from exchange rates at the balance sheet date are covered by appropriate provisions charged to income. Unrealized exchange rate gains are not recognized.

Notes to the Balance Sheet, Assets

1. Intangible Assets and Property, Plant, and Equipment

Individual asset items and their changes as against the previous year are shown in the Statement of Changes in Fixed Assets and Investments.

Depreciation and amortization contains tax depreciation in accordance with section 6b of the *Einkommensteuergesetz* (EstG – German Income Tax Act) amounting to €0.6 million.

2. Investments

The increase in shares in affiliated companies was primarily attributable to additions due to capital increases against cash and non-cash contributions (this mainly relates to capital increases at Formpolster GmbH and Continental Caoutchouc-Export AG, both in Hanover). The non-cash contributions to Formpolster GmbH were comprised of shares in affiliated companies (in particular ContiTech Benecke-Kaliko Verwaltungs-GmbH, Hanover; ContiTech Universe Verwaltungs-GmbH, Hanover; IMAS AE, Volos, Greece; and Phoenix AG, Hamburg); shares already held by Continental Aktiengesellschaft at the end of the previous fiscal year were reported as disposals of investments. Further disposals related to the intercom-

pany sale of Continental Automotive Inc., Wilmington, U.S.A., and the sale of Continental Tire of Moscow Z.A.O., Russia. A write-down charged in previous fiscal years on the interest in Continental do Brasil Produtos Automotivos Ltda., Sao Paulo, Brazil was partially reversed due to the requirement to reverse write-downs under the HGB. In contrast, write-downs on investments in the year under review primarily related to the interest in SupplyOn AG, Stuttgart. Entitlements under reinsurance policies for pension obligations (€57.1 million) were reported in investments for the first time in fiscal year 2004; in the previous year, claims of €5.7 million were reported in other assets.

3. Inventories

in € thousands	Dec. 31, 2004	Dec. 31, 2003
Raw materials, consumables, and supplies	29,174	28,586
Work in progress	28,106	22,571
Finished goods and merchandise	92,236	86,144
Advances to suppliers	312	407
Advances from customers	- 732	- 1,133
	149,096	136,575

The difference between inventory valuation at current acquisition cost and according to the LIFO principle amounts to €1.8 million.

4. Accounts Receivable and Other Assets

In € thousands	Dec. 31, 2004		Dec. 31, 2003	
	Total	thereof with a maturity of > 1	Total	thereof with a maturity of > 1
Trade accounts receivable				
Accounts receivable from affiliated companies	193,884	988	179,889	1,054
Accounts receivable from associated companies	884,992	-	797,785	-
Other assets and amounts receivable	194	-	3,155	-
	53,871	426	45,991	11,665
	1,132,941	1,414	1,026,820	12,719

5. Cash and Cash Equivalents

in € thousands	Dec. 31, 2004	Dec. 31, 2003
Cash in hand	162	236
Bank balances	623,578	460,377
Checks	2,365	1,537
	626,105	462,150

6. Prepaid Expenses

in € thousands	Dec. 31, 2004	Dec. 31, 2003
Premium corresponding to the fair value of the conversion rights	65,264	4,628
Other prepaid expenses	4,654	1,244
	69,918	5,872

The convertible bond with a nominal amount of €400 million issued via Conti Gummi Finance B.V., Amsterdam, The Netherlands in the year under review led to the recognition of a premium originally totaling €69.9

million. The premium is amortized on a straight-line basis over the expected term of the convertible bond; in the fiscal year under review, amortization amounted to €6.1 million.

Notes to the Balance Sheet, Equity and Liabilities

7. Subscribed Capital

The subscribed capital increased by €25.1 million over the previous year following the exercise of 9,784,202 conversion rights, and by €0.5 million following the exercise of 210,000 subscription rights.

The common stock of the Company amounts to €372,266,391.04 million at the balance sheet date and is composed of 145,416,559 no-par value bearer shares.

As a result of the resolution adopted at the Annual Shareholders' Meeting on May 23, 2001, the Company has authorized capital stock of €166.0 million for the issuance of new shares up to May 22, 2006.

Following the resolution adopted at the Annual Shareholders' Meeting on May 29, 2002, the Company has additional authorized capital stock (originally €5.7 million) for the issuance of employee shares up to May 28, 2007. This authorized capital has been reduced to €3.7 million through the issuance of employee shares up to 2003.

72,400 of the conversion rights granted under the 1996 stock option plan for members of the Executive Board and senior executives have not yet been exercised. The option holders are entitled to convert every €0.51 of the related loan into one share of Continental AG. Conversions carried out in 2004 led to the issuance of 99,600 shares.

1,381,840 of the total of 1,564,664 subscription rights have been issued under the stock option plan set up in 1999 for members of the Executive Board and senior executives. Each option entitles the option holder to subscribe for one share. 687,340 of the issued rights are still outstanding. 210,000 shares were issued in 2004.

