



Annual Report 2006

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 2006 Annual Report.

The annual financial statements and the summarized management report of Continental Aktiengesellschaft for fiscal year 2006 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	2006	2005
Sales	13	2,474.4	2,376.3
Cost of sales		1,917.4	1,732.6
Gross margin on sales		557.0	643.7
Selling expenses		213.3	218.5
Administrative expenses		78.3	72.4
Other operating income	14	180.7	198.2
Other operating expenses	15	251.0	271.7
Net income from financial activities	16	385.4	118.7
Earnings before taxes		580.5	398.0
Income tax expense		287.4	243.0
Net income for the year		293.1	155.0
Retained earnings brought forward from the previous year		0.5	0.4
Transfer to other surplus reserves		—	9.0
Retained earnings		293.6	146.4

Balance Sheet

Assets

in € millions	See Note	Dec. 31, 2006	Dec. 31, 2005
Intangible assets	1	45.8	45.7
Property, plant, and equipment	1	186.5	145.9
Investments	2	3,767.7	2,897.3
Non-current assets		4,000.0	3,088.9
Inventories	3	162.7	150.5
Other assets and accounts receivable	4	2,076.6	1,561.9
Cash and cash equivalents	5	60.3	859.1
Current assets		2,299.6	2,571.5
Prepaid expenses	6	45.6	57.8
		6,345.2	5,718.2

Shareholders' Equity and Liabilities

in € millions	See Note	Dec. 31, 2006	Dec. 31, 2005
Common stock	7	375.1	373.4
Capital reserves	8	1,330.8	1,308.3
Surplus reserves	9	54.7	54.7
Retained earnings		293.6	146.4
Shareholders' equity		2,054.2	1,882.8
Special tax-allowable reserves	10	—	1.2
Provisions	11	787.1	722.7
Liabilities	12	3,503.9	3,111.5
		6,345.2	5,718.2

Statement of Changes in Fixed Assets and Investments

in € millions	Acquisition/Construction cost				Dec. 31, 2006
	Jan. 1, 2006	Additions	Transfers	Disposals	
Franchises, operating licenses, industrial property and similar rights and assets, and licenses for such rights and assets	170.0	4.7	4.1	1.0	177.8
Advances to suppliers	7.6	8.9	-4.1	—	12.4
Intangible assets	177.6	13.6	—	1.0	190.2
Land, land rights, and buildings including buildings on land not owned	143.5	1.4	2.2	0.3	146.8
Technical equipment and machinery	484.2	29.0	13.4	8.8	517.8
Other equipment, factory and office equipment	277.7	31.0	2.4	25.6	285.5
Advances to suppliers and assets under construction	11.7	32.5	-18.0	—	26.2
Property, plant, and equipment	917.1	93.9	—	34.7	976.3
Shares in affiliated companies	2,872.3	837.0	—	163.0	3,546.3
Shares in associated companies	89.5	0.1	—	—	89.6
Insurance annuity contracts	58.5	3.4	—	1.8	60.1
Trust assets in Conti Pension Trust e.V.	—	212.9	—	—	212.9
Trust assets in long-term working time accounts	—	0.4	—	—	0.4
Long-term securities	3.9	10.4	—	—	14.3
Other loans granted	0.7	—	—	—	0.7
Investments	3,024.9	1,064.2	—	164.8	3,924.3
	4,119.6	1,171.7	—	200.5	5,090.8

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.

The merging of the wholly-owned subsidiary Uniroyal Englebert Reifen GmbH, Hanover, with Continental AG was entered into the Hanover commercial register for Continental AG on September 6, 2006. As a result, the merger is valid retroactively as of January 1, 2006. As a result of this merger, the assets and debt (primarily property, plant, and equipment, shares in affiliated companies, and accounts receivable from affiliated companies) of Uniroyal Englebert Reifen GmbH were transferred to Continental AG in the amount of the cost of the acquisition.

