Continental Aktiengesellschaft
P.O. Box 169
30001 Hannover
Germany
Telephone +49 (0) 5 11 9 38-01
Telefax +49 (0) 5 11 9 38-27 66
Email: mailservice@conti.de
www.conti-online.com

Company address:
Vahrenwalder Strasse 9
D-30165 Hanover
Germany

Continental

Continental Aktiengesellschaft Annual Report 2000

Annual Report 2000

High Performance

We make individual mobility safer and more comfortable

Continental

Continental is one of the most innovative partners in the automotive industry. Its unique systems and technology expertise can be seen in the coordinated development of tires, brake systems and chassis; an integrated approach to all these systems improves driving safety. A compact car modified by Continental that is traveling at 100 km/h can now come to a complete stop within 30 meters.

Continental Corporation at a Glance

Amounts in millions of €	1996	1997	1998	1999	**2000**
Sales	5,333.1	5,719.4	6,743.2	9,132.2	10,115.0
Earnings before					
interest and taxes	268.0	320.4	380.3	511.3	432.4
Consolidated net income	98.4	164.5	138.2	234.7	204.7
Dividend	29.0	41.0	47.0	58.8	64.1[1)]
Cash flow	416.5	490.9	567.0	849.7	866.3
Debt ratio	2.0	0.6	3.4	2.0	2.3
Capital expenditures					
on property, plant					
and equipment	282.0	282.6	416.3	581.5	682.8
Depreciation, amortization					
and writedowns[2)]	311.5	306.8	395.7	576.5	654.7
Shareholders' equity	951.2	1,381.8	1,329.1	1,760.6	1,844.1
Equity ratio in %	27.8	35.3	19.6	23.8	24.2
Employees at year-end[3)]	44,767	44,797	62,357	62,155	63,832
Share price (high) in €	14.60	25.95	31.85	26.95	20.94
Share price (low) in €	10.40	14.11	16.75	17.99	15.85

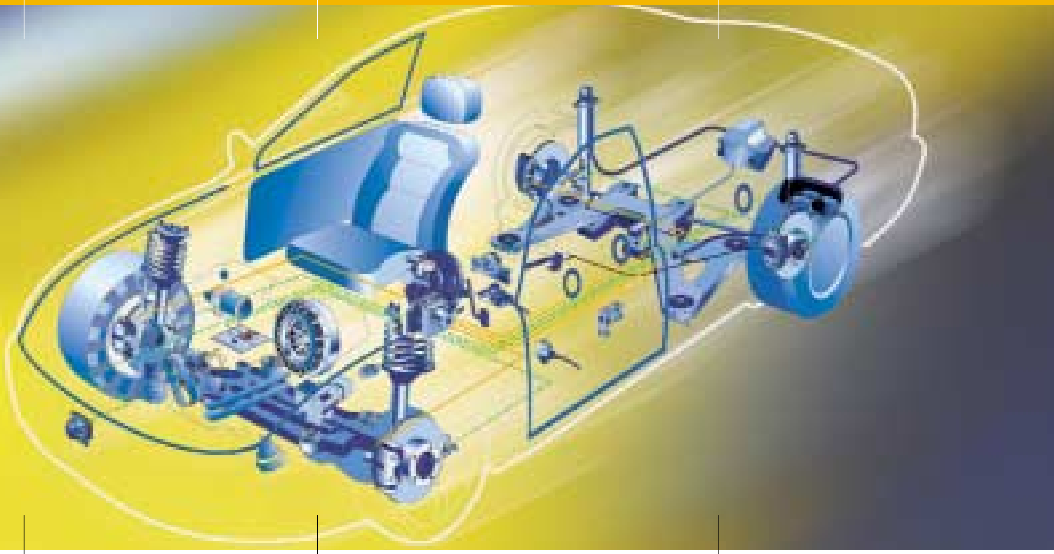
1) subject to the approval of the Annual Shareholders' Meeting on May 23, 2001
2) excluding writedowns of investments
3) excluding trainees

The consolidated financial statements for 1998, 1999 and 2000 were prepared in accordance with US GAAP, and those for 1996 and 1997 in accordance with the German Commercial Code (HGB).

Continental Tires

Continental Automotive Systems

ContiTech



Continental Tires

- Tires for passenger cars
- Run-flat systems
- “Intelligent tire”
- Tires for commercial vehicles
- Industrial tires
- Agricultural tires
- Motorbike tires
- Bike tires

Continental Automotive Systems

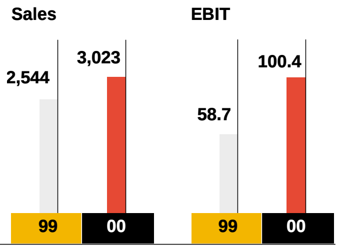
- Axle modules, corner modules
- Anti-lock braking systems (ABS)
- Traction control systems (TCS)
- Electronic stability programs (ESP)
- Electromechanical brake
- Electrohydraulic brake
- Brake actuation
- Foundation brakes
- Sensors
- Integrated starter alternator damper (ISAD)
- Air suspension and ride control systems
- Tire pressure monitoring
- Adaptive cruise control (ACC)

ContiTech

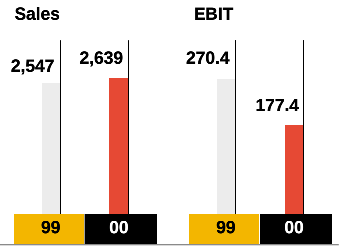
- Power transmission systems
- Gasoline injection diaphragms
- Engine and suspension mounts
- Brake and steering components
- Air spring components and systems
- Weatherseals and guide strips
- Fluid technology
- Vehicle interiors

Report on 2000, the Company's 129th Fiscal Year

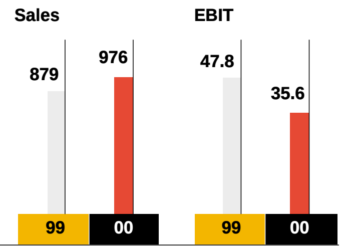
Continental Automotive Systems Division



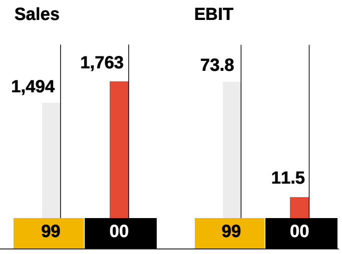
Passenger Tire Division

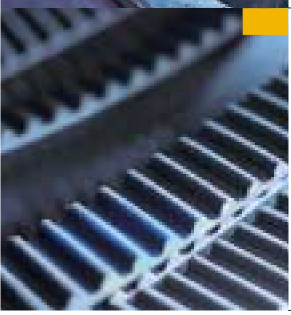


Commercial Vehicle Tire Division

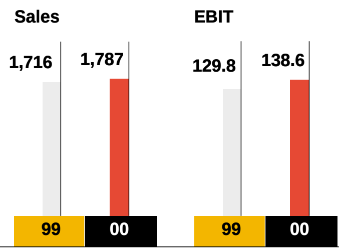


Continental Tire North America Division





ContiTech Division



INFORMATION

Continental AG's annual financial statements, which were prepared in accordance with German accounting provisions and issued with an unqualified audit certificate by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, will be published in the Bundesanzeiger (Federal Gazette) and entered in the commercial register of Hanover Local Court.

This Annual Report is also available published in German. A shorter version is obtainable in German and English as well. The financial statements of Continental Aktiengesellschaft are available in English and German.

This information can be obtained from:

Continental AG
Corporate Communications
P.O. Box 169
30001 Hanover
Germany
Tel. +49 (0)511/938-1146
Fax +49 (0)511/938-1055
e-mail: prkonzern@conti.de

Information about Continental is also available on the Internet under:
www.conti-online.com

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Stephan Kessel,
Chairman of the Executive Board

Dear Shareholders,

2000 was a mixed year for the Divisions within the Continental Corporation.

We achieved our goal of increasing overall sales to € 10 billion with all Divisions contributing to this result. However, in some areas we were unable to realize the earnings growth anticipated at the beginning of the year. Our strategy of positioning ourselves as a systems provider was once again validated. While Continental Automotive Systems and ContiTech recorded gratifying increases in earnings, our tire activities faced substantial raw materials price increases and considerable price pressure, and as a result were unable to meet our expectations. In addition, Continental Tire North America (formerly Continental General Tire) suffered from the strength of the US Dollar and Mexican Peso. Nevertheless, the price pressures within the tire markets did not adversely affect our market share, and, we were, in fact, able to maintain our position.

Integration of Core Business Units

“We make individual mobility safer and more comfortable” is the first statement of our vision heading our corporate guidelines. Our “Reduced Stopping Distance” project, also known as the “30 meter car”, represents a huge step towards turning this vision into reality. In December 2000, we presented customers, journalists and analysts a modified compact car that has the ability to come to a stop a mere 30 meters after the brakes are applied at a speed of 100 km/h. The comparable distance for series-production vehicles is approximately 38 meters. We specifically chose a medium-range compact car as our demonstration model

because of the prevalence of this type of vehicle on the market. As these are the most frequently sold cars, they could have an enormous effect on road traffic safety.

Continental's test vehicle differs from series production cars through the interaction of its tires, brakes and chassis components, and additionally it is fitted with the sidewall torsion sensor (SWT). The technical advance is not only the optimization of individual components but also their integration into an overall system.

In addition to providing a major contribution to road safety, our demonstration vehicle offers greater driving comfort as a result of the use of electrohydraulic brakes and air springs with adjustable shock absorbers.

The "30 meter car" makes clear our expertise in the chassis field. It is a symbol of the future development of our Corporation.

Customer Orientation

The different products we make – such as tires, brake systems and air springs systems – are frequently integrated into the same vehicles. In 2000 we began realigning our organization and product groups toward our customers' needs. Our goal is to provide "one face to the customer"; this means that original equipment customers can have a single contact for all the products they want to source from our company. To achieve this goal, we built a new facility near Detroit in the vicinity of North American vehicle manufacturers. This building houses not only marketing and administration but also a technology center for research and development and a workshop for vehicle prototypes.

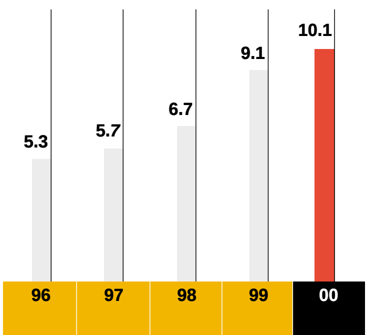
This approach is becoming increasingly important as suppliers are assuming greater responsibility for vehicle content. Especially the interfacing of components within the automobile is shifting in this direction. The trend has begun with the concept of "just in time" and has progressed to a point where manufacturers are now outsourcing an increased proportion of development work to suppliers.

Growth Potential

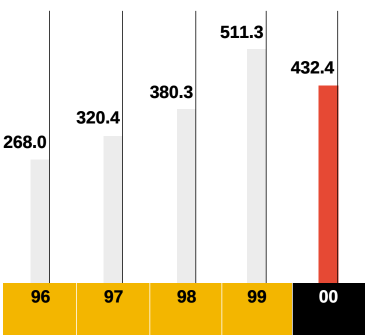
The chassis electronics area offers considerable opportunities for growth, while electronic braking systems are also recording substantial increases in unit sales. Additionally, these areas are relatively uneffected by economic cycles within the automotive industry. In 2003, installation rates for electronic stability programs will reach 30% in Europe and 15% in the USA. Growing safety awareness will allow for growth beyond the number of cars actually sold.

Our share of the rapidly growing segment in the stronger margin high-speed tire segment is continually growing, as is our unit sales volume. We expect that approximately one third of summer tires sold in Europe in 2005 will be high-performance tires.

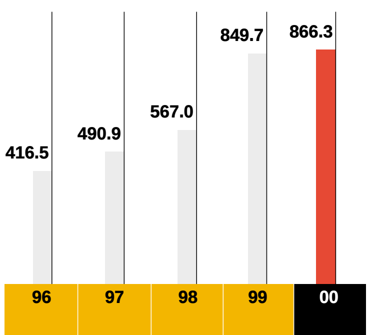
Consolidated sales
in billions of €

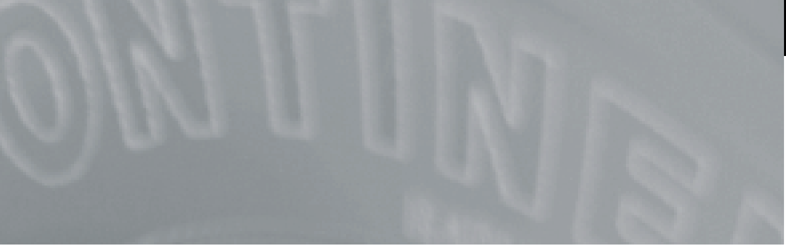


Earnings before interest and taxes
in millions of €



Cash flow
in millions of €





Despite milder weather conditions, we were able to slightly exceed last year's record volume of winter tires and thus consolidated our position as number one in the European market for winter tires.

Sales to Double in Five Years

Our forecasts show sales rising to € 20 billion by the year 2005. While this increase will come mainly from organic growth, acquisitions will also play a role. As already announced, we will take a portfolio management focus on our core competencies. However, we will monitor closely potential dilusions in earnings and protect our investment rating. Capital stock increases are not planned at this time due to the difficult stock market environment. Nonetheless our Corporation must be prepared for the future and therefore at the Annual Shareholders Meeting – as in the past – we will ask to be allowed to take the appropriate steps.

On February 12, 2001, we informed the Supervisory Board and the general public that we will be actively seeking to sell off large portions of our ContiTech Division. This step lays the foundations for the further transformation of our Corporation into an automotive systems supplier, specializing in chassis technology.

We will expand annual capacity at our passenger tire manufacturing plants to an annual average of 8 million units per plant – a basic requirement for profitable growth and in order to keep pace with international competition. We are already turning out 12 million tires a year at our plant in the Czech Republic. For both passenger and truck tires our goal is to produce one out of every two tires in a low-cost location.

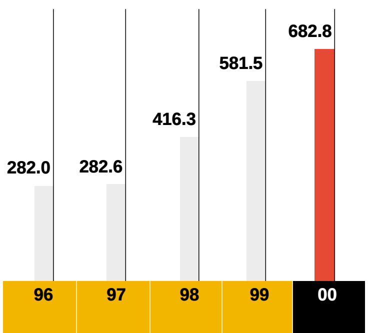
On behalf of the Management, I cordially invite you to attend our Shareholders Meeting on Wednesday, May 23, 2001. If, as in previous years, our proposal is approved at the Annual Shareholders' Meeting, we will distribute an increased dividend in 2000 for the sixth consecutive year.

We expressly thank our employees for their effort and dedication. Without their achievements we would not have been able to realize the satisfactory result despite the strong competitive pressures. Also we thank our shareholders for their confidence in our company.

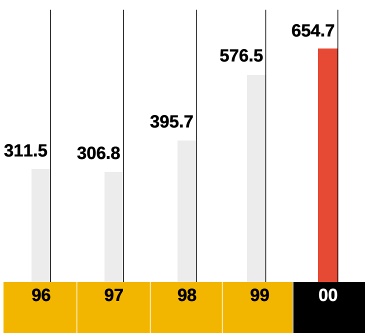
Sincerely

Stephan Kessel,
Chairman of the Executive Board

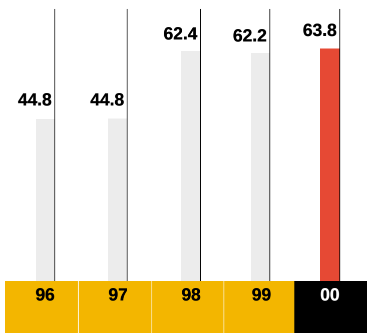
Capital expenditure
in millions of €



Depreciation, amortization and writedowns
in millions of €



Employees (at year-end)
in thousands, excluding trainees



The Fiscal Year at a Glance

Our transformation into a technology partner for the automotive industry is paying off. It was a difficult year for the Tire Divisions. Continental Automotive Systems is already contributing one third of the Corporation's cash flow.

Klaus Friedland
Executive Board
Finance, Controlling,
Human Resources and Law,
Director of Personnel

The Global Economy

Pushed by strong growth in the USA, the global economy got off to a good start in 2000. Almost all regions of the world recorded a clear upward trend. Growth in the global economy, measured in real terms, reached 4% outperforming the GDP in Western Europe of 3%. Latin America also exhibited signs of sustained growth. Most countries in Asia recorded substantial increases, with Japan being the only incidence of weakness. Although high oil prices dampened growth in Germany, the weak Euro led to stronger exports, resulting in the highest GDP since reunification at 3%.

The Automotive Industry

Similar to 1999, the automotive industry started the year in an extremely skeptical mood. However, in Western Europe the 14.8 million (1999: 15.1 million) new car registrations were close to a record level, although in Germany they declined by 11%. The USA once again recorded extremely high levels of 17.4 million (1999: 16.9 million) although a clear slowdown set in during the second half of the year. Commercial vehicle registrations in Europe were 2.8% above those of 1999, while registrations in the USA were 9.9% lower.

Consolidated Sales top € 10 million

Given this continued strong demand in the automotive industry, Continental was able to increase sales significantly by 10.8%, to € 10.1 billion. Of this increase 5% was due to currency effects, especially from the strengthened US Dollar and British Pound. There were no noticable changes in the Corporation's total consolidation structure. All Divisions contributed to the sales increase. Continental Automotive Systems had the strongest increase.

Sales

in millions of €	2000	1999
Continental Automotive Systems	3,023.1	2,543.8
Passenger Tires	2,639.3	2,546.9
Commercial Vehicle Tires	976.4	879.1
Continental Tire North America*	1,762.9	1,494.3
ContiTech	1,787.2	1,715.8
Other	– 73.9	– 47.7
Continental Corporation	**10,115.0**	**9,132.2**

* formerly Continental General Tire

Drop in Earnings

After six consecutive years of increased earnings the results declined compared with the prior year. In a difficult market environment, earnings by Continental's Tire Divisions did not meet expectations and were down substantially against 1999. Restructuring and planned disposals, especially in our retail area in the UK, reduced earnings by € 60 million. Continental Automotive Systems and ContiTech were able to achieve significant increases.

Earnings before Interest and Taxes (EBIT)

in millions of €	2000	1999
Continental Automotive Systems	100.4	58.7
Passenger Tires	177.4	270.4
Commercial Vehicle Tires	35.6	47.8
Continental Tire North America	11.5	73.8
ContiTech	138.6	129.8
Other	– 31.1	– 69.2
Continental Corporation	**432.4**	**511.3**

Dividend Increased Once Again

Net income amounted to € 204.7 million (1999: € 234.7 million). These earnings enable us to propose to the Annual Shareholders Meeting an increased dividend of 20% for 2000 at € 0.51 per share.

There will be no tax credit for previously paid German federal tax because the distribution will be comprised completely of foreign earnings.

The slightly increased eligible capital stock of € 321.8 million leads to a dividend of € 64.1 million (1999: € 58.8 million). The dividend represents 31.3 % of consolidated net income.

Increase in Employees

New jobs were created within the Continental Automotive Systems Division and at our new tire factory in Rumania. In total the Corporation's number of employees grew by 1,677 to a new high of 63,832.

Procurement

In 2000, the Continental Corporation purchased goods and services totaling € 5.7 billion worldwide.

Climbing oil prices, the weakness of the euro and the increase in the price of natural rubber led to an increase in raw materials expenditures for the Tire Divisions of 8% in Europe and 5% in the USA.

€ 715.2 Million Invested in Property, Plant, Equipment and Software

In order to secure Continental's future, funds amounting to € 656.0 million was approved during 2000 for future spending on property, plant, equipment and software.

Capital expenditures on property, plant, equipment and software by Continental Corporation rose to € 715.2 million (1999: € 625.6 million) in 2000. The corresponding ratio of expenditures to sales was 7.1% (1999: 6.9%).

Capital Expenditures on Property, Plant, Equipment and Software

in millions of €	2000	1999
Continental Automotive Systems	203.7	155.9
Passenger Tires	211.3	185.8
Commercial Vehicle Tires	103.5	61.6
Continental Tire North America	105.9	111.8
ContiTech	86.6	106.2
Other	4.2	4.3
Continental Corporation	**715.2**	**625.6**

€ 418.3 million for Research and Development

Research and development expenditures, the basis for successful new technologies, customer orders and products, rose to a total of € 418.3 million (1999: € 374.2 million); a figure which corresponds to 4.1% of sales.

Continental Obtains a Rating for the First Time

In Spring 2000, Continental applied for a corporate rating for the first time.The results – Moody's Baa1 and Standard & Poor's BBB+ with a stable outlook – place the Corporation in solid investment grade categories. Continental's clear strategic orientation, its ability to integrate acquisitions and its focus on solid finances led to these extremely satisfactory ratings and provided a solid base for further cost efficient financing.

eBusiness

Right from the start, Continental positioned itself to exploit the competitive advantages and other potential offered by the rise of eBusiness. In addition to internal process optimization projects, we have also started external eBusiness activities. Examples are a procurement platform, together with other tire manufacturers, in order to purchase raw materials and rubber-related products and a global development partnership for a B2C (business to consumer) approach, which is initially intended for the Passenger Tire Division.

Environment and Quality

The ongoing preventive environmental measures started in past years enabled us to avoid significant impacts on earnings in recent years.

The need for superior quality standards was clearly demonstrated in 2000 through a tire recall by a major competitor, which led to an extremely critical customer and consumer environment for the industry, Continental's quality management procedures, which include a continous monitoring of the market, have proven their effectiveness for many years.

Continental's Shares

The stock market was dominated in 2000 by negative expectations for the automotive sector. Continental's share price followed this trend, however, it outperformed the sector slightly. The share closed the year more than 12.5% down against the last day of trading in 1999. The annual high (€ 20.94) was traded on September 8, 2000.

Automotive Shares Come Under Pressure

Investor focus on the New Market, especially telecommunications and Internet stocks as well as developments in raw material prices, particularly the price of crude oil, put constant pressure on automotive stocks. In addition, the large-scale tire recall by a major competitor led to a clear increase in skepticism regarding the tire industry.

Currently, the long-expected and often prophesized US recession has finally hit the automotive sector reflected in the historic low over past years in automotive stock values. The level of dependency on the US market will therefore play a critical role in the success of the automobile and related supply industries. Mild growth is still predicted for the industry in Europe, especially through increased demand in Germany. The Asian markets still do not have directly a major effect on Continental and as a result, the ongoing weakness and uncertainty, particularly in Japan, will not directly impact the Corporation.

Continental Share Price Trends

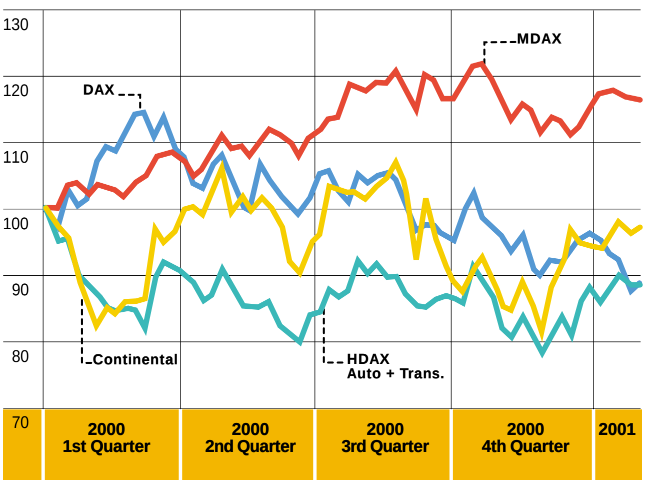
The stock price of Continental's shares in 2000 declined relatively by 5% against the DAX and 26% against the MDAX. The developments in Continental's share price do not reflect at all its position as one of the most innovative partners for the automotive industry, possessing the unique range of knowledge over tires and brakes through to damping, which represent the key chassis components influencing safety. Continental's systematic shift of production to low-cost locations, the very successful development of Continental Automotive Systems with the high growth potential of its electronic stability program (ESP), and the demonstrated realization of our technology flagship, the "30 meter car", did not lead to an appropriate valuation for our shares.