The authorization to grant subscription rights under the 1999 stock option plan lapsed on September 1, 2004; accordingly, no further subscription rights may be granted under this plan.

The Annual Shareholders' Meeting on May 14, 2004 resolved the 2004 stock option plan for members of the Executive Board and senior executives. The 2004 stock option plan ends on May 13, 2009. Under the plan, the Executive Board is authorized to grant a total of 3,936,000 subscription rights. 634,000 subscription rights were granted in 2004. Of this figure, 618,500 subscription rights are still outstanding, while the remaining 15,500 have expired.

The nominal €250 million, 2%-coupon convertible bond issued on October 25, 1999 with a maturity in 2004 entitled the bond holders to subscribe for 38.83 shares in exchange for the conversion of a principal bond in the amount of €1,000. This represented an entitlement of up to 9,707,500 no-par value shares. Conversion rights exercised during 2004 led to 9,684,602 shares being issued. Conversions are only entitled to a dividend as of the year in which the rights are exercised.

On May 19, 2004, a convertible bond with a nominal amount of €400 million was issued via Conti Gummi Finance B.V., Amsterdam, The Netherlands. Holders of the conversion rights are entitled to convert them into shares of Continental AG at a price of €51 per share. This represents a total entitlement of 7,843,137 no-par value shares. The convertible bond has a coupon of 1.625% and will mature on May 19, 2011. No conversion rights were exercised in the past fiscal year.

As a result of the resolution adopted at the Annual Shareholders' Meeting on June 1, 1999, the common stock may be conditionally increased by up to €29.0 million for the purpose of granting conversion and option rights under new convertible bonds or bonds with warrants, and subscription rights under the 1999 stock option plan.

The Annual Shareholders' Meeting on May 23, 2001 resolved a further conditional capital increase of €140.0 million for the purpose of granting conversion and option

rights under new convertible bonds or bonds with warrants. Under the resolution adopted at the Annual Shareholders' Meeting on May 14, 2004, €6.3 million of this figure may be used to grant subscription rights under the 2004 stock option plan.

As a result of the resolution adopted at the Annual Shareholders' Meeting on May 14, 2004, the common stock was conditionally increased by €3.8 million for the purpose of granting subscription rights under the 2004 stock option plan.

The change in conditional capital is shown in the table below:

in € thousands	
Conditional capital as of January 1, 2004	169,483
Increase for the purpose of granting subscription rights under the 2004 stock option plan	+ 3,800
Exercised conversion and subscription rights	- 25,585
Expiry of conversion and subscription rights	- 1,993
Conditional capital as of December 31, 2004	145,705

8. Additional Paid-In Capital

Additional paid-in capital increased by a total of €318.8 million in the past fiscal year. Of this figure, €247.7 million was attributable to the exercise of conversion rights, €1.2 million to the exercise of subscription rights, and

€69.9 million to the issuance of a convertible bond with a nominal amount of €400.0 million by a Dutch subsidiary.

9. Surplus Reserves

Net income for the year in the amount of €11.0 million was transferred to other surplus reserves in accordance with section 58 (2) of the AktG. As a result, surplus reserves amounted to €45.7 million as of December 31, 2004.

10. Special Tax-Allowable Reserves

The special tax-allowable reserves at the balance sheet date included a reserve in accordance with section 6b of the EStG. €1.6 million was reversed for this purpose in the past fiscal year.

11. Provisions

in € thousands	Dec. 31, 2004	Dec. 31, 2003
Pensions and similar obligations	279,581	251,918
Taxes	132,767	173,728
Other provisions	242,775	229,253
	655,123	654,899

Pension provisions are determined in accordance with U.S. GAAP (FAS 87). The interest rate for accounting purposes was lowered from 5.50% in the previous year to 4.75% in 2004.

Other provisions cover identifiable risks and other uncertain obligations. In particular, they contain provisions for warranties, bonus payments, partial retirement obligations, and holiday and anniversary entitlements.

12. Liabilities

in € thousands	Thereof			Thereof		
	Dec. 31, 2004	< 1 year	> 5 years	Dec. 31, 2003	< 1 year	> 5 years
Loans, convertible	125	125	–	266,846	266,664	–
Non-convertible	414,311	2,125	–	514,689	14,689	500,000
Liabilities to banks	117,049	117,049	–	88,536	68,162	–
Trade accounts payable	111,789	110,925	–	87,583	87,583	–
Liabilities on bills accepted and drawn	–	–	–	23	23	–
Liabilities to affiliated companies	1,634,293	1,041,626	400,000	1,042,473	860,818	–
Liabilities to associated companies	3,317	3,317	–	3,527	3,527	–
Other liabilities	120,831	120,831	–	183,512	123,512	–
thereof: taxes	(10,634)	–	–	(836)	–	–
for social security	(11,016)	–	–	(10,063)	–	–
	2,401,715	1,395,998	400,000	2,187,189	1,424,978	500,000