Depreciation/Amortization					Net book values		
Jan. 1, 2006	Additions	Write-ups	Disposals	Dec. 31, 2006	Dec. 31, 2006	Dec. 31, 2005	
131.9	13.3	—	0.8	144.4	33.4	38.1	
—	—	—	—	—	12.4	7.6	
131.9	13.3	—	0.8	144.4	45.8	45.7	
118.6	1.6	—	0.3	119.9	26.9	24.9	
419.6	22.8	—	8.4	434.0	83.8	64.6	
233.0	25.7	—	22.8	235.9	49.6	44.7	
—	—	—	—	—	26.2	11.7	
771.2	50.1	—	31.5	789.8	186.5	145.9	
117.3	30.0	1.0	—	146.3	3,400.0	2,755.0	
9.6	—	—	—	9.6	80.0	79.9	
—	—	—	—	—	60.1	58.5	
—	—	—	—	—	212.9	—	
—	—	—	—	—	0.4	—	
—	—	—	—	—	14.3	3.9	
0.7	—	—	—	0.7	—	—	
127.6	30.0	1.0	—	156.6	3,767.7	2,897.3	
1,030.7	93.4	1.0	32.3	1,090.8	4,000.0	3,088.9	

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 only where these are required to ensure compliance with accounting rules for commercial financial statements 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, other loans granted, long-term securities as well as trust assets 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 as well as the funds transferred to the Continental Pension Trust e.V. for the purpose of funding 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 in domestic currency are carried at their principal amount, accounts receivable in foreign currency are valued at their hedged rates. Appropriate valuation allowances take into account 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 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.

Liabilities in foreign currency are recognized at the agreed forward rate.

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 from the previous year are shown in the Statement of Changes in Fixed Assets and Investments.

Additions to property, plant, and equipment in 2006 include an amount of €27.9 million from the merger of Uniroyal Englebert Reifen GmbH.

2. Investments

The year-on-year increase in investments is mainly due to capital increases at Continental Caoutchouc Export AG, Hanover (€714.2 million), at Continental Automotive Systems Slovakia s.r.o., Zvolen, Slovakia, (€15.9 million) and at Continental Matador s.r.o., Puchov, Slovakia (€11.6 million). In contrast, a write-down of the shares in Continental UK Group Holdings Ltd., West Drayton, UK, in the amount of €30.0 million was required.

As a result of the merger of Uniroyal Englebert Reifen GmbH, Aachen, the shares in affiliated companies decreased by a net amount of €78.9 million.

The trust funds transferred to the Continental Pension Trust e.V. and invested in securities as well as the related income serve solely to fund employee pension plan obligations. In 2006, €212.9 million was transferred to the trust.

3. Inventories

in € thousands	Dec. 31, 2006	Dec. 31, 2005
Raw materials, consumables, and supplies	31,353	26,676
Work in progress	28,454	32,133
Finished goods and merchandise	102,961	92,333
Advances to suppliers	230	227
Advances from customers	-330	-925
	162,668	150,444

The LIFO reserve amounts to €4.1 million, representing the difference in carrying value to current acquisition cost.

4. Other Assets and Amounts Receivable

in € thousands	December 31, 2006		December 31, 2005	
	Total	Thereof with a maturity of >1	Total	Thereof with a maturity of >1
Trade accounts receivable	175,230	256	180,033	—
Accounts receivable from affiliated companies	1,882,517	18,100	1,351,542	850
Accounts receivable from associated companies	119	—	147	—
Other assets and amounts receivable	18,808	—	30,185	—
	2,076,674	18,356	1,561,907	850

5. Cash and Cash Equivalents

in € thousands	Dec. 31, 2006	Dec. 31, 2005
Cash in hand	219	192
Bank balances	59,586	857,708
Checks	480	1,209
	60,285	859,109

6. Prepaid Expenses

in € thousands	Dec. 31, 2006	Dec. 31, 2005
Premium related to bonds	42,133	54,894
Other prepaid expenses	3,444	2,944
	45,577	57,838

The convertible bond with an original nominal amount of €400 million issued via a Dutch subsidiary in 2004 led to the recognition of a premium totaling €69.9 million. The premium is amortized on a straight-line basis over the

expected term of the convertible bond or released in the event that conversion rights are exercised; in 2006, amortization amounted to €12.4 million.

