



Annual Report of Continental AG 2005

Continental 

The management report of Continental Aktiengesellschaft is combined with the management report of the Continental Corporation in accordance with section 315 (3) of the *Handelsgesetzbuch* (German Commercial Code) and published in Continental's 2005 Annual Report.

The annual financial statements and the summarized management report of Continental Aktiengesellschaft for fiscal year 2005 are published in the *Bundesanzeiger* (Federal Gazette) and filed with the commercial register of the Hanover Local Court under HR B No. 3527.

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Continental Aktiengesellschaft

Income Statement

in € millions	See Note	2005	2004
Sales	13	2,376.3	2,242.7
Cost of sales		1,732.6	1,696.5
Gross margin on sales		643.7	546.2
Selling expenses		218.5	225.5
Administrative expenses		72.4	76.2
Other operating income	14	198.2	286.9
Other operating expenses	15	271.7	410.0
Net income from financial activities	16	118.7	153.9
Earnings before taxes		398.0	275.3
Income tax expense		243.0	148.1
Net income for the year		155.0	127.2
Retained earnings brought forward from the previous year		0.4	0.5
Transfer to other surplus reserves		9.0	11.0
Retained earnings		146.4	116.7

Balance Sheet

Assets

in € millions	See Note	Dec. 31, 2005	Dec. 31, 2004
Intangible assets	1	45.7	49.5
Property, plant, and equipment	1	145.9	142.7
Investments	2	2,897.3	2,730.6
Non-current assets		3,088.9	2,922.8
Inventories	3	150.5	149.1
Other assets and amounts receivable	4	1,561.9	1,133.0
Cash and cash equivalents	5	859.1	626.1
Current assets		2,571.5	1,908.2
Prepaid expenses	6	57.8	69.9
		5,718.2	4,900.9

Shareholders' Equity and Liabilities

in € millions	See Note	Dec. 31, 2005	Dec. 31, 2004
Common stock	7	373.4	372.3
Capital reserves	8	1,308.3	1,304.6
Surplus reserves	9	54.7	45.7
Retained earnings		146.4	116.7
Shareholders' equity		1,882.8	1,839.3
Special tax-allowable reserves	10	1.2	4.8
Provisions	11	722.7	655.1
Liabilities	12	3,111.5	2,401.7
		5,718.2	4,900.9

Statement of Changes in Fixed Assets and Investments

in € millions	Acquisition/Construction cost				Dec. 31, 2005
	Jan. 1, 2005	Additions	Transfers	Disposals	
Franchises, operating licenses, industrial property and similar rights and assets, and licenses for such rights and assets	163.5	4.4	4.3	2.2	170.0
Advances to suppliers	5.8	6.1	- 4.3	-	7.6
Intangible assets	169.3	10.5	-	2.2	177.6
Land, land rights, and buildings including buildings on land not owned	145.1	0.6	0.3	2.5	143.5
Technical equipment and machinery	466.0	12.3	11.2	5.3	484.2
Other equipment, factory and office equipment	258.9	26.8	3.3	11.3	277.7
Advances to suppliers and assets under construction	18.4	8.1	- 14.8	-	11.7
Property, plant, and equipment	888.4	47.8	-	19.1	917.1
Shares in affiliated companies	2,708.3	164.0	-	-	2,872.3
Shares in associated companies	88.4	1.1	-	-	89.5
Insurance annuity contracts	57.1	4.1	-	2.7	58.5
Long-term securities	-	3.9	-	-	3.9
Other loans granted	2.0	-	-	1.3	0.7
Investments	2,855.8	173.1	-	4.0	3,024.9
	3,913.5	231.4	-	25.3	4,119.6

Continental Aktiengesellschaft Notes

The annual financial statements of Continental Aktiengesellschaft have been 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 aggregated similar 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 international practice.