Since the beginning of 2001, along with the general recovery trend within the automotive sector, our share price has risen, closing at € 18.99 on March 12, 2001.

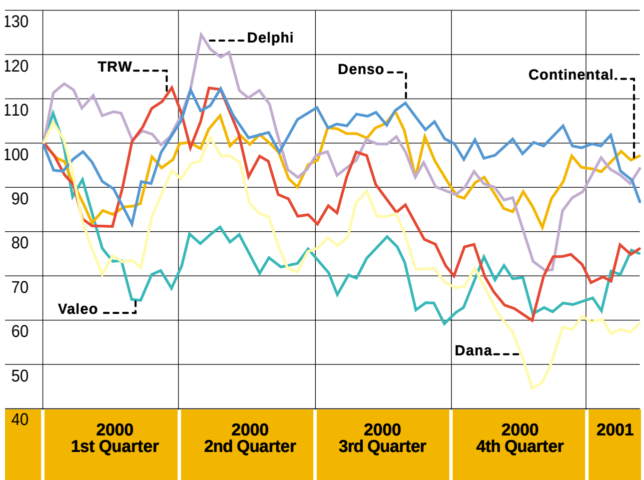
Share Buyback

After receiving the authorization to purchase treasury stock at the Annual Shareholders Meeting on May 19, 2000, the Company had repurchased a total of 8.1 million shares (6.1% total subscribed stock) as of December 31, 2000.

Share price development compared with DAX, MDAX/HDAX



Continental's performance relative to automotive suppliers



1993 Convertible Bond

The last date on which option rights under the 1993 bond with warrants could be exercised was July 7, 2000. The total number of shares increased by 5.5 million through the exercise of these options. A total of € 56.3 million was generated through this capital increase.

Key Figures per Share

€ per share		2000	1999
Consolidated net income		1.60	1.91
Consolidated net income, diluted		1.53	1.83
Cash flow		6.77	6.92
Dividend		0.51	0.46
Shareholders' equity (as of December 31)		14.67	13.76
Stock market price (as of December 31)		17.10	19.55
High		20.94	26.95
Low		15.85	17.99
Number of shares,			
average	in millions	128.0	122.8
Number of shares			
(as of December 31)	in millions	125.7	127.9

The key figures per share are calculated on the average number of shares outstanding. In calculating the average number of shares outstanding, the treasury stock was deducted from the time of acquisition.

Investor Relations

In order to address the constantly increasing information requirements of the capital markets, we further intensified our investor relation activities in 2000. We conducted a road show for institutional investors in June 2000 in both Europe and the USA. We provided analysts and fund managers with information about Continental's new strategic focus on "Total Chassis Management" in numerous personal sessions, presentations and discussions at automotive industry forums.

In addition to our international analyst conference of the year-ended 1999, for the first time we held a press conference to announce the Corporation's results for the nine months ended September 30, 2000, a practice which will be continued in the future.

On December 12, 2000, analysts and journalists had the opportunity to learn about the impressive reduction in stopping distance to 30 meters offered by Continental's demonstration vehicle. At the Contidrom, our test facility near Hanover, participants were able to experience first hand emergency stops, made from a speed of 100 km/h.

Our Internet presence (www.conti-online.com) generated high levels of interest and positive feedback. Investors can use it as a source of information about the company and download the presentations used in discussions with analysts and institutional investors.

Information for Investors

The consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles – US GAAP, in order to improve our competitive position within international capital markets. We increased our disclosure to three year comparisons in publishing our quarterly key figures for the balance sheet and income statement to our shareholders in 2000. Additional disclosure of results by Division gives shareholders and analysts further in-depth insight into our performance by offering a very high degree of transparency.

Stock Exchange Listings

Continental's shares are officially listed on all eight German stock exchanges and on three European trading floor exchanges.

In London, our share prices are listed in the "SEAQ" (Stock Exchange Automatic Quotes) market maker system; in addition, they are traded as part of a sponsored ADR (American Depositary Receipt) program in the USA on the OTC (over the counter) market.

To the extent it is economically feasible to attract additional foreign shareholders for our Company, we will consider listing on additional foreign exchanges.

Outlook

This Outlook and the other information contained in this Annual Report include, among other things, assumptions, forecasts and estimates by the management both in respect of future developments and in respect of the effect of such developments on the Company's results. These assumptions, forecasts and estimates reflect the current views of the Company with respect to future events. Although the management is of the opinion that this view is realistic, no guarantee can be given that the expected developments will actually occur. Many factors may cause the actual developments to be materially different from the expectations expressed here. Such factors include, for example, changes in general economic and business conditions, fluctuations in currency exchange rates or interest rates, the introduction of competing products, the lack of acceptance for new products or services and changes in business strategy.

No Cause for Pessimism about the Economy

In view of the continuing high price of oil and the downturn in the US economy, the forecasts for 2001 are less favorable in some areas than for the year ended 2000. After an economic boom over the last years, GDP in the USA is set to grow by less than 3.5% for the first time since 1995. However, the robust economic developments in Western Europe as well as the continuing recovery in Latin America and Asia (excluding Japan) should ensure stable growth.

As a consequence of the convergence of growth rates in the USA and Western Europe, we are expecting the US dollar to weaken slightly against the Euro. The Federal Reserve Bank is likely to cut US interest rates further in order to stimulate the US economy compared with relatively smaller reductions in Euro-based interest rates.

Slight Weakening in the Demand for Automobiles in 2001

In Europe, we are expecting another slight increase in demand especially from Germany a clear decline in 2000. Demand for trucks in Western Europe is likely to be down approximately 6% compared with the prior year. On the American market, we are expecting automobiles and light truck volumes to decline by 8% to approximately 16 million vehicles, while the truck market is anticipated to drop more sharply, by 15% or more.

In addition, growth in the newly industrialized countries of Asia and Latin America will help to further compensate for the declining market in the USA.

Continental Continues on its Path of Growth

Our strategic focus on Total Chassis Management will give our systems business a further boost. In 2004, we expect to offer electronic braking systems that are directly controlled by the intelligent tire. A large-scale order has already been received which will result in follow-up projects. Therefore the currently moderate volumes should increase in a similar pattern as the slow start for anti-lock braking systems (ABS) in past years and electronic stability programs (ESP) presently. We estimate that one in three passenger vehicles in Europe will be equipped with ESP by 2003. For 2001, we expect Continental Automotive Systems to supply almost 2.1 million ESP-units, a further increase of 50% over 2000. For 2003, that should grow to a total of 3.4 million ESP-units, which is likely to increase further once additional contracts are signed. Accelerated demand for ESP systems is particularly expected in the USA. Especially the locally very popular SUVs can be made significantly safer through ESP systems, by substantially reducing the probability that the vehicle will leave the road, reducing rollover risk.

Based on the presently booked business, we expect Continental Automotive Systems to achieve double-digit sales growth over the next years. For Tires and ContiTech, we are also planning to continue our successful growth.

Acquisitions and Joint Ventures

Continental's development into a systems supplier for an electronically controlled chassis, from the tires to the brakes and the damping to the steering, will involve acquisitions and joint ventures, Cooperation is also necessary because automobile manufacturers have entered into long-term partnerships with selected suppliers for specific components. Our primary short-term goal is to broaden our expertise in the area of electronics, as this area currently has the fastest growth rate.

Divestments

In order to strengthen our expertise in the area of chassis technology, it is necessary to divest major parts of ContiTech. Further developing ContiTech into a global supplier for the automotive industry at the same time as building up our Total Chassis Management expertise could not be reasonably financed. Therefore, we are discussing the sale of ContiTech, except for Air Spring Systems and Vibration Control business units, with a select group of industrial enterprises and financial investors who are active in the automotive sector.

Target Returns

In 2000 we already achieved the targeted returns for ContiTech. For the other Divisions the goals represent medium term expectations.

Capital Expenditures on Property, Plant, Equipment and Software

Capital expenditures on property, plant, equipment and software will amount to a level of 5–6% of sales in 2001 for the Tire and ContiTech Divisions, and 7–8% of sales for Continental Automotive Systems. For the Corporation as a whole we are expecting these expenditures to total 6–7% of sales.

Truck Tire Production

Since February 12, 2001 we have been reviewing plans to discontinue the production of truck tires at our plant in Herstal, Belgium as part of a strategic reorganization of our truck tires business.

Prospects for Earnings

We expect earnings in our Tire Divisions to improve during 2001. Present developments on the raw materials market do not give rise to any need to revise this estimate. In general, the first weeks of 2001 have largely confirmed our expectations. Due to the weak domestic tire markets and sustained price pressure, the period of recovery for Continental Tire North America will lengthen.

ContiTech will be able to reach a further improvement on its current high earnings level and Continental Automotive Systems an increase in its operating results.

	EBIT Margin		ROCE	
Mio €	2000	Goal	2000	Goal
Continental Automotive Systems	3.3	4.0	4.6	6.0
Passenger Tires	6.7	10.0	11.8	19.0
Commercial Vehicle Tires	3.6	7.0	5.1	11.0
Continental Tire North America	0.7	8.0	0.8	11.0
ContiTech	7.8	7.0	16.5	16.0
Continental Corporation	**4.3**	**6.5**	**5.7**	**11.0**

Continental Automotive Systems Division

The overwhelming success of our electronic stability program (ESP) has encouraged us to push forward to the next stage in technology. Our “30 meter car” proves that total chassis management at Continental is more than just a buzzword.

Wolfgang Ziebart
Executive Board
Continental Automotive Systems

Series production of ESP systems

Continental Automotive Systems Division
Share of sales

2000	
Electronic Brake Systems	54%
Foundation Brake	28%
Brake Actuation	12%
Aftermarket Business	5%
Air Spring Systems	1%

The Continental Automotive Systems Division achieved a sales growth of 18,8% compared with the prior year, reaching a sales level of € 3,023 million (1999: € 2,544 million). After adjusting for currency effects and for the reclassification of certain business activities within the Divisions, the sales increase amounts to 15.6%. Continental Teves' EBIT was € 216.1 million (1999: € 156.1 million), or 7.2% of sales before goodwill amortization of € 70 million. In total, EBIT for Continental Automotive Systems grew to € 100.4 million (1999: € 58.7 million), an increase of 70%. 2000 was again another step forward in the solid progress towards our medium-term goals of a return on sales of 4% and ROCE (Return on Capital Employed) after goodwill amortization of 6%.

Total sales comprised the following units: Electronic Brake Systems (54%), Foundation Brake (28%), Brake Actuation (12%), Air Spring Systems (1%) and Aftermarket Business (5%). Sales growth was particularly strong in North America which now accounts for 32% of the Division's sales.

Continental Automotive Systems' main business is supplying original equipment to the global automobile industry. All major European and North American manufacturers including BMW, DaimlerChrysler, Ford, General Motors/Fiat, Peugeot, Renault and VW are part of our customers base for products such as electronic brake systems, foundation brakes and brake actuation products (e.g. brake boosters). In Asia business relationships with vehicle manufacturers are taking on increasing importance.

Sales volumes by our Electronic Brake Systems unit – which includes anti-lock braking systems (ABS), traction control systems (TCS) and electronic stability programs (ESP) – rose by 18%. Sales of ESP units increased significantly to 1.4 million (1999: 400,000). For 2001, we are expecting a further increase of 50%. Presently, we already have booked orders for 3.4 million units in 2003.

ESP valves

The Foundation Brake unit sold 26.1 million calipers in 2000, exceeding 1999's already high volumes by a further 7%. This unit also produces duo servo brakes and brake hoses.

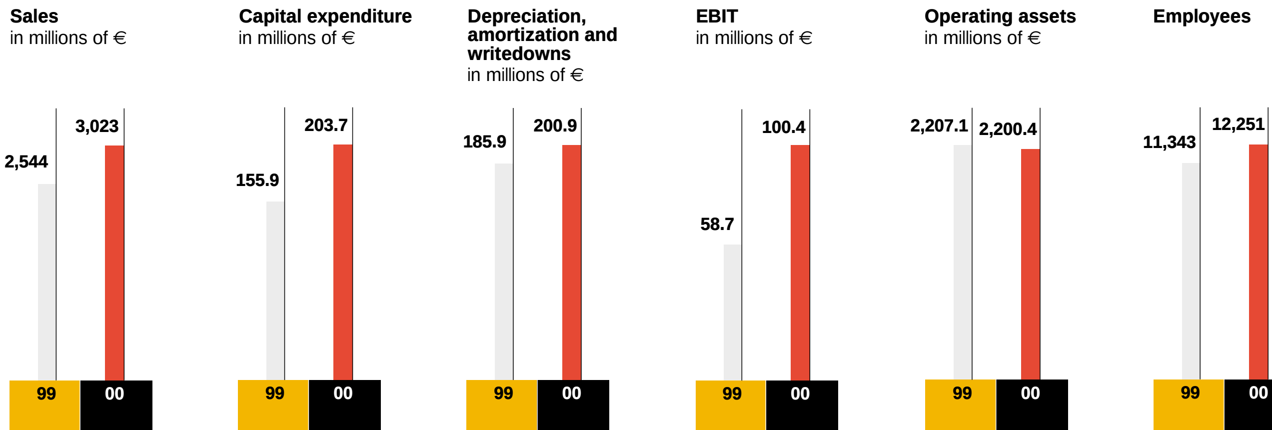
The Brake Actuation unit consists of brake boosters (including brake assist) and brake power regulators. Sales volume of brake boosters rose by 32% over 1999.

Continental Automotive Systems is becoming the leading supplier of air spring systems for passenger and off-road vehicles. In March 2000, the Audi all road quattro had its world premiere, equipped with a Continental air spring system. This intelligent system, unique to the automotive industry, ensures maximum driving dynamics and driving safety independent of vehicle loading. It is available with a number of options allowing flexible application to other vehicles. Additional orders have already been received from a number of manufacturers.

The construction of our factory for electronic wheel speed sensors in Mexico is proceeding according to plan. Production will begin in April 2001 and it will expand over the course of the year to one million units for a major automobile manufacturer in the USA. In addition to wheel speed sensors, the need for other types of sensors is growing very quickly. We shall systematically develop this area as part of the expansion of our business activities. Additionally, we are considering whether to pursue a strategy of vertical integration for these promising products.

In October 2000 the Electronic Braking Systems unit established Continental Teves Corporation (CTC) together with Nisshinbo Industries, an important Japanese brake manufacturer. Nisshinbo holds 49% of the new company, which will provide electronic brake systems for the Japanese and Korean market. We will now be able to increasingly supply Japanese automobile manufacturers with our products in their home markets. An intensive product development by CTC is the starting point for obtaining orders for Japanese manufacturers' global platforms. The formation of this new company means that Continental Automotive Systems now has a presence in Japan and Asia, as well as in Europe and North America.

Our research and development facilities in Frankfurt (Germany) and Auburn Hills (USA) have been expanded. We are also expanding our development centers in Jicin (Czech Republic) and Veszprém (Hungary). Continental Automotive Systems currently employs approximately 1,600 engineers worldwide. Our research and development focuses not only on further developing individual components, but also on integrating various components into overall systems.



Passenger Tire Division

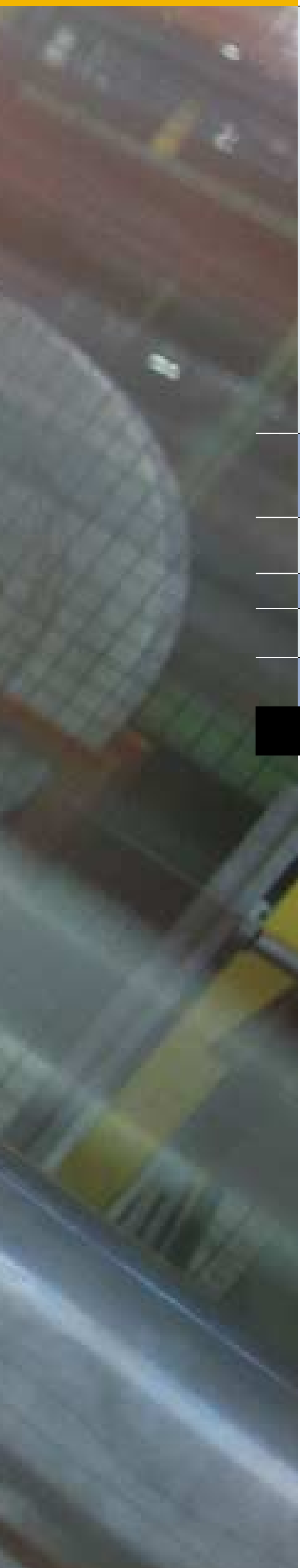
Tire building machine (partial view)

We made the most of our technological leadership and expanded our market share for high-performance tires, despite the difficult environment.

Stephan Kessel
Chairman of the Executive Board
Passenger Tires

Passenger Tire Division
Sales by brand

	2000
Continental	61%
Uniroyal	12%
Semperit	8%
Gislaved/Viking	5%
Barum	7%
Other	7%



The Passenger Tire Dvision – including our retail companies – achieved sales of € 2,639 million (1999: € 2,547 million), which corresponds to a 3.6% increase. Earnings were adversely impacted by the considerable rise in material costs and continuing price pressure in the tire markets, as well as the unsatisfactory earnings of the retail companies. A one time charge of € 45 million was recognized for extensive restructuring measures and disposals in the retail company area. Additionally we have written off the remaining goodwill, totaling € 15 million, for our retail activities in the United Kingdom. In total, the Passenger Tire Division EBIT of € 177.4 million was € 93 million less than the prior year. The medium-term goals of a return on sales of 10% and a return on capital employed of 19% were not attained.

Despite the price pressure in the tire markets, we were able to increase our market share with the automotive industry. Market volume in the replacement business changed very little. We were able to almost maintain our market share. Original equipment sales rose significantly to over € 500 million. The development of the European replacement business was somewhat restricted by capacity and as a result did not fully meet our expectations. Specialist tire dealers contributed 75%, car dealers 14%, quick service chains and auto centers 11% to total volume sales in the replacement segment.

As a result of structural problems especially in the United Kingdom, the retail companies fell narrowly below last year's sales levels, closing at € 841 million. Earnings remained unsatisfactory.

Winter tire sales improved slightly on 1999's record level of 13.5 million units. After a strong start to the season, November and December were relatively weak due to the prevailing weather conditions. For the first time, our product range offered a V-rated winter tire for speeds of up to 240 km/h.

Gum coating of steel cord

Vulcanization mold

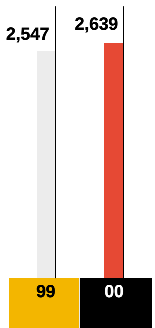
Our business with the automotive industry is growing continuously: every third car made by our key customers in Europe (e.g. BMW, Ford, Mercedes-Benz, Porsche and Renault) is fitted with Continental tires. At Volkswagen, it's every fourth car. Our account management focuses on customer needs worldwide. One person is responsible for everything from product development through tire delivery, supporting the customer even across national boundaries.

V, W, Y and Z-rated tires approved for speeds over 240 km/h – 150 mph represent the fastest-growing market segment, with a sales increase in this area of 11%. It is our belief that by 2005 high performance tires will represent 33% of the total demand for summer tires in Europe. Our flagship ContiSportContact 2, the successor to ContiSportContact in the premium segment, was released in February 2001. The new tire offers superior traction for braking and acceleration, optimum protection against aquaplaning, high cornering stability and precise steering. This tire has obtained approvals from numerous automotive manufacturers, including BMW, Ford, Mercedes-Benz and Porsche. In tests performed by professional magazines the ContiSportContact 2 received very positive ratings. During Fall 2000, we introduced two new winter tires in the quality segment, which offer optimal performance in wet conditions – the Uniroyal MS plus 5 and the MS plus 55. Early 2001, we launched two new summer tires – the RainSport1 and the Rallye 680. In keeping with our multibrand strategy – providing the right tire for every demand – we are further developing our regional brands including Semperit, Gislaved and Viking as well as our private dealer brands. The same holds true for our economy brands, Barum and Mabor.

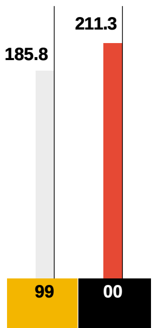
In comparison to 4 to 5 years ago, when our product range was comprised of approximately 2,000 tires of various sizes from different product lines, the range today has grown to around 3,000 tires. Nearly one tenth of these products are updated every year. Thanks to state-of-the-art production technology, our factories are not faced with an increased manufacturing complexity. Our Modular Manufacturing Process (MMP) supports this flexibility in production. For 2001, 350 new tires are planned. Over 40% of sales are generated by products, which are less than three years old.

In Europe passenger tire production was increased by approximately 5% to 61 million units, thereby reaching full capacity. After a construction period of only one and a half years, our plant in Timişoara, Rumania, began production at the end of 2000. Through a currently planned expansion phase, which is scheduled to be completed at the end of 2002, this plant will be capable of producing up to eight million passenger car tires per year. Existing capacity was expanded at our low-cost plant locations Lousado, Portugal, and Otrokovice, Czech Republic, Europes largest tire plant. Our original target of producing 40 percent of our tires in low-cost locations in Europe has already been exceeded and we have now increased our goal to producing every second tire in these locations.

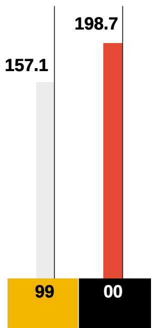
Sales
in millions of €



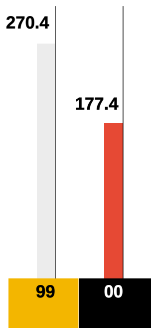
Capital expenditure
in millions of €



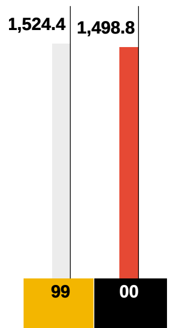
Depreciation, amortization and writedowns
in millions of €



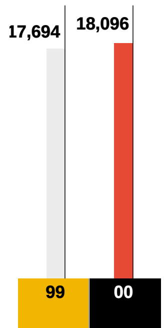
EBIT
in millions of €



Operating assets
in millions of €



Employees

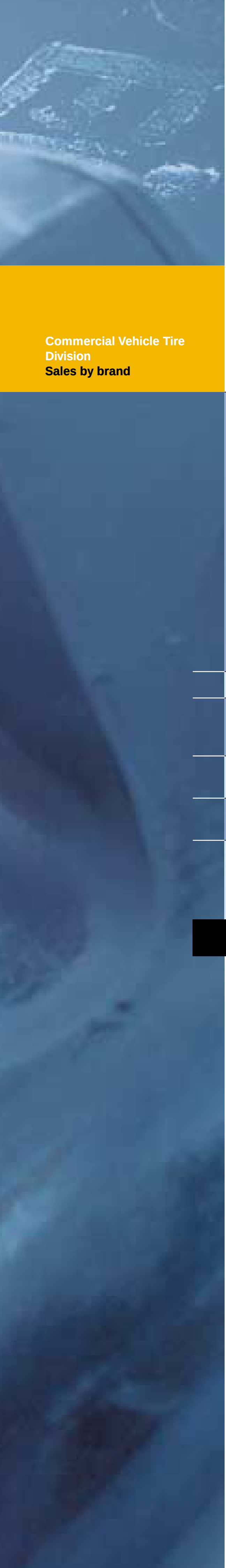


Commercial Vehicle Tire Division

Agricultural tire (partial view)

Full capacity utilization at our Puchov factory brings us a major step closer to our goal of 50% production in low-cost locations. In a declining truck market, cost leadership is the key to success.