Notes to the Balance Sheet, Equity and Liabilities

7. Subscribed Capital

The subscribed capital increased by €1.1 million (2005: €0.2 million) following the exercise of conversion rights, and by €0.6 million (2005: €1.0 million) following the exercise of subscription rights.

The common stock of the Company therefore amounted to €375,114,565.12 at the balance sheet date (2005: €373,413,655.04) and is composed of 146,529,127 (2005: 145,864,709) no-par value bearer shares.

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. Employee shares issued up to 2003 have reduced this authorized capital stock to €3.7 million.

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. 61,500 (2005: 295,590) of the issued subscription rights are still outstanding. 228,090 (2005: 375,750) shares were issued in 2006, while 6,000 (2005: 16,000) subscription rights expired. 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 approved 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. 810,850 (2005: 753,450) subscription rights were issued in 2006, and 44,750 expired (2005: 67,900). Of the total of 2,198,300 (2005: 1,432,200) subscription rights, 2,070,150 (2005: 1,304,050) are still outstanding, and a total of 128,150 (2005: 83,400) subscription rights have expired.

On May 19, 2004, a convertible bond for a nominal amount of €400.0 million was issued by Conti-Gummi Finance B.V., Amsterdam, the Netherlands. The convertible bond has a coupon of 1.625% and matures on May 19, 2011. 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 would have represented a total entitlement of 7,843,137 no-par value shares. The dividend increases resolved for fiscal years 2004 and 2005 changed the conversion ratio in accordance with the terms of the bond. The conversion ratio now corresponds to a conversion price of €50.6498 and therefore entitles bondholders to subscribe for a total of 7,897,365 no-par value shares equal to a conditional capital of €19.1 million. Further reductions in the subscription price due to future dividends may lead to a higher conditional capital. Conversion rights amounting to €22.1 million were exercised in 2006 and resulted in the issue of 436,328 shares.

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 €4.0 million for the purpose of granting subscription rights under the 1999 stock option plan.

The Annual Shareholders' Meeting on May 23, 2001 resolved a further conditional capital increase, originally of €140.0 million, for the purpose of granting conversion and option rights under convertible bonds or bonds with warrants to be issued by May 22, 2006. Under the resolution adopted at the Annual Shareholders' Meeting on May 14, 2004, €6.3 million of this amount may be used for an indefinite period to grant subscription rights under the 2004 stock option plan. The Annual Shareholders' Meeting on May 5, 2006 resolved to partially cancel this conditional capital and to reduce it from €140.0 million to €31.9 million, as well as to conditionally increase the common stock by €149.0 million for the purpose of granting conversion and option rights under convertible bonds and bonds with warrants to be issued by May 4, 2011. Due to a pending action for rescission, this resolution by the Annual Shareholders' Meeting has not yet been entered in the commercial register and has therefore not become effective.

Under the resolution adopted at the Annual Shareholders' Meeting on May 14, 2004, the common stock was conditionally increased by €3.8 million for the purposes of issuing rights under the 2004 stock option plan.

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

in € thousands	
Conditional capital as of January 1, 2006	144,343
Exercised conversion and subscription rights	-1,701
Expiration of subscription rights granted	-130
Lapsed on expiration date	-113,506
Conditional capital as of December 31, 2006	29,006

8. Capital Reserves

Capital reserves increased by a total of €22.5 million in 2006, €21.0 million from the exercise of conversion rights, and €1.5 million from subscription rights.

9. Surplus Reserves

No net income from 2006 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, 2006.

10. Special Tax-Allowable Reserves

The special tax-allowable reserves included a reserve at the end of the prior year in accordance with section 6b of the EStG, which was reversed in 2006.

11. Provisions

in € thousands	Dec. 31, 2006	Dec. 31, 2005
Pension and similar obligations	283,749	272,824
Taxes	255,640	207,146
Other provisions	247,703	242,716
	787,092	722,686

As in the previous year, pension obligations were measured in 2006 using the projected unit credit method at an average long-term interest rate of 5.4%.

warranties (€12.0 million), bonus payments (€32.4 million), personnel and social security expenses (€69.6 million), as well as holiday and anniversary entitlementments (€17.0 million).