Commitments and contingencies

The liabilities from bills of exchange result from the discounting of trade bills. The liabilities from warranties, sureties and guarantees relate, with the exception of €0.9 million, to liabilities incurred by our subsidiaries and equity interests, and primarily to guarantee relationships

amounting to €634.8 million relating to capital market finance for Continental Rubber of America, Corp., Wilmington, U.S.A., and Continental Tire North America Inc., Charlotte, U.S.A. The joint liability for pension obligations is the result of the transfer of pension obligations to the ContiTech companies spun off in previous years.

in € thousands	Dec. 31, 2004	Dec. 31, 2003
Liabilities from bills of exchange	4,209	28,056
Liabilities from warranties	755,501	894,898
Liabilities from guarantees	6,846	3,313
Liability from shares in cooperative societies	28	28
Joint liability for pension obligations	33,712	35,388

Other financial commitments

Obligations in 2005 and later relate to rental and leasing contracts for real estate used for operations (€106.0 million), outsourced hardware and software (€58.8 million),

as well as machinery and operating and office equipment (€31.2 million). Liabilities from orders relating to investments in fixed assets amount to €33.2 million.

Notes to the Income Statement

13. Sales

in € millions	2004	2003
Broken down by business segment		
Tires	2,033	1,848
Other income	210	188
	2,243	2,036
Broken down by region		
Germany	1,095	1,008
Rest of Europe	825	940
Rest of the world	323	88
	2,243	2,036

14. Other Operating Income

in € thousands	2004	2003
Income from the disposal of fixed assets	13,173	14,945
Income from the reversal of provisions	2,141	1,514
Income from the reversal of special tax-allowable reserves	1,637	33,463
Other income	269,914	145,534
	286,865	195,456

Income from the disposal of fixed assets mainly relates to €11.5 million from the sale of shares in Continental Tyres South Africa (Pty) Ltd., Port Elizabeth, South Africa. The disposal did not result in any change in proportionate ownership.

Other income contains general allocations to other consolidated companies amounting to €130.7 million (previ-

ous year: €100.7 million), as well as payments of €75.9 million from European subsidiaries for expenses incurred by Continental Aktiengesellschaft in the course of the ongoing worldwide integration of its tire activities. This item also includes ongoing income from other ancillary business and other income.

15. Other Operating Expenses

in € thousands	2004	2003
Losses from the disposal of fixed assets	16,902	300
Losses from write-downs of current assets (excluding inventories)	19,908	4,625
Transfer to special tax-allowable reserves	–	6,424
Other expenses	371,572	172,018
Other taxes	1,612	1,487
	409,994	184,854

Other expenses consist of allocation expenses in the amount of €126.1 million (previous year: €100.7 million) and expenses for ancillary business. This item also in-

cludes expenses incurred by Continental Aktiengesellschaft in the course of the ongoing worldwide integration of its tire activities, which amounted to €206.0 million.

16. Net Income From Financial Activities

in € thousands	2004	2003
Income from profit and loss transfer agreements	119,362	224,148
Income from investments		
in affiliated companies	124,091	253,170
in associated companies	629	1,021
in other companies	86	265
Loss absorption from profit and loss transfer agreements	–	- 206
Earnings from investments	244,168	478,398
Income from other investments and long-term loans	79	78
Other interest and similar income		
from affiliated companies	26,907	17,145
from other companies	7,289	8,171
Interest and similar expenses		
to affiliated companies	- 38,823	- 15,393
to other companies	- 80,164	- 76,805
Net interest expense	- 84,712	- 66,804
Amortization of financial assets and investments classified as current assets	- 5,514	- 446,803
Net income/loss from financial activities	153,942	- 35,209

Other Disclosures

Cost of materials in € thousands	2004	2003
Cost of raw materials, consumables and supplies, and of purchased merchandise	1,179,623	1,052,155
Cost of purchased services	78,203	105,135
	1,257,826	1,157,290

Personnel expense in € thousands	2004	2003
Wages and salaries	359,203	346,791
Social security costs and other pension costs	116,424	92,594
thereof for retirement benefits	(44,159)	(27,101)
	475,627	439,385

Average number of employees per quarter	2004	2003
Wage earners	4,221	4,337
Salaried employees	3,029	3,020
	7,250	7,357

Derivative financial instruments

Continental AG groups its subsidiaries' actual and expected foreign currency payments worldwide, for currency management purposes. The net cash flows per currency on a rolling 12-month basis define the Group's overall transaction risk. If future transaction risk is hedged, these hedging transactions may not exceed 30% of the 12-month exposure without the express permission of the Executive Board.