Hans-Joachim Nikolin
Executive Board
Commercial Vehicle Tires, Quality and Environment,
International Business Unit



Commercial Vehicle Tire Division
Sales by brand

2000	
Continental	53%
Uniroyal	5%
Semperit	11%
Barum	8%
General	8%
Other	15%

The Commercial Vehicle Tire Division increased sales compared with 1999 by 11.1% to a level of € 976 million (1999: € 879 million). The increase in material costs experienced in other Divisions also effected this Division, pushing EBIT below last year's level to € 35.6 million (1999: 47.8 million). As a result the medium-term goals of a return on sales of 7% and a ROCE of 11% have not yet been obtained.

Truck tires, the largest contributor to sales within the Division, had an increase of 12%. Sales increased to 3.9 million units mainly as a result of growth in the replacement business. Deliveries to the automotive industry remained stable at the level of the prior year. More than 0.7 million truck tires were shipped to North America to compensate for the full capacity utilization at Continental Tire North America as well as to take advantage of the favorable exchange rates. In total, market share was gained.

The positive volume trend is likely to be further strengthened by a wide-scale renewal of the product lines. Over 50% of the Continental brand products will be less than three years old in 2002. This is also when our Super Single tire, or “SuSi”, is scheduled to successively replace conventional twin tires for drive axles. This innovative product reduces drag and therefore fuel consumption. In addition, its low weight and reduced dimensions allow for increased vehicle payloads making heavy trucks more cost-effective. SuSi is offered together with a tire pressure control system. Even small losses of air are detected immediately allowing drivers plenty of time to react.

Our joint venture with Matador in Slovakia, in which we hold a 76% equity interest, continued its positive development. We are successfully expanding our factory in the low-cost location of Puchov into the most modern and largest truck tire plant in Europe. Annual capacity will be increased by the second half of 2001 to 1.5 million units.

As part of the strategic reorganization of our truck tire manufacturing, we are currently evaluating the discontinuation of production at our factory in Herstal, Belgium, with an annual capacity of around 700,000 tires. The market for truck tires in Western Europe has been saturated for a number of years leading to strong competition and price

Side wall

Tread pattern

pressure. These events, along with the uncompetitive cost structure make this site's profitability questionable.

Due to its product range, the Industrial Tire unit was particularly disadvantaged by the increase in raw materials prices. However, this was offset by systematic cost management measures and sales increases. As a result, earnings were held at the high level achieved in 1999. Positive developments were seen in the area of new products such as the world's first "clean" radial tire for forklifts, complete with pale treads that do not leave tire marks.

Despite the unfavorable economic situation in the agricultural sector in a number of countries, the Agricultural Tires unit recorded a slight increase in sales and maintained positive earnings. In order to ensure future profitability, production is being concentrated on low-cost locations. A new building complex was put into operation in our Otrokovice plant, specialized to meet the needs of the agricultural tire manufacturing process.

The Two-Wheel Tire unit recorded increases in both sales and earnings. Our motorcycle product range was substantially renewed and extended. We are particularly proud of our bicycle tires. More than half of all medals won in cycling events of the Sydney Olympic Games were by cyclists using Conti tires, including the world record set by the four-man German indoor team.

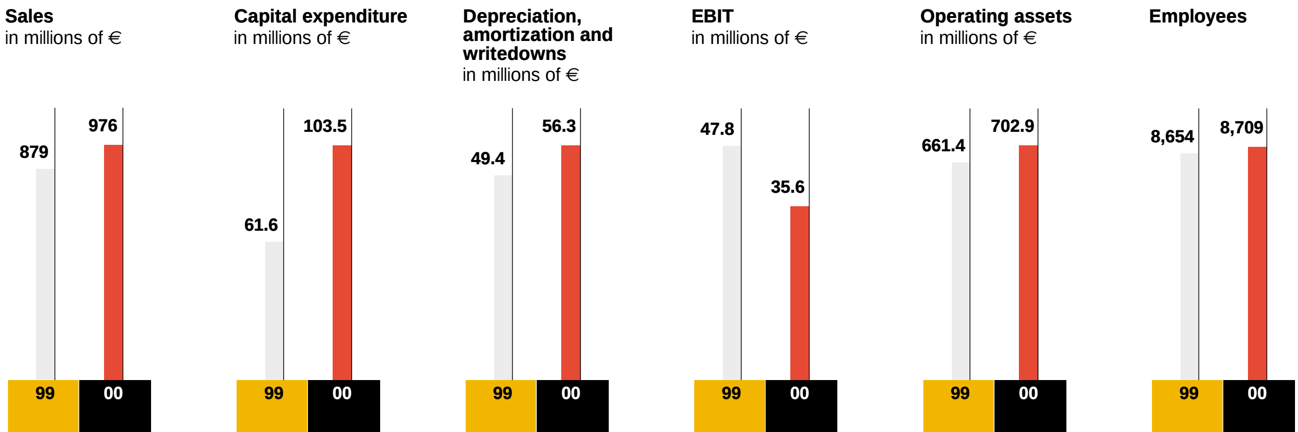
Conti International, which is responsible for commercial vehicle and car tires outside of Europe and the NAFTA region, recorded strong sales increases ranging between 15 – 30% in its various markets. Conti International's focus is to develop new markets. The primary objective is to reinforce our position with the automotive industry and replacement business, through regional production with strategic local partners.

In South Africa our market share in replacement sales rose to 22%. We account for approximately 50% of the total market with European automotive manufacturers producing in South Africa. Our Port Elizabeth factory is being optimized for quality, efficiency and costs and is approaching European levels.

Business developments in the Mercosur region (Argentina, Brazil, Paraguay and Uruguay) were promising. Our cooperation is being extended with Fate, the leading Argentinian tire manufacturer and the basis on which the Mercosur market is supplied with Continental tires. A new factory is also being established for joint production of truck tires for this region.

To strengthen our position in Russia, we acquired a 26% stake in the country's largest tire dealer company, MVO. Negotiations are currently underway to establish a local production facility for which a letter of intent has already been signed. This will make us not only the largest importer in Russia but also the country's first international tire manufacturer.

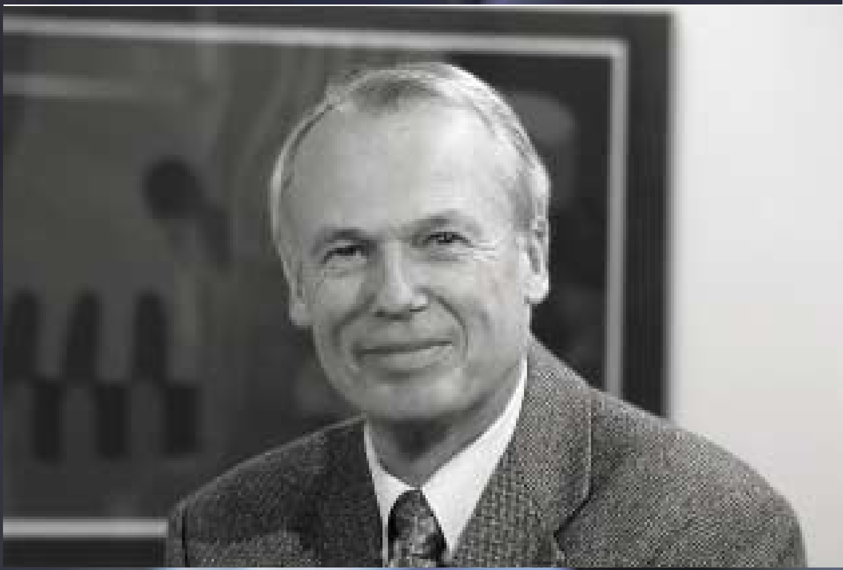
Our technical partnerships have also been expanded, such as the one with Kerman Tire and Rubber Company, Iran.



Continental Tire North America Division

The North American tire industry has been hit by high levels of imports due to the strong US Dollar. Our cost-cutting measures have so far been unable to offset the resulting price pressure.

Bernd Frangenberg
Executive Board
Continental Tire North America, Inc.



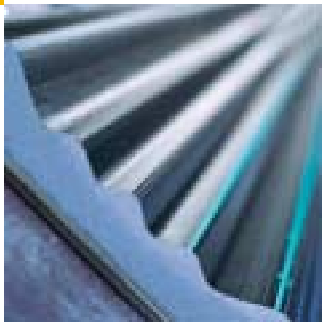
Green tires before vulcanization

Continental Tire North America Division
Sales by product group

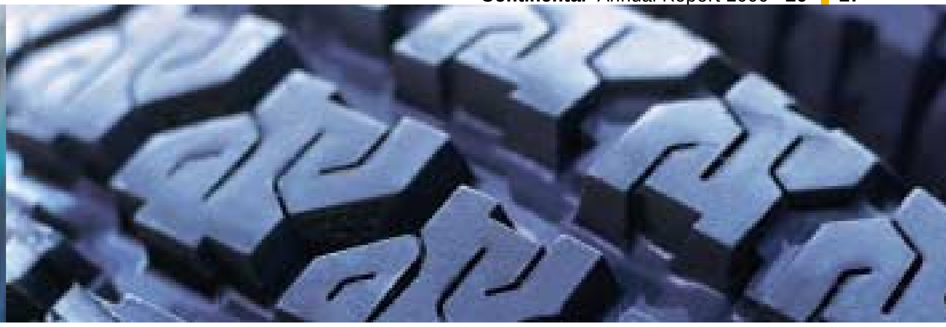
2000	
Passenger Tires, Original Equipment	25 %
Passenger Tires, Replacement Business	34%
Private Brands	5%
Truck Tires	29%
Farm and Earthmover Tires	5%
Other	2%

The Continental Tire North America Division (CTNA, formerly Continental General Tire) responsible for tire related activities in the NAFTA region, was able to increase sales compared with 1999 by 18.0% to a total of € 1,763 million (1999: € 1,494 million). After adjusting for exchange rate effects, the increase is 2.4%. Despite the increase in sales and a gratifying growth in market share in almost all product areas, the EBIT of € 11.5 million was considerably less than anticipated (1999: € 73.8 million). The tire industry in North America was dominated by increasing costs in energy and raw materials as well as by sustained pricing pressure. Cheap imports fuelled by the strength of the US Dollar and the Mexican Peso pushed down sales prices. This hit could not be offset by volume increases and internal cost cutting measures. As a result, the Division was not able to meet the medium-term goals of an 8% return on sales and an 11% ROCE.

The recall by a competitor of millions of tires offers Continental Tire North America an opportunity for additional business in the medium term. In the short term, however, the increased consumer sensitivity triggered by this recall led to cost increases for the industry as a whole in North America. Additional funds had to be put aside to cover the costs of product litigation and compliance with new federal legislation and regulations.



Tread



Tread pattern

We have been able to strengthen and extend our image as a reliable original equipment supplier in this difficult environment thanks to our Corportation-wide quality assurance procedures and in particular to Continental's in-house early warning system.

Sales of passenger car tires rose by 11% to more than 30 million units along with our market share. Our strong and well-balanced customer base in the replacement business offers a sound platform for further future growth. However, during the year, we were unable to compensate for the significant rise in energy, raw materials, wages and freight costs by increasing prices in either the original equipment sector or our replacement business.

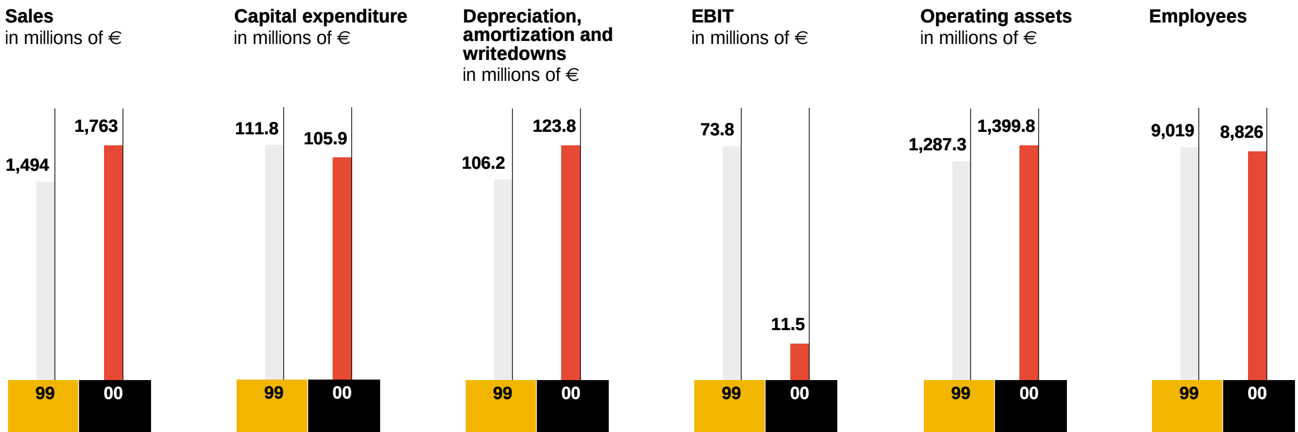
Unit sales of commercial vehicle tires rose by 8% to 2.7 million units and we achieved a significant rise in market share. In 2000 we launched a new Continental product line for heavy truck steering tires for regional transportation, as well as a new drive tire for heavy highway service. In 2001, we will also be introducing a new generation of Continental brand truck tires.

Continental Tire de Mexico increased its sales volume by 4%. The economic situation in Mexico – in particular the strength of the local currency and growing price pressure due to increasing imports by competitors – have not made it possible for us to pass on wage and raw materials cost increases to customers in the form of higher prices. These developments presented a particular problem for Continental Tire de Mexico, as it is the country's largest tire manufacturer and the national market leader.

Through its manufacturing locations in Bryan, Charlotte, Mayfield and Mt. Vernon in the USA, as well as Mexican factories located in Guadalajara and San Luis Potosí, Continental Tire North America produced one third of the Continental Corporation's total passenger and commercial tires.

Continental Tire North America supplies passenger car tires to our North American original equipment customers including BMW, DaimlerChrysler, Ford, General Motors, Nissan, Toyota and Volkswagen. Commercial vehicle tires are delivered to Caterpillar, John Deere, Freightliner, Mack and Volvo.

At the end of 2000, as a result of the slowdown in the American economy, we experienced a decline in demand for tires in the original equipment and replacement business markets. In order to ensure that the positive developments in market share and sales volumes are reflected in earnings in the future, Continental Tire North America has introduced measures to increase efficiency and to launch new products.



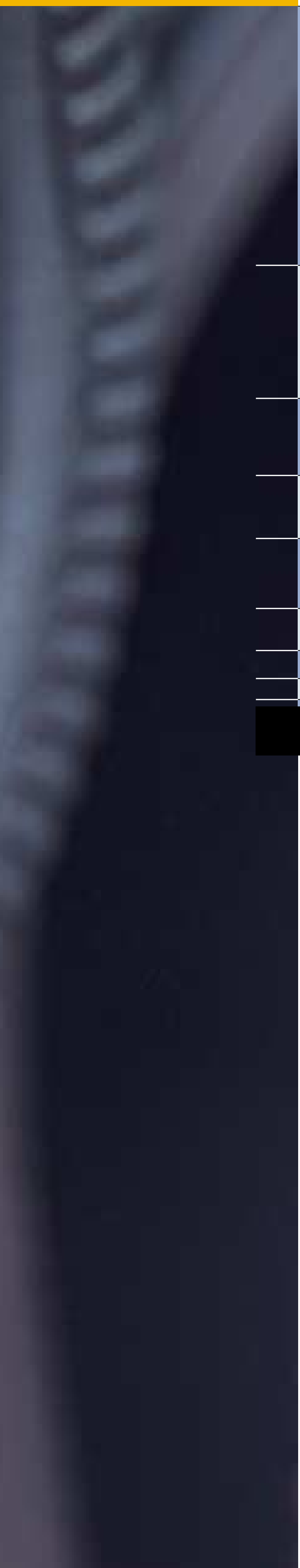
ContiTech Division

Truck air spring (partial view)

The high degree of autonomy of the different ContiTech business units is reflected in our excellent results. We look with confidence into the future.

Manfred Wennemer
Executive Board
ContiTech

ContiTech Division Sales by business unit



2000	
Fluid	37%
Benecke-Kaliko	19%
Vibration Control	11%
Conveyor Belt Systems	9%
Power Transmission Systems	10%
Air Spring Systems	6%
Sealing Systems	4%
Elastomer Coatings	3%
Other	1%

The ContiTech Division sales increased by 4.2% compared with the prior year to € 1,787 million (1999: € 1,716 million). After adjusting for changes in consolidation and reclassifications within the Divisions, the increase amounts to 5.7%. Sales increased with both the European automotive industry and other key customer groups. In comparison to the growth in sales EBIT rose over-proportionately at 6.8% to € 138.6 million (1999: € 129.8 million). As a result the Division exceeded the medium-term goals of a return on sales of 7% and ROCE of 16%.

Sales by **ContiTech Fluid,** the Division's largest business unit, increased by 16%. 9% of this increase was due to changes in consolidation, especially an acquisition in the air conditioning hose assembly systems segment, while 7% stemmed from organic growth. In addition, the unit was able to record a further increase in earnings.

As part of our ongoing globalization process, a joint venture, ContiTech Fluid Shanghai & Co, was founded in China. This venture has already begun producing power steering hoses to serve the automotive industry in the Shanghai region. Additionally, together with a partner we have signed a letter of intent to acquire a majority interest in a hose assembly manufacturer, paving the way for a production facility in Northern China.

Our factory was further expanded in Vác, Hungary, which started operations at the beginning of 2000. A manufacturing plant was constructed in Karben, Germany to increase our production of high end hose assembly systems. The new plant enables the dust free production of hose assemblies for hydraulic chassis stabilization systems.

After adjusting for the segments sold last year, a further increase in sales at our **Benecke-Kaliko** unit was obtained via full capacity utilization. Raw materials price increases had some impact on earnings, as only limited price increases could be passed on.

We increased capacity in fast-growing market segments by commissioning a new flat extrusion production line for manufacturing TEPEO sheeting for vehicle interiors and modernizing our furniture foil production facilities. Series production of polyolefin foam for automobile dashboards began according to plan. In the cushioning products area, a fiber technology plant for rubberized hair cushions started operations.

Our international strategy in Palmela, Portugal continued with the start of series production of slush skins for car interiors. In order to increase our market position for interior trims in the NAFTA region, we raised our interest in Sandusky Ltd., USA, to 21.5% in October 2000.

Hose production

Timing belts

Developments at the **ContiTech Vibration Control** unit were mixed. While the brake, steering and automotive plastics engineering areas were able to increase their sales and market share, activities in the noise control segment were flat. The main reason was, in addition to restructuring, that a number of projects came to a conclusion. Although overall earnings improved against the previous year, they remained unsatisfactory. The restructuring measures at our Cologne (Germany) site and extensive modernization at all locations will begin to have a positive impact in 2001.

New applications being developed will improve sales and earnings. These include delivery of the entire engine mounting system for General Motor's Epsilon platform, scheduled to start beginning of 2002, and for VW's T5 Transporter model.

At the **ContiTech Conveyor Belt Systems** unit, weaker demand for lignite and the loss of a major service contract led to a slight drop in sales when compared to 1999's results. However, ongoing rationalization and investments designed to strengthen our competitive position paid off. Together with extremely positive developments at our Greek subsidiary, a satisfactory earnings level was obtained.

The **ContiTech Power Transmission Systems** unit continued its positive development, with all product market segments contributing to the rise in sales and earnings. Series production of the newly developed elevator drive belts for Otis started successfully.

Globalization measures continued with the start of production at our Mexican facilities. As a result of an order from a major American vehicle manufacturer, a capacity expansion was required only six months after the factory started operations.

The **ContiTech Air Spring Systems** unit also recorded substantial increases in sales and earnings with almost all market segments contributing to this development. Our subsidiary in Turkey, acquired in 1999, impacted the results by being consolidated for a whole year in 2000.

Our new factory in Mexico started producing air springs for the US market on schedule in the Spring of 2000.

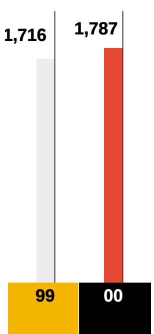
Together with Mannesmann Sachs AG, we developed a new air spring/shock absorber module for the commercial vehicles industry, which has already been included in the front axle of MAN's new TG-A commercial vehicle family. The module's small construction dimensions are a precondition for the new intelligent axle concepts of the future.

The **ContiTech Sealing Systems** unit recorded a slight increase in sales and for the first time in years provided positive earnings. Capacity at our Dolné Vestenice (Slovakia) plant was expanded. New development orders were acquired and future growth is assured.

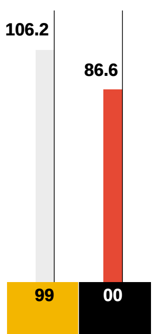
The **ContiTech Elastomer Coatings** unit also achieved increases in both sales and earnings. These positive developments were a result of new product offerings in the areas of printing blankets and diaphragm materials, such as new high-temperature resistant diaphragms for the automotive industry and Conti Air Evolution for the newspaper industry. In Japan we acquired a new key account, while in the USA we were able to establish ourselves on the market for preperforated diaphragms for the automotive industry.

Our **Fuel Cell** and **Rescue Systems** activities, which are not included in the eight principle business units in the ContiTech Group, increased sales and made a satisfactory contribution to earnings.

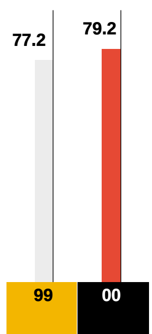
Sales
in millions of €



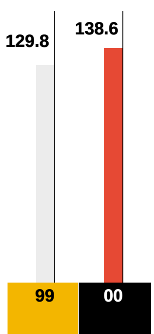
Capital expenditure
in millions of €



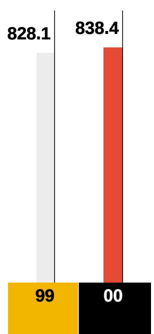
Depreciation, amortization and writedowns
in millions of €



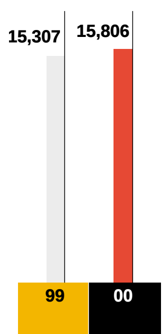
EBIT
in millions of €



Operating assets
in millions of €



Employees



Our Employees

63,832 Employees at Continental Corporation

As of December 31, 2000, the Continental Corporation employed 63,832 people worldwide (1999: 62,155). The majority of the increase in employees is attributable to the creation of new positions within the Continental Automotive Systems Group (672) and to the start-up of our new tire factory in Rumania (299).

The number of apprentices grew by 18.5% to 1,040. In Germany we increased the number of offered apprenticeships by a further 15.4%, to 826.

Successful Recruitment Despite Tight Labor Market

The international labor market has become increasingly tight. The continuing shortage of candidates with technical backgrounds, particularly specialists in automotive, electronic and sensor technology has now spread to include commercial disciplines as well. The reasons are numerous, for example, the booming economy in the USA has meant that candidates rarely apply directly to companies, instead companies increasingly have to market themselves. This is compounded in Germany by a recent decline in the number of university graduates.

In spite of this difficult recruiting background, in 2000, we were able to recruit a total in excess of 400 university graduates for our four main locations in Germany and the USA (Hanover, Frankfurt, Auburn Hills and Charlotte). The attractiveness of our company and the wide variety of opportunities are two of the main reasons for our success. Nevertheless, we constantly have to focus on developing new methods of recruiting qualified candidates for our open positions. Along these lines, in cooperation with the Deutsches Institut für Kautschuktechnologie (German Institute for Rubber Technology), we have set up a new course in rubber technology at the University of Timişoara near our Rumanian tire factory. This course is already attracting considerable interest.