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

Depreciation/Amortization				Net book values		
Jan. 1, 2005	Additions	Disposals	Dec. 31, 2005		Dec. 31, 2005	Dec. 31, 2004
119.8	14.3	2.2	131.9		38.1	43.7
-	-	-	-		7.6	5.8
119.8	14.3	2.2	131.9		45.7	49.5
117.6	2.4	1.4	118.6		24.9	27.5
405.6	18.9	4.9	419.6		64.6	60.4
222.5	20.6	10.1	233.0		44.7	36.4
-	-	-	-		11.7	18.4
745.7	41.9	16.4	771.2		145.9	142.7
117.3	-	-	117.3		2,755.0	2,591.0
7.2	2.4	-	9.6		79.9	81.2
-	-	-	-		58.5	57.1
-	-	-	-		3.9	-
0.7	-	-	0.7		-	1.3
125.2	2.4	-	127.6		2,897.3	2,730.6
990.7	58.6	18.6	1,030.7		3,088.9	2,922.8

Accounting Policies

Assets

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

Property, plant, and equipment is carried at the cost of acquisition or production less depreciation. Moveable assets are depreciated using the declining balance method, while all other assets are depreciated using the straight-line method. However, the declining balance method is stopped once the straight-line method of depreciation is higher. Depreciation using the declining balance method is calculated at the maximum rates permitted under tax law. Special tax write-downs are charged where these are required to ensure compliance with accounting rules for commercial financial state-

ments and tax laws. 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 as well as long-term securities 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 below-market interest loans are discounted to their present value. Insurance annuity contracts for pension obligations are also reported in investments.

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 directly from inventories.

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

Shareholders' equity and liabilities

Provisions for pensions and similar obligations are measured on the basis of actuarial calculations in accordance with the projected unit credit method, and are based on the 2005 G mortality tables (2004: 1998) published by Prof. Klaus Heubeck. The other provisions have been set up for all identifiable risks, uncertain obligations, and expected losses on the basis of prudent business practice.

Currency hedges that are not settled at the balance sheet date are matched to the agreed forward rate.

Currency hedges unrelated to hedged transactions and unrealized losses arising from comparison with the forward rate for the same maturity at the balance sheet date are accrued.

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.

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 from 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 €0.8 million, and impairment write-downs of the property, plant, and equipment used for passenger tire production at the Hanover-Stöcken location totaling €1.3 million.

2. Investments

The year-on-year increase in investments is mainly due to capital increases at Continental do Brasil Produtos Automotivos Ltda., São Paulo, Brazil (€85.7 million);

at Sime Tyres International (M) Sdn. Bhd., Alor Setar, Malaysia (€56.0 million); and at Continental Automotive Systems Slovakia s.r.o., Zvolen, Slovakia (€17.7 million).

3. Inventories

in € thousands	Dec. 31, 2005	Dec. 31, 2004
Raw materials, consumables, and supplies	26,676	29,174
Work in progress	32,133	28,106
Finished goods and merchandise	92,333	92,236
Advances to suppliers	227	312
Advances from customers	- 925	- 732
	150,444	149,096

The difference between inventory valuation at current acquisition cost and according to the LIFO principle amounts to €4.3 million.

4. Other Assets and Amounts Receivable

in € thousands	Dec. 31, 2005		Dec. 31, 2004	
	Total	thereof with a maturity of > 1 year	Total	thereof with a maturity of > 1 year
Trade accounts receivable	180,033	-	193,884	988
Accounts receivable from affiliated companies	1,351,542	850	884,992	-
Accounts receivable from associated companies	147	-	194	-
Other assets and amounts receivable	30,185	-	53,871	426
	1,561,907	850	1,132,941	1,414

5. Cash and Cash Equivalents

in € thousands	Dec. 31, 2005	Dec. 31, 2004
Cash in hand	192	162
Bank balances	857,708	623,578
Checks	1,209	2,365
	859,109	626,105

6. Prepaid Expenses

in € thousands	Dec. 31, 2005	Dec. 31, 2004
Premium related to bonds	54,894	65,264
Other prepaid expenses	2,944	4,654
	57,838	69,918

The convertible bond with a nominal amount of €400 million issued via a Dutch subsidiary in the previous fiscal year 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 €10.0 million.