Spot exchange transactions, currency forwards, currency swaps, and currency options are used to manage risks as part of currency management. The selection and use of instruments depends on the purpose of the relevant hedge. Traditional as well as modified or structured forms are used. Hedging instruments are also covered by policies and guidelines, and the adherence is regularly examined by internal audits. The currency committee convenes weekly to review and initiate hedging measures.

Particularly, forward rate agreements, interest rate futures, interest rate swaps, interest rate options, and cross-currency swaps are used for interest management, primarily to manage interest rate risks from floating-rate liabilities and to optimize financing costs. Here, as well, policies and guidelines cover our interest rate management activities.

The notional values of derivative financial instruments are based on underlyings. Changes in the market value of currency forwards and currency swaps are measured on the basis of the spot exchange rates at the balance sheet date, including forward premiums and discounts based on the maturity of the transactions, rather than the contracted forward exchange rates. For interest rate swaps, the future cash flows are discounted to the balance sheet date using the market interest rates that apply to the remaining term of the contracts. Values determined at the balance sheet date may differ significantly from the values subsequently realized on the market due to various factors.

At the balance sheet date, Continental AG did not hold any embedded derivative instruments requiring separate recognition, such as contractual payment terms in currencies other than the functional or typical trading currency.

The notional amounts and market values of all derivatives at the balance sheet date are as follows:

in € millions	Dec. 31, 2004		Dec. 31, 2003	
	Notional amount	Market value	Notional amount	Market value
Currency forwards	427.8	2.6	513.4	- 1.3
Interest rate swaps	32.3	- 1.6	45.6	- 3.8
Interest rate/currency swaps	414.2	113.3	600.0	111.5
Interest rate caps	181.6	0.5	197.8	1.6

Notice in accordance with the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act)

In its letter dated March 22, 2004, Alliance Capital Management Corporation, New York, USA, informed us, pursuant to section 21 (1) of the WpHG, that Alliance Capital Management L.P. exceeded the threshold of 10% of Continental AG's voting stock on March 16, 2004 and that it now holds a 10.03% share in Continental AG, assignable to it pursuant to section 22 (1), sentence 1, no. 6 of the WpHG. In their letter dated May 24, 2004, Barclays Global Investors UK Holdings Limited, Barclays Bank PLC and Barclays PLC, all with their registered offices in London, UK, informed us that on May 17, 2004 each of them exceeded the threshold of 5% of voting stock, and that Barclays Global Investors UK Holdings Limited now holds a 5.46% share, Barclays Bank PLC a 5.49% share, and Barclays PLC also a 5.49% share, assignable to them pursuant to section 21 (1) and section 22 (1), sentence 1, no. 1 of the WpHG. In its letter dated August 12, 2004, AXA S.A., Paris, France, informed us that it exceeded the threshold of 10% of voting stock at a date that can no longer be determined, and that as of the reference date of May 31, 2004 it held an 11.75% share, 11.748% of this figure is assignable to it pursuant to section 22 (1), sentence 1, no. 6, and sentences 2 and 3 of the WpHG and 0.002% pursuant to section 22 (1), sentence 1, no. 1 of the WpHG. In the same letter, AXA S.A. informed us that AXA Financial, Inc., AXA Financial Services LLC, Equitable Life Assurance Society of the United States, ACMC, Inc., Equitable Holdings LLC, and ECOMC LLC, all with their registered offices in New York, U.S.A., held 11.73% of voting stock as of May 31, 2004, assignable to it pursuant to section 22 (1), no. 6, sentences 2 and 3 of the WpHG. In addition, the letter informed us that Alliance Capital Management L.P. New York, U.S.A. held 11.73% of voting stock as of May 31, 2004, assignable to these companies pursuant to section 22 (1), no. 6 of the WpHG. AXA S.A.

also informed us that as of the reference date, May 31, 2004, AXA Investment Managers, Paris, France, AXA Investment Managers US Holding, and AXA Investment Managers Rose, Orinda, U.S.A. held 0.018% of voting stock pursuant to section 22 (1), no. 6, sentences 2 and 3 of the WpHG, and that as of May 31, 2004, 0.018% of voting stock was assignable to AXA Rosenberg Group LLC, Orinda, U.S.A., pursuant to section 22 (1), no. 6 of the WpHG. AXA S.A. also informed us that AXA Canada Inc, Montreal, Canada, held 0.002% of Continental AG's voting stock as of May 31, 2004.

In 2004 and up to and including March 9, 2005, the total shareholdings of the Supervisory Board and the Executive Board amounted to less than 1% of the outstanding shares. In fiscal 2004, Continental AG gave notice in accordance with section 15a of the WpHG to the effect that two members of the Executive Board purchased a total of 12,000 shares from a stock option plan and resold the shares immediately. Further, one member of the Supervisory Board purchased a total of 7,200 shares and subsequently sold them.