Other provisions cover identifiable risks and other uncertain obligations. In particular, they contain provisions for

12. Liabilities

in € thousands	Thereof			Thereof		
	Dec. 31, 2006	<1 year	>5 years	Dec. 31, 2005	<1 year	>5 years
Loans, non-convertible	381,410	11,874	—	371,441	1,905	—
Liabilities to banks	826,696	826,696	—	293,708	293,708	—
Trade accounts payable	104,510	103,350	—	114,584	114,008	—
Liabilities to affiliated companies	2,158,729	1,561,813	—	2,281,710	1,828,776	400,000
Liabilities to associated companies	2,858	2,858	—	4,892	4,892	—
Other liabilities	29,695	29,695	—	45,151	45,151	—
thereof: taxes	(6,342)			(9,855)		
for social security	(3,148)			(13,569)		
	3,503,898	2,536,286	—	3,111,486	2,288,440	400,000

Non-recognized commitments and contingencies

The liabilities from warranties, letters of credit, and guarantees relate, with the exception of €0.3 million, exclusively to liabilities incurred by our subsidiaries and equity interests, with €242.7 million of the warranty liabilities 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, 2006	Dec. 31, 2005
Liabilities from warranties	324,014	610,929
Liabilities from guarantees	10,115	9,927
Liability from shares in cooperative societies	28	28
Joint liability for pension obligations	29,955	31,174

Other financial commitments

Obligations as of 2007 relate mainly to rental and leasing contracts for real estate used for operations (€112.1 million; thereof €14.1 million for 2007), outsourced hardware and software (€76.1 million; thereof €24.6 million for 2007), as well as machinery and operating and office equipment (€5.5 million; thereof €2.7 million for 2007). Open orders relating to purchases of fixed assets and major repairs amount to €29.1 million.

Notes to the Income Statement

13. Sales

in € millions	2006	2005
Broken down by business segment		
Tires	2,251	2,145
Other revenues	223	231
	2,474	2,376
Broken down by region		
Germany	1,176	1,139
Rest of Europe	853	791
Rest of the world	445	446
	2,474	2,376

14. Other Operating Income

in € thousands	2006	2005
Income from the disposal of fixed assets	1,778	4,106
Income from the reversal of provisions	3,515	21,512
Income from the reversal of special tax-allowable reserves	1,218	3,569
Other income	174,147	168,975
	180,658	198,162

The other income contains general allocations to other consolidated companies amounting to €145.4 million (2005: €130.7 million), as well as proceeds from other ancillary activities and other income.

15. Other Operating Expenses

in € thousands	2006	2005
Losses from the disposal of fixed assets	564	138
Losses from write-downs of current assets (excluding inventories)	27,400	4,126
Other expenses	221,636	266,103
Other taxes	1,363	1,342
	250,963	271,709

Other expenses consist mainly of allocation expenses in the amount of €141.1 million (2005: €127.1 million) and expenses for ancillary activities.

16. Net Income From Financial Activities

in € thousands	2006	2005
Income from profit and loss transfer agreements	217,632	111,495
Income from investments		
in affiliated companies	268,611	101,177
in associated companies	8,033	1,301
in other companies	401	232
Loss absorption from profit and loss transfer agreements	-14,304	-5,274
Earnings from investments	480,373	208,931
Income from other investments and long-term loans	1,446	77
Other interest and similar income		
from affiliated companies	76,807	48,703
from other companies	7,371	6,666
Interest and similar expenses		
to affiliated companies	-85,058	-60,682
to other companies	-65,577	-82,576
Net interest expense	-65,011	-87,812
Amortization of financial assets	-30,000	-2,406
Net income from financial activities	385,362	118,713

Other Disclosures

Cost of materials in € thousands	2006	2005
Cost of raw materials, consumables, and supplies, and of purchased merchandise	1,414,813	1,310,071
Cost of purchased services	88,205	73,914
	1,503,018	1,383,985

Personnel expense in € thousands	2006	2005
Wages and salaries	368,823	377,395
Social security costs and other pension costs	89,563	91,467
thereof for retirement benefits	(25,822)	(24,070)
	458,386	468,862

Average number of employees per quarter	2006	2005
Wage earners	4,040	4,161
Salaried employees	3,054	3,061
	7,094	7,222

Derivative financial instruments

Continental AG nets 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. Any hedging of forecasted 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 in particular to manage risks as part of currency management. The selection and use of instruments depends on the purpose of the relevant hedge. Traditional, 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, interest rate swaps, interest rate options, and cross-currency swaps are used for interest man-

agement, primarily to control interest rate risks in particular from floating-rate liabilities and to optimize financing costs. Here, too, policies and guidelines cover interest rate management activities.