The ability to apply online over our Conti homepage (www.conti-online.com) is increasingly popular, as well as our target group recruiting workshops with pre-selected candidates.

ROCE Adopted as a Basis for Variable Compensation

For a number of years now, a significant proportion of the remuneration paid to our senior executives has been dependent upon the company’s performance either tied to the earnings results of a Division or the total Continental Corporation.

During 2000, we modified the existing model to make ROCE an additional component of variable salaries.

This change is designed to create an even greater focus among our executives on capital returns to increase the long term corporate value of all of our activities.

Successful Implementation of Our “Basics”

At the start of 2000, we developed through a wide-scale process a set of new corporate guidelines – our “Basics” – to document our vision, values, goals, principles and code of conduct.

Local management is responsible for implementing the Basics. Our employees, with the involvement of the works councils, discussed these guidelines in a series of workshops and information events, generally and specifically for their working environment and the company as a whole. At year-end, we surveyed all employees worldwide on their level of identification with the Basics, our corporate culture and the Corporation as a whole. The results showed that a large majority of the workforce regards the Basics as extremely positive and has accepted them as guidelines. The survey also provided important insights on methods of improving our management and organizational structures and these results will be incorporated into future corporate planning.

Special Thanks to our Employees

The success of our Company is based primarily on our dedicated and talented employees and executives. We thank them warmly for their performance and commitment. We also like to thank our employee representatives for their constructive and trustworthy collaboration.

eBusiness

The automotive industry, including its entire supply chain, is one of the pioneers of e-commerce. Despite the general disillusionment last year with many aspects of Internet marketplaces, e-commerce remains extremely important for achieving a competitive advantage. As a systems provider and leading supplier for automotive manufacturers, it is necessary to focus on our customers' strategies in order to be successful and to obtain a competitive advantage. Being active at the beginning and having the ability to actively shape developments helps to ensure our future business.

Electronic marketplaces are being established for both the procurement and the sales areas of our organization. We have acquired interests in two external supplier marketplaces. The rationale behind these initiatives is to increase support for the procurement process, from supplier selection through pricing and ordering to payment processing. In addition, e-procurement also entails improvements to procurement logistics and product development.

RubberNetwork (www.rubbernetwork.com), a cooperative venture between eight leading tire manufacturers, focuses on the procurement of raw materials and supplies, as well as spare parts and services for the rubber industry.

SupplyOn (www.supplyon.com), an initiative from automotive suppliers, mainly concentrates on development cooperation for, and the procurement of, strategic intermediate products along the entire supply chain.

These two marketplaces, which will begin transacting via the Internet in the first half year of 2001, focus on different groups of materials and functions, thus ensuring broad coverage of all of our Corporation's procurement activities.

On the sales side, for many years now, we have been developing and implementing B2B (Business to Business) solutions in the tire segments. ContiOnlineContact, a system designed to accelerate ordering and information processes, has been operating successfully since 1997, and is regarded as the market standard. More than 2,000 tire dealers in Europe are already linked to this system.

Our equity interest in TecCom (www.teccom.com), a trading platform set up by leading companies in the automotive components sector, aims to optimize replacement parts transactions between manufacturers, dealers and workshops. It does this by allowing them to offer, order and purchase automotive components in a cost efficient manner.

A global partnership with Autobytel (www.autobytel.com), the largest automotive marketplace in the USA with a worldwide presence, has given us an early entry in the B2C (Business to Consumer) arena. The concept provides for the complete integration of our dealers, in order to offer customers the highest level of service possible.

We are expecting that the Internet will consolidate its position as a major channel of distribution in the future. In order to coordinate and expand our activities in this area, we have set up a cross-functional eBusiness unit within the company.


Two
New
One
Four

Quality and the Environment

Product quality is not an optional extra – it is a basic precondition for market success. Customers rightly expect that our products will meet their needs in terms of functionality, safety, durability, cost-effectiveness and environmental friendliness.

The increasing sensitivity of our customers and the society as a whole to quality and safety is reflected in legislation such as the German Product Safety Act of 1997 and the TREAD Act (Transportation Recall Enhancement, Accountability and Documentation) passed in 2000 by the US Congress in relation to a high-profile recall action. Via this TREAD Act, the legislature provides the relevant state authorities with wide-reaching duties of supervision and grants it powers of intervention designed to help ensure that only safe products are brought to the market.

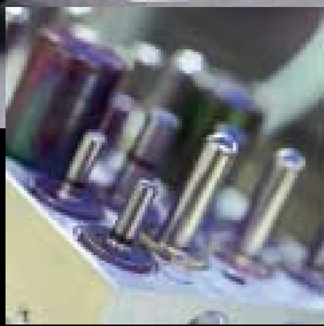
In line with the general trend in the automotive industry, Continental's product ranges have increasingly shorter lifecycles and are available in increasingly greater variations. The challenges are achieving greater efficiency in development, shorter test phases with constantly higher quality requirements.

It goes without saying that we have been certified with the ISO 9001 quality standard, as well as the customers requirements, the VDA 6.1 and QS 9000 standards.

Our integrated quality management process covers every link in the value chain, from capturing customer wishes through development and manufacturing down to the use of our products. Market observation is a key element of this system, serving not only to monitor safety and performance in use on an ongoing basis, but also as a measure of customer satisfaction. The quality, reliability and innovative power of our products and the high degree of customer satisfaction all go to prove the effectiveness of our system.

We also do not regard environmental friendliness as an option, but rather as an equally critical category in our product specifications. We assume responsibility for the entire lifecycle of our products, from the selection of the raw materials through manufacturing and product use to recycling. We have already developed life cycle assessments in accordance with ISO 14 040 that describe the environmental impact of car tires and brakes.

Above and beyond complying with legal and administrative requirements, the conservation of resources, the avoidance of waste and the reduction of emissions are all goals of our production facilities. The constant increase in the number of factories that have been certified in accordance with Council Regulation (EEC) 1836/93 (EMAS) and ISO 14 001 offer impressive proof of our commitment.



"The 30 Meter Car"

Reduced Stopping Distance Project

We put our ambitious plan – to reduce the stopping distance for a compact car from an average of 38 meters to 30 meters – into practice at the end of 2000 with a demonstration vehicle.

The vehicle we presented to customers, analysts and journalists comes to a stop a mere 30 meters after the brakes are applied at a speed of 100 kmh. This is almost two car lengths sooner than an unmodified series-production vehicle. The demonstration vehicle is the first tangible evidence of our strategic positioning as an integrated systems supplier, and clearly documents the benefits to be gained from the interaction of our components inside cars.

Our project to reduce stopping distance supports automobile manufacturers in their drive to meet ever increasing vehicle safety requirements, while additionally doing justice to society's demands for greater road safety. According to TÜV Rheinland, a 20% reduction in vehicle braking distance could lead to a reduction in deaths and serious injuries resulting from road accidents of approximately 15%.

Our Divisions have expertise in the areas of tires, brakes, air springs/damping and chassis suspension. The demonstration vehicle not only contains individually optimized systems, but also integrated components enabling the optimization of the system as a whole. Reducing the braking distance is possible if an electrohydraulic braking system cooperates with a chassis with air springs and adjustable shock absorbers, and with tires that have been optimized to take account of the friction factor and fitted with new

types of sensor systems for measuring the forces to which they are exposed. The data from all components used are exchanged via the car's CAN bus, a special data transfer system.

The stopping distance for a vehicle can be broken down into three different parts: 1. The reaction distance depends on the time it takes the driver to react – in other words, it is the distance traveled while the driver's reaction is underway. 2. The pressure build-up distance is the distance needed between the time the driver hits the brake pedal to the development of the full braking force. 3. The braking distance is the distance that the vehicle needs to come to a stop once the brakes have been applied in full.

One central component of our demonstration vehicle is the electrohydraulic brake (EHB), which monitors and controls braking maneuvers electronically, as well as building up and temporarily storing hydraulic pressure. An electronic control unit issues the necessary commands. In contrast to conventional brakes, the EHB separates the brake pedal from the hydraulic brake unit and relays the driver's intention to brake as an electronic signal to the hydraulic unit. In emergencies, the speed with which the pedal is pressed triggers an additional braking assist. Sidewall torsion sensors recognize the frictional forces transmitted and optimize ABS control operations. Since the electrohydraulic brake not only increases control quality within the ABS stopping system but also clearly reduces the pressure build-up time, its use impacts the overall stopping distance.

The electronically controlled chassis helps minimize fluctuations in wheel loads and pitch angles by redistributing axle loads to the front wheels during braking. With a greater load being put on the front wheels during braking, less is put on the back wheels, reducing the braking force and cornering force they can transmit. The vehicle electronics, in combination with air springs and continuously adjustable shock absorbers change the characteristics of damping and suspension during braking in a highly positive manner. Unwelcomed fluctuations in wheel loads are to a large extent absorbed and at the same time, subsequent oscillations of the superstructure are avoided.

Tires are particularly significant when it comes to reducing braking distances, as they are the only point of contact between the vehicle and the road. Our ContiPremiumContact tire was developed in cooperation with our brake systems' specialists. The tires work like a cat's paw, increasing its contact area when the brakes are applied. This allows the tire to transmit greater forces and hence improves braking efficiency. The ContiPremiumContact tire was developed further for the demonstration vehicle, with both the tread compound and the tread pattern being optimized for transmitting high braking forces. At the same time, tread lines were specially designed to support the effect of the vehicle dynamics control systems. The magnetized sidewalls use sidewall torsion sensors (SWT) to directly relay data on the braking forces in each wheel.

The "30 meter car" demonstration vehicle is an example of what Continental's integrated chassis, braking system and tire technology can do when working together.

The increasing frequency with which vehicles in Europe and in the USA are being equipped with electronic safety systems is making the automobile industry less dependent on national economic cycles. The development and manufacture of integrated components generates additional business, with high rates of growth being expected in the coming years. We are currently negotiating with a number of different automobile manufacturers who have expressed strong interest either in individual components or in complete systems. An example is a vehicle development project which has already started in North America using a chassis system consisting of tires, brakes and air springs.

Analysis of Financial Condition

2000 was marked by the strong growth of Continental Automotive Systems and the decline in earnings of the Tire Divisions in a difficult environment. EBIT (earnings before interest and taxes) decreased by € 78.9 million to € 432.4 million, taking into account a € 60.0 million one-time charge for trading activities in the United Kingdom. As a result, the return on sales amounted to 4.3% (1999: 5.6%) and the return on capital employed to 5.7% (1999: 6.9%). Consolidated net income for the year reached € 204.7 million, € 30 million below that of the previous year. Cash flow increased slightly. The statement of cash flows and balance sheet reflect the Corporation's growth.

Distribution of € 0.51 per Share

We will be proposing at the Annual Shareholders Meeting on May 23, 2001 to distribute an increased dividend of € 0.51 per share for the year ended December 31, 2000 (1999: € 0.46), corresponding to 20% of common stock. Based on the assumption that the amount of treasury stock held at the year-end will not change up to the Annual Shareholders Meeting, the dividend-eligible common stock amounts to € 321.8 million and the total amount distributed will thus amount to € 64.1 million. This represents 31.3% of consolidated net income for the year (1999: 25.1%).

Consolidated Statements of Income

In millions of €	2000	1999
Sales	**10,115.0**	**9,132.2**
Cost of sales	8,059.1	7,178.9
Selling expenses, general and administrative expenses, other operating expenses and income	1,624.6	1,445.1
Earnings before net financial income and taxes	**431.3**	**508.2**
Net income from investments and other financial activities	1.1	3.1
Earnings before interest and taxes	**432.4**	**511.3**
Net interest expense	– 182.2	– 151.9
Net income before taxes	**250.2**	**359.4**
Income tax expense	50.7	117.2
Minority interests	– 5.2	7.5
Consolidated net income	**204.7**	**234.7**

Overall, sales rose by 10.8% compared with the prior year. The highest increase was achieved by the Continental Automotive Systems Division, where sales rose by 18.8%. In the Tire Divisions, consolidated sales rose by 8.9%. ContiTech achieved an increase of 4.2%. Of the total increase exchange rate effects amounted to 5.1%.

The cost of sales rose by 12.3% due to the volume increases and higher raw materials prices. In contrast, selling expenses only increased by 6.4%, and general and administrative expenses by 7.4%. Overall, total EBIT declined by 15.4%.

The net interest expense rose by 19.9%, due to the higher debt, the increase in interest rates and exchange rates.

Income taxes dropped by more than half compared with the prior year. The major special items in 2000 were the effects associated with the impairment of investments as well as the reduction of the deferred taxes in connection with the lowered domestic tax rate as of 2001 from 52% to 39%. The effective tax rate amounted to 20.3% of net income before taxes (1999: 32.6%).

Restructuring of Trading Activities

In 2000 we resolved to dispose of some of the trading companies in the United Kingdom as part of a strategic restructuring process. Overall, a total impairment loss amounting to € 45,0 million was charged to income. In addition, the remaining goodwill of € 15.0 million was written off.

In order to provide more detail of our earnings situation, the following sections show the individual Divisions by key management drivers, i.e. EBIT, EBIT/sales and the ratio of EBIT to operating assets for the return on capital employed (ROCE).

Earnings before Interest and Taxes (EBIT)

	2000		1999	
	In millions of €	% of sales	In millions of €	% of sales
Continental Automotive Systems	100.4	3.3	58.7	2.3
Passenger Tires	177.4	6.7	270.4	10.6
Commercial Vehicle Tires	35.6	3.6	47.8	5.4
Continental Tire North America	11.5	0.7	73.8	4.9
ContiTech	138.6	7.8	129.8	7.6
Other	– 31.1	–	– 69.2	–
Continental Corporation	**432.4**	**4.3**	**511.3**	**5.6**

In 2000, the performance of the Divisions varied significantly. While the Tire Divisions declined in earnings over the prior year, ContiTech and Continental Automotive Systems Divisions continued to show satisfactory results. The Tire Divisions' earnings performance is attributable to increased materials and other costs as well as the difficult market situation in North America in particular. ContiTech's improved position is due to increased sales volumes and productivity, while Continental Automotive System's increased earnings are principally due to significant sales increases.

Return on Capital Employed (ROCE)

	2000	1999	2000	1999
	Operating Assets		ROCE	
	in millions of €	in millions of €	%	%
Continental Automotive Systems	2,200.4	2,207.1	4.6	2.7
Passenger Tires	1,498.8	1,524.4	11.8	17.7
Commercial Vehicle Tires	702.9	661.4	5.1	7.2
Continental Tire North America	1,399.8	1,287.3	0.8	5.7
ContiTech	838.4	828.1	16.5	15.7
Other	974.9	895.5	–	–
Continental Corporation	**7,615.2**	**7,403.8**	**5.7**	**6.9**

The operating assets are calculated at book value. The ROCE of the Divisions is calculated on the basis of the operating assets used, less trade accounts payable, regardless of the financing structure of the Corporation.

Balance Sheet

In millions of €	12/31/2000	12/31/1999
Fixed assets and investments	4,381.6	4,220.6
Inventories, accounts receivable		
and other assets	2,975.8	2,709.9
Cash, cash equivalents,		
and marketable securities	216.8	439.9
Prepaid expenses	41.0	33.4
Total assets	**7,615.2**	**7,403.8**
Shareholders' equity	1,844.1	1,760.6
Minority interests	145.7	142.4
Shareholders' equity including		
minority interests	1,989.8	1,903.0
Provisions	1,778.5	1,842.3
Indebtedness	2,234.7	2,152.7
Other liabilities	1,612.2	1,505.8

Total assets increased by 2.9% to € 7,615.2 million (1999: € 7,403.8 million). This increase was principally driven by exchange rate fluctuations, particularly by the strong US Dollar and Mexican Peso, which more than compensated the decrease in cash, cash equivalents and marketable securities. The capital turnover rate amounts to 1.33 (1999: 1.23).

Fixed assets and investments were up by 3.8%. This is due in particular to increased capital expenditures over the prior year. Fixed assets as a percent of total assets amounts to 57.5%. Intangible assets decreased to 33.6% of total fixed assets and investments due to goodwill amortization (1999: 36.7%). Inventories, receivables and other assets rose by 9.8%. Other assets contain deferred tax assets of € 243.0 million (1999: € 204.4 million).

Consolidated shareholders' equity rose by € 83.5 million to € 1,844.1 million. The equity ratio amounts to 24.2% (1999: 23.8%), or 26.1% (1999: 25.7%) including minority interests.

The outstanding treasury stock was deducted from shareholders' equity at acquisition cost of € 158.2 million, resulting in a 1.6 percent decrease in the equity ratio.

Accrued liabilities fell to 23.4% of total assets. Indebtedness, less cash, cash equivalents and marketable securities increased to € 2,017.9 million (previous year: € 1,712.8 million) among other things due to the repurchase of the treasury shares. The gearing ratio amounts to 109.4% (1999: 97.3%).

Cash Flow/Financing

Cash flow increased by 2.0% over 1999 to € 866.3 million or 8.6% of sales (1999: 9.3%). The ratio of net indebtedness to cash flow increased to 2.3 (1999: 2.0).

There are no significant changes in the financing structure compared with the prior year. In January 2001, a new Euro Medium Term Note program was initiated amounting to € 1,000 million.

Euro

We already implemented the Euro as our corporate functional currency in the Tire Divisions located in the Euro-zone in 1999. Our group accounting and reporting systems were also converted to the Euro. The Euro will be introduced successively in the remaining affected areas until 2002. In addition, we have started making the necessary preparations for converting cash in the individual European currencies to the Euro at the beginning of fiscal year 2002.

Foreign Exchange Risks

The international nature of our business activities results in trade and payment flows in various currencies. Imports into the Euro-zone are generally higher than export flows into other currency zones. The net exposure obtained by offsetting exports against imports in the individual currencies is regularly compiled and evaluated. Exchange rate forecasts are constantly monitored to ensure that risks are hedged, using appropriate financial instruments as necessary.

As a rule, the investments in net assets permanently located outside Germany are not hedged against exchange rate fluctuations, except for investment financing by Continental Rubber of America.

Future Risks

Due to its global business, Continental is naturally exposed to a number of risks which are inherent in entrepreneurial activities. For instance, Continental is exposed to uncertainties in economic developments in key trading countries, further magnified by the cyclical nature of demand in key markets. The automotive sector in particular is characterized by stiff competition which will likely intensify in the future due to surplus global capacity. Like all international automotive suppliers, Continental is also affected by the increasingly stringent statutory regulations and safety standards in its markets.

Risk Management

Continental Corporation has an enterprise-wide risk management system which provides an early warning of potential risks, enabling management to assess and mitigate exposures as well as exploit opportunities. In addition to basic principles and materiality levels, the system also contains instructions for capturing, measuring and reporting risks. It is integrated within Continental Corporation's enterprise-wide strategy, planning and budgeting processes. The system provides an extensive itemization of risks, their status and key changes as part of the regular reporting procedures. The immediate management is responsible for identifying and managing risks. A risk committee and the internal auditors support the process as a whole. We paid particular attention in the past year to our IT systems, interest rate and currency management and the introduction of the Euro. The risk management system was audited by Continental's external auditors. It complies fully with the requirements of the KonTraG (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – Act on Control and Transparency in Business).

Events Subsequent to Fiscal Year 2000

The following events which occurred after the end of 2000 are of material importance to Continental Corporation and may lead to a different evaluation of the Company.

Since February 12, 2001, the Company has been reviewing plans to discontinue the production of truck tires at its plant in Herstal, Belgium, as part of a strategic reorganisation of its truck tire business. Due to the early stage of negotiations, no reliable assessment of the financial implications can be made at present.

On February 12, 2001, the Executive Board informed the Supervisory Board of its plans to actively pursue the sale of large parts of the ContiTech Division. The ContiTech Business Units affected by the sale are: Benecke-Kaliko, Fluid, Sealing Systems, Power Transmission Systems, Conveyor Belt Systems and Elastomer Coatings, together with all their domestic and foreign locations. The Company has set itself the goal of finding a suitable buyer for these parts of ContiTech, who will continue to run this business of € 1.4 billion sales and roughly 14,000 employees successfully worldwide, and further increase its international scope.

Supplemental Disclosure Pursuant to Section 292 a HGB (German Commercial Code)

The following consolidated financial statements, comprising the consolidated balance sheets as of December 31, 2000 and 1999, consolidated statements of income, consolidated statements of cash flow and consolidated statements of shareholders' equity for the years ended December 31, 2000 and 1999, have been prepared in accordance with US Generally Accepted Accounting Principles (US GAAP). Financial imformation in this annual report relating to periods prior to 1998 has been prepared in accordance with the German Commercial Code (HGB).

We have supplemented the consolidated financial statements, stated in Euros, with a consolidated management report and additional information pursuant to the provisions of section 292 a HGB exempting the preparation of consolidated financial statements according to HGB. The consolidated financial statements thus comply with the EC Fourth and Seventh Directives in accordance with GAS 1 issued by the German Accounting Standards Board.

The consolidated financial statements as of December 31, 2000, presented in Euros, and the consolidated management report pursuant to section 292 a HGB, will be filed in the commercial register of the Hanover Local Court under No. HRB 3527.

In accordance with section 264 (3) HGB, statutory exemption provisions have been applied to the following German corporations with which Continental has profit and loss transfer agreements.

Conti Versicherungsdienst GmbH, Hanover
Continental Caoutchouc-Export-AG, Hanover
ContiTech Antriebssysteme GmbH, Hanover
ContiTech Elastomer-Beschichtungen GmbH, Northeim
ContiTech Formpolster GmbH, Hanover
ContiTech Holding GmbH, Hanover
ContiTech Luftfedersysteme GmbH, Hanover
ContiTech Profile GmbH, Hanover
ContiTech Schlauch GmbH, Hanover
ContiTech Transportbandsysteme GmbH, Hanover
ContiTech Vibration Control GmbH, Hanover
Formpolster GmbH, Löhne-Gohfeld
Göppinger Kaliko GmbH, Eislingen
KA-RI-FIX Transportband Technik GmbH, Kerpen-Sindorf
Liga Reifenhandel GmbH, Hanover
ContiTech Techno-Chemie GmbH, Karben
Union-Mittelland-Gummi-GmbH, Hanover
UNIROYAL ENGLEBERT Reifen GmbH, Hanover

In addition, the statutory exemption provisions set out in section 264 b HGB have been applied to the following partnerships since 2000:

Continental Teves AG & Co. oHG
Continental ISAD Electronic Systems GmbH & Co. oHG

Explanation of significant accounting, measurement and consolidation methods used in the exempting consolidated financial statements that differ from German law

Fundamental Differences

The principles of German and US accounting represent two fundamentally different approaches. While accounting under the German Commercial Code emphasizes the principle of prudence and the protection of creditors, the primary goal of US accounting is to present useful information to shareholders for their decisions. Therefore, US GAAP places more importance on the comparability of annual financial statements between accounting periods and companies, as well as the proper matching of earnings to accounting periods, than German commercial law does.

Unrealized Gains

German law requires the principle of imparity, which only allows that unrealized losses be recognized in the financial statements, whereas US GAAP also recognizes certain unrealized gains.

This applies in particular to unrealized gains resulting from the translation of foreign currencies at spot rates and to certain financial derivatives.

According to German accounting principles, securities are carried at the lower of cost or market. US GAAP, on the other hand, requires that securities be carried at their fair value in certain cases, even if higher.

Goodwill

Under US GAAP, goodwill must be amortized over its estimated useful life, through a charge to income. A comparable option to German commercial law to charge the full unamortized goodwill directly to shareholders' equity does not exist.

Leasing

Compared with German commercial law, US GAAP tends to require more often that leased assets be carried in the accounts of the lessee.