German Corporate Governance Code/Declaration in Accordance with Section 161 AktG

The declaration required in accordance with section 161 of the *Aktiengesetz* (German Stock Corporation Act) was issued by the Executive Board and the Supervisory Board on December 17, 2004 and made available to our shareholders on our website under www.conti-online.com.

Remuneration of the Executive Board and the Supervisory Board

The principles of the Executive Board compensation system are explained in the Corporate Governance declaration. The individual members of the Executive Board received the following amounts in 2004:

Executive Board in € thousands	Remuneration components		Stock options granted ²	
	Fixed ¹	Variable	Number	Fair value
Manfred Wennemer	744	1,011	25,000	289
Dr. Alan Hippe	464	617	15,000	174
Martien de Louw	465	617	11,000	127
Dr. Karl-Thomas Neumann (since October 1, 2004)	119	154	–	–
Dr. Hans-Joachim Nikolin	468	617	12,000	139
Thomas Sattelberger	475	617	6,000	69
Dr. Wolfgang Ziebart (until August 31, 2004)	377	513	–	–
Total	3,112	4,146	69,000	798

¹ The fixed remuneration components comprise in addition to cash components also non-cash elements, including company car, insurance, and moving costs.

² In the fiscal year, members of the Executive Board were granted stock options only under the 2004 stock option plan.

In addition, former members of the Executive Board and their surviving dependents received payments totaling €3.7 million. Accrued obligations for pensions for for-

mer members of the Executive Board and their surviving dependents amounted to €66.6 million.

The compensation of the members of the Supervisory Board in 2004 was as follows:

Supervisory Board in € thousands	Remuneration components	
	Fixed ¹	Variable
Dr. Hubertus von Grünberg	19	144
H. Peter Hüttenmeister	14	101
Richard Köhler (until May 14, 2004)	6	40
Heidemarie Aschermann (until May 14, 2004)	3	27
Dr. h.c. Manfred Bodin	7	72
Dr. Diethart Breipohl	8	72
Prof. Dr.-Ing. E.h. Breitschwerdt (until May 14, 2004)	3	27
Michael Deister	12	90
Dr. Michael Frenzel	8	72
Prof. Dr.-Ing. E.h. Hans-Olaf Henkel	9	72
Karl-Heinz Hilker (until May 14, 2004)	3	27
Gerhard Knuth	11	83
Hartmut Meine	8	72
Werner Mierswa (until May 14, 2004)	3	27
Dirk Nordmann (since May 14, 2004)	6	45
Jan P. Oosterveld	8	72
Dr. Thorsten Reese	11	83
Jörg Schönfelder (since May 14, 2004)	5	45
Jörg Schustereit (since May 14, 2004)	6	45
Prof. Dipl.-Ing. Jürgen Stockmar (since May 14, 2004)	5	45
Fred G. Steingraber	8	72
Dr. Bernd W. Voss	13	108
Dr. Ulrich Weiss	10	90
Dieter Weniger	9	72
Erwin Wörle (since May 14, 2004)	6	45
Total	201	1,648

¹ Including meeting-attendance fees

No remuneration was paid to Supervisory Board members for any personally rendered services, except for the remuneration of the employee representatives stemming from their employment.

In 2004, no advances or loans were granted to members of Continental AG's Executive Board or Supervisory Board.

Proposal for the distribution of earnings

After a transfer to other surplus reserves in the amount of €11.0 million and including the €0.5 million of retained profits brought forward from the previous year, net retained earnings amount to €116,721,938.35. The Exec-

utive Board will propose to the Annual Shareholders' Meeting that a dividend of €0.80 per share be paid to shareholders, representing a total dividend payment of €116,333,247.20 on the basis of 145,416,559 shares carrying dividend rights, and that the remaining retained earnings of €388,691.15 be carried forward to new account.

Hanover, March 10, 2005

Continental Aktiengesellschaft

The Executive Board

Auditors' Report

We have audited the annual financial statements, together with the bookkeeping system of Continental Aktiengesellschaft, Hanover, as well as the management report for the Company and group for the fiscal year from January 1 to December 31, 2004. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Executive Board of the Company. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report for the Company and group based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 of the HGB and the 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 annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of 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 books and records, the annual

financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and the significant estimates made by the Executive Board, as well as evaluating the overall presentation of the annual financial statements and of the management report for the Company and group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position, and results of operations of Continental Aktiengesellschaft in accordance with German principles of proper accounting. On the whole, the management report for the Company and group provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Hanover, March 10, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Zehnder Papenberg
Wirtschaftsprüfer Wirtschaftsprüfer

The Supervisory Board

Members of the Supervisory Board of Continental AG

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 *Handelsgesetzbuch* (HGB – German Commercial Code):

Companies with no country specified are located in Germany.