The nominal values of derivative financial instruments are limited to the related operating transactions. Their market value is determined using the fair value by discounting the expected cash flows on the basis of yield curves. 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 nominal and market values of all derivatives at the balance sheet date are as follows:

in € millions	December 31, 2006		December 31, 2005	
	Nominal amount	Market value	Nominal amount	Market value
Currency forwards	1,261.6	30.3	904.2	10.3
Interest rate swaps	14.4	-0.1	37.2	-0.5
Interest rate/currency swaps	100.0	3.0	334.2	56.2
Interest rate caps	—	—	209.0	1.6

Auditor's fees

The Annual Shareholders' Meeting on May 5, 2006 elected KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover,

as the auditor for fiscal year 2006. The following audit fees were recognized in the income statement as an expense for fiscal year 2006:

in € thousands	
a) Audit of financial statements	1,315
b) Other assurance services	145
c) Tax advisory services	98
d) Other services	15
	1,573

Notice in accordance with the Wertpapier-handelsgesetz (WpHG – German Securities Trading Act)

In a letter dated June 29, 2006, Barclays Plc, London, United Kingdom, informed us that the share of voting stock held by Barclays Plc, Barclays Bank Plc, and Barclays Global Investors UK Holdings Limited in Continental AG each fell below the 5% threshold on June 23, 2006 in accordance with sections 21, 22 (1) sentence 1 no. 1 of the WpHG. At this date, the share of voting stock held by Barclays Plc was 4.5%, and that of Barclays Bank Plc was also 4.5%, of which 4.48% is assigned under section 22 (1) sentence 1 no. 1 of the WpHG. The share of voting stock held by Barclays Global Investors UK Holdings Limited was 4.46% on June 23, 2006.

In a letter dated November 13, 2006, AXA Investment Managers Deutschland GmbH, Cologne, acting on behalf and in the name of AXA S.A., Paris, France, informed us that AllianceBernstein Corporation, New York, U.S.A., formerly AllianceCapital Management Corporation, New York, U.S.A., is the general partner of AllianceBernstein L.P., formerly AllianceCapital L.P. and that its share of Continental AG's voting stock exceeded the 10% threshold on June 21, 2005 and was 10.05% at this date. This voting stock was assigned under section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 of the WpHG. We were also informed in this letter that the share of voting stock held by Equitable Holdings LLC, New York, U.S.A., also exceeded the threshold of 10% of Continental AG's voting stock on June 21, 2005 and was 10.05% at this date. This voting stock is assigned under section 22 (1) sentence 1 no. 6 in conjunction with sentences 2 and 3 of the WpHG.

AXA Investment Managers Deutschland GmbH, Cologne, again acting on behalf of AXA S.A., Paris, France, informed us on January 9, 2007 that

- the share of voting stock held by AllianceBernstein L.P., New York, U.S.A., fell below the threshold of 10% of Continental AG's voting stock on January 4, 2007 and was now 9.52%. This voting stock was assigned under section 22 (1) sentence 1 no. 6 of the WpHG.
- the share of voting stock held by AllianceBernstein Corporation, New York, U.S.A., fell below the thresh-

old of 10% of Continental AG's voting stock on January 4, 2007 and was now 9.52%. This voting stock was assigned under section 22 (1) sentence 1 no. 6 in conjunction with sentence 2 of the WpHG.