Notes to the Balance Sheet, Equity and Liabilities

7. Subscribed Capital

The subscribed capital increased by €0.2 million over the previous year (2004: €25.1 million) following the exercise of conversion rights, and by €1.0 million (2004: €0.5 million) following the exercise of subscription rights.

The common stock of the Company amounts to €373,413,655.04 at the balance sheet date (2004: €372,266,391.04) and is composed of 145,864,709 (2004: 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.

The 1996 stock option plan for members of the Executive Board and senior executives expired on July 1, 2005; all the conversion rights granted had been exercised by this date. The option holders were entitled to convert every €0.51 of the related loan into one share of Continental AG. Conversions carried out in 2005 led to the issuance of 72,400 shares (2004: 99,600 shares).

A total of 1,381,840 subscription rights were issued under the stock option plan set up in 1999 for members of the Executive Board and senior executives. Each option entitled the option holder to subscribe for one share. 295,590 (2004: 687,340) of the issued rights are still outstanding. In 2005, 375,750 shares were issued (2004: 210,000 shares). 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. Each option entitles the option holder to subscribe for one share. 753,450 (2004: 634,000) subscription rights were granted in 2005. Of this figure, 1,304,050 (2004: 618,500) subscription rights are still outstanding, while the remaining 67,900 (2004: 15,500) have expired.

On May 19, 2004, a convertible bond for a nominal amount of €400 million was issued by Conti Gummi Finance B.V., Amsterdam, The Netherlands. Holders of the conversion rights were originally entitled to convert them into shares of Continental AG at a price of €51.00 per share. This represented a total possible entitlement of 7,843,137 no-par value shares. The dividend increase resolved on May 12, 2005 for fiscal year 2004 resulted in a change in the conversion ratio in accordance with the terms of the bond. The conversion ratio now corresponds to a conversion price of €50.82, thus representing a total entitlement of 7,870,916 no-par value shares. The convertible bond has a coupon of 1.625% and matures on May 19, 2011. No conversion rights were exercised in 2004 or 2005.

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, 2005	145,705
Exercised conversion and subscription rights	- 1,148
Expiration of subscription rights granted	- 214
Conditional capital as of December 31, 2005	144,343

8. Capital Reserves

Capital reserves increased by a total of €3.7 million in 2005. Of this figure, €1.3 million was attributable to the exercise of conversion rights, and €2.4 million to the exercise of subscription rights.

9. Surplus Reserves

Net income from 2005 in the amount of €9.0 million was transferred to other surplus reserves in accordance with section 58(2) of the AktG. As a result, surplus reserves amounted to €54.7 million as of December 31, 2005.

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, of which €3.6 million was reversed in 2005.

11. Provisions

in € thousands	Dec. 31, 2005	Dec. 31, 2004
Pension and similar obligations	272,824	279,581
Taxes	207,146	132,767
Other provisions	242,716	242,775
	722,686	655,123

For the first time, pension obligations were measured in 2005 using the projected unit credit method at an average long-term interest rate of 5.4%. In the previous year, they were measured in accordance with U.S. GAAP (FAS 87). Based on January 1, 2005, the change in method led to a 6.1% reduction in pension provisions.

Other provisions cover identifiable risks and other uncertain obligations. In particular, they contain provisions for warranties, bonus payments, personnel and social security expenses, as well as holiday and anniversary entitlements. A provision for restructuring expenses amounting to €12.5 million was recognized due to the discontinuation of passenger tire production at the Hanover-Stöcken location.