**Dr. Hubertus von Grünberg, Chairman
Member of various Supervisory Boards**

Allianz Versicherungs-AG, Munich; Deutsche Telekom AG, Bonn; MAN Aktiengesellschaft, Munich; Schindler Holding AG, Hergiswil, Switzerland

**H. Peter Hüttenmeister*, Deputy Chairman
(since May 14, 2004)**

Northern Region Manager, IG BCE (Union of Mining, Chemical and Energy Industries)

Deutsche Shell GmbH, Hamburg (since May 5, 2004); Deutsche Shell Holding GmbH, Hamburg (since June 11, 2004); DuPont Performance Coatings GmbH & Co. KG, Wuppertal; Mitteldeutsche Sanierungs- und Entsorgungsgesellschaft GmbH (MDSE), Bitterfeld; SDH Beteiligungsgesellschaft mbH, Hamburg (since May 1, 2004)

**Richard Köhler*, Deputy Chairman
Chairman of the Corporate Employee Council,
Deputy Chairman of the Employee Council for the Korbach Plant, and Chairman of the European Employee Council**

(Member of the Supervisory Board until May 14, 2004)

**Heidemarie Aschermann*, Member of the
Employee Council for the Northeim Plant**

(Member of the Supervisory Board until May 14, 2004)

**Dr. h.c. Manfred Bodin, Member of various
Supervisory Boards**

Bankgesellschaft Berlin AG, Berlin; Berlin-Hannoversche Hypothekenbank AG, Hanover-Berlin; Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen**; DekaBank Deutsche Kommunalbank, Frankfurt/Main; LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hanover/Berlin** (Chairman); LHI Leasing GmbH, Munich (Chairman); MHB Mitteleuropäische Handelsbank AG Deutsch-Polnische Bank, Frankfurt/Main (Chairman); Provinzial Lebensversicherung Hanno-

ver, Hanover; NORD/LB Luxembourg S.A., Luxembourg** (Chairman); Skandifinanz AG, Zurich, Switzerland** (all until June 30, 2004); CeWe Color Holding AG, Oldenburg

**Dr. Diethart Breipohl, Member of various
Supervisory Boards**

Allianz AG, Munich; Beiersdorf AG, Hamburg; Karstadt-Quelle AG, Essen; KM Europa Metal AG, Osnabrück (Chairman); Banco Popular Español, Madrid, Spain (until April 20, 2004); BPI Banco Portugues de Investimento, Porto, Portugal (until April 21, 2004); Crédit Lyonnais, Paris, France; EULER & Hermes, Paris, France; Les Assurances Générales de France (AGF), Paris, France

**Prof. Dr.-Ing. E.h. Werner Breitschwerdt,
Consultant**

Ed. Züblin AG, Stuttgart; MTU Motoren- und Turbinen-Union Friedrichshafen GmbH, Friedrichshafen; Daimler-Chrysler of South Africa (Pty.) Ltd., Pretoria, South Africa; Mercedes-Benz USA, Montvale, U.S.A. (Member of the Supervisory Board until May 14, 2004)

**Michael Deister*, Deputy Chairman of the
Employee Council for the Stöcken Plant**

**Dr. Michael Frenzel, Chairman of the Executive
Board of TUI AG**

AXA Konzern AG, Cologne; Deutsche Bahn AG, Berlin (Chairman); E.ON Energie AG, Munich; Hapag-Lloyd AG, Hamburg** (Chairman); Hapag-Lloyd Flug GmbH, Hanover** (Chairman); ING BHF Bank AG, Frankfurt/Main (until Dec. 31, 2004); ING BHF Holding AG, Frankfurt/Main (until Dec. 31, 2004); Norddeutsche Landesbank, Hanover; TUI Beteiligungs AG, Hamburg** (Chairman) (since July 1, 2004); TUI Deutschland GmbH, Hanover** (Chairman); Volkswagen AG, Wolfsburg; Preussag North America, Inc., Greenwich, U.S.A.** (Chairman); TUI China Travel Co., Ltd., Beijing, China**

**Prof. Dr.-Ing. E.h. Hans-Olaf Henkel, President of
Leibniz-Gemeinschaft**

Bayer AG, Leverkusen; DaimlerChrysler Aerospace AG, Munich; Deutsche Industriebank AG (IKB), Düsseldorf (until May 10, 2004); SMS GmbH, Düsseldorf; Orange SA, Paris, France; Ringier AG, Zofingen, Switzerland; Brambles Industries Ltd., Sydney, Australia (since Jan. 1, 2005)

Karl-Heinz Hilker*, Electrician
Former Chairman of the Employee Council for the Vahrenwald Plant and Deputy Chairman of the Joint Employee Council

(Member of the Supervisory Board until May 14, 2004)

Gerhard Knuth*, Deputy Chairman of the Employee Council for the Gifhorn Plant, Chairman of the Joint Employee Council of Continental Teves AG & Co. oHG, and First Deputy Chairman of the Corporate Employee Council

Hartmut Meine*, District Manager of IG Metall (Metalworkers' Union) for Lower Saxony and Saxony-Anhalt