- the share of voting stock held by Equitable Holdings LLC, New York, U.S.A., fell below the threshold of 10% of Continental AG's voting stock on January 4, 2007 and was now 9.52%. This voting stock was assigned under section 22 (1) sentence 1 no. 6 in conjunction with sentence 2 of the WpHG.
- the share of voting stock held by AXA Equitable Life Insurance Company, New York, U.S.A., fell below the threshold of 10% of Continental AG's voting stock on January 4, 2007 and was now 9.52%. This voting stock was assigned under section 22 (1) sentence 1 no. 6 in conjunction with sentence 2 of the WpHG.
- the share of voting stock held by AXA Financial Services LLC, New York, U.S.A., fell below the threshold of 10% of Continental AG's voting stock on January 4, 2007 and was now 9.52%. This voting stock was assigned under section 22 (1) sentence 1 no. 6 in conjunction with sentence 2 of the WpHG.
- the share of voting stock held by AXA Financial, Inc., New York, U.S.A., fell below the threshold of 10% of Continental AG's voting stock on January 4, 2007 and was now 9.52%. This voting stock was assigned under section 22 (1) sentence 1 no. 6 in conjunction with sentence 2 of the WpHG.
- the share of voting stock held by AXA S.A. Paris, France, fell below the threshold of 10% of Continental AG's voting stock on January 4, 2007 and was now 9.72%. This voting stock was assigned under section 22 (1) sentence 1 no. 6 in conjunction with sentence 2 of the WpHG.

In 2006, and up to and including February 12, 2007, the total shareholdings of the Supervisory Board and the Executive Board amounted to less than 1% of the outstanding shares. In 2006, Continental AG disclosed in accordance with section 15a of the WpHG that three members of the Executive Board had acquired and immediately sold a total of 27,420 shares under the 1999 stock option plan, and that a member of the Executive Board had sold 250 shares.

German Corporate Governance Code/**Declaration in accordance with section 161 of 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 September 29, 2006 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 and the remuneration granted to the Executive Board and the Supervisory Board in the year under review are explained in the report on Corporate Governance; reference is made to this in the combined Management Report for Continental AG and the Corporation.

Taking into account the proposed dividend of €2.00, remuneration for Continental AG's Executive Board members in 2006 totals €14.1 million (2005: €9.1 million). Contrary to the previous year, the stated total remuneration also includes a proportionate share for the year of the amortized value of stock options granted; the comparative amounts for the previous year have been adjusted accordingly. In 2006, the members of the Executive Board were granted 129.9 thousand (2005: 95.0 thousand) stock options with a fair value of €4.1 million (2005: €2.3 million) at the grant date. In addition, former members of the Executive Board and their surviving dependents received payments totaling €4.5 million (2005: €6.6 million). Provisions for pension obligations for former members of the Executive Board and their surviving dependents amounted to €72.2 million (2005: €74.9 million).

Taking into account the proposed dividend, remuneration in fiscal 2006 for the members of Continental AG's Supervisory Board, including meeting-attendance fees, totaled €4.3 million (2005: €2.3 million).

In 2006, no advances or loans were granted to members of Continental AG's Executive Board or Supervisory Board.

Proposal for the distribution of earnings

After the inclusion of the retained earnings carried forward from the previous year (€0.5 million), retained earnings total €293,557,704.05. The Supervisory Board and Executive Board will propose to the Annual Shareholders' Meeting that a dividend of €2.00 per share be paid to shareholders, representing a total dividend payment of €293,058,254.00 on the basis of 146,529,127 shares carrying dividend rights. The remaining balance of €499,450.05 will be carried forward to new account.

Hanover, February 12, 2007

Continental Aktiengesellschaft

The Executive Board

Auditor's 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 its report on the position of the Company and the Group prepared by the Continental AG for the business year from January 1 to December 31, 2006. 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 § [Article] 317 HGB ["Handelsgesetzbuch": "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 rec-

ords, 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 significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the 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 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 13, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Zehnder
Wirtschaftsprüfer

Papenberg
Wirtschaftsprüfer

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* (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; Deutsche Post AG, Bonn (since May 2006); MAN Aktiengesellschaft, Munich; Schindler Holding AG, Hergiswil, Switzerland

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

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

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

CeWe Color Holding AG, Oldenburg; VHV Holding AG, Hanover

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

Allianz AG, Munich (until October 13, 2006); 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

**Michael Deister*, Deputy Chairman of the Works
Council for the Stöcken Plant and Deputy
Chairman of the Corporate Works Council**