12. Liabilities

in € thousands	Thereof			Thereof		
	Dec. 31, 2005	< 1 year	> 5 years	Dec. 31, 2004	< 1 year	> 5 years
Loans, convertible	–	–	–	125	125	–
Non-convertible	371,441	1,905	–	414,311	2,125	–
Liabilities to banks	293,708	293,708	–	117,049	117,049	–
Trade accounts payable	114,584	114,008	–	111,789	110,925	–
Liabilities to affiliated companies	2,281,710	1,828,776	400,000	1,634,293	1,041,626	400,000
Liabilities to associated companies	4,892	4,892	–	3,317	3,317	–
Other liabilities	45,151	45,151	–	120,831	120,831	–
thereof: taxes	(9,855)			(10,634)		
for social security	(13,569)			(11,016)		
	3,111,486	2,288,440	400,000	2,401,715	1,395,998	400,000

Non-recognized commitments and contingencies

The non-recognized contingent liabilities from bills of exchange result from the discounting of trade bills. The liabilities from warranties, sureties, and guarantees relate, with the exception of €0.1 million, exclusively to liabilities incurred by our subsidiaries and equity interests, and primarily to guarantees and guarantee relationships

amounting to €559.3 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 spun-off ContiTech companies.

in € thousands	Dec. 31, 2005	Dec. 31, 2004
Liabilities from bills of exchange	–	4,209
Liabilities from warranties	610,929	755,501
Liabilities from guarantees	9,927	6,846
Liability from shares in cooperative societies	28	28
Joint liability for pension obligations	31,174	33,712

Other financial commitments

Obligations in 2006 and later relate mainly to rental and leasing contracts for real estate used for operations (€116.6 million), outsourced hardware and software

(€86.1 million), as well as machinery and operating and office equipment (€18.7 million). Open orders relating to investments in fixed assets and major repairs amount to €39.1 million.

Notes to the Income Statement

13. Sales

in € millions	2005	2004
Broken down by business segment		
Tires	2,145	2,033
Other revenues	231	210
	2,376	2,243
Broken down by region		
Germany	1,139	1,095
Rest of Europe	791	825
Rest of the world	446	323
	2,376	2,243

14. Other Operating Income

in € thousands	2005	2004
Income from the disposal of fixed assets	4,106	13,173
Income from the reversal of provisions	21,512	2,141
Income from the reversal of special tax-allowable reserves	3,569	1,637
Other income	168,975	269,914
	198,162	286,865

Income from the reversal of provisions also includes income from the reversal of pension and post-employment provisions as a result of a change in method as of January 1, 2005. The other income contains general

allocations to other consolidated companies amounting to €130.9 million (2004: €130.7 million). This item also includes ongoing income from other ancillary business and other income.

15. Other Operating Expenses

in € thousands	2005	2004
Losses from the disposal of fixed assets	138	16,902
Losses from write-downs of current assets (excluding inventories)	4,126	19,908
Other expenses	266,103	371,572
Other taxes	1,342	1,612
	271,709	409,994

Other expenses consist mainly of allocation expenses in the amount of €127.1 million (previous year: €126.1 million) and expenses for ancillary business.

16. Net Income From Financial Activities

in € thousands	2005	2004
Income from profit and loss transfer agreements	111,495	119,362
Income from investments		
in affiliated companies	101,177	124,091
in associated companies	1,301	629
in other companies	232	86
Loss absorption from profit and loss transfer agreements	- 5,274	-
Earnings from investments	208,931	244,168
Income from other investments and long-term loans	77	79
Other interest and similar income		
from affiliated companies	48,703	26,907
from other companies	6,666	7,289
Interest and similar expenses		
to affiliated companies	- 60,682	- 38,823
to other companies	- 82,576	- 80,164
Net interest expense	- 87,812	- 84,712
Amortization of financial assets and investments classified as current assets	- 2,406	- 5,514
Net income from financial activities	118,713	153,942

Other Disclosures

Cost of materials in € thousands	2005	2004
Cost of raw materials, consumables, and supplies, and of purchased merchandise	1,310,071	1,179,623
Cost of purchased services	73,914	78,203
	1,383,985	1,257,826

Personnel expense in € thousands	2005	2004
Wages and salaries	377,395	359,203
Social security costs and other pension costs	91,467	116,424
thereof for retirement benefits	(24,070)	(44,159)
	468,862	475,627

Average number of employees per quarter	2005	2004
Wage earners	4,161	4,221
Salaried employees	3,061	3,029
	7,222	7,250

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 Corporation'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 adherence to these is regularly monitored by internal audits. The currency committee convenes weekly to review and initiate hedging measures.