KM Europa Metal AG, Osnabrück

Werner Mierswa*, Commercial Employee, Former Chairman of the Employee Council for Continental's Headquarters and Chairman of the Joint Employee Council

(Member of the Supervisory Board until May 14, 2004)

Dirk Nordmann*, Chairman of the Employee Council for the Vahrenwald Plant, ContiTech Antriebssysteme GmbH

(Member of the Supervisory Board until May 14, 2004)

Jan P. Oosterveld, Member of various Supervisory Boards

AtosOrigin S.A., Paris, France (since Jan. 22, 2004); Barco NV, Kortrijk, Belgium (since May 12, 2004); LG.Philips LCD Co., Ltd., Seoul, Korea (Chairman) (until March 31, 2004); Cookson Group Plc, London, UK (since June 15, 2004); Crucell NV, Leiden, The Netherlands (since June 3, 2004); LG.Philips Display Holding BV, Eindhoven, The Netherlands (until March 31, 2004); Philips Venture Capital Fund B.V., Eindhoven, The Netherlands** (until March 31, 2004); Philips Electronics China B.V., Eindhoven, The Netherlands** (until March 31, 2004)

Dr. Thorsten Reese*, Head of Corporate Quality & Environment

Jörg Schönfelder*, Chairman of the Employee Council for the Korbach Plant

(Member of the Supervisory Board since May 14, 2004)

Jörg Schustereit*, Chairman of the Employee Council for the Northeim Plant, ContiTech Transportbandsysteme

(Member of the Supervisory Board since May 14, 2004)

Prof. Dipl.-Ing. Jürgen Stockmar, Managing Director of Magna Education and Research GmbH & Co KG, Oberwaltersdorf, Austria

(Member of the Supervisory Board since May 14, 2004)

Fred G. Steingraber, Chairman Board Advisors, U.S.A.

Retired Chairman and CEO, A.T. Kearney

Elkay Manufacturing, Oak Brook, IL, U.S.A.; John Hancock Financial Trends Fund, Boston, MA, U.S.A.; Maytag Corporation, Newton, IA, U.S.A.; 3i plc, London, UK

Dr. Bernd W. Voss, Member of various Supervisory Boards

Allianz Lebensversicherungs-AG, Stuttgart; Bankhaus Reuschel & Co., Munich (Chairman); Dresdner Bank AG, Frankfurt/Main; Hapag-Lloyd AG, Hamburg (since Feb. 15, 2005); OSRAM GmbH, Munich; Quelle AG, Fürth; TUI AG, Hanover (until Feb. 1, 2005); Wacker Chemie GmbH, Munich; ABB Ltd., Zurich, Switzerland

Dr. Ulrich Weiss, Member of various Supervisory Boards

BEGO Medical AG, Bremen; Heidelberger Zement AG, Heidelberg (until May 6, 2004); Benetton Group S.p.A., Ponzano, Treviso, Italy; Ducati Motor Holding S.p.A., Bologna, Italy

Dieter Weniger*, Trade Union Secretary, IG BCE (Union of Mining, Chemical, and Energy Industries)

Erwin Wörle*, Chairman of the Employee Council of Conti Temic microelectronic GmbH, Ingolstadt, and Deputy Chairman of the Supervisory Board of Conti Temic microelectronic GmbH, Nuremberg

(Member of the Supervisory Board since May 14, 2004)

Members of the Supervisory Board Committees

1. Chairman's Committee, and Mediation Committee required under section 27 (3) of the *Mitbestimmungsgesetz (MitbestG – German Co-determination Act)*

Dr. Hubertus von Grünberg, Chairman of the Chairman's Committee; H. Peter Hüttenmeister; Gerhard Knuth (since May 14, 2004); Richard Köhler (until May 14, 2004); Dr. Ulrich Weiss

2. Audit Committee

Dr. Bernd W. Voss, Chairman; Michael Deister; Dr. Hubertus von Grünberg; Richard Köhler (until May 14, 2004); Dr. Thorsten Reese (since May 14, 2004)

* Employee representative

** Consolidated companies pursuant to section 100 (2) of the *Aktiengesetz (AktG – German Stock Corporation Act)*

The Executive Board

Members of the Executive Board of Continental AG

List of the positions held by current and former 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 *Handelsgesetzbuch* (HGB – German Commercial Code)

Companies with no country specified are located in Germany.