Deferred Taxes
In contrast to the German Commercial Code, US GAAP not only requires deferred taxes to be recognized for liabilities but also for deferred tax assets from temporary differences between the tax base and carrying amounts in the financial statements. In addition, US GAAP defines the basis for measuring deferred taxes more broadly than the German Commercial Code. Correspondingly, deferred taxes are also recognized for tax loss carryforwards, reflecting the economic benefit of reduced tax payments in the future. The future deferred tax benefit is capitalized in full and a valuation allowance is provided if it is less likely than not that the benefit can be realized.

Treasury Stock
In accordance with the HGB, treasury stock is treated as securities classified as current assets. Losses from share price movements are charged to income. According to US GAAP, treasury stock is deducted from common stock and additional paid-in capital at acquisition cost for the period during which they are held in treasury, even if it is not intended to retire them. Share price changes are not taken into consideration.

Issuing Costs
Under HGB, the costs for initial and secondary public offerings of capital stock are charged to income. Under US GAAP, these costs are netted directly with the increased shareholders' equity, with no effect on income. Under HGB, costs for issuing convertible bonds are also charged directly to income, whereas they are amortized over the term of the bonds under US GAAP.

Minority Interests
Under US GAAP, minority interests are not reported as a component of shareholders' equity. Consolidated net income for the year is adjusted to reflect the share of income or loss that accrues to the minority shareholders of subsidiaries.

Pension accruals
Pension accruals are measured including anticipated wage and salary increases, in contrast to the German net present benefit method for tax purposes. The calculation is not fixed on the discount rate of 6% used for tax purposes, but rather on the market interest rates for long-term investments in the individual countries concerned.

This measurement results in higher total liabilities. New actuarial estimates and assumptions relating to the calculation of pension obligations are defined at the beginning of the year. If the liabilities in the balance sheet differ by more than 10% from the new calculation, that difference is amortized over the average remaining service life before retirement.

In addition to pensions, this procedure relates to other post employment obligations, and in particular to health care costs for retired employees in the US.

Similar procedures exist in those countries in which pension trusts are used to fund the pension liabilities; the funds are valued using the medium-term average expected yield. Deviations against the actual yield generated amounting to more than 10% of the total fund assets are amortized over the average remaining service life. Fund assets may only be used to pay the plan members' pensions and for fund management. These assets are netted with the related pension liabilities. Also earnings from the funds are netted with the period costs for the liabilities. The individual amounts are discussed in the notes.

Other Accrued Liabilities
Recognition of accrued liabilities is far more restricted in US accounting than under HGB. In principle, there is no difference between accrued liabilities and other liabilities in US accounting. Only binding obligations, which can be reliably estimated, are recognized. If the amount or timing of such obligations is uncertain, they may not be recognized in the balance sheet, or only up to that amount which is very probable and reliable. This results in losses or expenses being matched to the periods in which they occur and not to the periods in which they are anticipated, such as in the case of deferred maintenance.

Statement of the Executive Board

The Executive Board of Continental AG is responsible for the preparation, completeness and integrity of the consolidated financial statements, the group management report and the other information provided in the annual report. The consolidated financial statements were prepared in accordance with US Generally Accepted Accounting Principles and include the necessary estimates and judgements. The group management report contains an analysis of the financial position and results of operations of the Corporation as well as further information provided in accordance with the provisions of the German Commercial Code.

An effective internal management and control system is used to ensure that the information used for the preparation of the consolidated financial statements, including the group management report, and for the internal reporting, is reliable. This includes standardized guidelines at Corporation level for accounting and risk management in accordance with the KonTraG (Act on Control and Transparency in Business) and an integrated financial controlling concept as part of our value-oriented management and internal audits. The Executive Board is thus in the position to identify significant risks at an early stage and to take countermeasures.

The Supervisory Board appointed KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, as Continental Aktiengesellschaft's auditors for the year ended December 31, 2000 pursuant to the resolution at the Annual Shareholders Meeting. They have audited the consolidated financial statements prepared in accordance with US Generally Accepted Accounting Principles and have confirmed that the conditions required for the Corporation's exemption from its duty to prepare consolidated financial statements under German accounting law in accordance with section 292 a HGB have been fulfilled. The auditors issued the report presented on the following page.

The consolidated financial statements, the group management report, the auditor's report and the risk management system were discussed in detail with both the auditors and the Supervisory Board at the presentation held to approve the financial statements.

Hanover, March 2001

The Executive Board

Independent Auditors' Report

We have audited the consolidated financial statements, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of cash flow and consolidated statement of changes in shareholders' equity as well as the notes to the financial statements prepared by Continental Aktiengesellschaft for the year ended December 31, 2000. The preparation and content of the consolidated financial statements in accordance with US Generally Accepted Accounting Principles (US GAAP) are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing principles and the 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 to obtain reasonable assurance whether the consolidated financial statements are free of material misstatements. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis as part of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations, and cash flows of the Corporation for the year ended December 31, 2000 in accordance with United States Generally Accepted Accounting Principles.

Our audit, which also extends to the group management report prepared by the Executive Board for the year ended December 31, 2000, has not led to any reservations. In our opinion, the group management report provides a suitable understanding of the Corporation's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the year ended December 31, 2000 satisfy the conditions required for the Company's exemption from the duty to prepare consolidated financial statements and the consolidated management report in accordance with German accounting law.

Hanover, March 12, 2001

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Stolberg	Fahrion
Wirtschaftsprüfer	Wirtschaftsprüfer

Consolidated Statements of Income

In millions of €	See Note	2000	1999
Sales	(27)	**10,115.0**	**9,132.2**
Cost of sales		8,059.1	7,178.9
Gross profit on sales		**2,055.9**	**1,953.3**
Selling expenses, administrative expenses,			
other operating expenses	(4)	1,775.2	1,632.3
Other income	(5)	150.6	187.2
Net expense from investments and financial activities	(6)	– 181.1	– 148.8
Earnings before taxes		**250.2**	**359.4**
Income tax expense	(7)	50.7	117.2
Minority interests		– 5.2	7.5
Consolidated net income		**204.7**	**234.7**
Earnings per share (in €)	(28)		
Basic earnings per share		1.60	1.91
Fully diluted earnings per share		1.53	1.83

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

Assets

In millions of €	See Note	As of 12/31/2000	As of 12/31/1999
Intangible assets	(8)	1,470.4	1,549.5
Property, plant and equipment	(9)	2,796.5	2,578.3
Investments	(10)	114.7	92.8
Fixed assets and investments		**4,381.6**	**4,220.6**
Inventories	(11)	1,163.4	1,083.2
Trade accounts receivable	(12)	1,087.3	1,096.7
Other assets and miscellaneous amounts receivable	(13)	725.1	530.0
Marketable securities	(14)	1.0	81.8
Cash and cash equivalents	(15)	215.8	358.1
Current assets		**3,192.6**	**3,149.8**
Prepaid expenses	(17)	**41.0**	**33.4**
		7,615.2	**7,403.8**

Shareholders' equity and liabilities

In millions of €		As of 12/31/2000	As of 12/31/1999
Common stock		321.8	327.4
Additional paid-in capital		824.8	915.2
Retained earnings		803.7	657.8
Accumulated other comprehensive income		– 106.2	– 139.8
Shareholders' equity	(18)	**1,844.1**	**1,760.6**
Minority interests		**145.7**	**142.4**
Provisions	(20)	**1,778.5**	**1,842.3**
Indebtedness	(21)	2,234.7	2,152.7
Other liabilities	(22)	1,612.2	1,505.8
Total liabilities		**3,846.9**	**3,658.5**
		7,615.2	**7,403.8**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flow

In millions of €	See Note	2000	1999
Consolidated net income for the year		204.7	234.7
Minority interest in earnings		– 5.2	7.5
Depreciation and amortization of fixed and intangible assets		661.1	576.8
Other expenses/income		5.7	30.7
Cash flow		**866.3**	**849.7**
Gain from disposal of fixed and intangible assets and investments		– 0.3	– 6.3
Change in inventories and receivables		– 197.4	– 350.4
Change in provisions and other liabilities		33.1	308.2
Funds received from current business activity	(16)	**701.7**	**801.2**
Proceeds from disposal of fixed and intangible assets and investments		32.0	56.8
Capital expenditures on fixed and intangible assets		– 721.6	– 627.0
Acquisition of new companies		– 7.1	– 16.6
Acquisition of investments		– 29.7	– 30.5
Changes in fixed and intangible assets due to foreign exchange differences		– 79.9	– 174.5
Cash used for investing activities		**– 806.3**	**– 791.8**
Cash flow before financing activities		**– 104.6**	**9.4**
Change in short-term borrowings		– 14.5	– 1,068.0
Proceeds from issuance of long-term debt		547.5	1,110.8
Principle payments on long-term debt		– 451.0	– 182.6
Purchase of treasury stock		– 158.2	–
Dividend paid		– 58.8	– 47.0
Proceeds from issuance of shares		62.2	261.5
Currency translation adjustment		35.1	– 17.7
Cash flow provided/(used) by financing activities		**– 37.7**	**57.0**
Change in cash and cash equivalents		**– 142.3**	**66.4**
Cash and cash equivalents at January 1		358.1	291.7
Cash and cash equivalents at December 31		215.8	358.1

See accompanying notes to the consolidated financial statements.

Statements of Changes in Consolidated Shareholders' Equity

In millions of €	Number of shares (thousands)	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income: Currency translation adjustment	Accumulated other comprehensive income: Minimum Pension liability[1]	Total
At January 1, 1999	**115,012**	**294.0**	**687.1**	**470.1**	**– 122.1**	**–**	**1,329.1**
Consolidated net income for the year				234.7			234.7
Other comprehensive income					– 4.9	– 12.8	– 17.7
Total comprehensive income				**234.7**	**– 4.9**	**– 12.8**	**217.0**
Issue of shares	12,897	33.4	228.1				261.5
Cash dividends				– 47.0			– 47.0
At December 31, 1999	**127,909**	**327.4**	**915.2**	**657.8**	**– 127.0**	**– 12.8**	**1,760.6**
Consolidated net income for the year				204.7			204.7
Other comprehensive income					35.1	– 1.5	33.6
Total comprehensive income				**204.7**	**35.1**	**– 1.5**	**238.3**
Issue of shares	5,896	15.1	47.1				62.2
Treasury stock[2]	– 8,089	– 20.7	– 137.5				– 158.2
Cash dividends				– 58.8			– 58.8
At December 31, 2000	**125,716**	**321.8**	**824.8**	**803.7**	**– 91.9**	**– 14.3**	**1,844.1**

See accompanying notes to the consolidated financial statements.

1) Net of total deferred taxes of € 10.4 million, thereof € 1.3 million in 2000 (1999: € 9.1 million).
2) It is not intended to retire the treasury stock.

Statements of Changes in Consolidated Fixed Assets and Investments

In millions of €	Acquisition/Manufacturing cost 1/1/2000	Currency changes	Additions	Reclassifi-cations	Disposals	12/31/2000
Franchises, operating licenses, industrial property and similar rights and assets and licenses for such rights and assets	206.1	1.6	26.6	7.9	10.8	231.4
Goodwill	1,824.2	26.1	21.9	–	5.2	1,867.0
Advances to suppliers	9.5	–	7.1	– 7.9	–	8.7
Intangible assets	**2,039.8**	**27.7**	**55.6**	**–**	**16.0**	**2,107.1**
Land, land rights and buildings including buildings on land not owned	1,317.1	16.2	44.0	28.0	15.7	1,389.6
Technical equipment and machinery	3,840.9	84.5	179.2	258.1	156.4	4,206.3
Other equipment, factory and office equipment	1,160.0	3.3	112.6	39.7	100.7	1,214.9
Advances to suppliers and assets under construction	354.7	9.0	368.0	– 325.8	0.9	405.0
Property, plant and equipment	**6,672.7**	**113.0**	**703.8**	**–**	**273.7**	**7,215.8**
Shares to affiliated companies	4.4	–	6.4	–	0.3	10.5
Shares in associated companies	55.0	0.6	8.5	3.1	1.7	65.5
Participations	5.3	–	1.1	– 3.1	–	3.3
Loans granted to companies in which participations are held	3.0	–	0.2	–	0.7	2.5
Securities held as investments	12.8	–	–	–	0.1	12.7
Other loans granted	17.8	1.0	13.5	–	0.2	32.1
Other financial assets	1.5	–	–	–	0.3	1.2
Investments	**99.8**	**1.6**	**29.7**	**–**	**3.3**	**127.8**
	8,812.3	**142.3**	**789.1**	**–**	**293.0**	**9,450.7**

The additions to acquisition costs include € 37.8 million from the initial consolidation of companies; additions to depreciation include € 15.2 million.

	Depreciation						Book values	
	1/1/2000	Currency changes	Additions	Reclassifi-cations	Disposals	12/31/2000	12/31/2000	12/31/1999
	126.6	0.3	43.4	–	10.0	160.3	71.1	79.5
	363.7	1.7	115.6	–	4.6	476.4	1,390.6	1,460.5
	–	–	–	–	–	–	8.7	9.5
	490.3	**2.0**	**159.0**	**–**	**14.6**	**636.7**	**1,470.4**	**1,549.5**
	597.2	5.6	64.0	1.9	0.7	668.0	721.6	719.9
	2,569.9	51.8	327.3	– 3.0	147.3	2,798.7	1,407.6	1,271.0
	925.0	2.5	119.1	1.1	98.1	949.6	265.3	235.0
	2.3	0.1	0.6	–	–	3.0	402.0	352.4
	4,094.4	**60.0**	**511.0**	**–**	**246.1**	**4,419.3**	**2,796.5**	**2,578.3**
	1.8	–	1.4	–	–	3.2	7.3	2.6
	1.0	0.4	4.9	–	–	6.3	59.2	54.0
	0.1	–	–	–	–	0.1	3.2	5.2
	1.5	–	–	–	0.4	1.1	1.4	1.5
	1.7	–	–	–	–	1.7	11.0	11.1
	0.6	–	–	–	0.1	0.5	31.6	17.2
	0.3	–	–	–	0.1	0.2	1.0	1.2
	7.0	**0.4**	**6.3**	**–**	**0.6**	**13.1**	**114.7**	**92.8**
	4,591.7	**62.4**	**676.3**	**–**	**261.3**	**5,069.1**	**4,381.6**	**4,220.6**

Notes to the Consolidated Financial Statements

(1) Accounting principles

Consolidation

The consolidated financial statements include all major subsidiaries in which Continental AG directly or indirectly holds a majority of voting rights. Significant investments where Continental holds between 20% and 50% of the voting rights ("associated companies") are accounted for using the equity method. Other investments are carried at acquisition cost.

Consolidation is based on the purchase accounting method, eliminating the acquisition cost against the parent company's interest in shareholders' equity at the date of acquisition. Any difference between the acquisition cost and the interest in shareholders' equity is allocated in whole or in part to the subsidiary's net assets to report them at fair value. Any unallocated amount is capitalized as goodwill and amortized over its probable useful life as a charge to income. Recorded goodwill is adjusted for changes in pre-acquisition contingencies within 12 months after acquisition or for restructuring committed up to one year after acquisition. Any subsequent release of restructuring liabilities is first charged against the remaining goodwill.

The effects of intercompany transactions are eliminated.

Foreign Currency Translation

Generally, the assets and liabilities of foreign subsidiaries having a functional currency other than the Euro are translated into Euros at year-end (middle) spot rates. The statement of income is translated at average rates for the year. Translation adjustments to the values of assets and liabilities are reported as accumulated other comprehensive income, without deferred taxes.

Monetary assets and liabilities of subsidiaries in hyperinflationary economies are translated at year-end spot rates, and non-monetary items are translated at historical rates. Translation adjustments are recognized in income. Depreciation, amortization and gains or losses from disposal of fixed and intangible assets in hyperinflationary economies are determined on the basis of historical rates.

Foreign currency adjustments arising from the year-end translation of intercompany financing are also reported as accumulated other comprehensive income, with no effect on income, provided the financing is in the functional currency and repayment is not expected in the foreseeable future. Tandem currencies are used where the functional currency is not accessible.

The following table shows the exchange rates of the major currencies:

Currencies € 1 in	Spot rate		Average rates	
	12/31/2000	12/31/1999	2000	1999
USD	0.93	1.00	0.93	1.06
GBP	0.62	0.62	0.61	0.66
SEK	8.83	8.56	8.44	8.81
SKK	43.97	42.48	42.58	43.99
ZAR	7.04	6.18	6.40	6.50
MXN	8.92	9.53	8.75	10.20
BRL	1.81	1.82	1.69	1.93
CZK	35.09	36.13	35.60	36.82

Revenue Recognition

Sales are generally recognized upon delivery of products to customers, less expected cash and sales discounts.

Product-related Expenses

Costs for advertising, sales promotion and other sales-related items are expensed as incurred. General provisions are made for possible warranty claims for sold products on the basis of past experience and contractual periods. Additional provisions may be recognized for specific cases.

Research and Development

Expenses relating to research and development are expensed as incurred. These also include expenses for customer-specific applications, internal prototypes and testing. Reimbursements from customers are netted against expenses at the time of billing. Research and development expenses amounted to € 418.3 million (1999: € 374.2 million).

Earnings per Share
Earnings per share are calculated on the weighted average shares outstanding. Treasury shares are deducted for the period held in treasury. The fully diluted earnings per share include the shares potentially available from option rights.

Intangible Assets
Purchased intangible assets are carried at acquisition cost and amortized straight-line over a useful life of 5 to 20 years. Goodwill resulting from acquisitions is amortized over a period of 10 to 20 years. The value of goodwill is reviewed regularly for developments that could indicate impairment. Where appropriate, the impairment is assessed as on the basis of estimated future cash flows and written down as necessary.

Property, Plant and Equipment
Property, plant and equipment is valued at acquisition or construction cost, less straight-line depreciation. The construction cost consists of direct cost and the attributable material and manufacturing overhead, including depreciation. It also includes financing costs for long-term construction if a direct allocation is possible. The useful lives are summarized as follows:

up to 25 years	for buildings and land improvements
up to 10 years	for technical equipment and machinery
2 to 10 years	for factory and office equipment

Leasing
Continental leases property, plant and equipment, especially buildings. The leases are accounted for on the basis of the economic ownership.

Impairment of Property, Plant and Equipment
The Company regularly reviews developments that could indicate a possible impairment in long-lived assets, property, plant and equipment and attributable goodwill from ongoing business activities.

When an impairment appears probable, the future undiscounted cash flows are compared with the related book value. If the cash flow value is lower, the book value is adjusted to the lower fair value.

In the event of a commitment to dispose of property, plant and equipment or branches, the related book values are written down to the expected proceeds.

Current Assets
Current assets comprise inventories, receivables, marketable securities, cash and cash equivalents. Amounts with a maturity of more than one year are indicated in the notes.

Sales of Financial Assets/
Asset Backed Securitization Program
Continental AG sells trade accounts receivable in particular under asset backed securitization programs. The selling companies manage the accounts receivable and are responsible for collections.

The retained interests of the sold accounts receivable are deducted from total trade accounts receivable and classified as other assets.

Marketable Securities and Equity Investments
Marketable securities are valued at cost if they are likely to be held until maturity. Write-downs are charged on all marketable securities or equity investments in the event of a permanent impairment.

Inventories
Inventories are carried at acquisition or production cost or replacement costs, if lower, provided they do not exceed the expected net proceeds. Production cost includes direct costs, production-related material and overheads, as well as depreciation. Appropriate valuation allowances are made for reduced saleability. Inventories of natural rubber are generally valued according to the LIFO method, provided that the current replacement cost is not lower than the original cost.

Financial Instruments
Continental only uses derivative financial instruments for hedging purposes. If there is a direct and effective connection between a derivative financial instrument and an underlying transaction, a closed position is established. Gains and losses from these positions are recognized in income once the underlying transaction has been realized.

Stock Option Plans

Stock option plans are accounted for in accordance with the provisions of APB 25, which deals with stock options issued to employees. An option grant is charged to income if the issue price is less than the fair value of the shares in question. The Company has provided disclosures required by FAS 123 (Accounting for Stock-Based Compensation). Accordingly Continental has elected the option to follow APB 25, and provide comparable values pursuant to FAS 123.

Accrued Liabilities

Pension accruals and similar obligations are valued by actuarial principles pursuant to FAS 87, using the projected unit credit method reflecting projections in salaries and indexations, as well as work force attrition. The discount rate is based on long-term loans in the respective capital market.

Pension and similar obligations of some foreign companies are covered by pension funds. Employee claims for severance benefits under national laws have also been accrued.

The obligations for post-retirement healthcare benefits in the US, including non-vested rights, are provided in full in accordance with FAS 106.

Continental recognizes amounts for environmental risks if the expenses are probable and can be reliably estimated.

Profit Sharing Agreements in Mexico

Under national law, employees in Mexico are entitled to a 10% share of net income measured comparably to taxable income. As with the accounting for deferred taxes, deferred liabilities are recognized for temporary differences between the amounts recognized in the balance sheet and the amounts forming the basis of the profit sharing.

Liabilities for Restructuring

Liabilities for restructuring are only recognized if a formal, approved plan containing all necessary information exists before the balance sheet date, the measures are carried out as quickly as possible in compliance with the applicable laws for the country in question, and the company has communicated the plan.

Accounting for Income Taxes

Income taxes are valued under the liability method. Expected tax payments and refunds from temporary differences between the financial statements and the tax base as well as from loss carry-forwards are recognized as deferred taxes. The deferred tax assets and liabilities are valued at the applicable future tax rates. No deferred tax is recognized for non-deductible goodwill. The effect of changes in tax rates is recognized during the period in which the law is enacted.

The deferred tax assets and liabilities are netted by maturity within individual companies or consolidated tax groups. The deferred tax assets are only adjusted through a valuation allowance if no tax saving effect is likely.

Estimates

In order to ensure the proper, complete preparation of the consolidated financial statements, management must make estimates and assumptions affecting assets and liabilities, the disclosures in the notes and income and expenses during the period. Actual amounts may differ from the estimates. The most important estimates and assumptions relate to pensions, taxes, impairments, warranties as well as the useful lives of fixed assets.

New Accounting Principles

Derivative Instruments

Continental has adopted FAS 133 (“Accounting for Derivative Instruments and Hedging Activities”) as amended by FAS 138 since the beginning of 2001. FAS 133 requires that derivative instruments be reported at their fair value in the balance sheet as other assets or other liabilities. Generally, changes in the fair value are recognized in income.

The implementation of FAS 133 led to certain cross currency/interest rate swaps entered into as a hedge of indebtedness being qualified for hedge accounting purposes as a “hedge of a net investment in foreign operations” and as a “fair value hedge”. The marking to the market of these swaps on January 1, 2001 led to a charge to income of € 5.4 million after tax from the initial application of FAS 133 and a direct charge to equity of € 9.1 million after taxes.

The implementation of FAS 133 did not have any effect on the treatment of currency hedges. As previously treated, these were marked to the market and the unrealized gains and losses were recognized in income in the current accounting period.

Accounts Receivable Sale Programs

In September 2000, the FASB issued FAS 140 – “Accounting for Transfers and Servicing of Financial Assets and Extinguishing of Liabilities – a replacement of FASB Statement No. 125”. This standard replaces the provisions on accounting for securitization and other transfers of financial assets. FAS 140 must be applied to transfers that take place after March 31, 2001. The new disclosure requirements are contained in the notes.

(2) Companies Consolidated

The consolidated financial statements include, in addition to the parent company, 183 domestic and foreign companies in which Continental Aktiengesellschaft holds a direct or indirect interest of more than 20% of the voting rights.

Companies whose assets, liabilities, expenses and income, individually and collectively, are of only minor significance for the net worth, financial position and results of operations of the Corporation are not consolidated.

The companies included in consolidation have changed compared with the prior year. Fifteen companies that merged with other consolidated companies are no longer included, and four companies were sold or wound up. Ten companies were newly incorporated as a result of purchase or formation. One company that had previously not been included in consolidation was consolidated for the first time. The Corporation’s total assets did not change significantly as a result.