In particular, forward rate agreements, interest rate futures, interest rate swaps, interest rate options, and cross-currency swaps are used for interest management, primarily to control interest rate risks in particular from floating-rate liabilities and to optimize financing costs.

Here, too, policies and guidelines cover our interest rate management activities.

The nominal values of derivative financial instruments are limited to the related operating transactions. 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 and market values of all derivatives at the balance sheet date are as follows:

in € millions	Dec. 31, 2005		Dec. 31, 2004	
	Nominal amount	Market value	Nominal amount	Market value
Currency forwards	904.2	10.3	427.8	2.6
Interest rate swaps	37.2	- 0.5	32.3	- 1.6
Interest rate/currency swaps	334.2	56.2	414.2	113.3
Interest rate caps	209.0	1.6	181.6	0.5

Auditors' fees

The Annual Shareholders' Meeting on May 12, 2005 elected KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, as the auditor for fiscal year 2005. The following auditor's fees were recognized in the income statement as an expense for fiscal year 2005:

in € thousands

a) Audit of financial statements	1,360.0
b) Other assurance or valuation services	141.7
c) Tax advisory services	220.8
d) Other services	188.5
	1,911.0

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

In its letter dated April 19, 2005, AXA Investment Managers Deutschland GmbH, Cologne, Germany, acting on behalf of AXA S.A., Paris, France, informed us in accordance with section 21 (1), section 22 (1) sentence 1 no. 6 sentences 2 and 3, and section 24 of the WpHG that Alliance Capital Management L.P., New York, U.S.A., fell below the threshold of 10% of Continental AG's voting stock on April 14, 2005, and that it now held a 9.9% share.

On June 27, 2005, AXA Investment Managers Deutschland GmbH, Cologne, Germany, acting on behalf of AXA S.A., Paris, France, informed us in accordance with section 21 (1) and section 24 of the WpHG that AXA Financial Inc., AXA Financial Services LLC, and AXA Equitable Life Insurance Company, all domiciled in New York, U.S.A., each exceeded the threshold of 10% of Continental AG's voting stock on June 21, 2005, and that they now each held a 10.05% share. The voting stock was assigned to each of these companies in accordance with section 22 (1) sentence 1 no. 6 sentences 2 and 3 of the WpHG. In the same letter, we were informed that Alliance Capital Management L.P., New York, U.S.A., exceeded the threshold of 10% of Continental AG's voting rights on June 21, 2005, and that it now held a 10.05% share, attributable to it in accordance with section 22 (1) sentence 1 no. 6 of the WpHG.

In 2005 and up to and including February 13, 2006, the total shareholdings of the Supervisory Board and the Executive Board amounted to less than 1% of the outstanding shares. In fiscal year 2005, Continental AG gave notice in accordance with section 15a of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act) to the effect that three members of the Executive Board purchased a total of 49,500 shares under the 1999 stock option plan and resold these shares immediately. Further, one member of the Supervisory Board purchased a total of 6,000 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* (AktG – German Stock Corporation Act) was issued by the Executive Board and the Supervisory Board on October 1, 2005 and made available to our shareholders on our website at www.conti-online.com.

**Remuneration of the Executive Board and
the Supervisory Board**

The basic elements of the Executive Board remuneration system are described in the Corporate Governance declaration. The total remuneration of the Executive Board for 2005 is broken down by the individual members as follows:

Executive Board in € thousands	Remuneration components		Stock options granted ²	
	Fixed ¹	Variable	Quantity	Market value
Manfred Wennemer	744	1,413	30,000	715
Dr. Alan Hippe	463	971	20,000	477
Gerhard Lerch (since September 30, 2005)	117	177	–	–
Martien de Louw (until May 12, 2005)	177	252	–	–
Dr. Karl-Thomas Neumann	476	786	5,000	119
Dr. Hans-Joachim Nikolin	468	871	20,000	477
Thomas Sattelberger	472	871	20,000	477
Total	2,917	5,341	95,000	2,265

¹ In addition to cash components, the fixed remuneration components comprise non-cash elements, including company cars, insurance, and moving costs.