Manfred Wennemer, Chairman

ContiTech

Frankfurter Versicherungs-Aktiengesellschaft, Frankfurt/Main; Benecke-Kaliko AG, Hanover* (Chairman); Continental Teves, Inc., Wilmington, Delaware, U.S.A.*; Continental Tire North America, Inc., Charlotte, North Carolina, U.S.A.*; ContiTech AG, Hanover* (Chairman); ContiTech AGES SpA, Santena, Italy* (President) (until Jan. 20, 2005); ContiTech Antriebssysteme GmbH, Hanover*; ContiTech North America, Inc., Wilmington, Delaware, U.S.A.*; ContiTech Schlauch GmbH, Hanover*; ContiTech Techno-Chemie GmbH, Karben*; ContiTech Transportbandsysteme GmbH, Hanover*; ContiTech Vibration Control GmbH, Hanover*; Conti Temic microelectronic GmbH, Nuremberg* (until Dec. 13, 2004); Phoenix AG, Hamburg* (since Feb. 9, 2005)

Dr. Alan Hippe, Finance, Controlling and Law

Hamburg-Mannheimer Versicherungs-AG, Hamburg; Hamburg-Mannheimer Sachversicherungs-AG, Hamburg; Continental Automotive, Inc., Wilmington, Delaware, U.S.A.*; Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.*; Continental Teves, Inc., Wilmington, Delaware, U.S.A.*; Continental Tire North America, Inc., Charlotte, North Carolina, U.S.A.*; ContiTech North America, Inc., Wilmington, Delaware, U.S.A.*; ContiTech AG, Hanover*; Phoenix AG, Hamburg* (since Feb. 9, 2005)

Martien de Louw, Passenger and Light Truck Tires

CGT Tire, Inc., Charlotte, North Carolina, U.S.A.*; CGT Referral Resources, Inc., Charlotte, North Carolina, U.S.A.*; Compañía Hulera Euzkadi, S.A. de C. V., México D.F., Mexico*; Continental Automotive, Inc., Wilmington, Delaware, U.S.A.*; Continental Automotive Licensing Corp., Charlotte, North Carolina, U.S.A.*; Continental Llantera Potosina, S.A. de C.V., México D.F.,

Mexico*; Continental Products Corporation, Charlotte, North Carolina, U.S.A.*; Continental Tire de México, S.A. de C. V., México D.F., Mexico*; Continental Tire North America, Inc., Charlotte, North Carolina, U.S.A.*; Continental Tire Servicios, S.A. de C.V., México D.F., Mexico*; CTNA Holding Corp., Charlotte, North Carolina, U.S.A.*; Dynagen, Inc., Charlotte, North Carolina, U.S.A.*; Englewood Services, Inc., Charlotte, North Carolina, U.S.A.*; General Tire de México, S.A. de C.V., México D.F., Mexico*; General Tire International Company, Charlotte, North Carolina, U.S.A.*; The Continental General Tire Foundation, Charlotte, North Carolina, U.S.A.*; Temic Automotive of North America, Inc., Auburn Hills, Michigan, U.S.A.*

Dr. Karl-Thomas Neumann, Automotive Systems

(Member of the Executive Board since October 1, 2004) ELMOS Semiconductor AG, Dortmund; SupplyOn AG, Gerlingen-Schillerhöhe (since January 11, 2005); Continental Teves, Inc., Wilmington, Delaware, U.S.A.*

Dr. Hans-Joachim Nikolin, Commercial Vehicle Tires, Corporate Quality and Environment

TÜV Nord-Gruppe, Hamburg; Continental Sime Tyre Sdn. Bhd., Petaling Jaya, Malaysia*; Continental Tire North America, Inc., Charlotte, North Carolina, U.S.A.*; Continental Tyre South Africa (PTY) Limited, Port Elizabeth, South Africa*; Drahtcord Saar GmbH & Co. KG, Merzig; KG Deutsche Gasrußwerke GmbH & Co., Dortmund; Semperit Reifen Gesellschaft m.b.H., Traiskirchen, Austria* (Chairman)

Thomas Sattelberger, Human Resources, Director of Labor Relations

Dr. Wolfgang Ziebart, Deputy Chairman Automotive Systems

(Member of the Executive Board until August 31, 2004) SupplyOn AG, Gerlingen-Schillerhöhe; Continental Teves, Inc., Wilmington, Delaware, U.S.A.*; Conti Temic microelectronic GmbH, Nuremberg* (Chairman)

* Consolidated companies pursuant to section 100 (2) of the *Aktiengesetz* (AktG – German Stock Corporation Act)

Financial Calendar

2005

Financials press conference	March 31
Analyst conference	March 31
Interim report as of March 31, 2005	May 4
Annual Shareholders' Meeting	May 12
Interim report as of June 30, 2005	August 2
Interim report as of September 30, 2005	November 2

2006

Financials press conference	February/March
Analyst conference	February/March
Interim report as of March 31, 2006	May
Annual Shareholders' Meeting	May 5
Interim report as of June 30, 2006	August
Interim report as of September 30, 2006	November

This Annual Report is also published in German. The full Annual Report of Continental Corporation is available in German and English.

If you wish to receive copies of any of these reports, please contact:

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... we are expecting a further increase in sales and earnings.

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Continental is an Official Partner of the 2006 FIFA World Cup Germany™.