A table showing the significant companies of the Continental Corporation can be found on page 75 of this report. A complete list of the Corporation’s holdings is filed with the commercial register of the Hanover Local Court under reference number HRB 3527.

(3) Acquisition of New Companies

No significant companies were acquired in fiscal year 2000. In the previous year, Continental acquired a further 48.9% interest in Benecke-Kaliko AG, Hanover, and it acquired the remaining 1% in 2000. It now has a 100% share in the company.

Notes to the Consolidated Statements of Income

(4) Selling Expenses, General and Administrative Expenses, Other Operating Expenses

In millions of €	2000	1999
Selling expenses	1,124.1	1,056.1
General and administrative expenses	382.9	356.4
Other expenses	268.2	219.8
	1,775.2	**1,632.3**

Other expenses include foreign exchange losses amounting to € 38.6 million (1999: € 27.9 million), losses from the disposal of assets totaling € 17.9 million (1999: €12.8 million) and other taxes amounting to € 35.5 million (1999: € 32.3 million). In addition, other expenses increased from the effects of the impairment of certain trading activities in the United Kingdom.

The following total personnel compensation is included in the statement of income:

In millions of €	2000	1999
Wages and salaries	1,957.8	1,828.8
Social security contributions	524.0	473.5
Retirement benefit costs	99.0	85.4
	2,580.8	**2,387.7**

The annual average number of people employed by the Corporation was as follows:

	2000	1999
Wage earners	44,185	43,753
Salaried employees	19,329	18,801
	63,514	**62,554**

The remuneration paid to Continental AG's Executive Board totaled € 5.4 million (1999: € 5.2 million); remuneration paid to the Supervisory Board totaled € 1.0 million (1999: € 0.9 million). In addition, former members of the Executive Board and their surviving dependents were paid remuneration totaling € 3.4 million (1999: € 5.0 million). € 36.1 million (1999: € 36.7 million) was provided for pensions for former members of the Executive Board and their surviving dependents.

Members of the Executive Board were granted 30,000 options (1999: 36,000) for the acquisition of Continental shares as part of the 1999 stock option plan. As of December 31, 2000, no advances or loans had been granted to members of Continental AG's Executive and Supervisory Boards.

(5) Other Income

Other income includes gains from the disposal of property, plant and equipment totaling € 18.2 million (1999: € 19.1 million), rental income totaling € 8.6 million (1999: € 10.3 million), foreign exchange gains of € 27.6 million (1999: € 42.7 million) and income from the extinguishment of various obligations and the reversal of valuation allowances totaling € 44.7 million (1999: € 38.5 million).

(6) Net Expense from Investments and Financial Activities

In millions of €	2000	1999
Income from equity investments	5.1	2.6
thereof from affiliated companies	0.4	0.7
thereof from companies carried at equity	4.7	1.9
Write-downs of equity investments and interests in affiliated companies	6.3	–
Income/loss from investments	**– 1.2**	**2.6**
Other interest and similar income	74.6	35.5
Interest and similar expenses	256.8	187.4
Net interest expense	**– 182.2**	**– 151.9**
Income from securities and loans	2.3	0.8
Write-downs of securities and loans	–	0.3
Other financial income, net	**2.3**	**0.5**
Net expense from investments and financial activities	**– 181.1**	**– 148.8**

The Corporation's interest expense amounted to 1.8% of sales (1999: 1.7%).

(7) Income Taxes

The income tax expense of the Corporation in Germany and abroad can be summarized as follows:

In millions of €	2000	1999
Current taxes		
Germany	30.3	58.9
Abroad	62.4	89.7
Deferred taxes		
Germany	– 14.6	90.6
Abroad	– 27.4	– 122.0
Income taxes	**50.7**	**117.2**

In the year 2000, the utilization of loss carryforwards led to a reduction in deferred tax assets of € 12.8 million (1999: € 38.2 million).

The following table shows the reconciliation of the expected to the reported tax expense:

In millions of €	2000	1999
Expected tax expense	130.1	186.9
Foreign tax rate differences	– 26.9	– 26.0
Change in valuation allowances	– 24.7	– 78.7
Nondeductible amortization		
of goodwill	36.3	19.3
Effects of impairment of investments	– 48.1	–
Effects of changes in tax rates	– 32.3	–
Other	16.3	15.7
Income tax expense reported in the		
financial statements	**50.7**	**117.2**
Effective tax rate	**20.3%**	**32.6%**

There is no tax credit available from the paid dividends for Continental AG, since these dividends were paid exclusively from the earnings of foreign subsidiaries, as was the case in the previous year.

In 2000, valuation allowances for deferred tax assets declined by € 24.7 million, mainly in connection with the anticipated utilization of certain loss carryforwards. The previous year was mainly affected by the reversal of a valuation allowance for a US company.

In connection with the decision to sell off certain low-margin trading activities, the corresponding net investments were written down for tax purposes.

In Germany, the Federal corporate tax rate, including trade income tax and the solidarity surcharge, amounted to 52.0%, as in the previous year. Due to the changes already enacted, this rate will be 39.0% from 2001. The adjustment of deferred taxes to this new rate produced an overall tax benefit of € 32.3 million.

The deferred tax assets and liabilities are as follows:

In millions of €	2000	1999
Intangible assets	– 74.7	– 28.2
Property, plant and equipment	– 159.2	– 193.6
Inventories	– 11.4	– 7.0
Pension plan accruals and		
other long-term accruals	136.3	112.2
Liabilities and short-term accruals	67.8	52.9
Other	37.8	49.9
Tax loss carryforwards	184.9	174.0
Allowances	– 87.6	– 112.3
Net deferred taxes	**93.9**	**47.9**

The Corporation's corporate tax loss carryforwards and trade income tax loss carryforwards amounted to € 445.8 million (1999: € 376.1 million) and € 75.9 million (1999: € 127.0 million) respectively as of December 31, 2000. Most of the Corporation's existing corporate tax loss carryforwards relate to foreign subsidiaries which are limited in some cases. Total valuation allowances of € 87.6 million (1999: € 112.3 million) were recognized for the total full net deferred tax assets of individual companies abroad, which mainly result from loss carryforwards.

No additional taxes, in particular withholding tax, were recognized for earnings from foreign companies which have not yet been remitted, since these accumulated earnings are utilized for additions to property, plant and equipment as well as working capital.

Deferred tax assets and liabilities are reported as follows:

	12/31/2000		12/31/1999	
In millions of €	Total	> 1 year	Total	> 1 year
Deferred tax assets	243.0	157.3	204.4	94.7
Deferred tax liabilities	149.1	118.7	156.5	97.0
Net deferred taxes	**93.9**	**38.6**	**47.9**	**– 2.3**

Notes to the Consolidated Balance Sheets

(8) Intangible Assets

For changes in intangible assets and property, plant and equipment, please refer to the statements of changes in consolidated fixed assets and investments. The book values of intangible assets include in particular the goodwill from the acquisition of Continental Teves (1998) and Continental General Tire (1987/1988). The additions of € 55.6 million were mainly from software purchased from third parties, in addition to goodwill and changes arising from initial consolidation.

The remaining goodwill of € 15.0 million relating to the committed strategic restructuring of certain trading activities in the United Kingdom was written off in full.

(9) Property, Plant and Equipment

The principal additions were extensions to capacity especially in low-cost locations and for new products and technologies. Disposals consisted mainly of land as well as technically and economically obsolete machinery and equipment.

Property, plant and equipment includes leased buildings, technical equipment and other facilities totaling € 33.5 million (1999: € 35.4 million) for which the Corporation is regarded as the economic owner. Depreciation relating to leased assets for the year amounts to € 1.9 million (1999: € 1.9 million).

(10) Investments

The additions to shares in associated companies include equity income from joint ventures. Securities held as investments mainly consist of fixed-interest government bonds, which serve to cover the accruals for severance claims by employees included in the balances of our Austrian companies.

Loans include residential construction loans to employees, financial contributions to utility companies and other loans.

(11) Inventories

In millions of €	12/31/2000	12/31/1999
Raw materials and supplies	309.7	305.8
Work in progress	133.3	126.2
Finished goods and merchandise	719.1	651.4
Advances to suppliers	3.8	0.9
Advances from customers	2.5	1.1
	1,163.4	**1,083.2**

Inventories include a LIFO reserve of € 5.1 million (1999: € 4.7 million).

(12) Trade Accounts Receivable

In millions of €	12/31/2000	12/31/1999
Trade accounts receivable	1,153.7	1,168.0
Valuation allowances	66.4	71.3
	1,087.3	**1,096.7**

€ 0.5 million (1999: € 4.0 million) of the trade accounts receivable has a term of more than one year. The accounts receivable have been reduced by the amount sold totaling € 638.4 million (1999: € 466.2 million) as part of factoring and asset backed securitization programs. € 6.6 million of the amounts sold was overdue. In 2000, € 229.8 million was raised through new programs. € 151.6 million of existing programs expired. The remaining cash flow changes resulted mainly from the retained interests of the sold receivables.

(13) Other Assets and Amounts Receivable

In millions of €	12/31/2000	12/31/1999
Amounts receivable from affiliated companies	0.5	1.5
Amounts receivable from associates	13.5	13.2
Other assets and amounts receivable	801.9	628.7
Allowances	90.8	113.4
	725.1	**530.0**

€ 269.4 million (1999: € 177.1 million) of other assets and amounts receivable has a term of more than one year. Other assets and receivables include € 87.7 million (1999: € 60.6 million) net pension assets, as well as € 243.0 million (1999: € 204.4 million) in deferred tax assets.

On December 31, 2000, other assets included the retained interest of the accounts receivable sold totaling € 136.2 million (1999: € 38.0 million).

In relation to the receivables sold, € 29.9 million has been disclosed as other accruals for sales discounts. Allowances were recognized for expected bad debts. As a result, the fair value of the retained interests of accounts receivable sold amounted to € 103.2 million.

(14) Marketable Securities

Marketable securities consist primarily of fixed-interest promissory loans, which are held until maturity.

(15) Cash and Cash Equivalents

Cash and cash equivalents comprise bank balances, cash-in-hand, central bank balances and checks. They have an original maturity of three months or less.

(16) Consolidated Statements of Cash Flow

The following payments are included in net cash provided by operating activities:

In millions of €	2000	1999
Interest paid	195.5	173.0
Income tax paid	123.9	95.4

(17) Prepaid Expenses

This item mainly consists of prepayments of rent, leasing fees, interest and insurance premiums.

(18) Shareholders' Equity

Number of no-par value shares	2000	1999
Subscribed common stock		
January 1	127,909,094	115,012,390
Change due to employee shares	276,564	281,715
Change due to conversions and exercise of options	5,619,160	1,113,750
Change due to capital increase	–	11,501,239
Change due to acquisition of treasury shares	– 8,089,256	–
December 31	**125,715,562**	**127,909,094**

The subscribed common stock increased by € 0.7 million compared with the prior year due to the issue of employee shares, and by € 14.4 million due to conversions and exercise of options. The acquisition of treasury shares reduced subscribed common stock by € 20.7 million.

As a result of the resolution passed at the General Shareholders Meeting on June 5, 1998, the Company has an original authorized capital of € 102.3 million with which to issue new shares by June 4, 2003. Of this sum, € 72.9 million remains unused, as in the previous year.

Following the resolution passed at the General Shareholders Meeting on June 4, 1997, the Company had authorized capital originally totaling € 5.1 million to issue employee shares. Issuing employee shares with a total stated value of € 0.7 million caused a reduction in this authorized capital to € 2.6 million.

0.696 million of the conversion rights granted under the 1996 stock option plan for members of the Executive Board and senior managers have not yet been exercised. Every € 0.51 of the convertible loan entitles the holder to convert this to one share of Continental AG. 0.076 million conversion rights granting the holder the entitlement to convert them into one share each were exercised for the last time under the 1990 convertible loan, which expired in the fiscal year. The bonds with warrants issued by Conti Gummi Finance B.V., Amsterdam/The Netherlands in 1993 also expired during fiscal year 2000. A total of 5.537 million options were exercised.

279,500 of the total of 1,564,664 options from the stock option plan for members of the Executive Board and managing directors set up in 1999 have been issued. Each option entitles the holder to subscribe for one share.

The 2% 1999/2004 convertible bond issued on October 25, 1999 is linked to the right to subscribe for 38.83 shares when exchanging a bond with a principal amount of € 1,000. This represents up to 9,707,500 no-par value shares.

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

In millions of €	2000
Conditional capital as of December 31, 1999	122.6
Decrease: Conversion and option rights	14.8
Addition: Conversion and option rights	–
Conditional capital as of December 31, 2000	**107.8**

The reserves include the additional paid-in capital and retained earnings of Continental AG of € 965.1 million and € 171.5 million respectively. In 2000, a dividend of € 0.46 per share for fiscal year 1999 was paid from Continental AG's net income available for distribution, for a total payout of € 58.8 million. The remainder was carried forward to new account.

Under the German Public Companies Act, the dividends distributable to the shareholders are equivalent to Continental AG's net income available for distribution, as reported in the annual financial statements prepared in accordance with the German Commercial Code. Based on the assumption that the amount of treasury stock held at the year-end will not change up to the Annual General Shareholders Meeting, the dividend-eligible capital stock amounts to € 321.8 million and the amount distributed to € 64.1 million. This corresponds to 31.3% (1999: 25.1%) of the consolidated net income for the period.

(19) Stock-Based Compensation

Defined Stock Option Plans

The Company has two defined stock option plans, which were established in 1990 and 1996. All senior executives are entitled to exercise one stock option for one Continental share, which may be exercised by taking out convertible loans. The conversion price corresponds to the stock exchange price of Continental shares on the day the convertible loan was issued. The deadline for conversion under the 1990 stock option plan expired during the year ended December 31, 2000. With regard to the conversion of the 1996 stock option plan, the first half may be exercised for the first time after six months and the second half may be exercised for the first time after 24 months. They may not be exercised after 2005.

The conversion rights granted by Continental on the basis of the 1990 and 1996 defined stock option plans changed as follows:

Convertible Bond 1990	2000		1999	
	Number of conversion rights	Average exercise price	Number of conversion rights	Average exercise price
	1,000 shares	**€/share**	**1,000 shares**	**€/share**
At January 1	82.0	12.89	117.4	12.93
Granted	–	–	–	–
Exercised	76.0	12.89	31.4	13.20
Expired	6.0	12.85	4.0	13.20
Still outstanding at year-end	–	–	82.0	12.89
Exercisable on December 31	–	–	82.0	12.89

Convertible Bond 1996	2000		1999	
	Number of conversion rights	Average exercise price	Number of conversion rights	Average exercise price
	1,000 shares	**€/share**	**1,000 shares**	**€/share**
At January 1	720.8	17.21	411.4	15.87
Granted	–	–	333.6	18.70
Exercised	6.0	11.57	16.2	13.80
Expired	18.8	24.53	8.0	17.14
Still outstanding at year-end	696.0	18.60	720.8	17.21
Exercisable on December 31	533.6	17.62	357.2	16.22

These relate to defined stock option plans that do not lead to recognition of personnel expenses in the consolidated statement of income.

The weighted-average present value of conversion rights granted under the 1996 defined stock option plan amounts to € 9.05 for the conversion rights granted in 1999 and it is calculated using the Black Scholes method.

Variable Stock Option Plan

With the consent at the Annual Shareholders Meeting on June 1, 1999, Continental AG has launched a variable stock option plan ("1999 stock option plan"). The plan grants stock options in the form of subscription rights to certain senior executives. Each subscription right granted under this plan carries the right to subscribe for one share. Following a lock-up period of three years starting from the date on which the Executive Board resolves to grant the subscription rights, these stock options may be exercised, i.e. the corresponding number of shares of Continental AG can be subscribed, within certain exercise windows during the subsequent two years.

These subscription rights may, however, only be exercised if the average market price of Continental shares in the Xetra closing auction (average closing price) on the Frankfurt Stock Exchange during the ten trading days prior to the respective exercise window is at least 15% (= exercise hurdle) above the average closing price during the ten trading days prior to the issue date.

The subscription price thus amounts to at least 115% of the market price immediately prior to granting the options, less a performance discount and an outperformance discount.

The performance discount is calculated as a function of the change in the Corporation's EBIT margin. The outperformance discount reduction is calculated on the basis of the performance of Continental's shares in comparison to the performance on the MDAX.

Stock options from this program may be exercised for the first time in November 2002.

The stock option plan developed as follows:

Stock Option Plan 1999	**2000**		**1999**	
	Number of conversion rights	Average remaining maturity	Number of conversion rights	Average remaining maturity
	1,000 shares	**€/share**	**1,000 shares**	**€/share**
At January 1	144.5	24.13	–	–
Granted	145.0	22.68	147.5	24.13
Exercised	–		–	
Expired	10.0	23.48	3.0	24.13
Still outstanding				
at year-end	279.5	23.40	144.5	24.13
Exercisable on				
December 31	–		–	

The present value of the variable stock options was calculated at the time the rights were granted on the basis of an option price model that takes the exercise hurdles into account. The present value is determined on the basis of the following assumptions:

	2000	**1999**
Present value	€ 6.95	€ 6.92
Dividend yield	2%	2%
Volatility	28%	24%
Risk-free rate	5%	5%
Period of validity	5 years	5 years

The weighted-average present value of the variable stock option plan is calculated using a model based on the Black Scholes method, taking the exercise hurdles into account.

Pro Forma Calculation

If the cost of the stock option plans had been calculated according to FAS 123 on the basis of the present value at the time the rights were granted, consolidated net income for the year and the diluted earnings per share would have changed as follows:

	2000
Profit for the year	204.7
Effect of stock option plans	1.6
Pro forma annual result	203.1
Fully diluted earnings per share	1.53
Pro forma fully diluted earnings per share	1.52

(20) Accrued Liabilities

Accrued liabilities can be broken down as follows:

	12/31/2000		**12/31/1999**	
In millions of €	**Total**	**thereof > 1 year**	**Total**	**thereof > 1 year**
Pensions and similar obligations	1,081.9	995.7	1,041.3	923.7
Taxes	304.6	238.9	322.2	165.9
Other risks	392.0	134.8	478.8	151.2
	1,778.5	**1,369.4**	**1,842.3**	**1,240.8**

a) Pensions and Similar Obligations

The accruals for pensions and similar obligations relate to:

Pension Plans

In Germany, Austria, Belgium, the United Kingdom, the US and Portugal, pension obligations exist as a result of general and individual plans. In the US and the United Kingdom, pension funds have been set up to finance and settle these agreements. The plan assets of these funds are netted with the related pension accruals.

In millions of €	**12/31/2000**	**12/31/1999**
Pension obligations (pension plans)	681.1	685.9
Postemployment health and		
life insurance benefits	291.8	265.5
Similar obligations	21.3	29.3

The following information about Continental's pension plans is divided into US pension plans, German pension plans, and other pension plans, mainly those in Austria. The other obligations relate to obligations for payments to employees once they leave the company.

Pension Plans	12/31/2000			12/31/1999		
In millions of €	Germany	US	Other	Germany	US	Other
Change in benefit obligations						
Benefit obligations at beginning of year	705.6	447.6	214.9	649.4	361.7	185.5
Foreign currency translation	–	34.3	– 1.5	–	61.5	19.2
Current service cost	13.8	14.6	10.2	14.2	11.7	8.3
Interest cost on projected benefit obligation	41.2	36.0	11.9	38.0	27.1	10.6
Plan amendments	–	11.3	–	– 0.7	28.1	–
Actuarial gains/losses	– 3.4	15.4	0.2	38.1	– 19.3	2.4
Changes due to curtailments/settlements	–	–	–	–	2.6	–
Acquisition, disposal and other changes*	– 1.5	–	17.5	– 0.6	–	0.7
Benefit payments and fund contributions	– 34.8	– 29.0	– 11.4	– 32.8	– 25.8	– 11.8
Benefit obligations at year-end	720.9	530.2	241.8	705.6	447.6	214.9
Change in plan assets						
Fair value of plan assets at beginning of year	–	482.7	178.6	–	407.2	149.6
Foreign currency translation	–	37.4	– 1.2	–	68.2	19.9
Actual return on plan assets	–	– 1.4	12.9	–	32.7	11.6
Employer contributions	–	26.3	4.8	–	0.4	4.0
Acquisition, disposal and other changes*	–	–	24.0	–	–	0.7
Benefits paid	–	– 29.0	– 7.8	–	– 25.8	– 7.2
Fair value of plan assets at year-end	–	516.0	211.3	–	482.7	178.6

* The amount is mainly due to the acquisition of Teves in September 1998. At that time pension obligations at Continental Teves UK were estimated to be € 4.7 million. According to an agreement concluded at the time of the purchase, the related plan assets, which were held by ITT Industries, were also to be transferred to Continental Teves UK. This transfer was concluded in November 2000 and the entire pension obligations and the entire asset value were taken into account accordingly.

The remaining balance reflects the disposal of Bamberger Kaliko, Germany.

The following table shows the reconciliation of the funded status to the amounts contained in the balance sheet:

	12/31/2000			12/31/1999		
In millions of €	Germany	US	Other	Germany	US	Other
Funded status*	– 720.9	– 14.2	– 30.5	– 705.6	35.1	– 36.3
Unrecognized actuarial gains/losses	34.7	36.8	– 6.4	38.1	– 26.0	– 1.3
Unrecognized prior service costs from						
plan amendments	– 0.7	48.5	– 3.3	– 0.7	37.0	– 3.8
Additional minimum liability	– 23.7	–	– 1.4	– 21.1	– 0.1	– 1.2
Amount recognized	– 710.6	71.1	– 41.6	– 689.3	46.0	– 42.6
The amount recognized in the balance sheet						
comprises the following balance sheet items:						
Other assets and amounts receivable	0.4	79.8	7.5	0.4	56.7	3.5
Pension accruals	– 710.6	– 8.7	– 49.1	– 689.3	– 10.7	– 46.1
Thereof additional minimum liability	– 23.7	–	– 1.4	– 21.1	– 0.1	– 1.2
Other comprehensive income, net	23.3	–	1.4	20.7	–	1.2
Net amount recognized	– 710.6	71.1	– 41.6	– 689.3	46.0	– 42.6

* Difference between plan assets and benefit obligations.

The assumptions used for calculating the pension obligations with regard to discount, salary increases and the long-term rates of return on plan assets vary according to the economic situation of the country in which the pension plan has been established. In the principal pension plans, the following weighted-average assumptions have been used:

	12/31/2000			12/31/1999		
in %	Germany	US	Other	Germany	US	Other
Average valuation factors as of December 31						
Discount rate	6.0	7.5	5.0	6.0	7.5	5.1
Expected long-term return on plan assets	–	9.5	7.4	–	9.0	2.4
Long-term rate of compensation increase	2.8	5.0	3.9	2.5	5.0	3.7

Net pension expenses can be broken down as follows:

	12/31/2000			12/31/1999		
In millions of €	Germany	US	Other	Germany	US	Other
Current service cost:	13.8	14.6	10.2	14.2	11.7	8.3
Interest cost on projected benefit obligation	41.2	36.0	11.9	38.0	27.1	10.6
Expected return on plan assets	–	– 48.5	– 13.5	–	– 39.1	– 12.0
Amortization of actuarial losses/gains	0.1	–	0.1	–	–	–
Amortization of prior service cost	–	2.6	– 0.2	–	0.5	–
Amortization of settlement	–	–	–	–	2.6	–
Other pension expenses	–	–	0.2	–	–	0.5
Net periodic pension cost	55.1	4.7	8.7	52.2	2.8	7.4

Other Post Employment Benefits

Certain subsidiaries in the USA grant eligible active and retired employees payments for healthcare and life insurance. These employees can continue to receive these payments after leaving Continental, if they have fulfilled certain conditions relating to age and years of service. However, these payments and the right to them may be altered regularly or terminated.