² The subscription rights granted in 2005 relate to the 2004 stock option plan.

Besides the granting of stock option rights, there are no further remuneration components with a long-term incentive effect. The members of the Executive Board have been granted post-employment benefits that are not linked exclusively to retirement but that may also apply in the event of non-renewal or, in some cases, premature termination of the employment contract. The

benefits are determined based upon the remuneration received and the period of employment. In addition, former members of the Executive Board and their surviving dependents received payments totaling €6.6 million. Provisions for pension obligations for former members of the Executive Board and their surviving dependents amounted to €74.9 million.

The remuneration paid to the members of the Supervisory Board in 2005 was as follows:

Supervisory Board in € thousands	Remuneration components	
	Fixed ¹	Variable
Dr. Hubertus von Grünberg	18	180
Werner Bischoff (since July 4, 2005)	6	63
H. Peter Hüttenmeister (until June 30, 2005)	6	67
Dr. h.c. Manfred Bodin	8	90
Dr. Diethart Brejpohl	9	91
Michael Deister	12	113
Dr. Michael Frenzel	8	90
Prof. Dr.-Ing. E.h. Hans-Olaf Henkel	8	90
Gerhard Knuth	11	113
Hartmut Meine	8	90
Dirk Nordmann	8	90
Jan P. Oosterveld	9	90
Dr. Thorsten Reese	12	113
Jörg Schönfelder	9	90
Jörg Schustereit	8	90
Fred G. Steingraber	8	90
Prof. Dipl.-Ing. Jürgen Stockmar	8	90
Christian Streiff (since October 14, 2005)	2	19
Dr. Bernd W. Voss	13	135
Dr. Ulrich Weiss (until September 30, 2005)	8	84
Dieter Weniger	8	90
Erwin Wörle	8	90
Total	195	2,058

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 arising from their employment contract.

In 2005, 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 €9.0 million and including the €0.4 million of retained earnings brought forward from the previous year, net retained earnings amount to €146,360,820.74. The Su-

pervisory Board and Executive Board will propose to the Annual Shareholders' Meeting that a dividend of €1.00 per share be paid to shareholders, representing a total dividend payment of €145,864,709.00 on the basis of 145,864,709 shares carrying dividend rights, and that the remaining retained earnings of €496,111.74 be carried forward to new account.

Hanover, February 13, 2006

Continental Aktiengesellschaft

The Executive Board

Independent Auditors' Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report for the group and Continental Aktiengesellschaft for the business year from January 1 to December 31, 2005. 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 Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB "German Commercial Code" and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (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 expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the man-

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report for the group and Continental Aktiengesellschaft is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Hanover, February 15, 2006

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

Werner Bischoff*, Deputy Chairman

(since August 2, 2005, Member of the Supervisory Board since July 4, 2005)

**Member of the Executive Board of IG BCE
(German Mining, Chemical, and Energy Industrial Union)**

Degussa AG, Düsseldorf; RWE Power AG, Cologne; Sano-fi-Aventis Deutschland GmbH, Frankfurt/Main; Hoechst GmbH, Frankfurt/Main; Chemie Pensionsfonds AG, Munich

**H. Peter Hüttenmeister*, Deputy Chairman
Northern Region Manager, IG BCE (German Mining, Chemical, and Energy Industrial Union)**

(Member of the Supervisory Board until June 30, 2005)
Deutsche Shell GmbH, Hamburg; Deutsche Shell Holding GmbH, Hamburg; DuPont Performance Coatings GmbH & Co. KG, Wuppertal; Mitteldeutsche Sanierungs- und Entsorgungsgesellschaft GmbH (MDSE), Bitterfeld; SDH Beteiligungsgesellschaft mbH, Hamburg