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

AWD Holding AG, Hanover; AXA Konzern AG, Cologne; E.ON Energie AG, Munich; Hapag-Lloyd AG, Hamburg** (Chairman); Hapag-Lloyd Flug GmbH, Hanover** (Chairman); Norddeutsche Landesbank, Hanover; TUI Deutschland GmbH, Hanover** (Chairman); Volkswagen AG, Wolfsburg; Preussag North America, Inc., Atlanta, GA, 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; EPG AG, Saarbrücken (since May 2006); SMS GmbH, Düsseldorf; Orange SA, Paris, France; Ringier AG, Zofingen, Switzerland; Brambles Industries Ltd., Sydney, Australia

**Michael Iglhaut*, Chairman of the Works Council
for the Frankfurt Location, Chairman of the Central
Works Council of Continental Teves AG & Co. oHG,
and First Deputy Chairman of the Corporate Works
Council**

**(Member of the Supervisory Board since March 16,
2006)**

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

**(Member of the Supervisory Board until March 15,
2006)**

**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 Works 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 (Chairman since June 2006)

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

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

Jörg Schustereit*, Chairman of the Works 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, U.S.A.
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, Chairman of the Managing Board of PSA Peugeot Citroën, Paris, France

ThyssenKrupp AG, Düsseldorf; Prysmian SpA, Milan, Italy (until February 28, 2007)

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; OSRAM GmbH, Munich; Quelle GmbH, Fürth (until April 2006); Wacker Chemie AG, Munich; ABB Ltd., Zurich, Switzerland

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

Erwin Wörle*, Chairman of the Works Council of Conti Temic microelectronic GmbH, Ingolstadt
Conti Temic 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 (German Co-determination Act)

Dr. Hubertus von Grünberg, Chairman of the Chairman's Committee; Werner Bischoff; Dr. Diethart Breipohl; Gerhard Knuth (until March 15, 2006); Michael Iglhaut (since May 5, 2006)

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* (German Stock Corporation Act)

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* (German Commercial Code): Companies with no country specified are located in Germany.

Manfred Wennemer
Chairman

Passenger and Light Truck Tires Division

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 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* (until January 16, 2007)

Dr. Alan Hippe
Finance, Controlling and Law

Hamburg-Mannheimer Versicherungs-AG, Hamburg; Hamburg-Mannheimer Sachversicherungs-AG, Hamburg; ContiTech AG, Hanover*; Phoenix AG, Hamburg* (until January 16, 2007); 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 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*; Continental Tire North America, Inc., Charlotte,

North Carolina, U.S.A.*; Continental Tire Servicios, S.A. de C.V., Mexico City, Mexico*; ContiTech North America, Inc., Wilmington, Delaware, U.S.A.*; 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 Mexico, 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.*

Gerhard Lerch
ContiTech Division

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* (until March 31, 2006); 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)

Dr. Karl-Thomas Neumann
Automotive Systems Division

SupplyOn AG, Gerlingen-Schillerhöhe; Continental Teves, Inc., Wilmington, Delaware, USA*

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

William L. Kozyra
Deputy Member (since February 22, 2006)
Automotive Systems Division, NAFTA Region

Continental Automotive, Inc., 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.*; Temic Automotive of North America, Inc., Auburn Hills, Michigan, U.S.A.*
(all since October 1, 2006)

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

Financial Calendar

2007

Financials Press Conference	February 22
Analyst Conference	February 22
Interim Report as of March 31, 2007	May 2
Annual Shareholders' Meeting	April 24
Interim Report as of June 30, 2007	August 1
Interim Report as of September 30, 2007	October 31

2008

Financials Press Conference	February
Analyst Conference	February
Interim Report as of March 31, 2008	May
Annual Shareholders' Meeting	April 25
Interim Report as of June 30, 2008	August
Interim Report as of September 30, 2008	November

Information

The annual financial statements of Continental Aktiengesellschaft are available in German and English.

If you wish to receive copies of the statements, please contact:

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The annual financial statements for the parent company, the Annual Report and the interim reports are all available on the Internet at www.conti-online.com

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