In millions of €	2000	1999
Change in benefit obligations		
Benefit obligations at beginning		
of year under review	252.3	221.5
Foreign currency translation	18.9	36.5
Current service cost:	4.6	3.8
Interest cost on projected benefit obligation	20.9	16.9
Actuarial gains/losses	22.7	– 13.2
Plan amendments	27.0	–
Benefit payments	– 20.4	– 13.2
Benefit obligations at end		
of year under review	326.0	252.3

No separate plan assets have been allocated to these additional payments. A corresponding obligation is thus recognized in liabilities.

The following table shows the reconciliation of the funded status to the amounts contained in the balance sheet:

In millions of €	12/31/2000	12/31/1999
Funded status*	– 326.0	– 252.3
Unrecognized actuarial gains/losses	34.2	– 13.2
Net amount recognized	**– 291.8**	**– 265.5**

* Difference between plan assets and benefit obligations.

The assumptions used to calculate the healthcare and life insurance benefits with regard to discount, healthcare and life insurance costs vary according to the economic situation in the USA. The following weighted-average assumptions were used:

in %	2000	1999
Average valuation factors		
as of December 31		
Discount rate	7.5	7.5
Rate of increase in healthcare and		
life insurance benefits	6.7	6.8
Ultimate healthcare inflation rate to 2007	5.2	5.3

The net costs of healthcare and life insurance benefit obligations can be broken down as follows:

In millions of €	2000	1999
Current service cost:	4.6	3.8
Interest cost on projected benefit obligation	20.9	16.9
Amortization of actuarial losses/gains	0.1	–
	25.6	**20.7**

The following table shows the effects of a one percentage point increase or decrease in healthcare benefits and life insurance benefits.

In millions of €	2000	1999
1% increase:		
Effects on service and interest costs	25.9	20.8
Effects on benefit obligations	314.2	243.3
1% decrease:		
Effects on service and interest costs	22.7	18.8
Effects on benefit obligations	306.0	237.3

Accruals for Obligations Similar to Pensions

Certain companies of the Corporation have made commitments to employees for which the company's costs are based on a fixed percentage of the employees' compensation. These payments are made when the employees leave the company; in 2000, they amounted to € 2.6 million (1999: € 3.8 million).

b) Accruals for Taxes

Accruals for taxes including deferred tax liabilities decreased in 2000 by € 17.6 million to € 304.6 million (1999: € 322.2 million).

c) Other Accruals

These accruals relate primarily to:

In millions of €	12/31/2000	12/31/1999
Warranties	105.1	86.5
Restructuring accruals	49.2	105.2
Anniversary bonuses for		
long-serving employees	25.4	24.2
Litigation and environmental risks	51.0	49.6
Other accruals	161.3	213.3
	392.0	**478.8**

In contrast to the previous year, € 26.1 million was disclosed as other liabilities rather than accruals in 2000; this sum mainly relates to workforce expenditures. The remaining accruals contain, among other things, workers' compensation in North America, sales discounts, rental obligations for unused premises and legal costs in connection with product liability obligations.

Restructuring Accruals

In millions of €	Severance payments	Closure costs	Total
At January 1, 1999	75.0	43.0	118.0
Utilization	34.5	5.6	40.1
Additions	13.8	13.5	27.3
At December 31, 1999	**54.3**	**50.9**	**105.2**
Utilization	18.5	26.6	45.1
Retransfer	10.4	3.4	13.8
Additions	2.9	–	2.9
At December 31, 2000	**28.3**	**20.9**	**49.2**

In the year 2000, these were mainly utilized in connection with the closure of plants in Gretz, France and Newbridge, United Kingdom.

(21) Indebtedness

in millions of €	12/31/2000	thereof with a term of up to 1 year	thereof with a term of more than 5 years	12/31/1999	thereof with a term of up to 1 year	thereof with a term of more than 5 years
Bonds[1]	869.4	–	546.0	1,017.5	202.9	500.8
Bank loans and overdrafts[2]	1,145.7	532.2	17.0	918.9	681.2	26.0
Lease liabilities	49.3	1.2	43.6	48.0	0.1	45.2
Liabilities on bills drawn and payable	0.3	0.3	–	0.2	0.2	–
Other indebtedness	170.0	84.7	12.1	168.1	96.6	67.4
	2,234.7	**618.4**	**618.7**	**2,152.7**	**981.0**	**639.4**

1) thereof € 255.2 million (previous year: € 379.8 million) in convertible bonds
2) thereof € 1.4 million (previous year: € 1.5 million) secured by land charges, mortgages and similar securities

After subtracting marketable securities, cash and cash equivalents of € 216.8 million (1999: € 439.9 million) the total net indebtedness amounted to € 2,017.9 million (1999: € 1,712.8 million).

Breakdown of Bonds

Issuer	Type	Option for	Issuing amount in millions of €	Book value as of 12/31/2000	Coupon p.a.	Date of issue/ Maturity	Issue price	Subscription price in €
CRoA	Eurobond	–	500.0	546.0	5.25%	1999/07.2006	99.09%	–
CAG	Convertible bonds	Shares	250.0	254.8	2.00%	1999/10.2004	100.00%	25.75
CRoA	Bonds[1]	–	65.7	68.2	4.75%	1987/10.2002	127.00%	–
CAG	Convertible bonds[2]	Shares	0.5	0.4	6.75%	1996/06.2005	–	min. 10.2
				869.4				

1) The issuing price of 127% includes the option rights from the stock warrants that expired on October 6, 1997.
2) Share option plan for senior executives.

In 2000, € 205 million was used to repay a bond with warrants, a zero-coupon bond and a convertible loan.

Continental Rubber of America, Corp. issued a Eurobond in the principal amount of € 500 million in 1999 in connection with the financing of an investment. This bond was converted to US dollars through matched compound interest and currency swaps. As a result, the book value of the bond was as through a bond denominated in US dollars and valued at the converted amount of € 546 million.

In January 2001, Continental underwrote an unlimited European Medium Term Note program of € 1,000 million in order to optimize its financing strategy. Under this master program, Continental AG and Continental Rubber of America Corp. can issue instruments in all key currencies that are guaranteed by Continental AG.

Breakdown of Financing Commitments from Banks

Company	Type	Amount in millions of €	Value on 12/31/2000 in millions of €	Interest	Maturity
CUK	Syndicated Euroloan	112.1	112.1	variable	06/2001
CAG	Long-term bank loan	120.1	120.1	5.40%	11/2001
CAG, CRoA, CB	Syndicated Euroloan	1,500.0	452.7	variable	12/2003
CAG	Promissory loans	50.0	50.0	fixed	12/2003
CAG	Promissory loans	20.0	20.0	fixed	12/2005
Conti Matador	Syndicated Euroloan	60.0	50.0	variable	09/2006
Conti Matador	Long-term bank loan	50.0	15.0	fixed	04/2009
Diverse	Short-term bank lines	689.1	325.8	variable	usually < 1 year
Financing commitments from banks		**2,601.3**			
Bank loans and overdrafts			**1,145.7**		

In addition, the Corporation established a Euro commercial paper program with a volume of € 750 million in 2000 in order to meet short-term capital requirements; this had not been drawn down at the balance sheet date (December 31, 2000).

In addition to the commitments from banks, the Company also has an additional loan commitment that is valued at € 60 million and disclosed under other indebtedness.

CUK = Continental UK Group Holdings Ltd., Newbridge, United Kingdom
CAG = Continental Aktiengesellschaft, Hanover, Germany
CRoA = Continental Rubber of America Corp., Wilmington, Delaware, US
CB = Continental Benelux S.A., Zaventem, Belgium
Conti Matador = Continental Matador s.r.o., Púchov, Slovak Republic

The company's indebtedness will mature within the next five years and thereafter as follows:

In millions of €	2001	2002	2003	2004	2005	thereafter
Total indebtedness	618.4	111.4	518.9	270.8	96.5	618.7

At the end of the year, short-term credit lines amounting to € 363.3 million (1999: € 1,090.6 million) were still available. Available long-term credit lines amount to € 1,092.3 million (1999: € 1,265.1 million).

Lease Liabilities

In millions of €	2001	2002	2003	2004	2005	thereafter
Lease liabilities	1.2	1.2	1.2	1.1	1.0	43.6

(22) Other liabilities

	12/31/2000			12/31/1999		
In millions of €	**Total**	thereof < 1 year	thereof > 5 years	**Total**	thereof < 1 year	thereof > 5 years
Trade accounts payable	902.6	902.6	–	752.4	752.4	–
Liabilities to affiliated companies	4.1	3.6	–	4.7	4.2	–
Payables to associates	14.4	14.4	–	16.3	16.3	–
Other liabilities	691.1	594.1	0.4	732.4	626.8	13.4
	1,612.2	**1,514.7**	**0.4**	**1,505.8**	**1,399.7**	**13.4**

Other liabilities include payroll obligations for the month of December and tax liabilities. These include taxes amounting to € 105.0 million (1999: € 132.3 million) and social security liabilities of € 47.8 million (1999: € 61.8 million).

(23) Litigation and Compensation Claims

Various lawsuits, official investigations, administrative proceedings, and other claims against consolidated companies are pending or may be initiated or asserted in the future, including class actions and suits for substantial damages or other compensation, which could involve considerable expenses. Litigation is subject to many uncertainties, and the outcome of individual proceedings cannot be predicted with high assurance. There is a possibility that Continental may incur expenses as a result of the final judgments in some of these cases which exceed the accruals recognized for this purpose and whose timing and amount cannot be reliably predicted. The outcome of such cases may have a material effect on Continental's earnings in the reporting period in which the accruals are adjusted. However, in view of the existing accruals, the obligations that may result will not, in our opinion, have a material effect on the Corporation's overall financial position.

Foundation of German Companies

Several class actions in the US and individual actions in Germany have been brought against Continental and other German companies in connection with forced labor during World War II. We believe that these actions are neither admissible nor justified by law.

Continental does, however, support the "Foundation of German Companies: Remembrance, Responsibility and Future", proposed by various German companies and the German Government. As the Foundation has already been formed, Continental is checking whether participation would ensure acceptable legal certainty that no further claims will be asserted in this connection.

(24) Guarantees and Other Financial Obligations

In millions of €	12/31/2000	12/31/1999
Contingent liabilities on notes	101.7	118.9
Liabilities on guarantees	16.4	16.5
Liabilities on warranties	2.2	3.1

The potential obligations relate primarily to guarantees for the liabilities of non-consolidated associated companies and third parties, as well as to contractual warranties of joint ventures.

Continental may have obligations relating to environmental issues under governmental regulations and statutes or as a result of various claims and proceedings that are pending or might be asserted or initiated against it. Estimates of future expenses in this area are naturally subject to many uncertainties, such as the enactment of new statutes and regulations, the development and application of new technologies, the identification of land restoration projects for which Continental is legally liable, for which it is responsible.

Continental conducts recall and voluntary exchange actions with regard to the products it has sold insofar as this is prescribed by law, or deemed necessary and appropriate in order to guarantee the satisfaction of its customers and compliance with its own safety standards. The Corporation's warranty accruals also include the anticipated expenses for such measures. Estimates of these anticipated expenses are primarily based on previous experience. Estimates of future expenses are naturally subject to numerous uncertainties, such as the enactment of new laws and regulations, the number of products sold or the type of measures to be taken, all of which could lead to an adjustment of the accruals. There is a possibility that the actual expenses for these measures will exceed the accruals by a significant amount. The actual expenses may have a material effect on Continental's earnings in the reporting period in which accruals are adjusted. However, considering the existing accruals, the possible obligations will not, in our opinion, have a material effect on the Corporation's overall financial position.

In 2000, expenses for operating leases and rental agreements amounted to € 120.3 million (1999: € 107.8 million).

Future obligations related to expenses for operating leases and rental agreements with an original or remaining term of more than one year on December 31, 2000, for property amount to:

Leasing and Rental Agreements

In millions of €	
2001	149.9
2002	116.8
2003	83.8
2004	62.1
2005	48.5
thereafter	241.7

Purchase commitments for property, plant and equipment amount to € 143.5 million.

(25) Financial Instruments

a) Interest and Currency Management

Currency forwards, currency swaps and currency options are actively used to manage currency exposure. Currency exposure is defined as net cash flows per currency on a rolling 12-month basis. The maturities of these hedges do not normally exceed twelve months.

The Continental Group's interest management activities make use in particular of FRAs, interest rate futures, interest rate swaps and interest rate/currency swaps and interest rate options. They are used above all to hedge interest rate risks and to optimize financing costs.

b) Nominal Values, Fair Value and Counterparty Risk

The nominal values of derivatives listed below do not represent the payments agreed by the contracting parties. Rather, they are used as a basis for measuring payment and are therefore not an indication of the risk to which Continental is exposed. The actual payment flows take account of exchange rates, interest rates and other conditions.

The nominal values of derivatives amount to:

In millions of €	12/31/2000	12/31/1999
Currency hedges	179.4	–
Interest hedges	100.0	30.7

The fair value of a financial instrument is the price at which it could be sold on the market at a given date. The fair values were determined on the basis of the market conditions (exchange rates, interest rates) prevailing on the balance sheet date. In view of a number of variables, the values listed here may differ from the values subsequently realized on the market.

The currency hedges that existed on December 31, 2000 were concluded only a few days before the balance sheet date. For this reason, the book value differs only slightly from the nominal value. In addition, there were two interest rate hedges with a negative fair value totaling € 0.1 million.

Owing to the short term of these financial instruments, the book values recorded under cash, cash equivalents and other amounts receivable or payable are approximately the same as the fair values.

The Corporation is exposed to a counterparty risk resulting from the potential breach of contractual obligations by its counterparties. Our contract partners are generally prime-rated domestic and international banks. Ongoing monitoring of their creditworthiness includes the counterparty ratings published by specialized rating agencies. Continental is not exposed to any substantial risk in relation to its dependence on individual contracting parties. The general counterparty risk from the derivatives used is not deemed to be significant.

(26) Segment Reporting

The internal organizational structure of the company is described below:

Continental Automotive Systems

In addition to the ISAD and CASS business units (air springs for passenger cars), this segment mainly consists of Continental Teves, which develops, produces and distributes ATE brand electronic braking systems, brakes and brake boosters worldwide.

Passenger Tires

This segment manufactures and distributes passenger tires in the European original equipment and replacement markets under the Continental, Uniroyal, Semperit, Barum, Gislaved, Viking and Mabor brands. It also runs the European tire dealer companies.

Commercial Vehicle Tires

This segment manufactures and distributes truck tires in the European original equipment and replacement markets. It also focuses on industrial, agricultural and two-wheel (motorbike and bicycle) tires and the Conti International Group, which manages and coordinates all our business outside Europe and the NAFTA area.

Continental Tire North America

This segment handles original equipment and replacement business in the NAFTA area in particular for tires for passenger cars, trucks and earth-moving machinery under the Continental, General Tire and Euzkadi brands.

ContiTech

This segment mainly produces and distributes rubber-based industrial products worldwide, such as elastomer coatings, air springs, conveyor belting, drive belts, hoses, extrusions, rubber-metal parts and plastic sheeting, primarily under the ContiTech brand.

Other

These are directly managed subsidiaries and affiliates, such as holding, financing and insurance companies. The segment also includes the holding function of Continental Aktiengesellschaft and consolidations.

Control and reporting within the Continental Group is based on United States Generally Accepted Accounting Principles (US GAAP) described in Note (1). The Corporation measures the success of its segments on the basis of their operating result (EBIT) and the return on capital (ROCE), which is expressed as EBIT as a percentage of operating assets.

Inter-segmental sales and revenue are substantially calculated at arm's-length prices.

Sales are allocated to countries according to the country-of-destination principle.

Segment reporting

In millions of €	Continental Automotive Systems	Passenger Tires	Commercial Vehicle Tires	Continental Tire NA	ContiTech	Other	Continental Group
2000							
Sales	3,023.1	2,639.3	976.4	1,762.9	1,787.2	– 73.9 [3]	10,115.0
EBIT	100.4	177.4	35.6	11.5	138.6	– 31.1	432.4
as % of sales	3.3	6.7	3.6	0.7	7.8	–	4.3
Capital expenditure [1]	203.7	211.3	103.5	105.9	86.6	4.2	715.2
as % of sales	6.7	8.0	10.6	6.0	4.8	–	7.1
Depreciation, amortization and write-downs [2]	200.9	198.7	56.3	123.8	79.2	2.2	661.1
Operating assets	2,200.4	1,498.8	702.9	1,399.8	838.4	974.9	7,615.2
ROCE	4.6	11.8	5.1	0.8	16.5	–	5.7
Number of employees at Dec. 31	12,251	18,096	8,709	8,826	15,806	144	63,832
1999							
Sales	2,543.8	2,546.9	879.1	1,494.3	1,715.8	– 47.7 [3]	9,132.2
EBIT	58.7	270.4	47.8	73.8	129.8	– 69.2	511.3
as % of sales	2.3	10.6	5.4	4.9	7.6	–	5.6
Capital expenditure [1]	155.9	185.8	61.6	111.8	106.2	4.3	625.6
as % of sales	6.1	7.3	7.0	7.5	6.2	–	6.9
Depreciation, amortization and writedowns [2]	185.9	157.1	49.4	106.2	77.2	1.0	576.8
Operating assets	2,207.1	1,524.4	661.4	1,287.3	828.1	895.5	7,403.8
ROCE	2.7	17.7	7.2	5.7	15.7	–	6.9
Number of employees at Dec. 31	11,343	17,694	8,654	9,019	15,307	138	62,155

1) Capital expenditure on property, plant and equipment and software
2) Includes amortization of goodwill and investments
3) Elimination of intercompany sales € –172.0 million (1999: € –169.5 million) and incidental revenues amounting to € 98.1 million (1999: € 121.8 million)

Reconciliation of EBIT to Consolidated Net Income for the Year

In millions of €	2000	1999
Continental Automotive Systems	100.4	58.7
Passenger Tires	177.4	270.4
Commercial Vehicle Tires	35.6	47.8
Continental Tire North America	11.5	73.8
ContiTech	138.6	129.8
Other	– 31.1	– 69.2
Consolidated EBIT	**432.4**	**511.3**
Net interest expense	– 182.2	– 151.9
Income before taxes	**250.2**	**359.4**
Income taxes	50.7	117.2
Minority interests	– 5.2	7.5
Consolidated net income for the period	**204.7**	**234.7**

(27) Data by Region

In millions of €	Germany	Rest of Europe	North America	Other Countries	Continental Group
2000 sales	**3,149.0**	**3,548.4**	**2,761.4**	**656.2**	**10,115.0**
1999 sales	2,864.7	3,391.3	2,337.8	538.4	9,132.2
Number of employees at Dec. 31, 2000	**25,436**	**23,681**	**11,423**	**3,292**	**63,832**
Number of employees at Dec. 31, 1999	24,565	23,171	11,272	3,147	62,155

(28) Earnings per Share

The key figures for earnings per share are shown below:

In millions of €/millions of shares	2000	1999
Consolidated net income for the year	204.7	234.7
Weighted average number of shares issued	128.0	122.8
Basic earnings per share	**1.60**	**1.91**
Consolidated net income for the year	204.7	234.7
Interest expense for convertible bonds and bonds with warrants, net of taxes	7.7	2.1
Fully diluted earnings per share	212.4	236.8
Weighted average number of shares issued	128.0	122.8
Shares from the potential conversion of dilutive options	10.7	6.5
Shares from potential conversion of dilutive options	138.7	129.3
Fully diluted earnings per share	**1.53**	**1.83**

Significant consolidated companies

Company (using uniform Corporation accounting principles)	Equity interest in %	Shareholders' equity 2000 € 000	Earnings 2000 € 000	Earnings 1999 € 000	Sales 2000 € 000	Employees 12/31/2000
1. Affiliated Companies Germany						
Benecke-Kaliko AG, Hanover	100.0	57,377	– 1,658 *	26,188	287,486	1,508
Continental Teves AG & Co. oHG, Frankfurt/Main	100.0	62,114	85,374	60,165	1,494,029	5,301
ContiTech Antriebssysteme GmbH, Hanover	100.0	10,277	991 *	1,191 *	162,296	1,071
ContiTech Vibration Control GmbH, Hanover	100.0	13,770	1,891 *	2,275 *	193,172	1,264
ContiTech Luftfedersysteme GmbH, Hanover	100.0	4,762	1,132 *	898 *	107,702	670
ContiTech Schlauch GmbH, Hanover	100.0	13,734	806 *	1,045 *	205,304	1,905
ContiTech Transportbandsysteme GmbH, Hanover	100.0	7,762	– 459 *	1,218 *	102,943	622
ContiTech Techno-Chemie GmbH, Karben	100.0	13,351	83 *	– 446 *	202,939	1,593
Vergölst GmbH, Bad Nauheim	87.5	8,315	– 16,661	– 6,617	208,432	1,515
2. Affiliated Companies International						
Barum Continental spol.sr.o.,						
Otrokovice, Czech Republic	85.0	193,483	37,220	41,892	568,150	3,967
Continental Benelux S.A., Herstal-lez Liége, Belgium	100.0	135,888	30,566	50,591	683,664	1,719
Continental France SNC, Clairoix, France	100.0	19,805	4,023	7,566	268,170	173
Continental Tire North America Inc.,						
Charlotte, North Carolina/U.S.A.	80.6	289,790	– 11,068	132,427	1,537,813	6,206
Continental Gislaved Däck AB, Gislaved, Sweden	100.0	72,952	– 2,375	7,844	110,573	787
Continental Industrias del Caucho SA,						
Coslada, Madrid, Spain	100.0	27.670	3,184	2,694	156,659	341
Continental Mabor Indústria de Pneus S.A.,						
Lousado, Portugal	100.0	129,686	32,757	29,610	263,622	1,113
Continental Pneus SNC, Sarreguemines, France	100.0	86,582	25,574	23,441	369,822	2,396
Continental Suisse S.A., Dietikon, Switzerland	100.0	20,311	1,630	1,681	84,112	86
Continental Teves Czech Republic, s.r.o.,						
Jicin, Czech Republic	100.0	38,887	7,283	2,949	181,751	748
Continental Teves Inc., Auburn Hills, Michigan, U.S.A.	100.0	– 23,891	– 9,818	– 7,534	972,628	2,345
Continental Teves UK Ltd., Ebbw Vale, U.K.	100.0	50,548	1,933	11,626	132,048	564
Continental Tire de Mexico, S.A. de C.V., Mexico	80.6	171,547	– 2,083	508	365,996	2,621
Continental Tyre Group Ltd.,						
West Drayton, U.K.	100.0	26,369	1,552	1,026	210,814	186
Continental Tyre South Africa (Pty) Ltd.,						
Port Elizabeth, South Africa	60.0	28,406	– 50	1,545	142,757	1,979
ContiTech AGES S.p.A., Santena, Italy	100.0	32,868	– 6,826	– 6,647	75,119	631
ContiTech Anoflex SNC, Caluire, France	100.0	15,837	– 823	– 2,548	141,962	1,415
National Tyre Service Ltd., Stockport, U.K.	100.0	– 100,378	– 56,565	– 47,805	201,391	1,593
Semperit Reifen Ges.m.b.H, Wien, Austria	100.0	185,198	9,233	9,039	364,388	1,659
3. Associated companies						
Compania Ecuatoriana del Caucho, Cuenca, Ecuador	38.6	22,415	3,861	2,430	80,786	
Drahtcord Saar GmbH & Co. KG, Merzig/Saar	50.0	10,903	166	161	42,861	
The General Tire & Rubber Company of Morocco S.A.,						
Casablanca, Morocco	34.2	9,321	– 5,082	– 4,281	38,704	
KG Deutsche Gasrußwerke GmbH & Co.,						
Dortmund, Germany	32.1	7,669	767	767	73,286	

A full list of the companies of the Continental Group and Continental Aktiengesellschaft is filed with Hanover Local Court. The list is available for inspection by the shareholders of Continental Aktiengesellschaft, Hanover, at the company's offices.