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

CeWe Color Holding AG, Oldenburg; VHV Holding AG, Hanover (since January 1, 2005)

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

Allianz AG, Munich; Beiersdorf AG, Hamburg (until May 18, 2005); Karstadt-Quelle AG, Essen; KM Europa Metal

AG, Osnabrück (Chairman); Crédit Lyonnais, Paris, France; EULER & Hermes, Paris, France; Les Assurances Générales de France (AGF), Paris, France; Atos Origin, Paris, France (since June 3, 2005)

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

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

AWD Holding AG, Hanover (since June 8, 2005); AXA Konzern AG, Cologne; Deutsche Bahn AG, Berlin (Chairman) (until July 5, 2005); E.ON Energie AG, Munich; Hapag-Lloyd AG, Hamburg** (Chairman); Hapag-Lloyd Flug GmbH, Hanover** (Chairman); Norddeutsche Landesbank, Hanover; TUI Beteiligungs AG, Hamburg** (Chairman) (until May 19, 2005); 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, Honorary
Professor at the University of Mannheim**

Bayer AG, Leverkusen; DaimlerChrysler Aerospace AG, Munich; SMS GmbH, Düsseldorf; Orange SA, Paris, France; Ringier AG, Zofingen, Switzerland; Brambles Industries Ltd., Sydney, Australia

**Gerhard Knuth*, Former 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

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

Jan P. Oosterveld, Member of various Supervisory Boards

AtosOrigin S.A., Paris, France; Barco NV, Kortrijk, Belgium; Cookson Group Plc, London, UK; Crucell NV, Leiden, The Netherlands

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

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

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

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

Fred G. Steingraber, Chairman Board Advisors, U.S.A.; Retired Chairman and CEO, A.T. Kearney

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

Christian Streiff, Member of various Supervisory Boards

(Member of the Supervisory Board since October 14, 2005)

ThyssenKrupp AG, Düsseldorf; Prysmian SpA, Milan, Italy (since October 14, 2005)

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 February 15, 2005); OSRAM GmbH, Munich; Quelle GmbH, Fürth; TUI AG, Hanover (until February 1, 2005); Wacker Chemie AG, Munich; ABB Ltd., Zurich, Switzerland

Dr. Ulrich Weiss, Member of various Supervisory Boards

(Member of the Supervisory Board until September 30, 2005)

BEGO Medical AG, Bremen; Benetton Group S.p.A., Ponzano, Treviso, Italy; Ducati Motor Holding S.p.A., Bologna, Italy

Dieter Weniger*, Trade Union Secretary, IG BCE (German Mining, Chemical, and Energy Industrial Union)

Erwin Wörle*, Chairman of the Employee Council of Conti Temic microelectronic GmbH, Ingolstadt
ContiTemic microelectronic GmbH, Nuremberg**
(Deputy Chairman)

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; Werner Bischoff (since August 2, 2005); Dr. Diethart Breipohl (since December 6, 2005); H. Peter Hüttenmeister (until June 30, 2005); Gerhard Knuth; Dr. Ulrich Weiss (until September 30, 2005)

2. Audit Committee

Dr. Bernd W. Voss, Chairman; Michael Deister; Dr. Hubertus von Grünberg; Dr. Thorsten Reese

* 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 Division (until September 30, 2005)

Passenger and Light Truck Tires Division (since May 12, 2005)

Frankfurter Versicherungs-Aktiengesellschaft, Frankfurt/Main (until January 31, 2006); 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*; Phoenix AG, Hamburg* (since February 9, 2005)