* Earnings after profit and loss transfer

Report of the Supervisory Board

Dear Continental Shareholders,

The Supervisory Board of Continental AG monitored the work of the Executive Board in the year ended December 31, 2000 and provided advice where appropriate. The basis of its work were the meetings of the Supervisory Board, the sessions of the Executive Committee and separate discussions, as well as the oral and written reports it received from the Executive Board on the development of the Company and important business transactions. The members of the Supervisory Board were also regularly available for consultation by the Executive Board outside the meetings. In addition, the Chairman of the Supervisory Board and the Chairman of the Executive Board were in regular contact and exchanged information and ideas.

The Supervisory Board held four regular meetings in the year under review; the Executive Committee met twice. The permanent committee required under section 27 (3) Mitbestimmungsgesetz (German Co-determination Act) was not obliged to meet during the past fiscal year. No other Supervisory Board committees exist.

The discussions regularly covered ongoing detailed information on sales, earnings and employment developments at Corporation and segment level and the company's financial situation. In the meeting on December 7, 2000, the Supervisory Board discussed the financial and investment planning for the year ended December 31, 2001 and the long-term planning to 2003, as well as approving the budget for 2001.

Other important topics covered by the reports to and discussions of the Supervisory Board were Continental's strategy in regard to the use of new electronic media and its participation in Internet marketplaces. In December 2000 and in an extraordinary meeting held on February 12, 2001, the Supervisory Board evaluated in detail the future of the ContiTech Group and the decision of the Executive Board to take measures to dispose of it.

The annual financial statements for 2000 prepared by the Executive Board and the management report for Continental Aktiengesellschaft, including the bookkeeping and the risk management system, were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover. An unqualified audit opinion was granted.

The consolidated financial statements of Continental Aktiengesellschaft were prepared in accordance with US Generally Accepted Accounting Principles (US GAAP) and were supplemented by a group management report and additional information in accordance with section 292 a HGB (German Commercial Code). According to the latter section, the submission of the consolidated financial statements according to US GAAP releases the company from the obligation to prepare consolidated financial statements according to German law. The consolidated financial statements according to US GAAP and the management report that have been submitted were also issued with an unqualified audit opinion.

With regard to the risk management system, the auditor has declared that the Executive Board has taken the measures required under section 91 (2) Aktiengesetz (German Public Companies Act) and that the company's risk management system is suited to recognize risks that could threaten the continued existence of the company at an early stage.

All Supervisory Board members received the documents relating to the annual financial statements and the audit reports. These were discussed at length in the meeting of the Supervisory Board on March 30, 2001. The auditor was present at the meeting to discuss the annual financial statements and the consolidated financial statements. He reported on the key findings of the audit and was available to provide supplementary information to the Supervisory Board.

The Supervisory Board endorsed the results of the audit by the auditor on the basis of its own examination of the annual financial statements, the consolidated financial statements and the proposal for the appropriation of net income. It approved the annual financial statements, which are thereby adopted. The Supervisory Board has approved the proposal for the appropriation of net income made by the Executive Board.

In its meeting on September 27, 2000 the Supervisory Board appointed Dr. Wolfgang Ziebart as a member of the Executive Board with effect from October 1, 2000. He is responsible for the Continental Automotive Systems Division and replaces Mr. Hans Albert Beller, who retired on December 12, 2000. The Supervisory Board would like to thank Mr. Beller for his successful work on the Executive Board, and particularly in the establishment and development of the Continental Automotive Systems Division.

The Supervisory Board would like to thank the Executive Board, all employees and the employee representatives for their conscientious work and high level of commitment. It would also like to thank Continental's shareholders for their confidence in the company.

Hanover, March 2001

For the Supervisory Board

Hubertus von Grünberg
Chairman

Members of the Supervisory Board

Hubertus von Grünberg
Chairman

Richard Köhler*
Deputy Chairman

Heidemarie Aschermann*

Manfred Bodin

Diethart Breipohl

Werner Breitschwerdt

Michael Deister*

Wilfried Eickmann*

Michael Frenzel

Hans-Olaf Henkel

Karl-Heinz Hilker*

H. Peter Hüttenmeister*

Gerhard Knuth*

Werner Mierswa*

Rainer Stark*

Fred G. Steingraber

Dirk Sumpf *

Giuseppe Vita

Bernd W. Voss

Ulrich Weiss

* Employee representatives

Members of the Supervisory Board

Members of the Supervisory Board
of Continental AG
Memberships held in other Supervisory Boards required by law and in comparable controlling bodies of companies in Germany and abroad:

Hubertus von Grünberg
Chairman
Member of various Supervisory Boards
Allianz Versicherungs-AG, Munich
Deutsche Telekom AG, Bonn (since May 2000)
MAN Aktiengesellschaft, Munich (since February 2000)
Schindler Holding AG, Hergiswil, Switzerland

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

Heidemarie Aschermann
Deputy Chairperson of the Employee Council for the Northeim Plant

Manfred Bodin
Chairman of the Executive Board,
Norddeutsche Landesbank Girozentrale, Hanover
Bankgesellschaft Berlin AG, Berlin
Berlin-Hannoversche Hypothekenbank AG, Hanover-Berlin
CeWe Color Holding AG, Oldenburg
dvg Hannover Datenverarbeitungs-GmbH, Hanover
Nordland Papier AG, Doerpen
Dragoco Gerberding & Co. AG, Holzminden
Niedersächsisches Staatstheater Hannover GmbH, Hanover
Höft & Wessel AG, Hanover
Bremer Landesbank Kreditanstalt Oldenburg Girozentrale, Bremen*
DGZ-DekaBank Deutsche Kommunalbank, Frankfurt/Main*
LBS Norddeutsche Landesbausparkasse, Berlin-Hannover, Berlin/Hanover*
LHI Leasing GmbH, Munich (Chairman)*
NORD CON Asset Management Holding GmbH, Berlin (Chairman)*
Nord/LB Luxembourg S.A., Luxembourg (Chairman)*
Provinzial Lebensversicherung Hannover, Hanover*
Skandifinanz AG, Zurich, Switzerland*

Diethart Breipohl
Member of various Supervisory Boards
Allianz AG, Munich
Bayerische Hypo- und Vereinsbank AG, Munich
Beiersdorf AG, Hamburg
Karstadt AG, Essen
KM Europa Metal AG, Osnabruck
mg technologies ag, Frankfurt/Main
Les Assurances Générales de France (AGF), Paris, France
Banco Popular Español, Madrid, Spain
BPI Banco Portugues de Investimento, Porto, Portugal
Crédit Lyonnais, Paris, France

Werner Breitschwerdt
Consultant
active-film.com AG, Frankfurt/Main
Ed. Züblin AG, Stuttgart
Dornier GmbH, Friedrichshafen
MTU Motoren- und Turbinen-Union Friedrichshafen GmbH, Friedrichshafen
ZF Friedrichshafen AG, Friedrichshafen
DaimlerChrysler of South Africa (Pty.) Ltd., Pretoria, South Africa
Mercedes-Benz USA, Montvale, USA

Michael Deister
Member of the Employee Council for the Stöcken Plant

Wilfried Eickmann
Member of the Supervisory Board

Michael Frenzel
Chairman of the Executive Board,
Preussag AG
AXA-Colonia Konzern AG, Cologne
Deutsche Bahn AG, Berlin
Deutsche Hypothekenbank AG, Hanover
E.ON Energie AG, Munich
Hapag-Lloyd AG, Hamburg (Chairman)*
TUI GROUP GmbH, Hanover (Chairman)*
Creditanstalt AG, Vienna, Austria
EXPO 2000 Hannover GmbH, Hanover
Norddeutsche Landesbank Girozentrale, Hanover
Kreditanstalt für Wiederaufbau (KfW), Frankfurt/Main
Preussag North America, Inc., Greenwich, USA (Chairman)*
Thomas Cook Holding Ltd., London, U.K. (Chairman until October 2000)*

Hans-Olaf Henkel
Member of the Supervisory Board, IBM Deutschland GmbH
Audi AG, Ingolstadt
DaimlerChrysler Aerospace AG, Munich
IBM Deutschland GmbH, Berlin
IKB Deutsche Industriekreditbank AG, Dusseldorf
Kreditanstalt für Wiederaufbau (KfW), Frankfurt/Main
SMS Demag AG, Dusseldorf
Viag AG, Munich
ETF, Lugano, Switzerland
Merrill Lynch International, London, U.K.
Ringier AG, Zurich, Switzerland

Karl-Heinz Hilker
Chairman of the Employee Council for the Vahrenwald Plant and
Deputy Chairman of the Joint Employee Council Continental AG

H. Peter Hüttenmeister
Northern Region Manager,
IG Bergbau, Chemie, Energie (Union of Mining, Chemical, Energy Industries)
DuPont Performance Coatings GmbH & Co. KG., Wuppertal
Mitteldeutsche Sanierungs- und Entsorgungsgesellschaft GmbH (MDSE), Bitterfeld

Gerhard Knuth
Chairman of the Joint Employee Council
of Continental Teves AG & Co. oHG

Werner Mierswa
Chairman of the Joint Employee Council Continental AG
and of the Employee Council Headquarters Continental AG

Rainer Stark
Head of Corporate Quality and Environment

Fred G. Steingraber
Chairman of the Board and Chief Executive Officer, A.T. Kearney
Maytag Corporation, Newton, USA
Southeastern Thrift & Bank Fund, Boston, USA

Dirk Sumpf
Hanover District Manager,
IG Bergbau, Chemie, Energie (Union of Mining, Chemical, Energy Industries)
Wolff Walsrode AG, Walsrode

Giuseppe Vita
Chairman of the Executive Board, Schering AG
Allianz Lebensversicherungs-AG, Stuttgart
Berliner Kraft- und Licht (BEWAG) AG, Berlin
Dussmann AG & Co. KGaA, Berlin (since February 2001)
Herlitz AG Holding, Berlin (until June 2000)
Herlitz PBS AG, Berlin (until June 2000)
Hugo Boss AG, Metzingen (Chairman since May 2000)
Lazard & Co. GmbH, Frankfurt/Main (since January 2001)
Deutsche Bank SpA, Mailand, Italy (Chairman)
Sviluppo Italia SpA, Rome, Italy (until February 2001)
RAS SpA, Milan, Italy

Bernd W. Voss
Member of the Executive Board, Dresdner Bank AG
Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg AG, Frankfurt/Main*
Deutsche Schiffsbank AG, Bremen/Hamburg
Dresdner Bauspar AG, Frankfurt/Main*
Karstadt Quelle AG, Essen
Oldenburgische Landesbank AG, Oldenburg (Chairman)*
Preussag AG, Hanover/Berlin
Quelle AG, Fuerth
Stinnes AG, Mulheim (until June 2000)
VARTA AG, Hanover (until February 2001)
VEBA AG, Dusseldorf
VOLKSWAGEN AG, Wolfsburg
Wacker Chemie GmbH, Munich
Bankhaus Reuschel & Co., Munich (Chairman)*

Ulrich Weiss
Member of various Supervisory Boards
ABB-Asea Brown Boveri AG, Mannheim
Heidelberger Zement AG, Heidelberg
O&K Orenstein & Koppel AG, Berlin (Chairman)
Südzucker AG, Mannheim
Benetton SpA, Ponzano, Italy
Ducati SpA, Bologna, Italy
Piaggio SpA, Pontedera, Italy (since April 2000)

Consolidated companies as pursuant to section 100 subsection 2 AktG (German Stock Corporation Law) are marked with an asterisk (*).

Members of the Executive Board

Members of the Executive Board of Continental AG

Memberships held in other Supervisory Boards required by law and in comparable controlling bodies of companies in Germany and abroad:

Stephan Kessel
Chairman of the Executive Board
Car Tire Division
Continental Teves, Inc., Wilmington, USA*
ContiTech North America, Inc., Wilmington, USA*
Continental Tire North America, Inc., Charlotte, USA*

Hans Albert Beller
Continental Automotive Systems (until December 12, 2000)
TÜV Nord Gruppe, Hanover
Continental Teves, Inc., Wilmington, USA (until December 2000)*

Bernd Frangenberg
Continental Tire North America
Continental Tire North America, Inc., Charlotte, USA*
Englewood Services, Inc., Charlotte, USA*
General Tire Realty Co., Charlotte, USA*
General Tire International Company, Charlotte, USA*
DynaGen, Inc., Charlotte, USA*
Continental Products Corporation, Charlotte, USA*
Continental Automotive Licensing Corp., Charlotte, USA*
CTNA Holding Corp., Charlotte, USA*
Continental Tire de Mexico S.A. de C.V., Anahuac, Mexico*
General Tire de Mexico S.A. de C.V., Anahuac, Mexico*
Compania Hulera Euzkadi S.A. de C.V., Anahuac, Mexico*
Consortio Mercantil Exportador S.A. de C.V., Anahuac, Mexico*

Klaus Friedland
Finance, Controlling, Human Resources and Law
Director of Personnel
Vergölst GmbH, Bad Nauheim (Chairman)*
Continental Automotive, Inc., Wilmington, USA*
Continental Rubber of America, Corp., Wilmington, USA*
Continental Teves, Inc., Wilmington, USA*
Continental Tire North America, Inc., Charlotte, USA*
ContiTech North America, Inc., Wilmington, USA*
Semperit Reifen Gesellschaft m.b.H., Traiskirchen, Austria*

Hans-Joachim Nikolin
Commercial Tire Division, Quality and Environment,
Business Unit International
Drahtcord Saar GmbH & Co. KG, Merzig*
KG Deutsche Gasrußwerke GmbH & Co., Dortmund*
Continental Tire North America, Inc., Charlotte, USA*
Continental Tyre South Africa (PTY) Limited, Port Elizabeth, South Africa*
Semperit Reifen Gesellschaft m.b.H., Traiskirchen, Austria (Chairman)*
Modi Rubber Limited, New Delhi, India

Manfred Wennemer
ContiTech
Benecke-Kaliko AG, Hanover (Chairman)*
ContiTech Antriebssysteme GmbH, Hanover*
ContiTech Luftfedersysteme GmbH, Hanover (Chairman)*
ContiTech Schlauch GmbH, Hanover*
ContiTech Transportbandsysteme GmbH, Hanover*
ContiTech Vibration Control GmbH, Hanover*
ContiTech Techno-Chemie GmbH, Karben*
ContiTech AGES SpA, Santena, Italy (President)*
ContiTech North America, Inc., Wilmington, USA*

Wolfgang Ziebart
Member of the Executive Board (since October 1, 2000)
Continental Automotive Systems (since December 12, 2000)
ELMOS Semiconductor AG, Dortmund (until April 2001)
SupplyOn AG, Gerlingen-Schillerhohe (since December 2000)

Generalbevollmächtigte

Bernadette Hausmann
Purchasing and
Strategic Technology

Werner P. Paschke
Controlling and Accounting

Consolidated companies pursuant to section 100 subsection 2 AktG (German Stock Corporation Law) are marked with an asterisk (*).

Selected Financial Terms

APB.
Accounting Principles Board Opinion
Still applicable accounting principles issued prior to establishment of FASB.

Asset Backed Securitization Program.
Under this program, trade receivables from the tire replacement business are pooled for each country and individual blocks sold to financing companies who obtain refinancing by issuing commercial papers on the U.S. capital market.

Associated companies.
In these companies, one of the companies belonging to the Corporation holds an interest and exercises a significant degree of control. However, our consolidated financial statements do not include their balance sheets and income statements, but only the corresponding proportion of their shareholders' equity and earnings.

Authorized capital.
The authorized capital is the maximum amount to which the Executive Board, with the approval of the Supervisory Board, can increase the common stock by issuing new shares.

Cash flow.
Cash flow is defined in several different ways. Its principal components are net income, depreciation, the current-period pension charge, and significant extraordinary items.

Conditionally authorized capital.
The amount by which holders of convertible bonds or option rights can acquire newly issued shares of the Company and thereby participate in a capital increase previously authorized by the Annual Shareholders' Meeting.

Corporation.
The term Corporation as used in this annual report is an economic entity, consisting of several legally independent companies that are under the common control of a parent company. According to US GAAP, all domestic and foreign subsidiaries controlled by the parent company, i.e. as a rule, companies in which the parent company holds, either directly or indirectly, more than 50% of the voting rights, are consolidated. Consolidation is also considered if one company is controlled de facto by another company, regardless of the voting rights situation.

Debt ratio.
The debt ratio is the ratio of indebtedness to the cash flow.
It indicates how quickly the indebtedness can be paid back from the cash flow.

Deferred taxes.
Income taxes to be paid by a company are computed according to its taxable income. When this income is different from that shown in the financial accounts, then taxes will be either high or low in relation to the published earnings. An accounting adjustment for deferred taxes is recorded to compensate for the difference in those cases in which it is clear that the valuation difference will reverse in the course of time. A deferred tax liability is recorded if less tax has been paid than would be due on the basis of the published earnings. According to US GAAP, a deferred tax asset is recorded, contrary to the German Commercial Code, if more tax has been paid than would be due on the basis of the published earnings. At the same time, deferred tax assets on loss carryforwards have to be capitalized. A valuation allowance must be made on deferred tax assets if they are not likely to be realized.

Derivatives.
These are securities representing transactions used to manage interest and/or currency risks.

EBIT.
Earnings Before Interest and Taxes.
In this annual report, EBIT is understood to be earnings before taxes adjusted for interest.

Equity ratio.
The equity ratio is the ratio of the shareholders' equity, without minority interests, to total assets.

FASB.
Financial Accounting Standards Board
Board for the establishment of financial accounting standards (US GAAP).

Gearing ratio.
This ratio, obtained by dividing indebtedness by shareholders' equity, indicates the relationship between interest-bearing liabilities and total shareholders' equity.

Indebtedness.
Indebtedness is computed by deducting cash and cash equivalents from interest-bearing liabilities.

Interest swap.
An interest swap is the exchange of interest payments between two parties. By this means, for example, variable interest can be exchanged for fixed interest, or vice versa.

LIFO (Last In First Out).
Method of inventory accounting which is based on the cost of the most recent purchases being used first.

Liquidity ratio.
The liquidity ratio is the ratio of monetary current assets (current assets minus inventories) to short-term liabilities (due in less than 1 year).

Long-term financing.
The extent to which property, plant and equipment plus inventories are financed by shareholders' equity and long-term borrowings provides information about the company's long-term financing. If the ratio exceeds 100%, the long-term financing of property, plant and equipment plus inventories is considered adequate.

Operating assets.
A Group's operating assets comprise its assigned fixed assets and investments, including goodwill, as well as current assets plus sold receivables and contingent liabilities on notes, less cash and cash equivalents, prepaid taxes and trade payables.

Return on shareholders' equity.
The return on shareholders' equity is defined as the ratio of net income to shareholders' equity excluding minority interests.

ROCE.
Return On Capital Employed. We define the ROCE as the ratio of EBIT to operating assets.

Self-financing ratio.
This item shows to what extent the additions to fixed assets and investments are financed from funds internally generated by the company (cash flow).

SFAS.
Statements of Financial Accounting Standards
The issued accounting standards of amendments from the FASB.

US GAAP.
U.S. Generally Accepted Accounting Principles.

Value added.
The sum of personnel expense, interest, income taxes and net income.

Financial Calendar

2001

Preliminary figures for the year ended December 31, 2000	March 14
Financials press conference	April 2
International analyst conference	April 2
Preliminary figures for Q1 2001	April 25
Interim Report for Q1 2001	May 9
Annual Shareholders Meeting	May 23
Distribution of dividends	May 25
Interim Report for Shareholders H1 2001	July 31
Interim Report for first nine months 2001	October 30
International analyst conference	October 30

2002

Preliminary figures for the year ended December 31, 2001	March
Financials press conference	April
International analyst conference	April
Interim Report for Q1 2002	May
Annual Shareholders Meeting	May 29
Interim Report for H1 2002	July
Interim Report for first nine months 2002	October
International analyst conference	October

Continental Corporation
Ten-Year Review

		1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Balance sheet											
Fixed assets and investments	Millions of €	1,747.0	1,817.3	1,949.8	1,843.3	1,781.9	1,797.3	1,797.7	3,999.3	4,220.6	4,381.6
Current assets	Millions of €	1,652.7	1,791.3	1,696.6	1,642.4	1,645.5	1,629.4	2,112.6	2,766.4	3,183.2	3,233.6
Balance sheet total	Millions of €	3,399.7	3,608.6	3,646.4	3,485.7	3,427.4	3,426.7	3,910.3	6,765.7	7,403.8	7,615.2
Shareholders' equity [1]	Millions of €	725.1	765.3	780.2	756.6	764.2	816.7	1,232.3	1,329.1	1,760.6	1,844.1
Minority interests	Millions of €	49.4	61.5	88.5	100.1	102.7	134.5	149.5	174.5	142.4	145.7
Long-term debt	Millions of €	1,344.6	1,452.4	1,399.7	1,356.8	1,102.5	1,245.7	1,268.5	3,003.4	2,343.9	2,855.2
Capital expenditure on property, plant and equipment	Millions of €	424.0	362.7	319.1	263.2	302.3	282.0	282.6	416.3	581.5	682.8
Equity ratio	in %	21.3	21.2	21.4	21.7	22.3	23.8	31.5	19.6	23.8	24.2
Long-term financing of fixed assets, investments and inventories	in %	89.0	90.0	86.3	90.1	79.4	85.1	104.6	93.1	83.4	91.5
Total indebtedness	Millions of €	1,100.8	1,235.7	1,170.6	1,089.3	1,016.8	836.9	283.4	1,919.0	1,712.8	2,017.9
Self-financing ratio	in %	52.1	133.8	86.4	113.5	122.9	132.9	173.7	117.1	135.3	112.5
Liquidity ratio	in %	74.6	76.5	68.3	76.6	61.3	68.7	107.1	82.5	69.3	79.8
Statement of income											
Sales	Millions of €	4,794.3	4,954.4	4,790.3	5,050.0	5,242.0	5,333.1	5,719.4	6,743.2	9,132.2	10,115.0
Foreign markets' share	in %	62.8	63.9	65.4	67.6	66.5	66.1	67.4	66.4	68.6	68.9
Cost of sales [2]	in %	74.7	73.2	74.1	74.0	73.9	73.4	71.9	74.0	78.6	79.7
Selling expenses [2]	in %	14.8	15.0	16.7	16.3	15.6	15.8	16.0	14.4	11.6	11.1
Administrative expenses [2]	in %	6.5	6.7	6.2	6.2	5.7	5.5	5.3	4.7	3.9	3.8
EBIT	Millions of €	171.2	239.4	151.8	154.2	198.2	268.0	320.4	380.3	511.3	432.4
Personnel expenses	Millions of €	1,654.7	1,709.4	1,683.7	1,669.4	1,673.9	1,672.2	1,751.5	1,937.1	2,387.7	2,580.8
Depreciation [3]	Millions of €	271.5	257.0	284.7	298.3	282.6	311.5	306.8	395.7	576.5	654.7
Cash flow	Millions of €	269.0	358.6	296.0	320.0	378.2	416.5	490.9	567.0	849.7	866.3
Value added	Millions of €	1,697.4	1,904.7	1,835.5	1,823.5	1,872.0	1,899.2	2,071.9	2,317.4	2,899.0	3,013.2
Net income/loss	Millions of €	– 65.5	68.0	33.3	36.2	79.4	98.4	164.5	138.2	234.7	204.7
Employees											
Annual average	Thousands	50.8	50.4	49.8	49.0	48.4	46.4	44.8	50.2	62.6	63.5

1) Excluding minority interests
2) % of sales
3) Excluding write-downs on investments

The consolidated financial statements for the years preceding 1998 were prepared in accordance with the HGB (German Commercial Code); since 1998, they have been prepared in accordance with US GAAP.