Dr. Alan Hippe

Finance, Controlling and Law

Hamburg-Mannheimer Versicherungs-AG, Hamburg; Hamburg-Mannheimer Sachversicherungs-AG, Hamburg; ContiTech AG, Hanover*; Phoenix AG, Hamburg* (since February 9, 2005); CG Tire, Inc., Charlotte, North Carolina, U.S.A.* (since May 12, 2005); CGT Referral Resources, Inc., Charlotte, North Carolina, U.S.A.* (since May 12, 2005); Compañía Hulera Euzkadi, S.A. de C. V., Mexico City, Mexico* (since May 12, 2005); Continental Automotive, Inc., Wilmington, Delaware, U.S.A.*; Continental Automotive Licensing Corp., Charlotte, North Carolina, U.S.A.* (since May 12, 2005); Continental Llantera Potosina, S.A. de C.V., Mexico City, Mexico* (since May 12, 2005); Continental Products Corporation, Charlotte, North Carolina, U.S.A.* (since May 12, 2005); Continental

Rubber of America, Corp., Wilmington, Delaware, U.S.A.*; Continental Teves, Inc., Wilmington, Delaware, U.S.A.*; Continental Tire de Mexico, S.A. de C. V., Mexico City, Mexico* (since May 12, 2005); Continental Tire North America, Inc., Charlotte, North Carolina, U.S.A.*; Continental Tire Servicios, S.A. de C.V., Mexico City, Mexico* (since May 12, 2005); ContiTech North America, Inc., Wilmington, Delaware, U.S.A.*; CTNA Holding Corp., Charlotte, North Carolina, U.S.A.* (since May 12, 2005); Dynagen, Inc., Charlotte, North Carolina, U.S.A.* (since May 12, 2005); Englewood Services, Inc., Charlotte, North Carolina, U.S.A.* (since May 12, 2005); General Tire de Mexico, S.A. de C.V., Mexico City, Mexico* (since May 12, 2005); General Tire International Company, Charlotte, North Carolina, U.S.A.* (since May 12, 2005); The Continental General Tire Foundation, Charlotte, North Carolina, U.S.A.* (since May 12, 2005)

Gerhard Lerch

ContiTech Division

(Member of the Executive Board since September 30, 2005)

Benecke-Kaliko AG, Hanover* (Deputy Chairman); ContiTech Antriebssysteme GmbH, Hanover* (Chairman); ContiTech Luftfedersysteme GmbH, Hanover* (Chairman); ContiTech Schlauch GmbH, Korbach*; ContiTech Techno-Chemie GmbH, Karben*; ContiTech Transportbandsysteme GmbH, Northeim* (Chairman); ContiTech Vibration Control GmbH, Hanover* (Chairman); Stankiewicz GmbH, Adelheidsdorf*; Caucho Tecnica, Santiago, Chile* (Chairman of the Governing Board); ContiTech North America, Inc., Wilmington, Delaware, U.S.A.*; IMAS S.A., Volos, Greece* (Chairman of the Governing Board)

Martien de Louw

Passenger and Light Truck Tires Division

(Member of the Executive Board until May 12, 2005)

CG 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., Mexico City, 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., Mexico City, Mexico*; Continental

Products Corporation, Charlotte, North Carolina, U.S.A.*; Continental Tire de México, S.A. de C. V., Mexico City, Mexico*; Continental Tire North America, Inc., Charlotte, North Carolina, U.S.A.*; Continental Tire Servicios, S.A. de C.V., Mexico City, 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., Mexico City, 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.*
(all until May 12, 2005)

Dr. Karl-Thomas Neumann

Automotive Systems Division

ELMOS Semiconductor AG, Dortmund (until April 26, 2005); SupplyOn AG, Gerlingen-Schillerhöhe (since January 11, 2005); Continental Teves, Inc., Wilmington, Delaware, U.S.A.*

Dr. Hans-Joachim Nikolin

Commercial Vehicle Tires Division

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

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

Financial Calendar

2006

Financials press conference	February 23
Analyst conference	February 23
Interim report as of March 31, 2006	May 4
Annual Shareholders' Meeting	May 5
Interim report as of June 30, 2006	August 3
Interim report as of September 30, 2006	November 1

2007

Financials press conference	February
Analyst conference	February
Interim report as of March 31, 2007	May
Annual Shareholders' Meeting	April 24
Interim report as of June 30, 2007	August
Interim report as of September 30, 2007	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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